

**ECONOMIC
AND
POLITICAL**

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**INFORMATION GAME: LESSON
FROM GULF WAR**

CASTE AND BIHAR POLITICS

FINANCING THE EIGHTH PLAN

**BIRATI, CPI(M) AND TRADITION
IN BENGAL**

**PROBING THE JHARKHAND
QUESTION**

REFORM OF FINANCIAL SYSTEM

**VOLUME AND COMPOSITION OF
GOVERNMENT SUBSIDIES**

Do you mouthwash when you toothpaste?



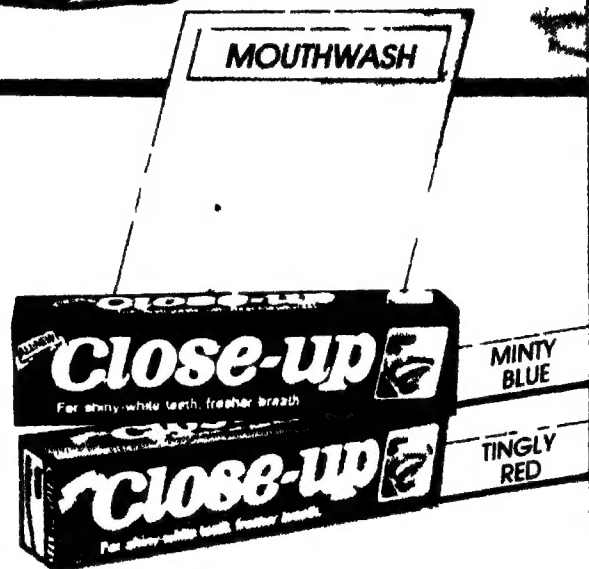
What's the point of
mouthwash
anyway?

Isn't it time you did? With All New
Close-up you can. Because
Close-up toothpaste has a real
mouthwash. It makes your breath
tingling fresh. And makes you
open up. With Close-up
confidence.

ALL-NEW
Close-up

Toothpaste with real mouthwash

For freshest-fresh breath, shiny-white teeth.



ECONOMIC AND POLITICAL

WEEKLY

Founder-Editor: Sachin Chaudhuri

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Subsidies for Whom?

An exercise in estimating the size and composition of government subsidies in 1987-88, after costing government services on a user charge basis, shows that no less than 15 per cent of GDP is being distributed in the form of subsidies, that much of these subsidies are invisible and that it is not at all clear that the subsidies are flowing to the intended beneficiaries. 1157

Political Identities

Four basic issues have been instrumental in mobilising the tribal people of Jharkhand to raise their voice against subordination and injustice—land and forest alienation, immigration into the region, threat to the tribals' cultural identity and underdevelopment 1173

Though the backward castes constitute nearly 60 per cent of the electorate in Bihar, they were not politically significant till the mid-seventies. The turning point in the political organisation of these castes came in 1977 when reservation for backward castes in government service was introduced. 1142

Towards Planlessness

The air of uncertainty and purposelessness pervading Yojana Bhavan is palpable. The position is worse than that at the close of the Third Plan when the launching of the Fourth Plan had been stalled. However, the decision to go in for a three-year plan holiday in the mid-sixties was a deliberate one, whereas what we have today is a mindless drift into planlessness. 1140

Helping Hand

It is a new development, mobilising the international loan-giving agencies for electoral campaign within the country. The message could not have been more explicitly stated, unless you vote right, unless you vote for a stable single-party regime—you know which one—these international institutions will stay away and offer no loans to bail you out. 1130

Plan that Was

A look at the financing of the Eighth Plan as worked out by the erstwhile planning commission under the V P Singh government: the pattern of financing, the broad thrust of the expenditure allocations and the extent of devolution of resources for bringing about a directional change in the pattern of development. 1132

Gender and the Left

On all the major issues facing the women's movement, the CPI(M) and the Left parties have taken unambiguous pro-woman positions. However, these positions have been prompted by a particular understanding of the 'gender question' which seeks to find its roots not in the male-female contradiction or male attitudes but in the development of a class society and locates its specificity in wider socio-economic realities. 111

Gandhi and Ambedkar

Gandhi and Ambedkar ended in a state of near-total confrontation, rather than dialogue, and it is important to understand how this happened. 1154

Toning Up the System

Press reports on the report of the World Bank staff team on India's financial system have tended to be sensational. While the report favours eventual privatisation of the financial system, that is not its central theme. Greater efficiency and flexibility are the keys to reform and privatisation is seen as a means to promote them 'in the long run'. 1145

The Other War

The US-led Western states not only won the Gulf war, but the parallel information game as well because of their monopoly over information. 1147

LETTERS TO EDITOR

MOU System and Public Enterprises

THIS is with reference to the article 'Eighth Plan: Challenges and Possibilities—VII, Industry: The Policy Framework' by Arun Ghosh (March 2-9). While discussing the role of the public sector in the Indian economy, Ghosh has written about the introduction of the MOU system of performance evaluation in Central public sector enterprises and in this connection stated that it had not been an unqualified success. While taking note of his concern for bringing about performance improvement in the PSEs, we do not concur with his view that the MOU system has not proved its utility.

While agreeing with Ghosh that there is need to distance public enterprises from the government and that there is also need for both greater freedom of management of public enterprises and greater accountability for performance, it must be stated that the MOU system addresses itself to these very issues in their entirety. A Memorandum of Understanding is an annual performance evaluation document generally based on a long-term corporate plan in which the government (represented by the administrative ministry) and the public enterprise lay down their respective obligations and responsibilities for achieving mutually agreed upon targets. In doing so care is exercised in selecting appropriate criteria, assigning priorities to them and deciding on achievement of specific targets. Once these are determined the enterprise is required to be given operational freedom in order to achieve these targets. At the end of the year the enterprise is judged on the basis of the level of individual target achievement which can be interpreted in terms of an individual target score. These individual target scores in conjunction with weights attached to them lead to a composite score for the enterprise as a whole. The MOU system thus attempts to bring about a balance between accountability and autonomy and through that route aims at improved performance which is objectively evaluated at the end of the year.

It needs to be pointed out that one of the most important features of the MOU system is that it enables the government to compare performance of essentially dissimilar enterprises. While the list of commitments for each enterprise is different and in some cases may not lend itself to easy comparison, the ability of an enterprise to meet its commitment is comparable. Simulating a competitive environment is, thus, one of the important possibilities inherent in the MOU system and this aspect gives it tremendous

strength. It is our view that such a mechanism is ideal for developing countries for improving public sector performance.

It would be neither proper nor fair to pass any value judgment on the MOU policy because up to now it has been going through the trial-run stage. Only during the current financial year (1991-92) we hope to make a major dent into the process by attempting to achieve around 5 per cent cost reduction in some major PSUs. Since the whole MOU exercise is totally open and the details of the MOUs signed and the manner in which they are evaluated are available, the quality of debate on the MOUs would have been better served if there was greater specificity in the criticism.

OMITA PAUL

Director,
Department of Public Enterprises,
New Delhi.

Peaceful Demonstrators Arrested

WE strongly condemn the arrest of social activist Kumar Chandra Mardi and 20 tribals when they were protesting against the construction of Icha dam, a part of Subarnarekha Multipurpose Project, at Icha near Chaibasa, Singhbhum district of Bihar. The project, financed by the World Bank, is a joint venture of the States of Bihar, Orissa and West Bengal. On April 5, 1991, the local people, mostly tribals, sat on indefinite 'dharna' at the dam-site to stop the construction of Icha dam. The 200-strong non-violent protest was organised by local organisations to

stop the ongoing construction of the dam because this dam will displace nearly 30,000 people—majority of whom belong to Ho tribe—from over 61 villages whose survival and livelihood are at stake. They are up against the project as it violates international laws which say that no tribe can be displaced without proper rehabilitation and resettlement. So far, project authorities have not come up with any rehabilitation plans to resettle the displaced people. But the lands of the would-be displaced people are being notified for acquisition and only cash compensation is being offered as rehabilitation.

On April 8, the deputy commissioner came with a large police force to evict the protesters. The protesters refused to stop the 'dharna' unless their demands were accepted by the project authorities. Without giving any notice, the police started dragging people including women and children to the police bus which took them to Saraikala police station. Kumar Mardi and 20 tribal women were taken into custody. They have not been released so far.

We demand the immediate release of activists and protesters and join the protesters demanding that the State government and project authorities halt the construction of dam until a proper rehabilitation plan for the displaced population is formulated and implemented; a complete review of the project from the social, economic and environmental angles is carried out; and the displaced people are given access to information about the dam, displacement and rehabilitation.

Kavaljit Singh, Anil Singh, Shankar Sundi, Ghanshyam, Ranjan Palit, Vasudha Joshi, Anil Prakash and J John

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Changed Priority?

WITH the ever present danger of being forced to renege on our debt servicing liabilities, the prospect of further, and very much larger, resort to the IMF is coming closer by the day. The groundwork is being done already. The new government's first task will perhaps be to formally put its stamp of approval on the memorandum of understanding which is right now being worked out by our bureaucrats with their counterparts in the Fund. On one issue the present caretaker government seems to have made a firm commitment already which is that the fiscal deficit of the Centre for 1991-92 will be brought down to 6.5 per cent of GDP from the level of 8.5 per cent in 1990-91. The commitment does not stop there. The fiscal deficit is to be reduced further in the coming three years to 3.4 per cent.

Surprisingly while some arithmetic calculations have been put out of what these commitments could entail in terms of the size of the fiscal deficit, there has been little discussion of what their implications for economic policy are likely to be. After all, for the last more than 40 years, through the periods of the successive five year plans, the yardstick by which the government's fiscal operations, including those through the budget, have been appraised has been deficit financing, defined as net credit extended to the government by the Reserve Bank of India. There have been differences between the Central finance ministry and the Reserve Bank over the calculation of these figures, but these have been eventually sorted out. The high powered Sukhamoy Chakravarty committee too endorsed the practice as one operationally as well as conceptually useful in assessing the inflationary impact of the government's financial operations.

That the fiscal deficit is very different from deficit financing should be obvious. For 1990-91, while the fiscal deficit is estimated at 8.5 per cent of GDP, deficit financing is no higher than 3.5 per cent. The difference is represented by the government's borrowing other than that from the RBI. Only a small part of this borrowing was from external sources, most of it was internal. The shift of focus from deficit financing to the fiscal deficit is evidently meant to reduce the government's resort to borrowing other than that from the RBI. Borrowing for financing government expenditure, so long as it is not inflationary, is only in the nature of a draft on savings in the other sectors of the economy. In our case, the one sector of the economy which is relied upon for these savings is the household sector, for, unlike in most of the advanced economies, the corporate sector hardly generates much saving of its own and, therefore, relies substantially on the household sector for financing its outlays. In the cir-

cumstances, it is evident that the whole purpose of the Fund requirement to scale down drastically the fiscal deficit is to curtail the government's access to non-inflationary sources of funds. The objective, obviously, is to reduce the government's role in investment in the economy.

The implications of the commitment we are about to enter into (or has the commitment been made already?) with regard to reducing the fiscal deficit have to be clearly understood. First and foremost, the shift in emphasis from containing deficit financing to reducing the fiscal deficit entails the danger that the accent will hereafter be less on controlling inflation and more on containing the government's operations and role and that could have serious repercussions. To take an extreme illustration, a reduction of the fiscal deficit to 4.5 per cent of GDP could be achieved while at the same time deficit financing actually mounts from 3.5 per cent to 4.5 per cent of GDP. Whatever may be the Fund's priorities in the design of its structural adjustment programmes for various countries, are we sure that it is our priority also to contain the government's scale of operations rather than inflation?

At the same time, the fact has to be faced that domestic borrowing by government has bloated so enormously that interest liabilities alone now account for almost a third of the government's expenditure on revenue account. The result naturally is that to meet the other expenditure commitments of the government even on the revenue account borrowing has to be resorted to. The question of the government contributing to domestic savings therefore no longer arises. Now, conventional economic wisdom tells us that even when the overall rate of investment in an economy is fairly stable there can be ups and downs in sectoral rates of investment. It is also widely accepted that in the early phases of development the government sector's investment can be, in fact needs to be, relatively high. But then the more a government finances its investment through borrowings (that is, the more it relies on savings generated in other sectors of the economy) the more constrained it will be in the future in financing its expenditures. In other words, government borrowing today imposes a constraint of its own on the scale of the government's operations tomorrow. All the same, let us not forget that interest payments by government are mere transfer payments and should not be included when appraising the scale of government operations. The major point to bear in mind is that the borrowing argument itself is being grossly overstated to build up an illegitimate case in support of the stance being forced upon our policy-makers in the matter of the government's budgetary operations.

ELECTIONS Self-Images

A RECENT pre election survey came up with the unremarkable finding that most people do not even look at the election manifestos of parties and that this attitude broadly cuts across caste, sex and economic groups. It is nevertheless interesting to look closely at party manifestos to get a glimpse of the self-images they project and about their perceptions of issues. This is most revealing on issues which the parties themselves do not regard as 'major' or contentious matters, such as health, environment, status of women, population and science and technology. Because many of these have become the focus of mobilisation of people across class and caste lines in recent years, no party can afford to be uninterested in these issues. And yet the fact that these concerns continue to be dealt with in a piecemeal fashion in all the manifestos without being integrated within an overall development perspective shows that the impact of the mobilisation on these issues is yet to be felt as something calling for anything more than a token response.

The Congress(I) has perhaps the most elaborate statements on these issues. Not surprisingly, since it has been in office the longest and these are issues which become manifest only at the stage of implementation. The party manifesto states, for instance, that current laws on environment are in fact the doing of Congress(I) governments. It calls for an integrated National Land Policy. While the manifesto mentions pollution control, and penalties and liabilities for compensation for pollution, etc., it is at pains to distance the environment issue from the policy of industrialisation or development planning.

This is, of course, the general trend—the Bharatiya Janata Party (BJP) views the earth as 'divine mother' and hopes to formulate a national resource management policy, but even though it talks of environment issues influencing import of technology, etc., environment as a matter of policy does not colour its view of industrialisation, irrigation, power or even science and technology. All manifestos mention the need to develop 'appropriate' technology and encourage indigenous efforts but none of course defines what is 'appropriate'. That no party should even mention the need for developing environment friendly processes or products even while making a big issue of 'indigenisation' is indeed revealing. It is only the

National Front manifesto which acknowledges the need to subject all projects (including defence projects) to environmental review and clearance. Significantly, none of the parties mentions the Bhopal disaster in any of their future programmes.

Both the BJP and the National Front have consciously separated health and population whereas the Congress(I) continues to club the two under 'health and family welfare'. But again, it is this party which appears to have a more coherent policy. It is also the only party which talks of special programmes for children which includes components of health care, such as nutrition (ICDS) and universal immunisation etc. Apart from the usual concern for primary health care, the party appears to have a new interest—the working conditions of doctors and health workers. Not only are their service conditions to be improved but their work environments are to be 'modernised'.

The BJP, on the other hand, is the only one of the three which promises a new drug policy (although not in so many words) where the "60,000 brand name drugs" are to be replaced by "250 generic formulations". It is also the only one which categorically promises a "ban on amniocentesis—sex determination tests—often leading to female foeticide". That an issue which has seen large scale mobilisation should have been mentioned specifically by the party is an indication of the party's awareness of the political importance of the sections which have taken up such issues.

On women, while all the three manifestos make the usual magnanimous promises, there is hardly any indication that their basic perspectives are any different. And interestingly, it is only the Congress(I) which promises that the ban on "the practice, propagation, celebration and glorification of sati will be fully and strictly enforced". It also promises a ban on the indecent representation of women on posters, advertisements, hoardings, etc.

On the whole, it would seem that the National Front manifesto reflects neither the political acumen of those of the other two parties nor the sort of awareness which the Congress(I) manifesto displays, coming from the party's years in office when these issues had necessarily to be tackled, however superficially.

THIRD WORLD DEBT Need for Joint Action

APART from the issue of diplomatic propriety of making disparaging remarks

about the government of West Bengal while he was its guest in Calcutta, the Hungarian president, Arpad Goncz's statement that "I have seen the poverty and crowds [of Calcutta] and can feel that the communists are here" raises a rather simple question—what have the crowds got to do with communists? Aren't Tokyo, New York and London crowded too, without any noticeable presence of the communists in any of these megalopolises?

A much more pertinent question will, however, be what about the poverty in Hungary now that the communists have been thrown out? Is it on its way out too? Has the new regime headed by Goncz been able to initiate a process of liquidating it? Unfortunately, not. Some time ago, Goncz himself had told the Hungarian parliament that "the threat of unemployment is hanging over us like a black cloud". More, the socio-economic programmes launched by the post-communist government is slated to intensify the popular misery, as the president himself says "one part of the society will become disproportionately rich and another part will be disproportionately poor". In a year's time, "there will be one million unemployed in a country of 10.5 million", says the scientific director of a Hungarian research institute, adding further that "50 per cent of them will never be employed again".

Blissfully ignorant of the real state of Goncz's own house, some people here with certain antipathies have lapped up his digs at the West Bengal communists. Some have gone even further. Holding up the fact that Hungary was able to secure foreign investments of \$ 500 million last year, it has been suggested that India take a leaf of Hungary's book and cultivate the Atlantic Bloc by getting rid of 'Third World neuroses'. But the fact is that at \$ 1,840 Hungary has the highest per capita debt in the world and no amount of foreign investment is likely to help it get free from this burden. The remedy lies in the unity of the world debtors for getting the debt burden reasonably scaled down, that is, closer Third World solidarity.

KASHMIR

More Repression

A Correspondent writes:

THERE is not a single sentence one can write about state violence and repression which has not already been written. Yet how does one not write about the sordid

goings on in Kashmir where every grisly incident brings promise of worse to come? Those who know will not speak and the vast majority are kept ignorant about the crimes being committed in the name of Indian nationhood and the interests of the Indian people.

On January 30, there was a major clash between the security forces and militants at Dayalgam in which eight soldiers died. As a retaliatory measure, the security forces dragged out three youth—Abdul Ghani Shaikh Master, Bashir Ahmed Majre and Abdul Rahim Naffar, if it means anything to mention their names—and beheaded them, leaving their headless bodies by the roadside.

On the night of February 23-24, a large contingent of the security forces numbering 800 entered the village of Kunan Poshpura, segregated the men-folk and then gang-raped the women left behind. The district magistrate of Kupwara, in his communication to the divisional commissioner, Srinagar, dated March 7, says 23 women were raped, but according to justice Mufti Bahauddin Farouqui, 53 women affirmed before him that they had been sexually assaulted. The government, showing exemplary alacrity, claimed that the allegations were "baseless and planted". This had allegedly been established by an inquiry, undertaken by none other than an army brigadier! However, a one-day inquiry conducted by the divisional commissioner strongly urged an investigation into the allegations. The veracity of the government's claim has been called into question also by the FIR filed on March 8 by the officer in charge of the Trehgam police station.

On April 20 during a raid by the security forces a suspected area commander of a militant outfit, Al Barq, was arrested and shot point-blank. Later the same evening seven male members of a Gujar family—once again, if the names mean anything: Abdul Rashid, Mohammed Ayub, Gulab Khan, Ismail Khan, Sadarudin, Khan Wali and Babu Khan—who were accused of providing shelter to the suspected militants were dragged out and shot dead.

Reports by journalists and inquiries by democratic rights organisations confirm that there appears to be a deliberate attempt by the security forces to make women the primary targets of attack and from incident after incident there emerges a pattern designed to break the morale of the people. The supposed crack-down on

the militants has turned into a policy of suppression of the entire Kashmiri people. It is contended that it is the inadequacies of the administration which make it possible for the militants to gain the upper hand and, therefore, that it is only through administrative measures, a euphemism for actions such as those described above, that the state must restore its authority. This by and large is the common understanding shared among the state functionaries, the parliamentary political parties of the right and left and the government.

When recently the JKLF and its supporters came out on the streets of towns in Kashmir to oppose the Hizbul Mujahideen and shouted slogans against it and against Pakistan and demanded 'Azadi', this was taken as a mark of the success of the policy followed by the present State governor and by implication as justification for the kind of repression referred to above. What such wishful thinking ignores is that notwithstanding the conflicts among the militant groups, popular aspirations continue to express themselves in favour of 'Azadi'. Even the Kashmiri Pandits, whose alleged plight moves the heart of every national jingoist, came out in Udhampur on April 19 shouting anti-Indian and pro-Pakistani slogans. The administration had to arrest five of them for 'anti-national activities'.

POI TICS

BJP's Appeal

THE success of the West Bengal BJP in roping in for its electoral campaign important personalities from different walks of life, such as a top ranking film star, retired top administrators belonging to the IAS and IPS cadres, well known singers, physical culturists, lawyers and so on, is something which deserves serious notice. Despite the fact that the late Shyama-prasad Mukherji, the founder-president of the old Jana Sangh, is held in high esteem by the Bengali Hindu middle class, an explicit communalist approach to politics has not impressed this class in the past. The BJP's elements of success so far this time do not perhaps indicate a complete reversal of this tradition. Though 'Ram shila' and 'rathayatra' did undoubtedly draw in segments of the sons of the soil in some mofussil areas and large chunks of the Hindustani population in the Greater Calcutta region, the recent assembly of individuals from the sophisticated urban Bengali elite cannot be linked to those crude gimmicks.

The most important factor behind the reinforced appeal of the BJP today is the widespread perception that it is the only political force with some ideological commitment—an honour so far exclusively reserved for the Left. These days the communists and their allies are seen—rightly or wrongly—as power-seekers (and power-brokers) of the garden variety. More serious perhaps is the fact that some of the BJP's subtle talking points are beginning to appeal to the Hindu middle class psyche. For instance, the so-called appeasement of the Muslim minority—the Shah Bano case is referred to in this connection—the special Constitutional provisions for the State of Jammu and Kashmir, which are supposed to have stimulated and legitimised the separatist tendencies of the Kashmiri Muslims, and so on. The BJP's cry 'say with pride I am a Hindu' also is striking a responsive chord in many minds.

As against all this, the Left Front campaign does not generally go beyond the BJP's culpability in the communal carnages in different regions. This may succeed in partially dampening the explicit enthusiasm of BJP supporters but fails to counteract the communal venom injected in their mind.

The BJP may not after all make much electoral impact this time, but its image as a principled (ideological) force and its message as a champion of consistent democracy and age-old Indian culture will remain a force to contend with, unless the true character of the party is effectively exposed.

SOVIET UNION

Political Use of Miners' Strike

THE strike by Soviet coal miners, which commenced in early March, comes at a time when the Soviet government is pre-occupied with political problems. The perennially recalcitrant Boris Yeltsin, manoeuvring within the Russian parliament, has obtained extraordinary powers of the kind that Gorbachev has been able to extract from the Soviet parliament, giving rise to the possibility of an intractable war of decrees. Meanwhile, the republics have become increasingly restive for independence and the result of the recent referendum has done little to dispel the threat. In addition, hardliners in the party have stepped up their efforts to seek not Gorbachev's ouster but his conti-

nance in office under their control. The government's attitude to the strike has, naturally enough, varied according to its own situation.

Strike action was initiated in early March in the main government-owned coal basins of Donbas in the Ukraine and Kuzbas in western Siberia. Co-ordinated by the 80,000-member Independent Miners Union representing more than 200 mines, the strike spread to Vorkuta and Inta in the Arctic Circle and Karaganda in Kazakhstan. Towards the end of March it was being claimed by the National Strike Co-ordinating Committee that 3,00,000 miners from 165 pits were involved in the strike with five of 10 mines in the Chelyabinsk region in the Urals also having joined in. In Kuzbas 51 mines and in Donbas 58 of 122 mines were participants. The government, however, claimed a far smaller figure.

In the initial days of the strike the miners' economic demands were confined to a 100 to 150 per cent increases in wages and pension after 25 years of work underground, while their main political demand was the resignation of Gorbachev. By the end of March the strike co-ordination committee had laid down four basic demands—resignation of Gorbachev, dissolution of the congress of peoples' deputies, resignation of the Soviet government and transfer of supreme power to a federation council of republican presidents and conclusion of a new wage agreement for miners and all other industries where workers so demanded.

This sudden enlargement of the scope of the miners' demands is not difficult to fathom. Firstly, miners receive at least 100 roubles more in monthly wages than the average worker in the Soviet Union. Further, there was the government's insistence that agricultural production was being affected because of disturbances in coal supply. A demand for only a wage increase, in the circumstances, may have evoked little sympathy from the working class in general. This also explains the committee's demand for wage settlements with all workers.

While the economic ploy did meet with some success with expressions of solidarity coming from steel, rail and aviation workers, the attempt to gain political support would appear to have failed. While Yeltsin was prompt in responding to the situation and projected himself as the spearhead of democratic groups, republican nationalists and the striking

miners, the government's initial indifference gave way to a shrill hardline. Prime minister Valentin Pavlov dismissed the strikers' demands as unjustified in the light of current mining productivity and the overall economic situation, claiming a 5 per cent drop in productivity throughout the economy and a decline of 75 million tonnes in production in the past three years. Deputy prime minister Lev Ryabev asserted that the government was bound by new labour legislation not to negotiate with striking workers in the energy sector, while labour minister Vladimir Scherbakov argued that the miners' demands could not be met since, if they were, oil and metallurgical workers would make similar demands next.

However, as the effects of the strike began to tell, the government softened its stand. Three weeks into the strike, daily coal supply was down to 2,20,000 tonnes against the required 3,40,000 tonnes, leading to fears of widespread industrial closures. Following talks between the government and miners' representatives, an agreement was reached hiking wages by 25 per cent every three months for a year from this April in return for an increase in production from the current 703 million tonnes a year to 711 million tonnes over 12 months. Strike committees in Kuzbas, Donbas and Vorkuta, however, rejected the settlement and reiterated the political demands and this is where they appear to have failed. The government in response spoke of a moratorium on strikes till the end of the year and of the need for a nation-wide emergency to deal with the strike since it would lead to the breakdown of the entire metallurgical industry. Pavlov, presenting an anti-crisis programme to parliament, sought sanction for use of state coercion to break strikes.

Its adverse economic consequences notwithstanding, those contending for power seem to have put the strike to good political use. If ceaseless talk of crisis, particularly one initiated by the working class, was used by the Centre to get rivals for power to compromise, for Yeltsin championing the miners' cause was equally an attempt to get the Centre to negotiate with him. Gorbachev managed to beat back hardline opposition in the party and worked out an agreement with Yeltsin and eight other republics' leaders offering to review the steep hike in prices of food and consumer goods. They in turn appealed to the miners to resume production and make up losses.

TWENTY YEARS AGO

EPW, May 1, 1971

The long expected demarche in Sino-American relations has taken place in the theatrical guise of a warm official welcome to US table tennis players in Peking. There might be many strands in Peking's reasoning leading up to the particular timing of this dramatic gesture of bonhomie. Among these strands, the thought of helping the growth of the anti-war movement in the United States, and possibly making some impact on the presidential election in 1972, by lessening Sino-American tensions and allaying the usual US fears of Chinese expansionism, could not have been missed in Peking. This gesture might also have been accelerated by the ignominious defeat of the US-inspired South Vietnamese invasion of Laos. Coming so soon after the North Vietnamese victory in Laos, the Chinese overture could not have been misconstrued by Hanoi as a sign of Peking edging out of a difficult situation in South-East Asia. Additionally, American war weariness could be accentuated by coupling the well-publicised rout in Laos with a show of sweet reasonableness by China.

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Some State governments are always quicker than others at identifying their travails and playing them up appropriately. Prominent in this category is the government of Tamil Nadu. Their latest (publicised) difficulty lies in the 'green revolution' area. According to a Press report, the agricultural plan of the State for the current year is in danger of failure. The reason is familiar—a shortage of funds. Ever since the Gadgil Report sanctified it with undue emphasis, the concept of the 'credit gap' has been much bandied about. What is frequently forgotten is that there hardly exists an area in a scarcity economy such as ours where a 'credit gap' does not exist or cannot be identified or even roughly quantified. In launching on specific programmes, it is surely more important to consider what is feasible, rather than base action on near-miraculous fulfilment of extravagant expectations.

Since the nationalisation of the major commercial banks, banks have come to be viewed as a limitless source of funds for all 'productive' ends. In actuality, bank credit is a scarce resource; and while its present distribution does not perhaps follow any principle of optimisation of economic or social benefit, further distortion of the pattern of regional distribution of credit in favour of the more affluent States will have adverse political overtones.

Improved Profitability

Kumaran Pola

HYDERABAD INDUSTRIES' sales showed a 16 per cent increase on annualised basis during the year ended March 31, 1990 to Rs 107.54 crore. Through tight control on costs, the company managed to bring down the expenses to sales ratio from 1.094 in 1988-89 to 0.911 in 1989-90. Raw materials cost showed a 20 per cent rise whereas the spurt in employees cost was lower at 9 per cent, both on annualised basis. Other expenses showed a nominal decline by 1 per cent. All these helped in increasing operating profits by 41 per cent of Rs 13.88 crore and net profits by 48 per cent to Rs 7.37 crore.

During the year under review, production of asbestos cement products was 2.80 lakh tonnes as against 2.74 lakh tonnes on an annualised basis during the preceding period. The production of mill board, moulded thermal insulation articles, jointings and thermal insulation products (refractories) was satisfactory.

The company achieved a handsome improvement in the profitability ratios during the year. The overall return on investment moved up from 5.15 per cent on annualised basis in 1988-89 to 7.63 per cent in the latest year. An improvement in the assets utilisation ratio from 0.96 in 1988-89 to 1.11 in the latest year along with a spurt in the net profit margin on sales from 5.35 per cent to 6.85 per cent jointly brought about the above result. At the same time, the company achieved for the shareholders a higher return on owners' equity at 13.30 during the year compared to 9.99 per cent on annualised basis during the preceding period.

The capital structure got further tilted towards equity during the year as reflected in the debt/equity ratio of 0.141 in 1989-90 as against 0.261 in the preceding year. A corollary to this was the spurt in the interest coverage ratio from 4.31 to 7.67. The change in the capital structure

was brought about by sumptuous plough back of profits to reserves and surpluses component of owners' equity compared to a subdued borrowing programme during the year. The company experienced some pressure on the working capital position. There was some accumulation of inventories which was more than offset by the decreases in receivables and cash and bank balances. Therefore, despite a fall, though nominal, by Rs 0.15 crore in current liabilities and provisions, the current ratio declined from 1.78 in 1988-89 to 1.67 in the preceding year.

An amount of Rs 16.70 crore was raised and used during the year as evident in the balance sheet changes. The following were the sources of funds during the year: increases in share capital Rs 0.13 crore on account of the capitalisation of reserves for the issue of bonus shares, in reserves and surpluses Rs 5.38 crore on account of the transfer of profits to reserves and in short term borrowings Rs 1.54 crore in view of the non convertible debentures maturing in 1990. Decreases to the tune of Rs 5.23 crore in receivables and Rs 4.42 crore in cash and bank balances were the remaining sources of funds during the year. The company used the funds to decrease the current liabilities and provisions by Rs 0.15 crore and to reduce long-term borrowings by Rs 7.05 crore. The balance funds were used for investment in various assets. The net fixed assets of the company increased by Rs 2.34 crore on account of the additions to plant and machinery and buildings. Similarly, there was an increase in inventories of stores and spares, raw materials and components and materials purchased for sale by Rs 4.98 crore during the year. The remaining uses of funds consisted of the increases in miscellaneous current assets Rs 0.55 crore, in investments on account of purchase of shares of India Gypsum Rs 1.45 crore and in intangible assets representing technical know-how expenses Rs 0.20 crore.

The company signed a memorandum of understanding for Soviet technical know-how and assistance for the manufacture of extraction, handling and sampling equipment and systems for ore and minerals including coal.

NIZAM SUGAR FACTORY Cane Shortage Eases

NIZAM SUGAR FACTORY achieved a 38 per cent growth in sales on annualised basis to Rs 76.64 crore during the year ended March 31, 1990. In view of the

The Week's Companies

(Rs in lakh)

| Financial Indicators | Hyderabad Industries | | Nizam Sugar Factory | | Dalmia Cement (Bharat) | |
|---|----------------------|---------------|---------------------|---------------|------------------------|---------------|
| | 1989 March* | 1990 March | 1989 March** | 1990 March | 1989 March | 1990 March |
| Income/expenses/profit | | | | | | |
| 1 Net sales/main income | 11,638 | 10,754 | 8,306 | 7,664 | 7,493 | 8,139 |
| 2 Other income | 487 | 382 | 187 | 154 | 356 | 364 |
| 3 Raw material cost | 5,821 | 5,588 | 6,143 | 4,485 | 1,252 | 1,205 |
| 4 Employees cost | 1,279 | 1,116 | 2,093 | 1,766 | 641 | 936 |
| 5 Depreciation | 253 | 234 | 501 | 75 | 976 | 914 |
| 6 Other expenses/adjustments | 3,544 | 2,810 | (430) | 574 | 3,960 | 4,376 |
| 7 Operating profit (1+2)-(3+4+5+6) | 1,228 | 1,388 | 186 | 719 | 1,020 | 1,072 |
| 8 Interest | 285 | 181 | 365 | 300 | 685 | 649 |
| 9 Taxation | 320 | 470 | 0 | 25 | 55 | 96 |
| 10 Net profit (7-8-9) | 623 | 737 | (179) | 393 | 280 | 327 |
| 11 Dividends | 142 | 170 | 0 | 0 | 65 | 86 |
| Capital/loans/assets | | | | | | |
| 12 Share capital | 556 | 569 | 1,642 | 1,747 | 287 | 287 |
| 13 Reserves and surplus | 4,435 | 4,973 | (427) | (66) | 5,596 | 6,343 |
| 14 Current liabilities and provisions | 3,373 | 3,354 | 2,437 | 2,932 | 2,075 | 1,908 |
| 15 Short term borrowings | 587 | 741 | 2,729 | 3,531 | 4,172 | 701 |
| 16 Long term borrowings | 728 | 23 | 496 | 675 | 4,671 | 4,884 |
| 17 Gross fixed assets | 4,568 | 5,012 | 4,549 | 5,023 | 11,100 | 12,252 |
| 18 Accumulated depreciation | 2,040 | 2,250 | 2,967 | 3,235 | 3,428 | 4,316 |
| 19 Inventories | 2,193 | 2,691 | 3,712 | 5,004 | 2,138 | 1,998 |
| 20 Receivables | 1,259 | 736 | 234 | 337 | 549 | 887 |
| 21 Current assets | 6,000 | 5,594 | 5,278 | 6,995 | 4,330 | 4,646 |
| 22 Investments/other assets | 1,144 | 1,309 | 11 | 32 | 1,799 | 1,541 |
| 23 Total assets/liabilities (12 to 16) or [(17-18)+(21+22)] | 9,679 | 9,664 | 6,872 | 8,814 | 13,801 | 14,123 |
| Key financial ratios | | | | | | |
| 24 Turnover ratio (1/23) | 0.96 ^a | 1.11 | (0.81) ^d | 0.87 | 0.54 | 0.58 |
| 25 Return on sales (10/1)×100 (%) | 5.35 | 6.85 | (2.16) | 5.13 | 3.74 | 4.02 |
| 26 Return on investment (%) (10/23)×100 or (24×25)% | 5.15 ^a | 7.63 | (1.74) ^d | 4.46 | 2.03 | 2.32 |
| 27 Return on equity (%) [(10/(12+13))×100 or (23/(12+13))×26] | 9.99 ^a | 13.30 | (9.82) ^a | 23.45 | 4.76 | 4.91 |
| 28 Book value per share (Rs) | 90.18 | 97.79 | 21.56 | 26.08 | 205.03 | 231.06 |
| 29 Current market price (Rs) | 90.50 | 150.00 | — | — | 70.00 | 110.00 |
| 30 Price/earnings ratio (35/36) | 10.05 ^a | 11.53 | — | — | 7.17 | 27.20 |

a = Annualised, — = Not available, * For 15 months ** For 18 months

Balance Sheet Analysis by Manisha G. Mehra

expenses to sales ratio coming down drastically from 1:1 in 1988-89 to 0.93:1 in 1989-90, the company could make a turnaround in profits. The directors were happy to record that for the first time in about 10 years the company had made profits. The high-water mark of the company's performance in the last three years was the improvement in capacity utilisation from about 60 per cent to around 90 per cent in the sugar units. A well designed incentive programme for sugarcane cultivation and supply and for the propagation of high sucrose varieties has secured good results.

Cane shortage which had bedevilled the company for years disappeared and the quantity of sugarcane crushed increased by two lakh tonnes or more in each of the last three years. The distilleries performed well and earned profits. Apart from extending incentives on its own, the company provided loans to the farmers under the Sugar Development Fund of the government of India. The company crushed 13.74 lakh tonnes of sugarcane during the year as against 11.50 lakh tonnes in the preceding year. The production of sugar reached 13.49 lakh quintals during the year, up from 11.28 lakh quintals during the preceding year. The company achieved a sugar recovery of 9.79 per cent in 1989-90 compared to 9.81 per cent in the preceding year.

During 1989-90, the operating profits of the company quadrupled to Rs 7.18 crore from Rs 1.86 crore and the net loss of Rs 1.79 crore was converted into a net profit of Rs 3.93 crore. The overall return on investment improved to a positive 4.46 per cent from a negative 1.74 per cent in the preceding year. The factors which led to this improvement are a higher assets utilisation ratio of 0.87:1 in 1989-90 as compared to 0.81:1 in the preceding year and a positive net profit margin of 5.13 per cent as against a negative 2.16 per cent in the preceding year. The return on owners' equity improved to 23.45 per cent during 1989-90 from a negative 9.82 per cent in the preceding year.

With the retained earnings strengthening the equity base, the company's capital structure reflected a lower debt/equity ratio of 2.51:1 compared to 2.65:1 in the preceding year. This partly explained the spurt in the interest coverage ratio from 0.51 times in 1988-89 to 2.39 times. Along with a balanced capital structure, the company experienced a better working capital position too. The current ratio improved from 2.17 in 1988-89 to 2.39 in the latest year. However, on closer analysis one could see that this was on account of huge build-up of finished goods inventories.

The balance-sheet changes showed a funds-flow of Rs 19.42 crore. The sources

of funds consisted of increases in various items on the liabilities side of the balance-sheet: increase in share capital Rs 1.00 crore which represented the amount drawn by the company on capital account as equity from the government of Andhra Pradesh for the establishment of a distillery unit at Medak, in reserves and surpluses Rs 3.61 crore on account of the ploughback of profits of 1989-90, in current liabilities and provisions Rs 5.00 crore on account of the accumulation of sundry creditors, in short-term borrowings Rs 8.02 crore by way of additional bank overdrafts, etc, and in long-term borrowings Rs 1.79 crore by way of term loans from institutions and banks. The largest share of over 66 per cent of the funds raised during the year was absorbed by rise in inventory, Rs 12.92 crore. The balance funds were used to increase net fixed assets by Rs 2.06 crore for additions to land, buildings and plant and machinery, receivables by Rs 0.98 crore, cash and bank balances by Rs 0.64 crore, miscellaneous current assets by Rs 2.63 crore representing loans and incentives to sugarcane growers and finally investments in company shares Rs 0.21 crore.

DALMIA CEMENT (BHARAT)

Focus on Energy Conservation

DALMIA CEMENT (BHARAT) recorded a moderate increase of 9 per cent in sales during the year ended March 31, 1991. As there was no major increase in costs, except employees cost which spurted by a substantial 46 per cent, the operating profits were up by 5 per cent and net pro-

fits by 17 per cent during the year. The expenses to sales ratio remained steady at 0.91:1 in both the years. As a measure of cost reduction and conservation of energy, the company commissioned the slip power recovery system. The 'O' Sepa High Efficiency Separator for cement mills was installed and an order was placed for kiln supervisory control system for commissioning in 1990-91.

Clinker production was lower at 6.01 lakh tonnes during 1989-90 compared to 6.65 lakh tonnes in the preceding year and cement production was 6.63 lakh tonnes against 6.76 lakh tonnes. The production of dead burnt magnesite increased to 41,000 tonnes from 39,000 tonnes in the preceding year and that of iron ore to 141,000 from 132,000 tonnes.

The company achieved an improvement in the overall return on investment from 2.03 per cent in 1988-89 to 2.32 per cent in 1989-90. It improved its assets utilisation ratio from 0.54:1 to 0.58:1 and the net profit margin from 3.74 per cent to 4.02 per cent which jointly pushed up the overall return on investment. There was a nominal rise in the return on owners' equity from 4.76 per cent to 4.93 per cent. The debt/equity ratio declined from 0.99:1 in 1988-89 to 0.84:1 in the latest year. This change in the capital structure of the company resulted from additions to reserves and surpluses during the year when there was a net reduction in borrowed capital. This got reflected in a higher interest coverage ratio of 1.65 times in 1989-90 compared to 1.49 times in the preceding year. The higher current ratio of 2.44 in 1989-90 compared to 2.09 in the preceding year was reflective of an improved work-

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ing capital position. This was accounted for by a low growth in accounts payables accompanied by a high accumulation of accounts receivables waiting for collection.

The funds-flow during the year amounted to Rs 13.58 crore. The sources were increases in reserves and surpluses Rs 7.47 crore and in long-term borrowings Rs 2.13 crore and decreases in inventories Rs 1.40 crore and in investments Rs 2.58 crore.

The company took rupee term loans from the financial institutions. The reduction in investments was due to the sale of UTI units. The funds were utilised during the year to decrease current liabilities and provisions by Rs 1.67 crore and short-term borrowings by Rs 4.71 crore and to increase net fixed assets by Rs 2.64 crore, receivables by Rs 3.38 crore, miscellaneous current assets by Rs 1.17 crore and cash and bank balances by a nominal Rs 0.01

crore. The company repaid part of the cash credit from banks. The additions in fixed assets were mainly in the form of machinery and electrical installations.

The company has on hand a joint venture project with the Industrial Promotion and Investment Corporation of Orissa for the manufacture of one lakh tonnes of pig iron per annum. The techno-economic feasibility report is under preparation.

IN THE CAPITAL MARKET

Krone Communications

ARONL COMMUNICATIONS promoted by Krone AG of West Germany and Karnataka State Electronics Corporation and M. I. Thukral and Associates, will enter the capital market on May 9 with a public issue of 13.20 lakh equity shares of Rs 10 each at par. The issue is being made to part finance the company's Rs 11 crore project for the manufacture of telephone connectors including back panel connector and related products for use in telecommunication network and commercial and industrial systems. Krone Communications went into production in October 1989. It manufactures Krone ISATEL cable connection systems, a quick, reliable and compact method of terminating telephone cables in the telecommunication cable network. The project has been set up in technical and financial collaboration with a 49 per cent equity participation by Krone AG, West Germany. It involves the use of imported plant and machinery such as CNC moulding machine, injection moulding tools, specialised press tool and assembly jig for the manufacture of the cable connection systems. Krone Communications will use poly-based plastics like ABS, polybutyl terephthalate, unsaturated polyester, propylene and polypropylene. Krone AG is engaged in the manufacture of a wide range of telecommunication products like copper and fibre optic transmission systems. The co-promoter, Karnataka State Electronics Development Corporation, was set up to promote the electronics industry in Karnataka. Krone Communications has projected a good market for its products in view of the plans of the department of telecommunications to install five million additional telephone lines by 1995 and 20 million by the year 2000.

Tamilnadu Telecom

TAMILNADU TELECOMMUNICATIONS, promoted by Tamilnadu Industrial Development Corporation (TIDCO) and Telecommunications Consultants India (TCI), one a State and the other

a Central government undertaking, will enter the capital market on May 9 with a public issue of 44,63,500 equity shares of Rs 10 each at par. The issue is being made to part finance the setting up of a Rs 28.7 crore project for the manufacture of polyethylene insulated jelly filled telecommunication cables. The plant, to be located at Arkonam in Tamil Nadu, will have a capacity to manufacture 6.25 lakh core km per annum. The project is being set up in collaboration with the Essex Group, USA. The promoters expect to commence commercial production by the third quarter of 1991. They have given an assurance of exporting cables worth Rs 22.8 crore during a three year period. The prospects for jelly filled telephonic cables (JFIC) are good in view of the decision of the department of telecommunications (DoT) to convert all the existing telephone lines gradually to JFIC. According to the perspective plan of DoT during 1990-95 more than five million additional telephone lines will be installed which will require 700 lakh core km of JFIC. TIDCO, the co-promoter, has been in operation since 1965 and has promoted various industries in Tamil Nadu. It assisted 56 projects with a total outlay of Rs 1,200 crore. TCI set up in 1978 under the department of communications provides consultancy and related services in the field of telecommunications both in India and abroad. It executes turnkey projects abroad and also exports telecommunication equipment.

Polymechplast Machines

POLYMICHELPLAST MACHINES (PML), an existing profit making, Baroda based company, is planning to enter the capital market to part finance its expansion project to manufacture high capacity injection moulding machines for export and the local market. The project will be put up at Savli, near Baroda, at a total capital cost of Rs 9.50 crore in the first phase. PML is a member of the 13 year old reputed Plastico group of industries and is presently manufacturing

injection moulding and blow moulding machines under the brand name of 'Goldcoin'. PML has the distinction of being the only successful manufacturer of double colour, marble effect, injection moulding machines in India—till date. It has earned a distinct reputation as a leading service-oriented manufacturer of economical, high speed, energy-efficient, computer controlled machines. At present PML is exporting to USSR, Africa, Bangladesh, etc. Export enquiries worth Rs 36 crore for deliveries up to 1993 are in hand and are in an advanced stage of negotiation. PML is planning to expand its product range and include injection blow moulding machines, reaction injection moulding machines, stretch blow moulding machines, etc., for both import substitutions as well as export. According to K. R. Bhuva, the managing director, this will be the first of the group's three prestigious projects to enter the capital market. Project management and merchant banking consultancy is being provided by VMC Project Technologies, Baroda.

Do-Max Steel

DO-MAX STEEL is setting up a modern 30,000 tpa capacity steel plant near Baroda in the backward notified area of GIDC at Waghodia. According to the managing director, H. P. Rath, this project will use the latest US induction steel melting technology, using energy efficient, cost effective production methods supplemented by latest quality control equipment and material handling systems. The company will manufacture import substitute alloy steel for special application in core sectors. The total capital outlay on the project is Rs 5.95 crore which will be part financed by equity capital issue for which the company will be entering capital market very shortly. The lead managers to the issue will be the Merchant Banking Division of VMC Project Technologies, Baroda. The project is in an advanced stage of implementation and the group has ambitious plans of both forward and backward integration.

Calcutta Diary

A M

By all means let us look forward to the prospect of a hung parliament and that of, once more, a severely weak regime in New Delhi. What is rack and ruin for the bandmasters in New Delhi need not be rack and ruin for the vast majority constituting the nation's poor and middle classes.

It is an altogether new development, mobilising international loan-giving agencies for electoral campaign within the country. Reports, carefully slanted, are carefully planted in the newspapers. The sources are supposed to be highly placed government officials 'interacting' with these external institutions. It is of course quite conceivable that there is in fact no such 'interaction' and no civil servants briefing the press. Some straightforward fiction is being attempted. One or two individual members, who have their connections with the media and who cannot wait to see the politicians of their choice return to the seat of power, are practising a piece of blackmail on the electorate: unless you vote right, unless you vote for a stable single-party regime—you know which one—credit-giving institutions such as the International Monetary Fund and the World Bank would stay away and offer no loans to bail us out. Our credit rating in the international money market too, the voters are being warned, depends upon how voters exercise their suffrage. The Cabots have spoken to the Lodges, and the Lodges have duly communicated the confidential information to God. Should there be no stable regime in New Delhi following the elections, busybodies in the international financial institutions have allegedly told our officials, prospects of steering the economy out of the present crisis would, according to their judgment, be bleak. The reasons are not far to seek. Whoever form the government would have to opt for a long-term policy of thoroughgoing structural reforms and initiate a series of stern measures to enable the economy become more competitive; measures of this sort could by implication be taken on hand only by a strong administration. Foreign credit-giving agencies, as per stories as floated in the newspapers, are disgusted by the goings-on in the country since November 1989, two minority governments, precariously perched on outside support, were incapable of taking any major economic decisions. The consequences were, in the view of unnerved spokespersons of the Fund, the Bank and the Asian Development Bank, disastrous. Such are also the views of functionaries of American and Japanese credit-rating agencies, should no stable government emerge after the elections, they have reportedly warned North Block, India's rank in their scales might drop further.

The message intended for the docile voters could not have been more explicitly stated.

vote the way foreigners want you to vote, otherwise you face ruin and perdition. There is as yet no guarantee that the ploy will work. The Indian electorate may yet spring a surprise on the partisan journalists itching to sell the country down the drain, and on faceless civil servants whose minds travel along the same wavelength as that of these presswallas. Consider the ingredients of what is described as ground reality. The majority of the electors, poor and hard-up, beyond measure, are not greatly concerned whether there is or is not enough foreign exchange in the kitty, even assuming there is not, what grave re-ordering in their standard of living would be called for by that supposedly indescribable calamity befalling the nation? Even without foreign exchange, life for the nation's poor would remain about the same, they have been exploited and deprived systematically in the course of the past forty-four years, they would, according to all indications, continue to be so deprived. If anything, in case they make the blunder of giving a clear majority to a political party, an arrangement a group of journalists prefer, a group of officials prefer and so too foreign credit-giving institutions, the government formed by the party is unlikely to allow any growth under its feet and would immediately accept, lock, stock and barrel, the stabilisation programme made ready by these foreign institutions and 'friendly' foreign governments patronised by the latter. Such a programme would drive the nation's poor further against the wall. The details of the stabilisation programme follow certain standard specifications which have been applied in the case of other countries and are therefore well known: they are intensely class biased. It is a dicey situation, the millions of the nation's under-privileged may still not vote according to the wishes of journalists who write to order and committed civil servants who consider it their first duty to advance the cause of foreign credit-disposing agencies. Were the nation's poor even marginally concerned about how to protect their own class interests, their vote would straightaway be cast in favour of a shaky, wobbly, unstable regime. A weak government, the outcome of a hung parliament, would be in no position to initiate 'strong' economic measures, however much civil servants and foreigners cry for such measures to be in Hurrah and hallelujah, with a shaky, ramshackle government *in situ* in New Delhi, the poor and the middle classes would for the present at least be

spared the fate of further immiserisation.

That apart, and the cheek of foreign institutions to try to interfere in our domestic political process apart, what about the underlying economic assumptions on the basis of which these outsiders reach their conclusions? The crisis currently engulfing the Indian economy has absolutely no causal link with the nature of regimes presiding over the government of India during the past eighteen months. The crisis is, on the other hand, the legacy of the party that ruled the roost throughout the 1980s. The government set up by this party was, by all definitions, strong. It was presided over first by the formidable mother and, after her assassination, by the always-unsure-of-himself-and-for-jolly-good-reason son who was wont to accept whatever outside advice was forthcoming from whichever quarter, as long as such advice was coated with the veneer of superficial smartness. Notwithstanding its strength and stability, or precisely because of its strength and stability, with none in a position to challenge it, this government blindly and obediently followed the line laid down by foreign credit-giving institutions. The economy opened up as per instructions received. Unbridled imports took place of capital goods, of a very wide range of inputs and components, and even of luxury consumer goods in both ckd and non-ckd conditions. The foreign credit-giving institutions were never satisfied; they urged even further liberalisation. Those in charge of the government in New Delhi during the most part of the past decade immediately complied. The aid-providing institutions have kept behaving in the manner of Oliver Twists, they have persisted with their demand for more and more concessions for foreign investors and purchasers, they have also persisted with the other demand, namely, the depreciation of the rupee being rendered into a continuous, uninterrupted exercise. The arcadia foreign aid-disbursing institutions promised against such steps did not come about. Exports failed to pick up, at least they failed to scale the heights they were assumed to scale as a matter of course. The flow of foreign private investment did not improve. Remittances by Indians resident overseas tapered off. Nothing else mentioned in the blueprints of the World Bank and the IMF came to life; only imports soared. Strains in the balance of payments got aggravated. Totally undeterred by the development, and advised once more by the same set of foreigners as did service previously, the government went on a binge of borrowing short-term funds at outrageously exorbitant terms and conditions. As if it was all a lark: the process of adding to the country's indebtedness continued, with a frightening mindlessness, for months on. The debt service burden as a result spilled beyond the conventional safe limit defined by the foreign credit-disbursing agencies themselves. These agencies did not bother to warn the stable government that was there in New Delhi to temporise. On the contrary, they urged the government of India to liberalise further, to import even more, to

depreciate the rupee further. Since such tremendous stress is laid these days on the concept and content of accountability, can the foreign aid-disbursing agencies therefore escape the responsibility for the country's present economic mess, are not they co-authors of this mess? The two minority governments, one following the other, in the past year and a half were left to deal with the consequences of this mess. True, the National Front government, which lasted for barely eleven months, did not exactly cover itself with glory while coping with the difficulties encountered. It had conceivably some built-in inhibitions. Its leader and Prime minister was, at least for half the time, finance minister of the previous regime too. He, not unnaturally, was a victim of ambivalence. The finance minister in his government was not much of a help either. He was well meaning in his own manner, but, not having any political base of his own worth the name, could contribute little to clear the fog of indecisiveness which had settled in in the proximity of the prime minister's office. The moment it was installed in office, the National Front government should have stopped listening to the advice of the foreign aid providing institutions and that of officials favoured by the latter. It is a considerable tragedy that it did nothing of the kind. The tragedy has afflicted the nation, not the foreign credit dispensing agencies though. They had no reason to complain: they have succeeded in pushing the country and its government into an impossible corner. Was not that what was intended? As regards the successor regime which currently continues on a caretaker basis, again foreign institutions hold it on the tight leash. It is a fact that this caretaker government was unable to initiate harsher fiscal and monetary measures and failed to present a regular budget which could have spelled out these measures. But that was because the political party presiding over the government throughout the eighties, which lent parliamentary support from outside to this minority government, did not want to see these things on the anvil. The foreigners desperately anxious to take over India should therefore address their grouses toward the direction of this political party.

So the Indian electorate be better not intimidated, it better not be served with grossly tainted economic and political analysis either. In any event, what is rack and ruin for the handmasters in New Delhi need not be rack and ruin for the vast majority constituting the nation's poor and middle classes. Suppose another wobbly government is installed in New Delhi in the first week of June, and suppose it proves hopelessly incapable of putting through a structural adjustment programme which is to the liking of the World Bank and the Fund. Suppose, as a result, no fresh foreign funds of any substantial order are forthcoming and our government is compelled to default on its external payment obligations. The Bank and the Fund would then have to follow the rule book and choke off the

meagre credit still flowing into India. The country's credit rating too would then drop to zero in Western money markets, and, in addition, whatever little private foreign investment was making a hesitant habitat of India, would fly away. All this would without question amount to a major catastrophe from the point of view of the smart set in New Delhi and Bombay speaking the public school patois. True, some more industrial units would face closure, and be compelled to lay off a few more thousands of workers. But look to the other side of the coin. The country would more or less have to do without foreign exchange. It would be forced to abandon economic liberalisation, and to return to the discipline of strictest import control. There would be

no escape from undertaking drastic structural reforms in the economy in these circumstances too. But, mercifully, the burden of these reforms would, for a change, be borne by the nation's rich and affluent. Such a course of events would be extremely bad tidings for self-seeking civil servants and conspiring commission agents. It would break their heart to see the country trek back to the path of economic self-reliance. What is an unfortunate happenstance for them is however a boon for the nation as a whole. The begging bowl syndrome would be over. By all means let us therefore look forward to the prospect of a hung parliament and that of, once more, a severely weak regime in New Delhi. Someone's poison is, after all, someone else's meat.

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Eighth Plan: Challenges and Opportunities—XIV

Financing the Plan

Arun Ghosh

In this article, the fourteenth of a series of articles setting out the broad approach of the Planning Commission under the V P Singh government, the author discusses the dimensions of investment in the Eighth Plan and the sources of its financing as envisaged by the Planning Commission in August/September 1990.

IT would obviously be unrealistic today to discuss the financial dimensions of the Eighth Plan, as worked out in August/September 1990. The figures are not important, nor of much relevance today, and are at best of historical interest. What is of importance is the pattern of financing; the broad thrust of the expenditure allocations; and the extent of devolution of resources for bringing about a directional change in the pattern of development of the country towards decentralisation, greater equity, greater self-reliance and a better quality of life for the people.

But then, one has to find a peg on which to hang a picture; and that peg in the present context can only be the broad financial dimensions of a plausible plan outlay, the problem of providing the required finance, the problems that arise in the transition to a different pattern of socio-economic development. Even so, some unrealism must remain in giving any set of financial dimensions of a five-year plan, without the benefit of the latest official data not available to an outsider. Regrettably, even the *Economic Survey* did not get presented to parliament and to the country this year. What is the relevance of the figures dreamt up in August/September 1990 today? It is well known that in the last seven months, there has been a sea change in the economic situation on both the external and internal fronts. Even though crude oil (and oil product) prices have come down after the Gulf War, the country is close to bankruptcy in external payments. Internally, there has been an erosion of government revenues, and an increase in government expenditures (in 1990-91, as compared to the budgeted figures), and the rate of inflation has crossed the double-digit mark. Inaction—or inadequate action—by way of a 'vote on account' for four months rather than a full year's budget for 1991-92, makes the economic situation one of considerable potential danger for the future. Decisions postponed make it so much harder to compress the required

short-term 'adjustment' of the economy within a shorter period, after a new government takes charge following the general elections.

I do not propose to discuss the short-term adjustments necessary, even though as stated earlier the short-term is the precursor of the long term. Nor do I propose to repeat all the figures—which were then mutually consistent—which have now been rendered out of date. In this piece, I propose to unfold three sets of data, and endeavour to present the issues that arise, the issues that will have to be squarely faced, in the context of the type of development envisaged in the philosophic approach unfolded in the earlier articles.

The three sets of data I propose to give are: (a) the latest estimates of the GDP, domestic savings (and components thereof) on the basis of which one may attempt to derive the trend rate of savings, and what needs to be done to contain the increasing dependence of the country on external savings; (b) the broad dimensions of investments and their financing as envisaged by the Planning Commission in August/September 1990; the rationale is merely to indicate (i) the problem of shifting gears suddenly because of the overhang of past commitments; (ii) the manner in which a new thrust can be given to the type of plan programme indicated in the earlier articles; and (c) the problem of devolution of resources from the Centre to the States, which is essential, if the philosophic approach to development outlined earlier is to be accepted, and if the States are to be empowered to take up the task of speeding up the socio-economic development of the backward areas/sections of population.

Why do I persist in giving figures at (b) above? I have so far avoided giving any data which are not officially published (even though I firmly believe that most official data which are today treated as confidential should be in the public domain). First, perhaps it should be stated

that these figures were leaked out by the daily press when the figures were still 'hot', they are no longer a matter of confidentiality but of history. Secondly, and more importantly, the figures have some relevance with regard to their policy implications. The totals would all be somewhat different today, but the policy implications of the pattern of outlay, of resource raising, of Central transfers to States, would remain broadly unchanged. Indeed, the need for urgent action would be even more acute today than a year back.

These 'historical' figures would, *inter alia*, indicate how difficult it is to bring about a social transformation of the type discussed in the earlier chapters. In part, the overhang of past commitments makes it difficult to break away sharply from the past. In part, the extant political-cum-administrative system (with its vested interests) makes it even more difficult to introduce concepts which would make for the efficient use of our limited resources.

At this juncture, perhaps a small digression is necessary. The daily press has reported that the present Planning Commission proposes to keep a draft Eighth Plan ready for the new government by the end of May. That is fine, and is obviously a wise move. But it is also reported in the press that the plan would be drawn up on the basis of an assumed growth rate of the GDP at 6 per cent per annum during the plan period. The only plausible explanation for jacking up the growth rate (from 5.5 per cent per annum, as approved by the NDC in September 1990) to 6 per cent per annum is that the annual growth rate during the Seventh Plan period was 5.6 per cent; how can one project a lower growth rate for the future? Unfortunately, what is forgotten in this euphoria about the past rate of growth is:

(a) that this growth rate—which, incidentally, was approximately known to the then Planning Commission in August/September 1990—was achieved at the cost of both internal and external imbalance of a severe order, neither of which is sustainable; in fact, we will have to pay a heavy price in the future for the policy of mortgaging the future which was adopted in the second half of the eighties; (b) that during the Seventh Plan, despite the impressive overall growth rate (of the GDP), there was a noticeable decline in employment growth, which was lower than the growth of the workforce; (c) that over this period, there was stagnation (and in places even a decline) in output in many parts of the country, increasing the inequality of income, and increasing social tensions and unrest; (d) that it is in this context that the erstwhile Planning Commission felt the

need to spur development effort in the backward (dryland, rainfed) areas where significant investment would be necessary for a few years before any tangible output growth arises; this underscores the need for focusing attention on employment growth rather than growth of aggregate output, which would make for a more egalitarian and 'sustainable' growth in future;

(e) that the present finance minister, Yashwant Sinha, openly talked of the need for (and his determination to introduce) a hard budget for 1991-92, bringing down the 'fiscal deficit' (i.e. total government expenditures minus government revenues, made up by borrowing and by deficit finance) from 8.6 per cent of the GDP to 6.5 per cent, which Sinha was prevented from attempting when he was persuaded to present a vote-on-account for four months rather than a regular budget for the full year; and

(f) that some economists (notably Raja Chelliah, former member of the Planning Commission, and Amaresh Bagchi and Sudipto Mundle) have indicated that 1991-92 may well end up with no more than a 3 per cent real rate of growth—one does not know the growth rate in 1990-91, but the Reserve Bank experts place it at around 4-4.5 per cent over the year—and Chelliah et al have made certain recommendations as to resource raising while pleading for the maintenance of plan outlays, and at the same time suggesting the cutting down of the rate of inflation to 6 per cent for the year in 1991-92 by austerity in regard to administrative expenditures (These suggestions were made before the government opted for a vote-on account for four months in place of a regular budget for the year as a whole.)

Against the above background, any talk of a 6 per cent growth rate during the Eighth Plan is evidence at best of naivete, at worst of cynical propaganda.

As already stated, it is in this context unfortunate that the annual *Economic Survey*—which gives a run-down on the latest economic situation and the latest statistics before the budget in February every year—which was ready and printed, has not been released by the government. One can assume that the *Economic Survey* would have underscored the need for a hard budget, which is why it has been withheld. The future of the economy is obviously of no consequence in the context of political expediency.

At this juncture of the crossroads of Indian history, with external bankruptcy staring us in the face, if a discussion on the financial dimensions of the Eighth Plan is still relevant, it is to demonstrate that it is possible to ensure a balanced growth of the economy by focussing on rural/agrarian development and on employment generating programmes, for these programmes can be pursued without

any adverse impact on the balance of payments; that it is possible to change the direction of the economy away from an energy-intensive and import-intensive pattern of growth; that it is possible to deploy our resources rationally and economically and to stimulate the flow of additional resources by enthusing the backward/depressed sections of society to work for their own development. We need a national consensus on certain objectives and certain policies. We need less of centralisation and of bureaucratic intervention in the detailed working of the economy. We need greater popular participation, through democratic decentralisation, in the process of governance. We need a national debate on these issues if we want to avoid the tortuous path resulting from external and fiscal bankruptcy which has dogged a number of Latin American countries through the decade of the eighties.

FINANCIAL DIMENSIONS OF PLAN

At 1989-90 prices, the aggregate volume of investment over the Eighth Plan period was estimated to be Rs 610,000 crore. Public sector investment was placed at

Rs 200,000 crore, or 33 per cent of total investment; and total public sector plan outlay at Rs 335,000 crore.

To be able to understand these figures, it is desirable to start with a brief picture of the GDP, the domestic savings and investment rates, and the state of government finances during the Seventh Plan period. Table 1 gives the relevant magnitudes.

First, it must be noted that the figures quoted in Table 1 are somewhat different from those which can be seen in some official publications (including the *Currency and Finance Report* of the RBI), and also different from those used in earlier articles. These figures have been derived from *Quick Estimates of the National Accounts* for 1989-90 released by the CSO, supplemented by revisions made by the CSO to figures for the earlier years (obtained from the CSO). What is important are not the precise figures but the dimensional magnitudes. Two significant developments over which everyone is agreed are: first, that household savings (which include the savings of unincorporated enterprises) have shown a remarkable increase over the past three

TABLE 1. PATTERN OF SAVINGS IN INDIA

| | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1989-90 | Total During Seventh Plan |
|---|-------------------|--------------------|--------------------|--------------------|--------------------|---------------------------|
| 1 Household saving in financial assets | 18514 (7.1) | 22292 (7.6) | 26022 (7.8) | 28646 (7.2) | 39386 (8.9) | 134660 (7.8) |
| 2 Household saving in physical assets | 19485 (7.4) | 17704 (6.1) | 28696 (8.6) | 38793 (9.8) | 39527 (9.0) | 144205 (8.4) |
| 3 Total household saving | 37999 (14.5) | 40696 (13.6) | 54718 (16.4) | 67239 (17.0) | 79813 (18.0) | 278865 (16.2) |
| 4 Private corporate saving | 5208 (2.0) | 5040 (1.7) | 5594 (1.7) | 8116 (2.1) | 9379 (2.1) | 33337 (1.9) |
| 5 Saving by government administration | (-1474) (-0.2) | (-12400) (-0.8) | (-15384) (-1.6) | (-18453) (-2.1) | (-12208) (-2.6) | (-128919) (-1.7) |
| 6 Saving by govt departmental enterprises | 1419 (0.5) | 1494 (0.5) | 2077 (0.6) | 2602 (0.7) | 3149 (0.3) | 10741 (0.6) |
| 7 Saving by govt non-departmental enterprises | 7512 (2.6) | 8908 (3.0) | 10556 (3.2) | 13594 (3.4) | 16684 (3.8) | 57254 (3.3) |
| 8 Total domestic saving | 51664 (19.7) | 53738 (18.4) | 67561 (20.3) | 83298 (21.1) | 95917 (21.6) | 351458 (20.4) |
| 9 GDP at market price | 261920 | 291974 | 332616 | 394992 | 442769 | 1724271 |
| 10 Gross domestic capital formation at current prices | 62946 (24.0) | 67230 (23.0) | 75386 (22.7) | 94367 (23.9) | 106501 (24.1) | 406430 (23.8) |
| 11 Use of external saving as percentage of GDP (derived from above figures) | (4.3) | (4.6) | (2.4) | (2.8) | (2.5) | (3.4) |

Note: Figures in parenthesis are percentages of the GDP.

Source: CSO, 'Quick Estimates of National Accounts', 1989-90, plus revised data obtained from the CSO for earlier years. These figures are marginally different from those given in NAS 1989 and NAS 1990. The derived figures of external saving would be different from the RBI figures, based on balance of payments data.

years; and, secondly, this has been offset by a steady decline in savings of government administration which have indeed reached a *dissaving* figure of 2.6 per cent of the GDP by 1989-90. The Diagram brings out vividly the steep decline in government savings in the eighties. (In the diagram, savings of government administration and departmental enterprises have been combined.)

The other disconcerting feature revealed by the data given in Table 1 is the very heavy reliance on external savings, which implies a heavy deficit in the current account of the balance of payments which, as already noted earlier, is not sustainable. Nor indeed is the 'fiscal deficit' of the Central government sustainable, as it is leading both to a rapid increase in interest payments and inflationary deficit finance.

The most heartening feature of the trends revealed by the data given earlier is the rapid spurt in household savings. Private corporate savings have also increased and, hopefully, would increase further, if the private corporate sector is to play its appointed role in speeding up industrial growth.

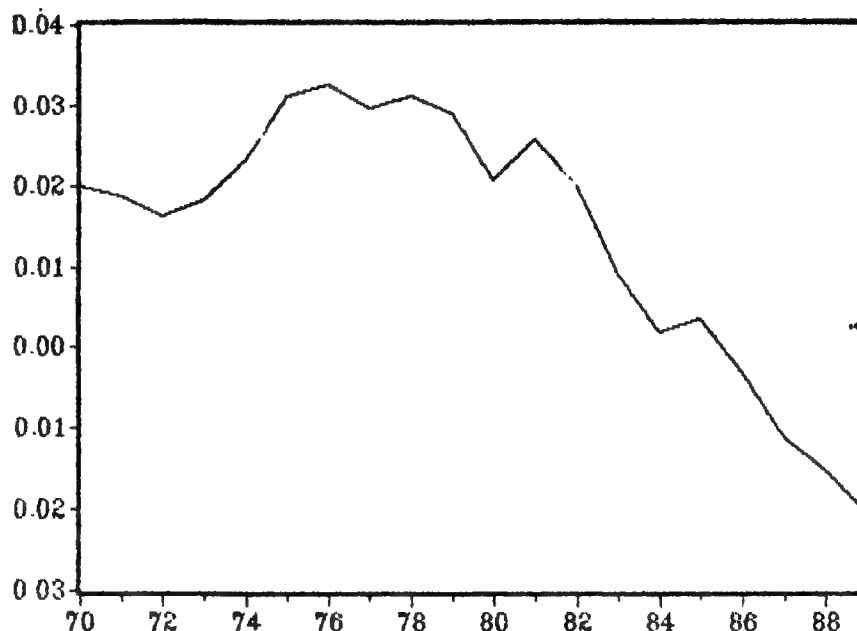
The inescapable conclusion is that if there is a crunch of resources today—and a likely crunch of resources in the coming years—it is in respect of the government sector. It is essential to: (a) increase the resources available with the government (to enable it to take up socially desirable expenditures), and (b) to reduce the dependence on external saving. In operational terms, it means that government *dissaving*, which had reached 2.6 per cent of the GDP by 1989-90, would need to be very largely eliminated over the next plan period.

There is, to this end, need for both curtailment of government expenditure and bolstering government revenues, in order to restore a balance in the economy. The balance of payments needs a two pronged attack: the restoration of a better balance between aggregate demand and supply would by itself partly improve the payments position, though there is no 1:1 relationship between the two; hence, secondly, one would need to look for separate ways to improve the payments position, by boosting exports and eliminating inessential imports.

How does one raise the resources for the public sector, to meet the investment requirement of Rs. 280,000 crore at 1989-90 prices, a step-up of 27 per cent in real terms over the investment during the Seventh Plan period?

There are several ways in which one could attempt to make projections for the future, with reference to the figures given in Table 1. One could attempt to fit long-term trends to various segments of saving other than the saving of government administration, for the latter depends on autonomous decisions of the government.

DIAGRAM 1: SAVINGS OF GOVERNMENT ADMINISTRATION (AND DEPARTMENTAL ENTERPRISES) AS A PERCENTAGE OF GDP



For the other categories, one could attempt to derive savings as a function of real income of the sectors involved. For example, household saving in physical assets may be deemed to be a function of either agricultural income (in real terms) or aggregate household income (in real terms) or of both. Similarly, household saving in financial assets could be derived as a function of non-agricultural household income or aggregate household income or both. One gets a reasonable fit, with significant values, if one takes a long enough series, say from 1970-71. But then, there arise genuine statistical problems in putting together estimates at constant prices over a long period when the structure of production has been undergoing rapid change. No clear trends are discernible if one takes only the last five years, or even the last decade. The recent years show a markedly different behaviour from the past. On the basis of a long-term functional relationship, one would derive a rising trend of household saving in financial assets, which is almost neutralised by a declining rate of household saving in the form of physical assets, a feature belied in the last three years.

There arise other problems. A decline in direct investment (of household saving) in physical assets could well occur in the absence of any policy action calculated to encourage just the reverse. With the focus on local 'watershed area planning', and on rural development generally, promoted by some form of Employment Guarantee Scheme, it is difficult to envisage a decline in the proportion of household saving in physical assets; in fact, the proportion should increase in the future, despite a long-term declining trend.

There is a further problem. Personal

saving in the form of financial assets has been growing steadily in the past. However, having reached a figure close to 9 per cent of the GDP, it is possible that this form of saving could taper off. This could well happen if tax rates need to be raised (in relation to the GDP) to bolster government revenues and to cut down the fiscal deficit in order to bring down inflation. This is an issue on which experts hold divergent views, and there is not enough evidence to establish any unique relationship between savings of households in the form, say, of time deposits with banks and household income. Nor do we have any data on the distribution of income, which may well be a factor in the recent growth rate of financial savings of households. Perhaps one could assume that such savings would increase at best slowly, or at least not decline, even though savings of households in the form of physical assets would go up (and not decline as one would be inclined to forecast from past trends over a longish period).

The brief point of this digression is that for the future, one would need to *assume* certain rates of saving, and not predict them with any great assurance on the basis of past trends.

Turning to the other elements of saving in the economy, one may reasonably assume that savings of both the private corporate sector and of non-departmental public enterprises would increase.

But then, if the savings of all sectors other than government administration were to increase, and if the dissaving by government were to decline, there could arise the possibility of a faster rate of economic growth than assumed all through, namely, at around 5.5 per cent

per annum on an average. With the focus of investment on less capital-intensive forms or processes of production, are the prognostications regarding savings consistent with the rate of growth of the economy assumed?

Two points are important to remember in this context. First, the rate of investment in India has been quite high in the recent past, and a good part of it has been financed by borrowing from abroad, which needs to be drastically reduced. Secondly, we need to direct, for quite some time to come, large sums of money for education, health care, nutrition of the mother and child et al and such social investments are not likely to increase the GDP, though the quality of life would certainly improve. The same goes for outlays for environmental protection; investments made in this behalf are not likely to increase output but improve the quality of life.

Investments on infrastructure are likely to be capital-intensive, and are also likely to have a long gestation period. Heavy investments are necessary for the improvement of rural infrastructure. The pay-off would come after a few years, not immediately.

It must be recognised that when one goes in for a major reshuffling of the pattern of investment, there are certain to arise problems with forecasting the future output. Mechanistic projections are not likely to be realistic. And yet, a directional change in the pattern of investment in the economy is the need of the hour. It would be wrong to turn the focus away from social investments, which form the crux of the strategy to be followed. At the same time, the income of large sections of the rural population has to be buttressed, and to begin with, this would have to be achieved through direct transfer payments. The strategy is to provide a minimum of income to all households. That would lead to a change in the distribution of income and of consumption, the immediate effects of which on savings cannot be forecast. One can say with certainty that after an initial period, of say three years or so—the time taken to derive the fruits of local area development planning—the growth rate of the economy would accelerate. But one should not start counting the chicken before they are hatched. The programme is still only on paper. There has been no purposive intervention yet to change the situation. A national debate is necessary, a national consensus has to emerge on the path of development that India should pursue in the coming years.

It is in this background that the greatest importance attaches to the problem of increasing the resources available with the public sector. These resources are not to be squandered, but deployed in the manner indicated in the earlier articles. One

has to be careful about the strategy. But that is not what we are discussing at this moment.

PUBLIC SAVINGS

During the Seventh Plan period, total public sector savings averaged about 2.1 per cent of the GDP, which was lower by about 1.5 percentage points over what was achieved in the Sixth Plan period. As would be seen from Table 1 earlier, this decline in overall public sector savings occurred in spite of better savings performance by public enterprises which (though lower than targeted) constituted about 28 per cent of total plan outlay and was 3.3 per cent of the GDP in the Seventh Plan. (These ratios may be compared to 22 per cent of plan outlay and 2.7 per cent of the GDP in the Sixth Plan.) Government administration (plus departmental enterprises) had a *negative savings* rate of 1.1 per cent of the GDP in the Seventh Plan period. In 1989-90, the terminal year of the Seventh Plan, this dissaving had reached 2.3 per cent of the GDP. This deterioration occurred despite an increase in government receipts as a percentage of the GDP—from 15.5 per cent in the Sixth Plan to 17.1 per cent in the Seventh Plan. Unbridled expansion of government administrative expenditure, including expenditure on defence and on 'internal security' contributed to the fiscal deterioration. Government's current expenditure (purchase of goods and services, wages and salaries, interest on public debt, subsidies, transfers, etc, in-

creased from about 15.6 per cent of the GDP in the Sixth Plan to as much as 20.3 per cent in the Seventh Plan. In the terminal year of the Seventh Plan (1989-90), such spending constituted about 21.5 per cent of the GDP. This order of outlay was made up of purchases of goods and services and wages and salaries (11.2 per cent), interest on public debt (3.4 per cent), subsidies (3.8 per cent) and current transfers (3.1 per cent).

The report of the Ninth Finance Commission underlined the need for arresting this fiscal deterioration, as did the paper 'Approach to the Eighth Five-Year Plan' (approved by the NDC). One can only reiterate that there is need for firm government resolve (and action) for every possible economy in government expenditure. There is need for a distinct increase in austerity in government expenditure, not merely a call for national austerity.

There are certain obvious limitations to suddenly bringing down any set pattern of expenditure. Past commitments, e.g. interest on public debt already incurred, have to be provided for; the best one can hope for is to restrain such outlays from increasing fast, or at any rate, reduce such outlays as a percentage of the GDP. This would involve greater reliance on current revenues, and a tightening up of all avoidable expenditure. What one can hope for is the *containment* of future commitments (of administrative and defence expenditure) and, in consequence, a much slower rate of growth of such expenditure: (a) in relation to past trends, (b) in rela-

TABLE 2 SOME GLOBAL MACRO ESTIMATES FOR EIGHTH PLAN (1990-91 TO 1994-95)
AT 1989-90 PRICES

| | (Rs crore) |
|--|------------|
| 1 GDP, growing at 5.5 per cent per annum over five years | 21,60,336 |
| 2 Household saving in financial assets @ 9.0 per cent of the GDP | 1,94,430 |
| 3 - do—in physical assets @ 9.5 per cent of the GDP | 2,05,232 |
| 4 Total household saving | 3,99,662 |
| 5 Private corporate saving @ 2.2 per cent of the GDP | 47,527 |
| 6 Savings of government administration plus departmental enterprises | Zero |
| 7 Savings of non departmental govt enterprises @ 4.3 per cent of the GDP | 92,894 |
| 8 Total domestic saving @ 25.0 per cent of the GDP | 5,40,034 |
| 9 Investment during Eighth Plan | 6,10,000 |
| of which (i) by public sector | 2,80,000 |
| (ii) by private sector | 3,30,000 |
| 10 Public sector plan outlay (including investment) | 3,35,000 |
| <i>Financing Pattern of Public Sector</i> | |
| 11 Government saving | 92,894 |
| 12 Draft by government on 80 per cent of private saving in financial assets (by borrowing, small savings, etc) | 1,55,544 |
| 13 Borrowing from abroad (average of 1.7 per cent of GDP, terminal year borrowing being 1.0 per cent of GDP) | 35,723 |
| 14 Deficit finance | 30,000 |
| 15 Total finance available to government | 3,14,161 |
| <i>Financing Pattern of Private Sector</i> | |
| 16 Household saving in physical assets | 2,05,232 |
| 17 20 per cent of household saving in financial assets available for private investment | 38,886 |
| 18 Private corporate saving | 47,527 |
| 19 Total finance available for private investment | 2,91,645 |
| 20 Need for transfers from public financial institutions, etc, for private investment | 38,355 |

plan expenditure), (c) in relation to the growth of revenues, and (d) in relation to the GDP growth.

The two biggest growth items in government current expenditure today are: interest on public debt, and defence. The former can be contained only by a reduction of the fiscal deficit which has been increasing at a frightening rate. This would involve less reliance on borrowing, both internal and external. The latter—i.e., less external borrowing—is in any case essential for restoring viability in our external payments. The former calls for increasing the reliance on current revenues rather than on borrowing for meeting government expenditure. All this is elementary public finance. Unfortunately, there is a section of informed public opinion which feels that tax rates are already quite high in India, and that higher taxes will impinge on private saving. This notion is wrong: (a) because taxation can be properly targeted (to those who can afford to pay, and who are today creating numerous problems by lavish consumerism); (b) because higher taxation would be a better way of restoring balance in the economy than an indiscriminate credit squeeze, which is the usual knee-jerk reaction of administrators in charge of finance and credit; and (c) because while wasteful government expenditure needs to be curtailed, there is need to increase government outlay on high priority social needs like education, health services, etc., and in fact, for some type of Employment Guarantee Programme, in order to deploy the unemployed labour force for local area development planning.

Incidentally, it is worth mentioning at this juncture that South Korea, Taiwan, China—countries frequently cited for emulation—have all had gross savings rates of some 30 per cent plus, as a percentage of the GDP, for quite some time. India also needs to opt not only for a high rate of investment but also for a significant decline in dependence on external savings to spur economic growth. Again, in this context, today there are many experts who advocate the free inflow of external capital to bolster our internal savings and our growth rate; and to this end, the recommended prescription is the 'globalisation' of the Indian economy. It is forgotten in this context that private external capital would tend to concentrate on a pattern of development which is both capital-intensive and energy-intensive, both of which will militate against the type of investment for which we have argued all through the earlier articles. We do need external capital and technology, but we need to be selective as to the sectors into which such capital inflows take place.

First, then, as to the urgent need to curtail/contain our defence expenditure. The

total expenditure on defence (including civil defence services) in 1990-91 (Revised Estimate) was Rs. 17,684 crore, and is budgeted for 1991-92 at Rs. 18,855 crore. These are figures of current outgo. To the extent that a significant part of equipment purchase abroad is on deferred payment terms, the actual liability incurred is greater. (Incidentally, even these estimates of cash outgo (for 1991-92) are likely to be gross underestimates because, as per the finance minister's own statement, no allowance has been made for additional dearness allowance to be paid. But that is separate issue.)

What is really required is to minimise the expenditure for the acquisition of military hardware from abroad. The total expenditure on 'Stores' by the army, navy and the air force is stated to be Rs 4,641 crore in 1990-91 and Rs 4,717 crore in 1991-92. Deducting the payment made to Ordnance Factories (Rs 1,514 crore and Rs 1,620 crore respectively), one gets estimates of Rs 3,027 crore and Rs 3,097 crore as the payment for all other Stores purchases in 1990-91 and 1991-92, respectively. Import payments (for military hardware) may be expected to be significant part of this outlay, say, between Rs 2,500 crore and Rs 3,000 crore annually. At the modest figure of Rs 2,500 crore, this saving would be close to 0.6 per cent of the GDP. However, it is well known that these are only the current payments, most items of defence equipment are obtained on deferred payments basis. All that one can do, therefore, is not to make any large fresh commitments, so that future payments may be frozen at the levels required to pay for past imports (on deferred payments basis). This is one area where a reduction in expenditure would lead to a corresponding reduction in import payments, on a 1:1 basis.

In regard to defence expenditure, the key question to be frontally posed is: what external danger or overt external threat do we perceive, and from whom? From China? That is unlikely. From Pakistan? We tend to forget that the more we arm ourselves the more we provoke others to enter into a competitive arms race. We should cry a halt to the import of sophisticated weapons; we should desist from increasing military expenditures. India does not need either nuclear-powered submarines or aircraft carriers. We should resort to diplomacy and reduce tensions across borders. Defence expenditure is not likely to come down; but halting an increase in defence expenditure will bring it down sharply as a percentage of the GDP.

There is need also to reduce our expenditure on 'internal security', today hidden under a large number of seemingly innocuous budget heads. The need for paramilitary forces arises because we are averse to meeting the genuine needs of the

people to the decentralisation of authority for decision-making on local issues.

We need all the resources we can garner to speed up the development of backward areas. That is the surest guarantee of internal security.

There are many other ways of containing government expenditure, but it is not necessary to dwell on them here. What is required is genuine austerity in government administration. We also need to curtail/contain the steadily burgeoning subsidies. We had occasion to see how the extant system of control over fertiliser investment and pricing has led to a steadily increasing cost of fertiliser manufacture. A change in the system could bring about a significant reduction in the subsidy on this account without harming anyone, either the farm sector or the producer of fertilisers.

In a recent study on subsidies entrusted to the National Institute of Public Finance and Policy (NIPFP) by the erstwhile Planning Commission, Sudipto Mundle and Govinda Rao have found that in 1987-88, taking the Centre and 14 major States, the total subsidy given amounted to more than 14 per cent of the GDP. (Sudipto Mundle and M Govinda Rao: 'The Volume and Composition of Government Subsidies in India, 1987-88', pp 1157-72 of this issue.)

It is not necessary to go into all the findings of Mundle and Rao. Some of the broad findings of the study can be restated thus. First, the subsidies are not necessarily properly targeted. For example, of the total cost of providing higher education, only 1.7 per cent is recovered from the students—the benefits of the implied subsidy obviously going to the relatively more affluent sections of the population. We do not even know that some of the supposedly profitable sectors (pertaining to government enterprises) involve a subsidy because the cost of interest and depreciation on the capital assets (of departmental undertakings) is not reckoned as part of the cost. For instance there is an implicit subsidy of 30 per cent of cost even for the communications sector under the Central government; and it is not realised that there is a heavy subsidy even in the recovery of costs of electricity supply by the Centre because the interest on capital and depreciation are not properly accounted for. Secondly, subsidies to public sector enterprises (through budgetary support) added up to as much as Rs 15,080 crore in 1987-88. These are not even reckoned as subsidies; and for a GDP (at market price) of Rs 3,32,616 crore, this works out to more than 4.5 per cent of the GDP. To recall an earlier discussion, the financial implication of the Right to Work—ensuring work for every person at the minimum official wage rate—was esti-

mated, at 1989-90 prices, to be of the order of Rs 13,000 crore. This is only some 40 per cent of the budgetary support extended to public enterprises.

Mundle and Rao's conclusions are best stated in their own words:

Pure transfer payments are transparent and their beneficiaries are explicitly targeted. Unfortunately, such direct transfer payments are still relatively small in India. By comparison the total volume of subsidies in 1987-88 was more than ten times as large and it turns out that the bulk of this subsidy was not visible. The explicit subsidy, as revealed in the budgets for 1987-88, amounted to only Rs 5,982 crore.

We must also reconsider in this context the issue of budgetary support to public enterprises. Our estimates show that over 35 per cent of government subsidies have been flowing to these enterprises.

One may or may not agree either with all the assumptions or even the conclusions of Mundle and Rao, nevertheless, if the findings of their study have been quoted at such length here, it is because the issue would have considerable significance in the context of raising resources for the Eighth Plan, and the problem of targeting Central Plan outlays in a manner discussed in the previous articles.

FINANCING THE PLAN

It is in the above context that one has to devise ways to finance the public sector investment outlay of Rs 280,000 crore during the Eighth Plan, and a total public sector plan outlay of Rs 335,000 crore (all at 1989-90 prices) during the five-year period.

Since we are talking in terms of 1989-90 prices, the inflation that has occurred during the past one year does not affect the argument, since in current values, there would be a corresponding increase in the GDP values (though government revenues do not automatically increase in the same proportion as inflation in prices).

Let us make certain assumptions in regard to the pattern of savings, in relation to the estimated growth of the GDP (on the basis of the latest CSO figures of GDP in 1989-90) and see the order of savings that might emerge, and what further needs to be done, to steer the economy out of the difficult transitional period, when the gains from social investments and area development planning may not get translated into accelerated growth. Table 2 will illustrate the broad nature of the possibilities/problems.

Some clarifications are in order. First, in the Seventh Plan, the total government draft on household savings in financial assets was 85 per cent, this is being reduced in order to allow greater freedom to private corporate investment to tap the capital market for industrial investment. Secondly, the difference between government plan outlay and government invest-

ment pertains to social investments, which are part of government current expenditure and therefore subsumed in row 6 of Table 2. The savings of government on this account are assumed to be zero, but obviously this would have to be achieved after providing the required funds for current plan expenditure. Thirdly, the total finance available to government is in excess of government investment by Rs 34,000 crore plus. This would be required partly to augment foreign exchange reserves, which are now too low for comfort, and partly for transfers to finance investment by the private sector. This would *inter alia*, bring down the net payment for interest on debt, via financial institutions. Finally, and most importantly, in the above calculations, no specific provision has been made for the finance required for implementation of the Right to Work. The Employment Guarantee Programme was estimated to cost some Rs 13,000 crore annually, or some Rs 65,000 crore over five years. This can be provided (a) partly by saving on the present, widely scattered Centrally Sponsored Schemes, which can then be deployed for the implementation of the Right to Work and the implementation of local area development programmes, by devolution of the finances to locally elected panchayats, (b) partly by cutting down on some subsidies (examined in detail by Mundle and Rao and referred to earlier) and converting them to explicit transfers, calculated to guarantee employment and a minimum income to every job seeker, and (c) partly by deploying the 'investible resources' available with government for investments for the improvement of the rural infrastructure (which will also help to increase employment).

It may be added that all the above figures are dimensional and illustrative. They are all out of date. Instead of trying to adjust and re-adjust all these outdated figures, the nation should prepare for a fresh plan, based on realistic figures at 1990-91 prices, and the latest estimates of the macro aggregates which are known only to government economists.

It must be repeated that if the dissaving of government administration and departmental enterprises taken together were to be eliminated, the rest of the economy had already attained a saving rate of 23.9 per cent of the GDP in 1989-90. The focus, therefore, has to be essentially on the curtailment of administrative expenditure (especially unproductive expenditure), on the proper targeting of subsidies, on the efficient use of resources through the convergence of services. Equally, if the current transfers involved in programmes like the IRDP/JRY (and other schemes under the Department of Rural Development) were to be deployed for 'investment' purposes, as part of local area planning (e.g., for the improvement and reshaping

of land and land levelling, contour bunding, terracing, planting of trees, small irrigation works calculated to improve the soil-water combination in dryland areas), there would be a noticeable increase in publicly financed rural investment. Such investment is likely to induce additional investments by the rural sector directly in the form of physical assets. While basic land improvement investments may not yield any output for a couple years or even more (depending on the type of improvement required), there would be a spurt in output after a few years. Such investments, of the classic Nurkseian variety, namely, the mobilisation of unemployed (or under employed) labour for the creation of long-term assets calculated to improve the productivity of labour, are to be a major feature of "watershed area planning". The success of such a programme would depend on the extent to which we succeed in the experiment on 'decentralisation', the extent to which we are able to provide back-up support for effective local area development plans. However, we must accept the reality; such efforts at local area development planning may begin to yield fruit only after two or three years, at the earliest.

Thus, two consequences would follow. Many of the 'current transfers' would become of the nature of 'investments' thereby putting scarce resources to best use. Secondly, though these investments may not yield immediate results, their gestation period would be very much shorter than the gestation period of large investments. Investments on infrastructure development must be made, but even part of such development, e.g., on rural roads can be partly funded through such use of surplus labour, through implementation of the Right to Work.

The key to these changes is a restraint on the dissaving by government administration, together with decentralisation of planning effort.

Two further points need re-emphasis. First, the total amount of deficit financing is to be contained Rs 30,000 crore (at 1989-90 prices) during the Eighth Plan. It is noteworthy in this context that actual deficit finance during the Seventh Plan had reached Rs 28,000 crore (at 1984-85 prices) as against the plan target of Rs 14,000 crore. Secondly, the current account deficit in the balance of payments is projected to fall to some one per cent of the GDP by 1994-95. For the plan period as a whole, this implies an average deficit of 1.7 per cent of the GDP.

The other important prognostication in the context of raising of resources is that the public sector plan outlay is to be financed very significantly by the surplus of public sector enterprises. Such surplus (of non-departmental public enterprises, at Rs 92,894 crore) would amount to nearly one-third of the public sector plan

outlay of Rs 280,000 crore; and if the surpluses of departmental enterprises are added (which are mixed up in Table 2 with government administration) the contribution of public enterprises would amount to a significantly large proportion of the total.

STATE PLANS: SIZE AND FINANCING

One of the problems that has been becoming acute of late is the steady erosion in the resources of the States. Table 3 below gives the pattern of financing of Central and State plans, again at 1989-90 prices, which had been suggested in August/September 1990. This table has no relevance except insofar as it helps to pinpoint the importance of greater devolution of resources to the States (and via the States, to the local authorities). Incidentally, these figures would not tally with the prognostications made in Table 2 earlier. Again, the figures are not relevant the dimensional magnitudes and the problems they point up are what the nation should debate.

The figures in Table 3 have no particular relevance as of now, but are yet important because they underline that even the erstwhile Commission found it difficult to restore better parity between Central and State plan outlays because of: (a) the overhang of past commitments of the

Centre, and (b) the need and the urgency of a rapid build-up of infrastructure, especially in the areas of energy and transport.

Two especially important issues that arise in this context are: (a) the magnitude of Central assistance for State Plans, and (b) the future of the Centrally Sponsored Schemes.

The transfer of Rs 57,000 crore to the States (excluding Rs 3,000 crore to the Union Territories, which is shown as part of the Central plan), plus Rs 7,700 crore of plan deficit grants makes for a total of Rs 64,700 crore at 1989-90 prices. This is not enough, considering the gigantic tasks ahead of the States, for funding rural development, for education, health, nutrition and allied services, for urban development.

As of today Centrally sponsored Schemes (CSS) still remain under the control of the Centre. The major schemes in this context are the employment-oriented schemes (rural and urban); the family planning programme; the ICDS and the Accelerated Rural Water Supply Scheme. They account for roughly Rs 3,373 crore, or roughly 61 per cent of Central outlay on CSS as per the 1990-91 budget (B E). No decision has yet been taken in regard to the transfer of such schemes to the States, to devolve these funds to the locally

elected panchayats, so as to: (a) make them an integral part of area development plans; and (b) make for greater efficiency in resource use through the 'convergence' of related services.

It had been seen earlier that at 1989-90 prices, the total financial outlay required to implement the Right to Work may involve some Rs 13,000 crore or thereabouts annually, or some Rs 65,000 crore over a period of five years, for which no specific provision has been made even in Table 2. The only way to implement such a programme would be to: (a) empower the elected local bodies to prepare local area development plans; and (b) enable elected local bodies to implement the Right to Work by providing them with the required finance. The funds currently available under the employment programmes are: (a) Jawahar Rozgar Yojana, budgeted for Rs 2,100 crore in 1990-91 and revised downward to Rs 2,000 crore in the Revised Estimate; and (b) Nehru Rozgar Yojana (for urban areas) budgeted for Rs 120 crore in 1990-91 and revised downward to Rs 110 crore in the revised Estimate; or a total of Rs 2,110 crore in 1990-91. There are numerous other budgetary heads for watershed area planning, crop husbandry support, self-employment programmes—all Central programmes. We have gone over the issue of devolution of funds, of

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a basic restructuring of the planning process from a bureaucratic planning framework to a people-oriented plan programme. We have seen earlier how it may be possible to provide the required finance, by a reduction of subsidies, and by converting the present 'transfers' to individuals to investment funds used for area development. The purpose of giving the detailed figures of resource allocation as per Table 3 is that even a commission imbued with a vision of the need to bring about a social transformation of the economy found itself: (a) weighed down by the overhang of past commitments; (b) tied down by ministerial prerogatives and disinclination to shed authority and finance; and (c) unable to give concrete shape to some of the most cherished ideals because of organisational weaknesses, such as the inability of the government to bring about popular participation in the planning process, through democratic decentralisation.

Some of the problems would be clearer from the proposed sectoral allocations as compared to actual outlays in the Seventh Plan. It is instructive to note that out of the allocation of Rs 23,500 crore for large and medium industry, as much as Rs 18,500 crore represent the requirement of funds for ongoing schemes, Rs 4,000 crore were meant for the States plans, and only Rs 1,000 crore left for new Central projects. This was intended to only support the new equity contribution to such projects as could find the required resources from the capital market/financial institutions, based entirely on their bankability/profitability. The allocation for large and medium industry was thus

to be drastically cut to some 7 per cent of the total plan outlay, from more than 12 per cent of plan funds allocated to this sector during the Seventh Plan.

Nevertheless, there still remained three major weaknesses in the programme of plan finance. In the first place, there was not enough devolution of resources to the States, which had a total plan size of only Rs 152,200 crore out of the overall national plan of Rs 335,000 crore—only 45.4 per cent of the total plan—when the process of social transformation really required a complete reversal of past trends, and focus on rural development, education, health, social welfare and raising the income and levels of living of the backward sections of the people. There was no agreement as to the transfer of the Centrally Sponsored Schemes to the States, which had the potential of being used to buttress the local area development plans (and at the same time, subserve the objectives of the CSS).

The second major weakness of the allocations/financial provisions was that the very estimate of States resources—in terms of balance of current revenues—was unrealistic, against the background of the actuals for 1989-90. Almost all the States were in the red; the non-mandatory suggestion of the Ninth Finance Commission as to revenue deficit grants could be given effect to in 1990-91 only partially. Judging from past trends, the States are unlikely to have a balance from current revenues of Rs 10,140 crore (at 1989-90 prices) during the five-year plan period. As is generally known, States revenues are much less elastic than those of the Centre; and the fundamental principle of

public finance—that decentralised delivery of services is always more efficient—has been systematically flouted by the Centre. Indeed, this has become such a habit that it is now customary for the Centre to treat the States as supplicants, to be doled out funds if they behave.

The third major weakness of the financial provision was that the requirement of funds for any kind of 'employment guarantee' was given the go-by. Even if one were to devolve not only all the CSS but many other Central schemes (which can and should be used for area development plans), the totality of funds available was still short of the funds required to enable anyone to demand eight hours work for the statutory minimum wage for eight hours physical work. Table 2, and some general suggestions made thereafter may take care of this problem, but then, the required funds need to devolve down, and not kept by the Centre, in the name of a Centrally Sponsored Scheme for Employment. It may be expected that when self-employment opportunities improve (through area development plans) the demand for employment (under the Employment Guarantee Programme) would decline. Unfortunately, the process of drawing up area development plans for each village, through decentralised planning—which requires the institutional framework of an elected panchayat system—has not even been initiated yet.

It is against this background that the prime need of the country today is not a higher rate of growth of the GDP, but a more balanced growth of all regions, a growth of employment opportunities faster than the growth of the workforce, a programme which will raise the quality of life of the backward sections of the population, which will automatically reduce the rate of growth of the population.

The financial dimensions of the Eighth Plan drawn up in September 1990 is a matter of history. When a new government and a new Planning Commission take charge in June 1991, it will have to face some very hard realities in terms of both external and internal balance, in terms of alternative paths of growth where the past trends—with their energy and capital intensity—point to catastrophe, and where decentralisation, a focus on a more rational pattern of development based on our own internal resources point the way to long-term viability.

It is likely that such a choice may not be made either voluntarily or easily by any Central government. This is why there is particular need for a national debate on the issue. This is why even some outdated, unrealistic dimensional figures given earlier may help to encourage such a debate.

TABLE 3. PROPOSED PUBLIC SECTOR OUTLAYS IN EIGHTH PLAN

| | Seventh Plan Actuals | | Eighth Plan Proposed (at 1989-90 Prices) | |
|---|----------------------|------------|---|------------|
| | (Rs Crore) | Percentage | (Rs Crore) | Percentage |
| 1 Agriculture | 12,861 | 5.79 | 20,000 | 5.97 |
| 2 Irrigation and flood control | 16,456 | 7.40 | 27,000 | 8.06 |
| 3 Rural development | 18,672 | 8.40 | 30,000 | 8.96 |
| 4 Social services | 33,397 | 15.02 | 60,000 | 17.91 |
| 5 Energy | 63,554 | 28.59 | 104,000* | 31.04 |
| 6 Transport | 30,329 | 13.64 | 41,800 | 12.48 |
| 7 Industry and minerals | 30,266 | 12.62 | 30,500 | 9.10 |
| Of which | | | | |
| Large medium | 26,976 | 12.14 | 23,500 | 7.01 |
| Small village | 3,290 | 1.48 | 7,000 | 2.09 |
| 8 Communications and information and broadcasting | 10,224 | 4.60 | 15,200 | 4.54 |
| 9 Science, technology and environment | 2,983 | 1.34 | 5,500 | 1.64 |
| 10 Others | 3,552 | 1.60 | 1,000 | 0.30 |
| Total | 2,22,294 | 100.00 | 3,35,000 | 100.00 |

Note: * This included an allocation of Rs 24,000 crore for Petroleum and Natural Gas against Rs 16,008 crore actually invested during the Seventh Plan. However, the ONGC/OIL were to be empowered to plan for and to place the requisite orders for raising crude oil output to 52 million tonnes by 1994-95, estimated to require a total sum of Rs 35,000 crore approximately, to be made up from shortfalls in other sectors/additional resources. This was done consciously in the interest of reducing the import dependence on crude oil/oil products.

Charade of Preparing the Eighth Plan

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The present Planning Commission has neither the political authority nor the policy direction to try to put together the draft of the Eighth Plan. The planners should, therefore, avoid being pushed into unviable positions by a group of self-serving politicians with populist pretensions.

THE air of uncertainty combined with lethargy and purposelessness that currently pervades in Yojana Bhavan is palpable; the position is worse than what obtained at the close of the Third Plan which stalled the launching of the Fourth Plan. There is yet another notable difference in the present condition and environment so far as development planning is concerned. If the decision to go for a three-year plan holiday in the mid-sixties was a deliberate one, there is a mindless drift into a plan holiday at present. If during the earlier plan holiday period, annual plans were formulated with great care and caution under the leadership of the late D R Gadgil and this subsequently helped resumption of medium-term, five-year planning, the plan holiday currently is tending to be absolute with little chance of medium-term planning being resumed seriously, unless there is a major political intervention in its favour.

Whatever work is going on in Yojana Bhavan presently is not only fitful but is lacking in conviction and credibility and is devoid of any perspective as well. The planners are being prodded into work which merely panders to the whims and fancies of their political boss, Chandra Shekhar. This tendency seems to have ironically gained strength after Chandra Shekhar has been turned into a caretaker prime minister. It is remarkable that he has tended in that capacity to develop added spunk and recklessness. This is evident from the manner of his handling of political issues, among them the elections in the Punjab and Assam. On the economic front, apart from much else, similar was his decision to hold a meeting of the National Development Council. His direction to adopt a minimum 6 per cent growth target for the Eighth Plan, presumably for a presentation to the NDC, placed the planners in an awkward position. The planners dutifully resumed work on drawing up the plan with a 6 per cent growth rate. But even the hand-picked

planners found it pointless to face the NDC in the prevailing conditions. They conveyed their diffidence to the boss. Since some of the chief ministers also voiced their unwillingness to attend the proposed NDC meeting on April 24, when the general elections would be due to be held shortly, Chandra Shekhar had to drop the idea of holding the NDC meeting. This was sensible of him, especially so since his remaining in the office as prime minister after the elections can be ruled out in spite of the heroic pretensions of his camp-followers about opportunities that may again become available to him in the event of a hung parliament.

Significantly, V P Singh when he was prime minister still with a sound support in parliament had referred to the prospect of a plan holiday which the government could be forced into if the public sector did not help in meeting investment targets. Thus the NF government too was being pushed into a plan holiday position. In other words, the social, political and administrative environment was already tending to be such that development planning was being pushed very much down the agenda of the government as well as all the mainstream political parties. The position in all these respects is much worse at present. The election manifestos of all the parties make this position stark.

After the Approach to the Eighth Plan was defined with impressive aplomb and speed by the planners under the NF government and approved by the National Development Council, the work on drawing up the draft plan on the basis of the approved approach visibly slowed down, if it did not get stalled altogether. A session of the NDC for a review of the Centre-State financial relations and the Gadgil formula governing the devolution of resources from the Centre to the States could not be held because of the political uncertainty and instability which had by then erupted. The debate on development

planning, both inside the NF government and outside it among political parties and in academic circles and the media had run on predictable lines. The attempt to step out of the conventional groove and 'reorient' the planning process and priorities in tune with popular needs and aspirations was found disturbing by the votaries of the *status quo*. There were no figures in the Approach Paper on the Eighth Plan, it was pointed out with scepticism, even contempt. This was something not in line with the conventional style of planning. Where were the nuts and bolts, the figures to bandy about, the critics asked. The target of 3 per cent employment growth rate mentioned in the Approach Paper was dismissed as of no relevance unless the growth rate and size of the plan was fixed. The politicians and administrators as well as some figure-happy advisors in Yojana Bhavan itself were greatly upset. In the absence of quantitative targets for them to play with and stake claims to financial allocations for their pet projects and programmes, the Approach Paper was of no use to them.

When the NF government was toppled, Chandra Shekhar who was catapulted to the office of prime minister by Congress(I) put in place his own Planning Commission which, while it airily declared its support to the Approach Paper drawn up under the NF government, began energetically to play with figures and quantities, totally unmindful of the policy implications. Chandra Shekhar, on his part, anxious to score political points, went enthusiastically for scaling up the growth target of the plan. But when the planners sought some guidance from the prime minister on the resources position, they drew a blank. A three-man committee consisting of the prime minister, the finance minister and the deputy chairman of the Planning Commission was set up to determine the resources position. But nothing in this regard was done either by the committee or anyone else. If the planners still found themselves obliged to pursue the growth target of 6 per cent for the plan, this was only to humour the prime minister rather than to undertake a serious exercise in drawing up the plan. Meanwhile, the resources position rapidly worsened and no remedial action has been possible with even the budget for 1991-92 being withheld for narrow political considerations.

The very idea that the prime minister of the day should order the planners to work backwards from a given growth target set arbitrarily and calculate on that

meets of the plan is fantastic. This is what Rajiv Gandhi did for the Eighth Plan. Chandra Shekhar has followed him. The first imperative of sound planning, however, is a policy frame and political commitment on the basis of which to arrive at plan targets which are feasible and will achieve desirable results and objectives. The policy issues which have to be squarely faced today are of a wide-ranging and complex nature—the elitist resource mobilisation, including tax, policy, the determination of the space for big business and multinationals with their labour saving high technologies, mechanisation of farming, mocking at land reforms, inequitable sharing of the gains of production both in industry and agriculture, and so on. The minority government of Chandra Shekhar has been in no position to face the policy issues, it chose to avoid or obfuscate them.

The Chandra Shekhar government finally had no option but to put off the meeting of the National Development Council. It was singularly inept, even foolhardy, to propose the holding of the meeting in the given political conditions. For the deputy chairman of the Planning Commission, Mohan Dharia, a politician of some standing in the seventies, to be blissfully oblivious of the political imperative of serious and effective development planning was itself surprising. He went along with the idea and even came out in public in support of it. This only cast doubts on his competence and qualification to hold the office of the country's chief planner. The fact is that the Planning Commission assembled under the minority government of Chandra Shekhar could never get down seriously to the work of drawing up the Eighth Plan.

The plan making exercises were bound to become wholly infructuous once the presentation of the regular budget for 1991-92 was avoided in an abject submission to outside pressures and in order to subserve narrow political interests of the Congress(I). It was quite remarkable that the assembly elections in Tamil Nadu which were ordered after dismissing the elected government in the State on flimsy grounds was unabashedly given as the reason for postponing the presentation of the budget. This only emphasised that the government headed by Chandra Shekhar was too fragile to perform even the minimal tasks of governance. This was inherent in the political arrangement which had enabled Chandra Shekhar to achieve his ambition to occupy the office of prime minister without having to win a popular sanction in a functioning democracy. The lackadaisical ways of the

during its brief tenure.

After the proposed NDC meeting was called off, Dharia fondly hoped that the planners could justify their being in business in the Yojana Bhavan under the caretaker government by writing the draft of the Eighth Plan for presentation to the government which would be formed on the basis of the results of the general election. This too was, to say the least, a fanciful idea. The present Planning Commission has neither the political authority nor the policy direction to put together the draft of the Eighth Plan. There are doubts even about its professional competence. The planners would do well to avoid being pushed into an unenviable position by a group of self-serving politicians who while they lack democratic sanctions strut about in the corridors of power with tall populist pretensions. It is quite remarkable also that Mohan Dharia has not hesitated to faithfully follow his political friend and mentor, Chandra Shekhar, and talk about building the 'social infrastructure' such as provision of drinking water to all villages, all-weather roads, eradication of illiteracy, employment for millions and so on, and in the same breath call for the acceleration of the rate of growth in the Eighth Plan. What is being projected is a minimum of one percentage point above the rate of growth achieved in the Seventh Plan by sacrificing 'social infrastructure' to subserve the urgent needs of the mass of the people and a borrowing spree which has brought India close to the foreign and domestic debt trap. The planners if they are wise, should be more circumspect about scaling up plan targets when the plan implementation position is so tight and the political environment holds no assurance of a strict order of priorities and discipline, fiscal and organisational, which alone can make development planning meaningful and effective.

The Chandra Shekhar government also tries to look nonchalantly at the dark shadow of IMF which is hovering over economic policy and planning in India, even while it is actively seeking IMF benevolence and is going round with the begging bowl for foreign credits. To think that this is of no concern for plan-making is to show a shallow perception of the task of development planning, both in the short and medium term. The fact to be reckoned with is that the decks are being feverishly cleared for structural adjustment of the Indian economy to be financed by the IMF and other credits. This involves acceptance, together with foreign credits, of onerous conditions, the primary condition being that development planning has to be aborted and the role of the Indian state in the development

Planning Commission will still be retained is anybody's guess but it will certainly cease to be functional. It is also disconcerting in this context to find professionals in the Yojana Bhavan watching helplessly and falling in line behind small-time politicians. They may find some satisfaction in their work as technicians but, to be meaningful, their work has to have social content and direction, failing that their role and work are bound to be frustrating and even demeaning. The grand ideas of social transformation, decentralisation of the political and administrative structures, protection of labour-intensive productive activity, assurance of gainful employment for the unemployed and underemployed and a self-reliant growth process which does not rest on foreign crutches, which were projected in the Approach Document under the N F government have ceased to be even talking points currently in plan-making exercises. The extent of helplessness, dependence on foreign creditors, is indeed disconcerting. For the caretaker government to exonerate a Japanese firm black-listed for bribing Indians in order to get Japanese credits is revealing of the present state of affairs. It shows the depths, moral and political, which have been touched. Chandra Shekhar has probably exonerated the corruption in the Bofors transaction to sanctify this position. To get out of such a morass is not going to be easy. The talk of development planning is meaningless in these conditions.

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Caste and Bihar Politics

Ravindra Kumar Verma

Though the backward castes constitute nearly 60 per cent of Bihar's electorate, till the early years of the 1970s these castes were politically not significant. 1977 was the turning point in their political organisation when reservation for backward castes in government service was introduced.

THE strength of the total electorate in Bihar was 3,49,30,842 in 1977 which rose to 3,97,13,485 in 1980, 4,33,31,010 in 1984 and nearly 5.40 crore in the 1989 parliamentary elections when the voting age was reduced to 18. Though the electorate may be classified on the basis of caste, religion, class etc, caste considerations are of prime importance. After 1977 when the Janata government introduced caste based reservations in Bihar three basic caste groups emerged—forward castes, backward castes and scheduled castes and scheduled tribes.

The forward castes consist of Brahmins, Bhumihars, Rajputs and Kayasthas. Land and other resources such as official position, literacy, better economic conditions and social respect have been the privilege of these castes which accounts for the political dominance of these castes. But now the situation has begun to change and these castes are being gradually eclipsed politically. However, they still retain a political significance disproportionate to their numerical strength.

The Kayasthas constitute only a small portion (1 per cent) of the total population of the State. Kayasthas acquired importance in Indian history since Moghal period because they learnt Urdu (and later English in the British period) faster than other castes and were attached to rulers for assistance in governance. This caste has been politically significant even prior to independence. Many national leaders during the freedom struggle such as Sachchidanand Sinha, Rajendra Prasad and Jai Prakash Narain belonged to this caste. Since independence Kayasthas have played a significant role in Bihar politics. K B Sahaya, Badrinath Verma, Mahamaya Prasad Sinha Vindeshwari Prasad Verma, Phulan Prasad Verma, Jagat Narain Lal, Shyam Nandan Sahaya, Baldeo Sahaya, Kamaldeo Narain, Anirudha Prasad and P N Sinha were among the prominent legislators who were active in party politics in Bihar between 1946 and 1967. There has, however, been a sharp decline of role of this caste in Bihar politics particularly since the 1972 assembly elections.

It is a notable fact that in almost all the urban areas in Bihar Kayasthas are numerically significant. The Patna Lok Sabha constituency alone has nearly 1.5 lakh Kayastha voters amounting to nearly

15 per cent of the electorate. Two of the assembly segments Patna Central and Patna West have 46,000 and 93,000 Kayastha voters respectively. The Chitragupta Mahasabha, was a significant political force in Ranchi during the 1989 Lok Sabha polls. The Kayastha voters are very important in the Patna Lok Sabha constituency. Former General S K Sinha, among the prominent contestants from Patna in 1984 general elections, polled over 1.17 lakh votes. Shailendra Nath Srivastava (BJP) won the Patna seat in the 1989 elections by a margin of 21,593 votes defeating sitting Congress(I) MP, C P Thakur. Other prominent Kayastha leaders are Subodh Kant Sahay (Union minister of state) and Dharmesh Prasad Verma who won in 1989 Lok Sabha elections. However, when Bihar as a whole is considered the Kayasthas are being marginalised in Bihar politics. For this reason all but the highly political Kayastha voters may go to the BJP.

The reason that the Kayasthas are being marginalised in Bihar politics is on account of the close nexus between violence and politics. Being numerically insignificant this caste is unable to handle or use muscle power or organise a private militia. The other factor that is making it politically defunct is that the majority of this caste is service oriented and is hence politically unorganised. Bihar's politics has altered substantially since the first two decades of independence and in this changed situation the Kayasthas are not competitive. Nevertheless, this caste constitutes 5.5 per cent of the representatives from Bihar in the ninth Lok Sabha.

Brahmins constitute nearly 7 per cent of Bihar's total population. The Brahmins of Bihar are categorised, in terms of politics, into two major groups—the Maithils and non-Maithils (Kankubja, Sarjupari etc). The Maithils generally come from the northern districts like Darbhanga, Madhubani, Sitamarhi, Muzaffarpur, Bhagalpur, Saharsa, Purnea, Munger and Begusarai while the non Maithils reside in other parts of the State and are generally concentrated in middle Bihar.

Although some important Brahmin leaders (of the latter category) like Kedar Pandey, Ramanand Tewary, Jagnarain Trivedi, Bindeshwari Dubey, K K Tewari

and Lal Muni Choube emerged in politics they could not ensure Brahminical dominance of Bihar level politics. They could only remain confined to scattered Brahmin pockets. The political role of this caste in Bihar is visible since the 1960s.

The Maithil Brahmins came to the forefront in 1961 when Binodanand Jha became the chief minister and continued till 1963. With his coming to power Brahmins acquired a sense of unity but Brahminical unity was short lived. Maithil power reemerged in the early 70s with the rise of Lalit Narain Mishra who established his political significance under the leadership of Indira Gandhi. However, the most important mass political leader who emerged in 1975 as chief minister was Jagannath Mishra. When he assumed power in the State the Maithil Brahmins acquired important positions in the political system. Harinath Mishra, Radha Nandan Jha, Nagendra Jha, Bhagwat Jha Azad became part of the centre of power in the State. With the death of the veteran Socialist leader Karpoori Thakur, Raghunath Jha from the non-Congress platform emerged as a likely chief ministerial candidate. However, Jha has been unable to retain the chieftainship of the Bihar Janata Dal.

Though the Brahmins form an important part of the bureaucracy, judiciary and political life in the State there has been a polarisation of this caste, into Maithils and non-Maithils. Nevertheless, of representatives from Bihar in the ninth Lok Sabha 5.5 per cent are from this caste. Although the Brahmins are supposed to be affiliated to Congress Party the three Lok Sabha MPs elected in 1989 Raj Mangal Mishra (Gopalganj), Janardan Tewari (Siwan) and Bhogendra Jha (Madhubani) belong to three different political parties Janata Dal, Bharatiya Janata Party and Communist Party of India respectively.

Among the upper castes the Bhumihars have considerable landed property. Important among the leaders of the caste were Ganesh Dutta, Shri Krishna Sinha, and Ram Dayalu Singh. From 1937 to 1939 Shri Krishna Sinha was prime minister of Bihar and again from 1947 to January 1961 he was the chief minister of Bihar. During his chieftainship, many new leaders emerged from this community. Important among them were Mahesh Prasad Sinha, Krishnakant Sinha, L P Shahi, Ram Briksha Brahmachari, Basawan Sinha, Shyam Nandan Mishra, Ramashray Prasad Singh, Kailashpathi Mishra and others. This caste has also provided some women leaders like Krishna Shahi, Tarkeshwari Sinha and Usha Sinha.

Shri Krishna Sinha remained in power for a considerable period in Bihar which generated the resentment of other com-

murdered against this caste. After the death of Shri Krishna Sinha the Bhumihars could not retain their hold on Bihar politics to the same extent. However, in the Congress Ramashraya Prasad Singh and L P Shahi and in the BJP Kailash-pathi Mishra are considered pillars of their parties. After the debacle of Congress in the 1989 general elections, the caste's political hold has declined. In the 1989 Lok Sabha elections the caste bagged three seats which is in the forefront of the anti-Mandal struggle.

The Rajputs have also been a land owning community active in Bihar politics. Anugrah Narain Sinha was active in the Congress and was for years regarded as a lieutenant of Rajendra Prasad. Anugrah Narain Sinha was Shri Krishna Sinha's rival for official leadership. 1957 witnessed struggle between Shri Krishna Sinha and Anugrah Narain Sinha for leadership of the Congress legislature party. That struggle intensified caste-struggle in the state. Before that contest, caste rivalry at the political level was conducted in less visible ways. Now the struggle assumed a vocal and externally visible proportions. Other important leaders of the caste have been Nand Kumar Singh, S N Sinha, P N Singh, Deep Narain and Ambika Sharan Singh.

In the 1980s the prominent Rajput leaders who emerged as significant leaders were Suraj Narain Singh, Chandra Shekhar Singh, Ram Dulari Sinha, Bhishma Narain Singh, Kishori Sinha and Manorama Singh. In 1988 the Congress party in the State had to face the problem of dissident groups. As a result the Congress central leadership imposed Sateyan-dra Narain Sinha the son of late A N Sinha, as chief minister in order to defuse tension but his defeat in 1989 affected Rajput's hold on Bihar politics. The caste bagged six seats in 1989 Lok Sabha elections.

BACKWARD CASTES

The backward castes constitute nearly 60 per cent of the total voters in Bihar.

In the early part of 1970s, these castes were politically not significant. In the late 1930s a Triveni Sangh was formed consisting of Yadavas, Kurmies and Koeries—the three landed castes among the backward castes. The politically significant backward castes are Yadavas, Kurmies, Koeries, Baniyas, Kahars, Dhanuks, Nonias, Telis, Suris, Kanus, Lohars, Bindis, Hajam, etc, among which Yadavas, Kurmies and Koeries are the frontline. Although Karpuri Thakur was a Hajam (barber) he represented the whole backward caste community.

The turning point in the organisation of these castes was in 1977 when Karpuri Thakur, the then chief minister introduced reservations for backward castes in government service. The forward castes reacted vigorously against this decision as a consequence of which the process of backward caste solidarity gained momentum. Since then politics in Bihar has been characterised by a fourfold division—forward castes, backward castes, Harijan and regional (tribal) politics.

The Congress Party relies on the forward castes in the State as seen by the fact that the Congress(I) in 1989 Lok Sabha elections, awarded more than 70 per cent of its tickets to forward castes for the general seats. The Janata Dal awarded more than 80 per cent of its tickets to non-forward castes at the behest of Laloo Prasad Yadav. The distribution of Lok Sabha tickets by different political parties suggests that the Yadavas, Koeries, Kurmis and Baniyas enjoy considerable political influence in the State due to their numerical strength and growing militancy.

It is clear that Yadavas are the political elite among the backward castes. Ram Lakhani Singh Yadav emerged as caste leader in 1960s under the patronage of chief minister K B Sahay and until recently was considered the sole Yadav leader. The other Yadav leaders like B P Mandal and Daroga Prasad Rai were not recognised as caste leaders at the State level. After the death of K B Sahaya and the phenomenal rise of Brahmins in Bihar politics,

Ram Lakhani Singh Yadav although he did not lose the leadership of his caste gradually lost his state level political significance. The emergence of backward caste politics led by Karpuri Thakur also weakened his hold in the political arena. Due to the vacuum in backward caste politics in Bihar created by the death of Karpuri Thakur, some new faces emerged. Important among them are Laloo Prasad Yadav, Nitish Kumar and Jai Prakash Yadav.

It is important to note that the Yadavs have cornered the largest number of seats won by any single caste—Laloo Prasad Yadav (Chapra), Hukumdeo Narain Yadav (Sitamarhi), Devendra Prasad Yadav (Jhanjharpur), R K Yadav (Madhepura), Chunchun Yadav (Bhagalpur), Ramsharan Yadav (Khagaria), Surya Narain Yadav (Saharsa), all from the Janata Dal, Janardan Yadav (Godda) of BJP and Ramashray Prasad Singh (Jehanabad) and Tej Narain Yadav (Buxar) of Communist Party of India. The CPI allotted four tickets to Yadavs while the BJP and IPF allotted three each. Besides the nine seats won by Yadavas eight yadavs finished second. This caste has thus emerged politically as the strongest single caste.

During 1989 Lok Sabha election, backward castes other than Yadavs bagged 17 seats which is 31 per cent of the total seats. If we add the number of Yadavs, the percentage of seats won, is over 48 per cent.

SCHEDULED CASTES

The scheduled castes in Bihar according to the 1981 census constitute 14.45 per cent of the total population. In terms of growth, we find that the population ratio has been increasing from one census to the next. The percentage of scheduled caste in Bihar in 1951 was 12.67, 14.07 in 1961, 14.11 in 1971 and 14.45 in 1981. The numerical strength of the scheduled castes is 101.42 lakh. Districtwise their population percentage ranges from 9.8 per cent to 24.4 per cent. Palamau district has the

TABLE: CASTES AND PARTIES IN IX LOK SABHA ELECTION

| Castes | Political Parties | | | | | | Total |
|---------------------------------------|-------------------|------------|------------|------------|------------|-----------------------|-------------|
| | JD | BJP | Congress | CPI | JMM | Others | |
| Brahmin | 1 (3.3) | 1 (11.1) | — | 1 (25.0) | — | — | 3 (5.5) |
| Bhumihar | 2 (6.5) | 2 (22.3) | — | — | — | — | 4 (7.2) |
| Rajput | 6 (19.3) | — | — | — | — | — | 6 (11.1) |
| Kayastha | 2 (6.5) | 1 (11.1) | — | — | — | — | 3 (5.5) |
| Yadav | 7 (22.5) | 1 (11.1) | — | 2 (50.0) | — | — | 10 (18.6) |
| OBC (Koeri, Kurmi, Vaisya and others) | 5 (16.1) | 2 (22.2) | 1 (25.0) | 1 (25.0) | 1 (33.3) | 2 (66.7) IPF + MCC | 12 (22.3) |
| Muslims | 2 (6.5) | — | 1 (25.0) | — | — | — | 3 (5.5) |
| SC | 6 (19.3) | 1 (11.1) | — | — | — | 1 (33.3) CPM | 8 (15.0) |
| Pasi, Dusadh, Dhobi | — | 1 (11.1) | 2 (50.0) | — | 2 (66.7) | — | 5 (9.3) |
| ST | — | 1 (11.1) | 2 (50.0) | — | 2 (66.7) | — | 5 (9.3) |
| Total | 31 (100.00) | 1 (100.00) | 4 (100.00) | 4 (100.00) | 3 (100.00) | 3 (100.00) | 54 (100.00) |

Note : Figures in brackets show the percentage.

of 4,78,225. The districts with sparse scheduled caste population are Singbhum, Ranchi, Santhal Pargana and Bhagalpur.

The major constituents of the scheduled castes are Chamar, Dusadh, Dhobi, Dom, Pasi and Musahar. Although there are 23 castes under this category the most conspicuous in numerical terms are the above five castes (71 per cent). The political consciousness of the scheduled castes have no doubt been increasing since the introduction of general elections. If we take the number of contestants from these castes in the Lok Sabha election we find that there has been a phenomenal rise. The scheduled caste contestants numbered 35 in 1967, 52 in 1971, 40 in 1977, 56 in 1980, 66 in 1984 and 70 in 1989. Interestingly, none of the national parties have so far fielded scheduled caste candidates from the 41 general seats in the State in the last 40 years.

The important scheduled caste leaders from Bihar are Ram Bilas Paswan, Meera Kumar, Mahabir Paswan, Dumar Lal Beitha and others. Jagjivan Ram was the first scheduled caste leader from Bihar, who emerged at the national level. In the 1989 Lok Sabha general elections the national parties such as Janata Dal, BJP, Congress(I), CPI, etc, fielded candidates belonging to the Pasi, Dhobi, Dusadh and Chamar castes. The Congress(I) fielded eight candidates, Janata Dal six, Bharatiya Janata Party three and CPI and CPI(M) from one each.

Mahendra Baitha (Bagaha), Ram Bilash Paswan (Hajipur), Dasai Choudhary (Rosera), Sukhdeo Paswan (Araria), Chhedi Paswan (Sasaram) and Jorawar Ram (Palamau) belong to the Janata Dal. Prem Pradeep (Nawada) and Ishwari Choudhary (Gaya) belong to the CPI(M) and Bharatiya Janata Party respectively. Prominent losers among scheduled castes contestants, contesting on the Congress(I) ticket, were Mahavir Paswan (Hajipur), Ram Bhagat Paswan (Rosera), B L Baitha (Araria), Meera Kumar (Sasaram), Kuer Ram (Nawada), Ram Swaroop Ram (Gaya) and Kamala Kumari (Palamau). The BJP's scheduled caste candidates who lost were Kameshwar Paswan (Nawada) Ramdeo Ram (Palamau) and the only CPI loser was Janaki Paswan (Gaya). The losers also belonged to Dhobi, Chamar, Pasi and Dusadh castes.

SCHEDULED TRIBES

The scheduled tribe population in Bihar numbers 58,10,867 according to 1981 census which constitutes 8.3 per cent of the total population. The highest concentration of scheduled tribes are in the districts of Ranchi (54.4 per cent), Singbhum (44.1 per cent) and Santhal Pargana (36.5 per cent). The districts of

sizeable strength, amounting to 18.3 per cent, 13 per cent and 11.4 per cent respectively.

The important tribes in Bihar are Mundas, Oraons, Ho, Bhumij, Kharia, Paharia, Thhana, etc. To these are added Santhals who reside mainly in Santhal Parganas administratively controlled by the districts of Bhagalpur, Santhal Pargana, Deoghar, etc. Exclusion of a large part of the tribal population from the benefits of economic and social progress and the marginalisation of their culture has led to the demand for a separate State. The Jharkhand movement was started in the 1950s and since then has had fluctuating fortunes. Up to 1969 the most influential leader was Jaipal Singh who formed the Adivasi Mahasabha in 1946 and later the Jharkhand Party in 1950s which merged with the Congress Party before the 1967 elections. Soon every tribal, organisation bore the name 'Jharkhand', such as All India Jharkhand Party, Hul Jharkhand Party, Bihar Prant Hul Jharkhand and so on. Of all the Jharkhand parties the most forceful, is Jharkhand Mukti Morcha born towards the end of 1972.

In the 1967 Lok Sabha elections the total number of contestants from tribal constituencies was 32—of which the Congress fielded five, Swatantra Party three, Bharatiya Jana Sangh five, SSP one, CPI one and PSP one, the remaining 16 being

by the 1971 parliamentary elections of which the Congress(R) fielded three, Bharatiya Jana Sangh one, PSP one, CPI one, Jharkhand Party combine nine and independents 22. The picture in 1977 was different judged by the fact that there were only 28 contestants out of whom 18 were independents. In 1980 there were 51 contestants from the Jharkhand area compared to 55 in 1984.

There were six constituencies reserved for scheduled tribes in Bihar in 1952 but from 1957 and onwards this went down to five namely, Rajmahal, Dumka, Singbhum, Khunti, and Lohardagga. In the 1989 Lok Sabha elections the Jharkhand Mukti Morcha and Congress won two seats each and the BJP one. Simon Marandi from Rajmahal, Shibu Soren from Dumka were JMM candidates. Bagun Sumburi from Singbhum and Sumati Oraon from Lohardagga were from the Congress(I). Karia Munda from Khunti belongs to the BJP. The important Jharkhand candidates who lost in 1989 were Krishna Marandi and N E Horo.

The Jharkhand Mukti Morcha fought from non-reserved constituencies also out of which one seat—Jamshedpur—was won by JMM candidate, Shailendra Mahto. The other notable fact is that the BJP has shown great interest in tribal politics and was able to bag one reserved seat on the slogan of a separate 'Vandanchal' State.

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Reform of Financial System

Press reports on the report of the World Bank staff team on India's financial system have tended to be sensational. True, the report favours eventual privatisation of the financial system. But that is not the central theme. Greater efficiency and flexibility are the keys to reform and privatisation is seen as a means to promote them "in the long run".

I
LAST year a World Bank staff team prepared a report on the Financial System of India which has surfaced in press reports and comments in the context of specific project loans under negotiation with the World Bank and drawings made/expected to be made by India on the IMF. And yet the status of the report has not been clarified. It appears to be no more than a technical survey of the financial sector and although it contains a number of recommendations, these have not, as far as one can judge, been presented to the government as a package of reform as a condition for future funding. The staff report would of course guide the thinking of policy makers in the World Bank as well as in India. It thus provides a framework for a policy dialogue. The specific policy recommendations of the report and the time frame for them, one surmises, are not to be construed as definitive views of the World Bank but only as indicative of the technical level thinking of the Bank staff. If this is so, there is considerable merit in generating a public dialogue on the subject, since the issues raised by the report are of considerable importance to the future development of the financial system and indeed for the planning process.

The issues are not new. They have been raised time and again. The Chakravarty Committee went into many of them and on quite a few the approach of that committee, surprising as it may sound, was not far different from that of the Bank staff report.

Press reports on the Bank staff report (BSR) have tended to be sensational. True, the BSR favours an eventual privatisation of the financial system. But this is not the central theme. Greater efficiency and flexibility are the keys to reform and privatisation is seen as a means to promote them "in the long run". The BSR has a three-stage plan of reform: the immediate, the mid-term and the long-term. The plan follows from its analysis of the deficiencies of the financial system.

BSR, while appreciating the enormous progress made by the financial system (i.e. banks and financial institutions

which include investment institutions) in the past two decades in mobilising resources and increasing the share of financial savings in the total, is critical of the system's ability to allocate savings 'efficiently' among different uses. BSR takes a macro-view of the system since the large bulk of the commercial banks' resources are diverted to the government through the statutory liquidity ratio, and of the balance, a good portion goes into "directed" lending (priority sectors, food credit, etc). It is presumed that government does not use the resources acquired by it wisely or efficiently, thus the system as a whole is inefficient. It is also not flexible because the Reserve Bank administers a complex structure of the rates of interest and requires approvals by it of every financial innovation which a bank or a financial institution may dream up. Politicisation of the system has caused its portfolio to deteriorate. Clearly a wide-ranging reform is overdue.

Thus far, there can be little dispute with the BSR. The Chakravarty Committee (CR) for instance stated:

The administered interest rate system has grown to be unduly complex and contains features which have reduced the ability of the system to promote the effective use of credit.

The yields on Treasury Bills and government securities are at levels which have led to a considerable monetisation of public debt leading to high levels of monetary expansion.

The captive market for government securities, and the relatively low return to banks on their holdings to government securities have adversely affected the growth of the capital market on the one hand and profitability of banks on the other.

Concessional rates of interest appear to have allowed projects of doubtful viability to be undertaken.

The policy of insulating banks from price competition and confining competition to customer service has not served to promote high standards of customer service.

Quantitative credit controls have come under severe stress in the absence of support from any price rationing mechanism.

The administered interest rate system has been found to be lacking the flexibility necessary for augmenting the pool of financial savings by effecting suitable changes in the deposit rates from time to time as the low profitability of banks mentioned earlier has

made banks wary of increasing the average cost of deposits.

The committee went on to say that any "modification of the system of administered interest rates" should aim at eliminating to a substantial extent, if not fully, the above mentioned deficiencies.

While there is a similarity of diagnosis between BSR and CR, prescriptions differ. BSR would, expectedly, rely primarily on price mechanism and want interest rates to be "market-determined" in the long term. CR states:

The reliance on the price mechanism should be in addition to, and not a substitute for, quantitative controls on credit flowing from plan priorities and the compulsions of demand management.

The differences become sharper on the continuance of priority sector lending and ownership of banks and financial institutions. But all that is in the BSR's long-term. When it comes to immediate steps, there is a greater similarity of approach.

The immediate steps which BSR recommends are: (i) reduction of budget deficit, (ii) progressive decline in CRR and SLR to a level of 30 per cent in three years, (iii) removal of large borrowers from priority sector and thus reduction of the target of priority sector lending to 10 per cent and further to 10 per cent in three years, (iv) liberalisation of some of the interest rates, e.g. long-term lending rate of IDBI, etc., debenture issues, export loans, housing, and (v) acceptance of the recommendation of the Khuro Committee to group agricultural lending rates into two tiers, a low rate, which is still a little higher than the cost of deposit mobilisation, for the truncated priority sector and the general rate for the rest.

CR also cavils at large-scale deficit financing by the government. For instance, it states:

The increased recourse to deficit financing is a disconcerting development and it is necessary to ensure that deficit financing, measured in terms of recourse to credit from the Reserve Bank, does not exceed safe limits.

CR's views on flexibility of interest rate structure have already been noted. Even on priority sector lending, CR is concerned about the large scale overdues. It states:

The Reserve Bank of India may consider ways and means including legal enactments in consultation with the government of India, of providing the necessary powers to recover dues expeditiously to the lending agencies concerned, be they banks, or other specialised lending agencies which may be set up over the years for the purpose.

This, before loan melas and subsequently loan waivers got going!

The comparison between BSR and CR is not intended to play down major differences of approach between the two,

particularly in respect of the role of monetary policy in the context of planning. The objective rather is to draw attention to the common ground that exists and which can be a non-controversial starting point for the reform. At some stage, however, policy-makers have to bite the bullet and make a choice between the continuance of a highly politicised financial system—'politicised' in the sense of sub-serving not plan objectives, but the whims and fancies of individual politicians—and one which, because it is market-oriented, has a greater chance of being impersonal.

The BSR advocates that in the *mid-term* (i) priority sector lending should be eliminated altogether, (ii) floating interest rates be introduced, (iii) the capital base of commercial banks be strengthened, "perhaps through private sector participation" (emphasis added), and (iv) private sector participation be allowed in IDBI and IFC and increased in ICICI.

In the *long-term* the BSR would privatise the banks, financial institutions and money and capital market and let interest rates be determined by market forces.

II

How should the authorities react to the BSR? It is clearly not sufficient to say that privatisation of the financial system and making it fully market-based will not be politically acceptable in India. It is necessary to consider whether a different approach on ownership is not consistent with the crucial measures of reform. And the pace at which these can be implemented should be the major theme of the authorities' dialogue with the Bank staff.

It must be admitted that the rot in the system began with the banking system. The public sector banks have been greatly weakened over the years, because of the assumption by the government that the deposit resources of the banks belong to the state, ignoring the simple fact that they belong to the depositors. Banks must act primarily in the interest of depositors—i.e., maintain strong viability of their portfolios and augment their capital base through surplus generation rather than doles from the government. They have not been able to do so because of the excessive zeal shown by some of them to pander to the whims of politicians. The government can legitimately ask the banks to divert a reasonable part of their loans to priority sectors. But the government commandeers 53 per cent of deposits through cash and statutory liquidity ratios at less than market related interest rates and further requires 40 per cent of the balance to be advanced to priority sectors, again at low rates of interest. The banks are thus not able to earn an adequate surplus on the

balance of funds which can be advanced at commercial rates of interest. Even this was controlled until recently through a ceiling on interest rates. Fortunately, it has been removed. The return on assets of banks, BSR points out, has averaged about 0.15 per cent over the past five years, which is among the lowest in Asia.

The weakness of the banks' portfolios does not arise from the requirement of priority sector lending *per se*. It is the manner in which it is implemented—through direct political intervention which erodes the sanctity of a loan and generates total callousness about repayment, which is evident far more in the medium and large industrial sector which accounts for a considerable proportion of sick units.

For the banks, then, the priority in reform has to be restoration of their financial strength, in the face of growing threat from financial disintermediation. This means an increase in their average spreads, enlargement of their capital base. These objectives are capable of being achieved without de-nationalisation. A rationalisation of the priority sector lending programme is feasible. Several studies have shown that access to credit is far more important in rural areas than its cost. Were it not so, the rural moneylenders who charge inordinately high rates of interest would not have survived. Thus concessional lending rates can be raised without detriment to the flow of credit to the poor borrowers. BSR calculates that the interest rate subsidy on priority sector lending amounts to some 6.6 per cent of bank *earnings*, equivalent to about 0.5 per cent of assets. This is not as much as the cost of subsidising government on the "directed investments". Nevertheless mindless subsidisation of the relatively well-to-do farmers and small industrialists cannot be justified.

As for the capital base, the practice so far has been to provide increases in capital by budgetary subventions as bank profits have been far from adequate. Even so their capital and reserves average only 1.5 per cent of their assets as compared, for instance, with 4 per cent in Pakistan and 6 per cent in Thailand. It will take quite some time for the banks to earn enough surplus to improve their capital base. A realignment of interest rates is clearly called for. Average spreads (which are about 3 per cent now and almost equal the bank costs leaving meagre profitability) will not increase with the latest increase in the minimum lending rate from 16 per cent to 17 per cent. But an increase in the return on government securities (or a reduction in SLR) will help. Given the need to control the budget deficit (interest payments eat up a good percentage of the government's revenue), it is not easy to

contemplate a further increase in interest rates on government securities. Indeed, there is a respectable body of opinion in the country that the progressive increase in such rates which has occurred over the past decade is perhaps not called for. The dilemma is genuine. But it is necessary to take the bull by the horns. The SLR has to be reduced to improve the health of the banking system. The reduction will also impel the government to correct the fiscal imbalances. BSR cites a calculation that a budgetary deficit of 4 per cent of GDP and CRR plus SLR of 30 per cent are consistent with market-related interest rates on government securities. Clearly, one has to move all the three variables—starting with fiscal discipline. The message is clear. Banks cannot become healthier if the fiscal balance remains precarious.

Measures of cost reduction are also important. BSR cites some telling figures: India has about 40 per cent more bank employees per million dollars of assets than Pakistan and nearly 300 per cent more than Indonesia. One of the least desirable consequences of nationalisation was the boost it gave (one is inclined to believe, for political reasons) to the aggressive unionism in banks. Government has on most occasions succumbed to the extreme demands of the unions which has not merely raised personnel costs but also impaired staff discipline. Poor customer service is the inevitable consequence.

BSR recommends greater autonomy for banks. Part of the problem is the banks themselves. How many of them refuse to comply with improper demands made on them? Autonomy is never granted. It has to be wrested by upright and courageous professionals. Some bold measures are necessary, e.g., delegating the appointment of chief executives of banks to the Reserve Bank of India. BSR recommends some degree of privatisation of commercial banks. It is doubtful, however, if ownership is such a crucial issue in generating better performance. Perhaps easier entry for new private banks will have a greater impact through competition.

BSR makes a somewhat far-reaching—and questionable—recommendation regarding the relative roles of commercial banks and financial institutions. In project financing and rehabilitation of sick units, term lending and working capital have to go together. Numerous committees have gone into the question of co-ordination of these activities. BSR's approach is to hand over the term-lending function to the commercial banks, leaving financial institutions with some of the other financial services: underwriting, bridge finance, leasing and equipment finance, venture capital, credit rating, training in project appraisal, etc. This is

visualised as a long-term demarcation of functions. Although term financing by banks and directly from the capital market has been growing, would a historically British-oriented banking system be able to move over to a wholly integrated German-style functioning? Will it have the skills and resources? Instead of a water-tight demarcation of functions, what seems to be practicable is definition of fairly high minimum levels of term lending for financial institutions, thus increasing the scope for banks without banishing the financial institutions altogether from what has been their main business.

On capital markets, BSR, predictably, recommends decontrolling share issue prices, removing the cap on interest rates on debentures and giving a greater role to SEBI in enforcing standards in the stock markets. It wants the Unit Trust's "market dominance" to be reduced by elimination of the tax preference it enjoys and allowing private sector entry into the mutual fund business. There is clearly a need for new thinking on these matters. Fixation of premia on new issues of shares by the government has not been found satisfactory in many instances. When these are fixed too low, unofficial premia emerge to the detriment of the shareholder and the company, resulting only in the enrichment of the middlemen. The stock markets are too narrow and this is the main reason why investment institutions like UTI appear to be 'dominant'. The so-called 'tax preference' in favour of UTI is no longer an act of fiscal volition by the government, but a consequence of the legal status of the UTI as a 'domestic company'. It is arguable that the 'tax preference' has had the unintended consequence of affecting the structure of UTI's business. Entry by public sector banks into mutual fund business has been allowed and their income is also tax-free. Much more needs to be done by way of establishing prudential norms before private funds can become a reality. But a general point of the BSR is worth noting. Caps on interest rates along with numerous *ad hoc* tax concessions in the financial sector tend to disturb the pattern of interest rates and make it far more complex than is necessary. Decisions on the concessions on public sector bonds or national savings schemes are often taken without considering their overall monetary impact.

What would be the general level of interest rates in India, if they were to be determined by market forces? Some guidance is available from the bazaar rates which range from 2 to 3 per cent a month. Even if rates do not reach such levels, they may move up considerably. There is a view

that this will hurt industrial investment. But if the inverted pattern—short rates being higher than longer ones—gets corrected through a reduction in inflationary expectations, there is no reason why

interest rates would move up a great deal. The villain of the piece is inflation. Its control, and this means control over fiscal deficit, is at the heart of financial sector reform.

Information Game: Lesson from Gulf War

Dipankar Sinha

Why did the US resort to censorship on news coverage from the Gulf during the war and carry out a disinformation campaign? Recourse to such practices might have suited Saddam Hussein a dictator fighting a lost battle, but not George Bush especially when his victory was never in doubt.

IN the recently concluded Gulf war it is information which lost to both George Bush and Saddam Hussein. Both sides tried their best to play the information game. The rules were the same: a strict restriction on information flow, on the one hand, and dissemination of exaggerated claims about their destructive capabilities. The US-led Western states not only won the war but also the game by their sheer monopoly over information. The world was flooded with US-controlled or US-supported Western news agency reports on the war including one on how the 'international thug' Saddam Hussein's 'beastly soldiers' were carrying out 'fiendish sex attacks' on women hostages after invading Kuwait. Pentagon circulated video images of bombs destroying 'only' the military targets in Iraq were extensively shown, but little was known about the sufferings of the innocent Iraqi civilians who were heavily bombarded by the multinational force which went beyond the limit set by the Resolution 678 of the UN Security Council.

Discussion on the Gulf war concentrates on issues such as its rationale, its hi-tech nature, the motives of the participants, the strategies adopted, Iraq's defence capabilities, anti-war protests and its impact—political, economic and ecological. Compared to these, discussion on the informational aspects of the war is limited. But a post-mortem analysis should mention that the information game played during the war has opened up a more general and profound question: information vital to all the member states of the world still has its concentration and control mechanism safely placed in the advanced industrialised countries of the West, especially the US, and that the developing states, the helpless recipients of information, are yet to achieve a breakthrough in 'information politics'—the battle for power over facts. While the

West is tightening its control on the international information structure, the developing states are gearing themselves towards a greater adherence to the prevalent order instead of continuing with the demand for its transformation.

INFORMATION AS POWER

Trends in the international arena, especially during the last two decades, make it clear that information has become a major component of power in interaction among states. It has become "an essential element in knowledge of all problems which determine or affect the lives of peoples and the evolution of societies as well as relations among nations. It constitutes a key-element in decision-making..."¹ In a complex and rapidly changing world the capacity to exploit (to use the term in a non-pejorative sense) is pivotal in taking any step or action. The developing states clamouring for a better world order which, they believe, would provide them with a better bargaining position and from a larger perspective, equality of opportunity *vis-a-vis* their developed counterparts, is not unexpected. The developing states stand at a lower pedestal not only because of their lower economic strength but also because of their backwardness in 'knowledge industries' (knowledge industries has information processing, education and research and development as its main components). In the colonial days colonial states could retain monopoly over information without any resistance from the hopelessly dependent colonies. But with the radical transformation of the political map of the world as a result of liberation of erstwhile colonised states, access to information became a 'right' to be enjoyed by all the sovereign states. The primary reason for providing information so much importance was that lack of it and of effective means of using and exchanging it

were widely regarded as a 'hurdle' to economic and social development. But the very demand for the 'right' has made the states enjoying monopoly over information all the more cautious. And to some of them, offence seems to be 'the best defence. Otherwise, why should the US resort to censorship on news coverage from the Gulf and disinformation campaign. It might have suited Saddam Hussein, a dictator fighting a lost battle, but not George Bush, especially when his victory was never really in doubt.

The answer lies in information, both quantitative and qualitative. It is a vital input perpetuating the transnational power-structure, both political and economic, which serves the interests of the West. From the political perspective, while the very dream of establishing control by naked aggression against other states—the classic form of colonialism—is an absurdity now, political domination is sought to be expanded and maintained, perhaps more efficiently than ever before, by 'ideological warfare'. The technique, to put it simply, is to exercise total control over the sources of information in order to impose political ideas and values, thus, stifling the growth of indigenous ones. This not only undermines the confidence of the developing states, which grows out of their political independence, but also moulds the consciousness and perception of the inhabitants in these states.

The West-centric 'information explosion' with its sheer volume and frequency is not confined to establishing the 'right to inform' politically. It also stretches with equal aggression to economic areas as well. Modern information system as a mechanism of development is as important as natural resources. Some scholars like Daniel Bell have gone to the extent of according it a greater priority as a critical indicator of economic power than the traditionally important raw materials and heavy industries. Information facilitates the capacity of the developing states to better their position *vis-a-vis* international finance, technology, transportation, food security, commodity negotiation, agricultural and industrial production and commercial intelligence, to name a few. It is also indispensable to deal with natural calamities, a frequent 'visitor' to the developing states.

So, information for understanding events in their proper political, economic and social contexts is an inescapable need. It is only natural that the developed states try to retain the chasm that puts them in a far superior position in information gathering, processing and user-capacity. But our view is that it is precisely this linkage of the present information structure and national interest which should

lead to a decisive and sustained demand for transformation of the prevalent structure.

THIRD WORLD'S RETREAT

Although the term 'free flow of information' is current since the second world war, the imbalance in the earth's informationosphere had become a major focus of international meets in the 70s. Information imperialism became a familiar term in the international lexicon when Urho Kekkonen, the former president of Finland, coined it in 1973. The non-aligned states began spearheading the movement against 'the information dictatorship of the First World' since the early 70s to establish a New International Information Order. The initial enthusiasm led to the adoption of action programmes, political declarations, establishment of co-ordinating committees and News Agencies Pool. The 4th General Conference of the non-aligned states in Algiers (1973) adopted action programmes by which TANJUG, the telegraph agency of Yugoslavia, assumed the responsibility of distributing information received from among the non-aligned states. In 1975 in Tunisia some practical proposals were discussed in a symposium. One was on the establishment of regional centres for production and distribution of information. It was also in Tunis that the term 'new international information order' was used for the first time. In 1976, in Colombo where the 5th Summit Conference of the non-aligned states was held, it was stated that a new order in the fields of information and mass communication was as vital as the new international economic order (NIEO). In the same year in New Delhi

an international conference of the information ministers of the non-aligned states deliberated on the status of the Non-aligned News Agencies Pool and came out with a document—The Declaration of the New Delhi Ministerial Conference of Non-Aligned Countries—and a resolution Action Plan for Co-operation in the Field of Information and Mass Media. The 6th Summit in Havana (1979) 'appreciated and hailed' the resolutions adopted in the 33rd Session of the UN General Assembly and commended the positive role of the UNESCO on the Information Question. The UN, especially the UNESCO, also joined the efforts. The 20th session of the general conference of the UNESCO in 1979 probed into the volume of 'one way information flow' and looked for measures to bring a change. Article I of the UNESCO Declaration mentions: "The strengthening of peace and international understanding, the promotion of human rights and the countering of racialism, apartheid and incitement to war demand a free flow and a wider and better balance and dissemination of information." The demand for an equitable information order continued in the 80s. The 37th session of the UN General Assembly noted that it was 'conscious of the need for all to collaborate' in the establishment of a new world information order based on the free circulation and wider and better balanced dissemination of information, guaranteeing the diversity of the sources of and free access to information, and, in particular, 'the urgent need' to change the dependant status of the developing states in the field. The session also proclaimed with a moral tone that 'freedom of information is a fundamental

APPOINTMENT

Centre for Studies in Social Sciences, Calcutta,

invites applications for a post of Professor of Economic History in the pay scale of Rs 1500-150-5700-200-7300/- DA, HRA, CCA as per the Central University Rules. Medical and Contributory Provident Fund benefits are also available. Applicants must have a doctoral degree and sufficient published work in the field of economic history. Command over quantitative methods is desirable. Applications with detailed curriculum vitae including academic qualifications, teaching and research experience and list of publications with names of three referees may be sent to the Registrar, 10 Lake Terrace, Calcutta - 700029 by May 31, 1991.

right and is the touchstone of all the freedoms' and that it requires 'the moral obligation to seek facts without prejudice and to spread knowledge without malicious intent'.

What is our major concern is that after all this initial euphoric optimism and enthusiasm, we do not find any perceptible change in the prevalent information order. This is only a consequence of the sudden halt in the concerted move of the developing states to translate the resolutions in practice. An argument would be that the 'silence' of the developing states is because of the tremendous resistance and pressure—political, economic and psychological—exerted by the West which benefits from the discriminatory order. This, however, is a necessary but not sufficient condition. Our point is that the developing states have their own reasons for maintaining the silence.

Numerous documents prove that the major thrust of the actions of the developing states today is economic. The information question seems to have been put into the back-shelves when it comes to taking concrete actions. The developing states, justifiably enough, strive for economic development but combined pressure of time and necessity lead them to desire it 'overnight'. This desire coupled with dissemination of West-centric world-vision leads to the belief that a particular model is 'historically inevitable' resulting in a blind adherence to the Western model which is also the 'standardising model'. The blind emulation of the development path of the West leads the developing states to seek economic rewards in exchange for their retreat on the issue of transformation of information order. As mentioned in the RIO Report² the resistance offered by the West to any changes in the information order is greater than that in case of the economic order. The West, in fact, is never really in doubt that it is information which holds the key. The developing states, on the contrary, have an implicit assumption that if the West is not pressurised in matters of information, it would, in turn, communicate some 'secrets' of its development strategy as a condescending gesture. For our purpose, it is also important to reassert that the inseparable link between information and economic prosperity is ignored by the developing states at their peril.

ELITE LINKAGES

We have already noted that the reluctance of the developing states to translate their heady optimism imprinted on paper into concrete action is essentially a consequence of strict adherence to a West-centric world-vision. In this context, the following observation of a veteran media-

watcher made during the Gulf war is pertinent: "... Indian newspapers carry, as if they were the gospel truth ... unchecked reports from Western newspapers."³ However, to blame a few news agencies or journalists for this will be gross simplification. One has to recognise that it is the elite of the developing states, which act as 'willing collaborators' in the dissemination of deceptive half-truths. It is the elite which set the rules of appropriate task behaviour and it is their attitude and assumptions, both explicit and implicit, which determine the goals and outcomes of public policies. If one is surprised by the discrepancy that exists between promise and performance, as we mentioned in the case of information order, one only has to take note of the fact that the common vision ingrained among the members of the group and the consequent 'culture of dependency' create a spontaneous loyalty to the West. From the structural-relational perspective of world-system, the expansion-exploitation processes of the 'centre' uses the elite of the 'periphery' as 'agents' in not only perpetuating but also increasing unequal interdependency.

It is the strong international fraternity among the elite that makes an alternative vision or strategy stunted in infancy. The collective bargaining capacity of the developing states becomes a 'victim' of the whole process. The elites of the developing states come together and conduct negotiations based on mutual support but only when they are sure that their mentor-counterparts of the West will be willing to provide few concessions as a token gesture. In most of the cases, negotiations across the table in international conferences, symposia and meets become mere 'verbal duels' and the 'tough stand' taken by the developing states on 'apparently' irreconcilable issues, such as information, remains resolutions. When it comes to the question of implementation of the action programmes, one finds all the zeal and fervour gone.

We have presented and examined the information problematic from the standpoint of the developing states which are always at the receiving end. This is not to overlook the role played by the developed states in retaining the discriminatory information order. If the emphasis is on the developing states it is because of the assumption that while the resistance of the developed states on the issue is natural the decreasing awareness of the developing states is disturbing.

What seems disturbing today may soon become alarming if one puts the information problematic in the broader perspective of world order. Recently, Charles Kranthammer, the well known conservative American, wrote in *Foreign Affairs*: "(The US) will lead in a unipolar world,

unashamedly laying down the rules ... (because) ... the centre of the world power is ... the United States, attended by its (Western allies)." The Gulf war has made inevitable what the world thought was possible: a unipolar world order that has the US as the sole superpower-cum-policeman. With the Soviet Union ridden with internal political and economic problems and China pursuing its traditional path of reflexive insularity, the US which at one time appeared to be defensive, has managed to reemerge with renewed vigour after the Gulf crisis. With President Bush proclaiming the 'indispensability of American leadership' for the world, the desire to establish Pax Americana would naturally cast its shadow on the 'right' of the West to dictate information to the rest of the world.

Judging by the internal and external constraints, the developing states face, to say the least, a very critical situation at the moment. It will be too much to expect them to form a homogeneous group immediately putting the diversities amongst themselves in the background. It is all the more difficult because of the existence of the internal elite who are unlikely to weaken their political, economic and psychological link to the transnational interests. How do we reconcile this gloomy situation to our repeated assertion that the West should not get a 'walk-over' on the information issue? The answer, paradoxically, lies in thorough introspection by the elite, which would result in the realisation that the development strategy, in any case, must not be based on seeking a few crumbs from the West. Such a narrow and short-term strategy (or, to be more specific, tactic) will only act as a hurdle to self-reliance—an imperative necessity for a wider and greater process of the establishment of a world order based on 'concrete and genuine expression of interdependence' and 'effective participation of all in decision-making'. If achieved, it will be a respectable future in which the developing states will participate as full members in their own right. So, it is a 'now or never' situation that the developing states face on the question and it is this constructive lesson that we could learn from the otherwise destructive Gulf war.

Notes

[The author is grateful to Professor Sourin Bhattacharya, Department of Economics, Jadavpur University, for providing insights.]

1 UNESCO, *Thinking Ahead. UNESCO and the Challenges of Today and Tomorrow* (Paris: UNESCO, 1977), p 355.

2 See Jan Tinbergen, *RIO: Reshaping the World Order* (New York: Sunrise, 1976).

3 Minhaz Merchant, 'Media' in *The Telegraph*, February 19, 1991.



بنك عمان الدولي ش.م.ع.
Oman International Bank S.A.O.G.

BALANCE SHEET OF INDIAN BRANCH AS AT 31 MARCH, 1991

| As at 31 March 1990 Rs | P | CAPITAL & LIABILITIES | Rs | P | As at 31 March 1991 Rs | P | PROPERTY & ASSETS | Rs | P | As at 31 March 1991 Rs | P |
|--|---|--|--|---|------------------------------|--|--|--|----------------|------------------------------|------------------|
| | | 1. Capital Amount deposited with the Reserve Bank of India under section 11(2) of the Banking Regulation Act, 1949 (Market value of securities lodged Rs 18,589,000 PY Rs 10,730,000) | | | | | 1. Cash In hand Balance with Reserve Bank of India | 1,198,734 04 93,449,652 13 | | | 94,578,386 17 |
| 11,000,000 00 | | | 14,000,000 00 | | | | 2. Balance with Other Banks (On current account) In India Outside India | 113,367,819 96 3,639,721 78 | | | 117,007,541 04 |
| 2,000,000 00 | | 2. Reserve Fund & Other Reserves Head Office Reserve (amount remitted in foreign currency from Head Office) Statutory reserve Balance per last balance sheet 10,799,918 39 Add Additions during the year 5,671,760 00 | 2,000,000 00 | | | | 3. Money at Call and Short Notice | | | | |
| 4,145,019 00 | | | | | | | 4. Investments (At Cost) Securities of Central and State Governments and other Trustee Securities including Treasury Bills of the Central and State Governments Equity Shares (fully paid) Debentures and Bonds Other Investments | 225,701,562 50 493,000 00 1,979,000 00 130,000,000 00 | | | 358,166,562 50 |
| 6,654,899 39 | | | 16,471,678 39 | | 18,471,678 39 | 251,497,562 50 390,000 00 1,979,000 00 | | | | | |
| 12,799,918 39 | | 3. Deposits & Other Accounts Fixed Deposits From Banks 105,043,006 85 From Others 877,747,826 15 Savings Bank Deposits, Current Accounts, Contingency Accounts, etc. From Banks — From Others 229,890,140 07 | 982,790,833 00 5,242,367 39 | | | 254,059,562 50 | 5. Advances (Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors) Loans, Cash Credits, Overdrafts etc. In India 548,373,301 84 Outside India — Bills Discounted and Purchased (excluding Treasury Bills of the Central & State Governments) Payable in India 400,145,770 98 Payable outside India 47,244,399 04 (Particulars as per Schedule) | 450,043,077 27 | 548,373,301 84 | | 995,763,471 86 |
| 417,437,179 53 417,437,179 53 6,860,225 56 | | | 229,890,140 07 | | 1,217,923,340 39 | | | | | | |
| 603,159,703 87 | | 4. Borrowings from Other Banking Companies, Agents etc (unsecured) In India Outside India | 257,450,899 16 17,991,309 38 | | | | | | | | |
| 1,027,457,108 96 | | | | | 274,742,138 54 | 285,789,092 68 | | | | | |
| 75,557,468 00 7,094,267 57 82,651,735 57 | | 5. Bills Payable | | | 8,066,208 08 | | | | | | |
| 23,669,546 09 | | 6. Bills for Collection being Bills Receivable (As Per Contra) Payable in India Payable outside India | 1,819,159 59 94,198,208 00 | | | 9,256,227 59 | | | | | |
| | | | | | 26,017,367 59 | | | | | | |
| 2,748,938 05 9,884,760 00 12,633,698 05 | | 7. Other Liabilities Head Office balance outside India—Net Income accounted in advance Sundry Creditors | 32,790,778 80 14,875,741 93 118,896,484 36 | | | 745,088,327 34 | | | | | |
| 20,745,798 00 7,564,462 55 75,675,229 51 103,985,420 06 | | | | | 166,569,005 09 | | 6. Bills Receivables Being Bills for Collection (As Per Contra) Payable in India Payable outside India | 1,819,159 59 94,198,208 00 | | | 26,017,367 59 |
| 1,263,197,427 12 | | Carried Forward | | | 1,711,789,738 08 | 1,199,571,462 06 | Carried Forward | | | | 1,591,533,329 16 |



بنك عمان الدولي ش.م.ع.
Oman International Bank S.A.O.G.

BALANCE SHEET OF INDIAN BRANCH AS AT 31 MARCH, 1991

| As at 31 March 1990 Rs | CAPITAL & LIABILITIES | Rs | P | As at 31 March 1991 Rs | P | As at 31 March 1990 Rs | P | PROPERTY & ASSETS | Rs | P | As at 31 March 1991 Rs | P |
|------------------------------|---|----------------|---|------------------------------|---|------------------------------|---|--|---------------|---------------|------------------------------|---|
| 1,263,197,427.12 | Brought Forward | | | 1,711,789,738.08 | | 1,199,571,462.06 | | Brought Forward | | | 1,591,533,329.16 | |
| 617,119,769.12 | 8. Acceptances, Endorsements and Other Obligations (Per Contra) | | | 519,063,970.59 | | 617,119,769.12 | | 7. Constituents' Liabilities for Acceptances, Endorsements and Other Obligations (As Per Contra) | | | 519,063,970.52 | |
| 20,442,985.70 | 9. Profit & Loss Account Profit as per last Balance Sheet | 32,826,385.72 | | | | 6,471,853.00 | | 8. Premises At cost as at 1 April 1990 | 6,471,853.00 | | | |
| 14,236,197.55 | less: Remitted to Head Office | 21,501,790.55 | | | | 560,893.19 | | less: Depreciation | 819,768.94 | | | |
| 6,206,788.15 | | 11,324,595.17 | | | | 5,910,959.88 | | | | | 5,652,084.76 | |
| 33,274,496.96 | Add: Profit for the year as per Profit & Loss Account Annexed | 28,358,800.04 | | | | 8,392,377.17 | | 9. Furniture & Fixtures (Including Vehicles & Equipments) At cost as at 1 April 1990 | 9,179,681.51 | | | |
| 6,654,899.39 | less: 50% Transfer to Statutory Reserve | 5,671,760.00 | | | | 1,072,469.02 | | Add: Additions during the year | 5,558,102.59 | | | |
| 32,826,385.72 | | 22,687,040.04 | | 34,011,635.21 | | 9,464,846.19 | | | 14,737,784.03 | | | |
| | 10. Contingent Liabilities | | | | | 285,164.68 | | less: Disposals during the year | 509,619.05 | | | |
| | Claims against banking Companies not a frozen deposit as details | | | | | 9,179,681.51 | | | | 14,235,164.98 | | |
| | Guarantee given on behalf of Customer of Head Office and foreign branches Officers | | | | | 5,804,989.58 | | Less: Depreciation | 6,665,234.66 | | | |
| 319,085,886.05 | Others | 356,551,025.14 | | | | 3,374,691.93 | | | | | 7,569,930.32 | |
| 233,000,000.00 | Liabilities on bills of exchange rediscounted | 397,500,000.00 | | | | 13,133,000.00 | | 10. Other Assets | | | | |
| 937,993,593.04 | Liability on account of outstanding forward exchange contracts | 711,130,134.19 | | | | 47,615,950.45 | | Deposits with Industrial Development Bank of India under Investment Deposit Scheme 1986 | 21,344,000.00 | | | |
| | Liability in respect of tax demand raised by income tax department disputed by bank in appeal | | | | | 9,292,450.72 | | Advance Tax and Tax deducted at source | 67,970,651.00 | | | |
| | | | | | | 16,969,699.02 | | Accrued interest on investment | 13,384,660.12 | | | |
| | | | | | | 855,598.78 | | Prepayments, interest, sundry deposits, initial expenses, etc | 35,523,661.26 | | | |
| | | | | | | 87,166,698.97 | | Sundries | 2,823,056.67 | | | |
| | | | | | | | | 11. Non Banking Assets Acquired in Satisfaction of Claims | | | 141,046,029.05 | |
| | | | | | | | | 12. Profit & Loss | | | | |
| 1,913,143,581.96 | TOTAL Rs | | | 2,264,865,343.81 | | 1,913,143,581.96 | | TOTAL Rs | | | 2,264,865,343.81 | |

This is the balance sheet referred to in our Report of even date

Notes to the accounts form an integral part of the balance sheet

Sd/
P N GHATAIA
PARTNER

For OMAN INTERNATIONAL BANK S.A.O.G.

BOMBAY
Dated 22 April 1991

For and on behalf of PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Sd/
V V CHANDY
CHIEF EXECUTIVE-INDIA



بنك عمان الدولي ش.م.ع.
Oman International Bank S.A.O.G.

PROFIT & LOSS ACCOUNT OF INDIAN BRANCH FOR THE YEAR ENDED 31 MARCH, 1991

| Year ended 31 March 1990 Rs. P | EXPENDITURE | Year ended 31 March 1991 Rs. P | Year ended 31 March 1990 Rs. P | INCOME (Less Provision made during the period for Bad and doubtful debts and other usual or necessary provisions) | Year ended 31 March 1991 Rs. P |
|--------------------------------------|---|--------------------------------------|--------------------------------------|--|--------------------------------------|
| 55,498,046 79 | Interest paid on deposits, borrowings, etc | 98,109,108 97 | 117,214,757 76 | Interest and discounts | 162,954,160.92 |
| 3,323,884 67 | Salaries, allowances, provident fund | 4,328,404 55 | 27,042,125 05 | Commission, Exchange and Brokerage | 37,901,020 06 |
| 122,106.27 | Directors' and Local committee members' fees and allowances | 398,609 43 | | Rent | — |
| 31,278,937.08 | Rent, taxes, insurances, lighting, etc | 49,504,134 09 | | Net profit on sale of investments, gold and silver, land, premises and other assets (not credited to reserves or any particular fund or account) | 3,272,243.88 |
| 27,250 00 | Law Charges | 209,562 72 | | Net profit on revaluation of investments Gold and Silver, land, premises and other assets (not credited to reserves or any particular Fund or account) | — |
| 3,963,918 51 | Postage, telegrams, and stamps | 6,208,781 19 | 50,829 88 | Income from non-banking assets and profit from sale of or dealing with such assets | — |
| 93,315 00 | Auditors' fees (including in other capacity) | 119,614 00 | | Other receipts | 213 286 64 |
| 2,384,338 36 | Depreciation on and repairs to banking company's property | 2,238,531 70 | | | |
| 5,417,090 63 | Stationery, printing, advertising, etc | 5,278,596 19 | — | | |
| — | Loss from sale of or dealing with non-banking assets | — | — | | |
| 8,956,717 99 | Other Expenditure | 9,656,569 32 | — | | |
| 33,274,496 96 | Balance of Profit carried over to Balance Sheet | 98,358,800 04 | 32,396 50 | | |
| 144,340,102 19 | TOTAL Rs | 204,340,711 50 | 144,340,102 19 | TOTAL Rs | 204,340,711 50 |

| Rs | Particulars of remuneration relating to the Banking Company's Chief Executive in India | Rs |
|------------|--|-------------------|
| 211,050 00 | Salary | 296,380 00 |
| 51,855 00 | Bonus | 73,980 00 |
| 19,705 00 | Allowances | 21,319 00 |
| | Employer's contribution to Provident Fund, Pension Fund or any other superannuation fund | 22,638 00 |
| 21,978 00 | Monetary value of other benefits or perquisites | 55,413 00 |
| 47,993 00 | | |
| 352,581 00 | TOTAL Rs | 399,730 00 |

This is the profit and loss account referred to in our Report of even date

BOMBAY
Dated 22 April 1991

for and on behalf of PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Sd/
P N GHATAHA
PARTNER

Sd/
V V CHANDY
CHIEF EXECUTIVE—INDIA

NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH, 1991

1 Principal Accounting Policies

i General

The accompanying financial statements have been prepared on the historical cost basis and conform to the statutory provisions and practices prevailing in the country

ii Transactions involving foreign exchange

- Monetary assets and liabilities except for Head Office Balances have been translated at the exchange rates prevailing at the close of the year
- Income and expenditure items have been translated at the exchange rates ruling on the date of the transactions
- Profit or loss on forward contracts have been accounted for

iii Investments

Investments are stated at the lower of aggregate cost or market value and provision is taken for any decline in value

iv Advances

- Provisions for doubtful advances have been made to the satisfaction of the auditors
 - in respect of identified advances, based on a periodic review of advances and after taking into account the portion of advance guaranteed by the Deposit Insurance and Credit Guarantee Corporation, the Export Credit and Guarantee Corporation and similar statutory bodies
- Provisions in respect of doubtful advances have been deducted from advances
- Provisions have been made on a gross basis. Tax relief which will be available when the advance is written off will be accounted for in the year of write off

v Fixed Assets

- Premises and other fixed assets have been accounted for at their historical cost
- Depreciation has been calculated on a straight line basis to write off the cost

of fixed assets over the expected useful lives of the assets duly certified by the management. The principal periods used are

| | |
|------------------------|----------|
| Premises | 25 years |
| Furniture and fixtures | 5 years |
| Equipment | 5 years |
| Motor Vehicles | 5 years |
| Computers | 5 years |

vi Staff Benefits

Provisions for gratuity benefits to staff have been made on an accrual basis. A separate fund for gratuity has been created

2 Advances

Included in the provision for doubtful debts is an amount relating to a customer for which provision has been taken after considering the value of stocks held by the bank as security

Due to the technical nature of the stocks, the value has been determined by the management based upon the invoice value of the stocks

3 Net Profit

The net profit disclosed in the profit and loss account is after

- provisions for taxes on income in accordance with statutory requirements
- provision for doubtful advances
- Head Office Administration Expenses to the extent estimated to be allowable under section 44C of the Income Tax Act 1961

4 General

The figures of previous period have been regrouped/rearranged wherever necessary

for OMAN INTERNATIONAL BANK S.A.O.G.

Sd/
V V CHANDY
CHIEF EXECUTIVE—INDIA



بنك عُمان الدولي ش.م.ع.
Oman International Bank S.A.O.G.

**Particulars of Advances of Indian Branch as at
31 March, 1991**

Auditors' Report

AUDITORS' REPORT ON THE INDIAN BRANCH OF THE OMAN INTERNATIONAL BANK S.A.O.G. UNDER SECTION 30 OF THE BANKING REGULATION ACT 1949

We have audited the attached Balance Sheet of the Indian Branch of the Oman International Bank S.A.O.G. as at 31 March 1991 and the relative Profit and Loss Account of the Indian Branch of the Bank for the year ended on that date signed by us under reference to this report

In accordance with the provisions of Section 29 of the Banking Regulation Act 1949 read with the provisions of Sub Sections (1) (2) and (5) of Section 211 and Sub Section (5) of Section 297 of the Companies Act 1956 the Balance Sheet and Profit and Loss Account together with the notes thereon are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act 1956. The accounts are therefore drawn up in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act 1949

- (1) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory
- (2) The transactions which have come to our notice have been in our opinion within the powers of the Indian Branch of the Bank
- (3) In our opinion proper books of account as required by law have been kept by the Indian Branch of the Bank so far as appears from our examination of these books
- (4) The above mentioned Balance Sheet and Profit and Loss Account of the Indian Branch of the Bank dealt with by this report are in agreement with the books of account
- (5) In our opinion and to the best of our information and according to the explanations given to us the Balance Sheet and Profit and Loss Account together with the notes thereon give the information required by the Companies Act 1956 as amended in the manner so required for Banking Companies and on such basis the said Balance Sheet gives a true and fair view of the state of affairs of the Indian Branch of the Bank as at 31 March 1991 and the Profit and Loss Account gives a true and fair view of the profit of the Indian Branch of the Bank for the year ended 31 March 1991

Sd/
P. N. GHATALIA
PARTNER

For and on behalf of
PRICE WATERHOUSE
CHARPETERD ACCOUNTANTS

BOMBAY
Dated 22 April 1991

| | 1990 Rs | P | 1991 Rs | P |
|--|-----------------------|---|-----------------------|---|
| Debts considered good in respect of which the banking company is fully secured | 604 898 160 78 | | 593 477 085 1 | |
| Debts considered good for which the Banking Company holds no security other than the debtors' personal security | 25 420 193 74 | | 37 843 325 27 | |
| Debts considered good secured by personal liabilities of one or more parties in addition to the personal security of debtors | 114 769 973 02 | | 164 443 060 82 | |
| Debts considered doubtful or had not provided for | --- | | --- | |
| TOTAL Rs | 745 088 327 54 | | 995 763 471 80 | |
| Debts due by Directors or officers of the Banking Company or any of them either severally or jointly with any other person | 15 44 971 00 | | 1 939 037 39 | |
| Debts due by Companies or firms in which the director of the Banking Company are interested as directors partners or Managing Agents or in case of Private Companies as members | --- | | --- | |
| Maximum total amount of advances including temporary advances made at any time during the period to directors or managers or officers of the Banking Company or any of them either severally or jointly with any other person | 1 711 049 52 | | 2 017 669 4 | |
| Maximum total amount of advances including temporary advances granted during the period to the Companies or firms in which directors of the Banking Company are interested as directors partners or managing agents or in case of private companies as members | --- | | --- | |
| Dues from Banking Companies | 1 642 839 92 | | | |

For OMAN INTERNATIONAL BANK S.A.O.G.

Sd/
V. V. CHANDY
CHIEF EXECUTIVE INDIA

Gandhi and Ambedkar

Gail Omvedt

The Moral and Political Writings of Mahatma Gandhi, Volume I: Civilisation, Politics and Religion; Volume II: Truth and Non-Violence edited by Raghavan Iyer; The Clarendon Press, Oxford.

THIS is Ambedkar's year. Not only because of the centenary celebrations, but because the theme of 'social justice' has now become central to Indian politics, possibly a determinant in the forthcoming elections, in the process bringing about the unity between dalits and shudras ('OBCs') which Ambedkar had argued for but had grown pessimistic about in the last years of his life.

Yet there has also been a kind of revival of Gandhi in the last several years, answering to the needs of another 'new social movement'. environmentalists have a tendency to look to Gandhi as a founding father, the first leader of contemporary India to denounce the destructiveness of industrial 'modern civilisation' and call for a different model of development entirely. Here also Gandhi stood in contrast not only with Nehru and the Leftists but also with Ambedkar, who supported not only industrialisation but a highly centralised statist form of it, and was more concerned that dalits should be able to leave the villages than reform them. Thus the publication of Gandhi's "moral and political writings", in particular *Hind Swaraj* and the discussions surrounding it, help throw some light on the debates between these two towering figures of the colonial era.

WHY THE CONFRONTATION?

Gandhi and Ambedkar ended in a state of near total confrontation, rather than dialogue, and it is important to understand how this happened. Though many view Gandhi as the great national leader and Ambedkar as the one ready to compromise with the British in putting the 'social movement' first (and react emotionally to them on this basis) the reality is not so simple. Ambedkar's nationalism was expressed at many points, while Gandhi himself made it clear that his first concern was not so much independence but India's identity as a civilisation, and that the worst fate that could befall it would be to get rid of the British only to become like the British, with "the tiger's nature, but not the tiger" (in *Hind Swaraj*, p 208).

The difference was partly in the social networks each was involved in, Ambedkar irrevocably based in the dalit rural and urban poor, Gandhi with his access to all the wealth and resources of the Hindu upper castes. That Gandhi's 'social base' did not see his concerns in quite the same light as he did, is perhaps suggested by the fact that Raghavan Iyer's collection contains very

little specifically on untouchability and caste, though the question was as highly 'moral' and 'political' for Gandhi as anything. Gandhi's taking a position in fact played a central role in building up the Congress as a national force, yet almost all upper caste leaders—including Leftists like Nehru and the communists—saw it as a mere diversion.

Gandhi and Ambedkar had different concerns about what Indian independence should mean, but they were similar in placing the nature of that independence ahead of mere freedom from British control. Was it inevitable that their relations should develop so acrimoniously?

Throughout the 1920s, in fact, Ambedkar seems to have had a soft spot for Gandhi, perhaps taking him as a new phenomenon different from the Brahmanic elitist leaders he hated. A photo of Gandhi adorned the pandal for the Mahad satyagraha; even the demands of the Untouchables then were put in terms of "their rights as Hindus" as Ambedkar held back from a full denunciation of Hinduism.

The real break came in the period 1930-32 with the events of the Round Table Conferences, Gandhi's fast and the Poona Pact. The issue was not Gandhi's nationalism versus Ambedkar's separatism; it was rather that of dalit autonomy within a broader national community. Ambedkar had gone to the first RTC as a representative of the Untouchables, but he was almost alone among organised dalit opinion of the time in not asking for separate electorates, in saying it would be satisfied with reserved seats if there were adult suffrage. At the conference he gave an eloquent expression of support for independence, arguing that Untouchables needed 'swaraj' because only with it could they have a chance of sharing in political power—the prerequisite for their liberation. But, with not possibility of adult suffrage, Ambedkar ended up supporting separate electorates for Untouchables along with those for Muslims and other minorities. It was this that proved too much for Gandhi, and his emotional speech at the second RTC (he did not oppose separate electorates for Muslims) was not so much from a stance as 'national' leader but as a Hindu, and as one who was adamant that Untouchables should be treated as part of Hinduism. "I would not seal the vital interests of the Untouchables even for the sake of winning the freedom of India. I claim myself in my own person to represent the vast mass of the Untouchables", he said, going on to say that

"it would create a division in Hinduism which I cannot possibly look forward to with any satisfaction whatsoever" (Vasant Moon, editor, *B R Ambedkar: Writings and Speeches*, Volume 2, pp 662-63). The issue was precisely whether dalits could attain an autonomy to decide for themselves whether they would be part of 'Hinduism' or not.

The subsequent communal award and Gandhi's fast led to the Poona Pact of 1932, but Ambedkar's agreement was by no means due to a 'change of heart'. Afterwards he spoke of the events with great bitterness, adding "to my mind there is no doubt that this Gandhi age is the dark age of India. It is an age in which people instead of looking for their ideals in the future are returning to antiquity" ('Federation and Freedom', in *Writings and Speeches*, Volume 1, pp 350-52). Yet Ambedkar himself was ready to return to Indian tradition, specifically Buddhism. The problem was that Gandhi's village-centred ideal was, to him, becoming identified with upper caste dominance, with a denial of autonomy. This was confirmed when Gandhi set up the Harijan Sevak Sangh. Ambedkar argued that the aim should not simply be uplift of untouchables but the eradication of castes; and that the main authority in carrying this out should be with dalits themselves. Gandhi refused, seeing the issue as one of purifying Hinduism and of upper caste Hindus 'making expiation' for their sins of Untouchability. Practically the result was to have a nationwide body of high-caste social reformers, wandering through Untouchable quarters cleaning up children and propagandising against drunkenness, diving a certain amount of self-respect but in the process hiding the low castes to a national movement dominated by what Ambedkar saw as the 'bourgeois-brahman' elite. Ambedkar's insistence on dalits and low castes holding power to create their own liberation was certainly correct as against Gandhi's paternalism.

NATURE OF 'MODERN CIVILISATION'

This paternalism was also to flaw Gandhi's most telling critical thrust regarding the path of development itself.

Hind Swaraj, originally written in Gujarati in 1909, was a powerfully argued indictment of industrial civilisation, denouncing parliament, factory exploitation, the practices of modern medicine and law and even modern transportation. Gandhi later came down a good deal from its most extreme directions, but it continued to indicate what he considered an ideal direction, a village-centred, handicraft-oriented production system, with fulfilment of basic but minimal needs. The questioning of modern industrial development in *Hind Swaraj* has come to seem more and more relevant as the ecological and human destructiveness of contemporary capitalism

grows and the 'statist' alternative is discredited. Gandhi also succeeded in giving a mode of action that was an alternate to both 'Moderate' petitioning and extremist terrorism, that was militant, morally-based and capable of rousing the masses.

On these issues Gandhi seems to have more to offer than Ambedkar. Ambedkar was a socialist, which Gandhi was not, and through the 1930s it was with Marxism and the Left that he seemed to be more in interaction/dialogue with than the Gandhians. But the Left was accentuating heavy industry-based centralised development uncritically; the difference between Nehru, the socialists and the communists only boiled down to a matter of degree: how much state control over the industrial sector. The Left also assumed that villages would mainly be a source of surplus, not the heart of society with any dynamism of their own. Ambedkar fitted into this rather easily; villages to him were only 'cesspools' from which dalits must escape; private property was, he assumed, the source of exploitation (he took this as the heart of Marxism, still valid) and thus could be ended by 'state socialism'—nationalisation, the collectivisation of land. This did not deal with hierarchical control of the administrative bodies, and exploitation by the elites (mainly Brahmins) who were at their top. As against this, Gandhi's comment that

God forbid that India should take to industrialisation after the manner of the West. The economic imperialism of a single tiny island kingdom is today keeping the world in chains. If an entire nation of 300 million took the similar economic exploitation, it would strip the world like locusts (cited by Ramchandra Guha, *Chipko: A Grassroots Perspective on the Environmental Debate*, p. 18).

looks remarkably prescient.

But surely part of the reason for Ambedkar's industrialist statism was that the Gandhian alternative—the only viable model appearing at the time—seemed elitist and caste-biased. It was not simply a matter of a village orientation but of 'Ram Rajya' with an uncritical acceptance of elite 'trusteeship'; of an opposition to industrial devastation tied to a religious belief in the limitation of needs. *Hind Swaraj* makes this clear:

We notice that the mind is a restless bird: the more it gets the more it wants, and still remains unsatisfied. The more we indulge our emotions the more unbridled they become. Observing all this, our ancestors dissuaded us from luxuries and pleasures. We have managed with the same kind of plough as existed thousands of years ago. We have retained the same kind of cottages that we had in former times, and our indigenous education remains the same...It was not that we did not know how to invent machinery, but our forefathers knew that, if we set our hearts after such things, we would become slaves and lose our moral fibre. They, therefore, after due deliberation decided that we should only do what we could with our hands and feet...They further reasoned that

large cities were a snare and a useless encumbrance and that people would not be happy in them, that there would be gangs of thieves and robbers, prostitution and vice flourishing in them, and that poor men would be robbed by rich men. They were, therefore, satisfied with small villages...The common people lived independently and followed their agricultural occupation. They enjoyed true Home Rule. (p. 232-33).

The self-sufficient village was linked to the paternalistic rule of kings in a society regulated by intellectuals (Brahmins?). Not surprisingly Ambedkar rejected it. It is however too bad that there was no real debate, throughout the 1930s and 1940s, on the nature of technology and industrialisation in national development.

NONVIOLENT ROAD

With all their differences, Ambedkar and Gandhi stood on the same side on some issues, most crucially on that of non-violence.

Part of the difficulty in dealing with this is that the discussion has been almost ritualised in India—partly perhaps as a reaction to Gandhism. Marxists, at any rate, frequently seem impelled to eulogise violence as their differentiating feature; particularly when, as with the Naxalites, the effort is to break out of the reformism of the established parties and parliamentary framework. 'Violence' is identified with being 'revolutionary'; and even Marxist academics have a strong tendency to argue that 'violence' exerted in social agitations is a sign that more revolutionary, lower-class interests are being expressed, while opting for satyagraha or other nonviolent mass methods is a characteristic of movements based on property-holding interests. This seems to me sociologically invalid, and does not address the question of the strategy appropriate for toiling people's interests. Nor does it explain why Ambedkar opted for nonviolence, unless he is taken as simply a petty-bourgeois mis-leader.

The fact is that there is a clear difference between violence as such and protest which is massive and rule-breaking, illegal in the context of the existing system and oriented to establishing a new system. The latter need not be 'violent' in the context of taking life; and in fact in the broad dialogue of India's independence struggle there have been many definitions of nonviolence; to Gandhi riding on the trains without ticket was at times 'violence'; on the other hand he could only endorse the arguments of Nana Patil regarding the 1942 movement in Satara that they were nonviolent because they destroyed only property in their sabotage and committed personal physical violence (beatings) "only to stop traitors". What Gandhi achieved in his advocacy of nonviolent methods was to establish this mass-oriented controlled militancy, to link it to tradition and Indian culture, giving it a moral base in the readiness to suffer and die for a cause, and evolving in the process new, non-masculinist

definitions of 'manliness'. Whatever, Ambedkar's feelings about Gandhi's backward orientation, he also adopted Gandhian forms of agitation. And the result is that the Indian people today have at their disposal for socially legitimised agitation wider forms of militant and illegal activity than perhaps anywhere, from hartals, and satyagrahas and fasts to 'gheraos', 'rasta rokos', 'gavbandis', and 'panchayat' forms of occupying public space.

The difference between Gandhi and Ambedkar is that Gandhi claimed that non-violence was for him a 'principle' and not just a 'policy' (while for the Congress, he felt, it could only be adopted as a 'policy'), for Ambedkar it was primarily a policy. Yet Ambedkar also quite seriously dealt with the issue of means and ends, which to him was an important differentiating feature between Buddhism and Marxism. If Ambedkar appears more rational to us today, it is not because of the effort to give a moral basis to politics (much of Gandhi is very compelling in this respect) but because the *advaita* base of Gandhi's religion—nonviolence out of a desire to limit action upon the material world; the rejection of needs linked with the rejection of technology and sexuality—is not one which we would choose. Raghavan Iyer gives us in his collection some of the problematic dilemmas of these aspects of Gandhian nonviolence, including the agonising over the mercy killing of a sick calf at his ashram and his apparently unquestioned belief—a stark warning to feminists that their appreciation of Gandhi should be limited—that a girl would be better off being killed one could not prevent her being raped. With all of these problems, the contribution of a nonviolent policy of mass struggle remain, particularly in an age when the forces of military technology are proving to be more rampantly destructive and brutalising than ever.

| |
|--|
| <p>Most Topical Publication</p> <p>What have you done with our money?</p> <p>(Taxpayers' Question to the Government)</p> <p>by: Dr. Dharmendra Bhandari Chartered Accountant</p> <p>Foreword by: N.A. Palkhivala</p> <p>Edited by: A.L. Roongta I.A.S.</p> <p>Contents</p> <p>* Economy in Doldrums. (Collapsing Banking Sector, Sick Public Sector, Government Borrowing etc.) * Controlling the Bureaucracy * Irrational Taxation * Comptroller and Auditor General- A Docile Watch-dog. * Financial Committees of Parliament- A cry in the wilderness.</p> <p>Price Rs 30 P.B. Rs 75 H.B V.P.P. Postage free</p> <p>UBS Publishers' Distributors Ltd. 5, Ansari Road, New Delhi- 110 002 Branches: Bombay, Bangalore, Madras Calcutta, Kanpur, Patna.</p> |
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A Panorama of Polemics

Ashok V Desai

India's Mixed Economy: The Role of Ideology and Interest in Its Development by Baldev Raj Nayar; Popular Prakashan, Bombay, 1989; pp xi + 421, Rs 350.

The Political Economy of India's Public Sector: Policy and Performance by Baldev Raj Nayar; Popular Prakashan, Bombay, 1990; pp ix + 323, Rs 300.

BALDEV RAJ NAYAR must qualify for inclusion in the *Guinness Book of Records*, if only we can discover what for. He never writes one book if two would suffice; but he would not quite make it on that. He has over 500 references in these two volumes, so his rate of assimilation must be fantastic. But then it cannot be proved that he read them all. What I find so unique, so outlandish about him is his undying faith that those with whom he carries on a unilateral debate in his massive volumes—the Leftists—are susceptible to rational argument in respect of the subjects on which he addresses them. In this pair he addresses them on public enterprise. After reviewing the communist theology on the subject, he still optimistically concludes that the communists must *finally* be susceptible to reality because they have to fight elections! He is a starry-eyed idealist looking for red-eyed ideologues. And who knows? He may well be right. The communists have accepted casteist discrimination, partnerships with multinationals, subversion of education—all things against which they might be expected to have principled objection. They may one day even accept the demise of public enterprise, as their elder brothers to our north have done.

Nayar's rock-breaking opus begins with the following sentence.

The rationale for—and evaluation of—the public sector in a country's economy and polity, especially in the Third World, is entwined with questions about both consummatory and instrumental variables.

That sentence set me on fire. I read the entire first volume to find out what was being consummated, but without success. Then I chanced on the second volume—and found the answer on its first page: consummatory factors are ideologies, and instrumental factors are vested interests. It reminded me of Richard Feynman, who went to an interdisciplinary conference and was given a paper to read which he could not make head or tail of. So he decided to translate it sentence by sentence. He came across the sentence:

The individual member of the social community often receives his information via visual, symbolic channels.

He translated it as "people read". Nayar does not keep up this level of profundity; in fact, he is disappointingly comprehensible in general. But he has taken a jolly good shot at being scholarly, cramming 300 references and 1,000 footnotes into the first volume and

200 references and 400 footnotes into the second. These books are a serious, nay, an earnest contribution.

To what? To the politics, economics and history of public enterprises. The first volume covers the attitudes towards it of the people who created the public sector, plus the priesthood that cheered on the assault on the 'commanding heights of the economy'. The former really comprise only Nehru and Daughter; the latter are a swarm of such diverse membership as Biplab Das Gupta, Sukhamoy Chakravarty, Anupam Sen and H Venkatasubbiah. Nayar has certainly read widely and indiscriminately. Some enemies of the public sector figure too (even I figure, although my importance has been exaggerated by attributing to me acts which really belong to Morarji Desai), amongst them, Rajni Kothari occupies the pride of place. The first volume is a *Dogmengeschichte*, or more accurately, a history of a dogma.

The account of attitudes has been interspersed with Nayar's own commentary. The ratio of the first to the second is pretty high; so it is difficult to see what Nayar is driving at. It is like a commentary on the scriptures, where the commentator confines himself to making learned observations on the subtleties of the text that an unsophisticated reader may miss. Even the critical comments that Nayar makes are more like debating points than mortal thrusts. By and large, Nayar has been fair to those whose views he reports, often preferring a direct quotation to an interpretation. But as a result it is difficult to find the real Nayar in this jungle of a text, and often one wonders if there is one.

There is one, and his central thesis is that the build-up of the public sector was decided by Nehru's ideological predilections, and not by the interplay of interests. I think this is meant to be a thrust at Leftists who would believe that all except themselves are pawns in class conflict. But I may well be wrong, for Nayar also admits that the "intermediate strata"—a scholastic term for the middle class—were in power, and that their interests were served by the growth of the public sector. Altogether, it seems that Nayar is in agreement with Prem Shankar Jha, Pranab Bardhan and others who identify the middle class as the driving force and beneficiary of Indian socialism; but one can never be sure, for Nayar revels in highlighting his differences with others.

The second volume does two things. First, it describes the departures from the Nehru ideology in the early days of the Rajiv Gandhi government. Nayar ends this part with one of his best sophistical tricks, showing that the Left, which all along regarded the public sector as a tool of the capitalist state, became its most conservative defender when Rajiv Gandhi's government tried to move away from the Nehru model.

Second, it compares the performance of the leading public and private sector firms in two industries. The case studies of steel (HSL-SAIL vs TISCO) and aluminium (BALCO vs Hindustan Aluminium) can hardly settle the controversies outlined by Nayar in the first volume; but they go far to demoiish, point by point, the claims of superiority and virtue that have underlain the arguments in favour of the public sector. Nayar is no great shakes with the use of statistics; but the microfacts he has collected by the bagful do present a picture which we tend generally to miss.

The first volume would appeal to those who like to wallow in ideological mud—the political economists and the political un-scientists. The second one would be interesting to those who are more interested in the public sector than in the emotions it evokes. Together they form a useful piece of contemporary history.

For a tension free world

GANDHIAN PATH TO PEACE

- 1 Conflict and Co-existence by J.N. Nanda Rs. 160
- 2 Conflict Resolution through Non-Violence: Role of Universities (in 2 Vols.) by K.D. Gangrade and R.P. Mishra Rs. 400 (per set of 2 Vols.)
3. Conflict and Tension in Tribal Society by S.P. Sinha (in press)
4. Intra-Societal Tension and National Integration: Psychological Assessment by A. Jamil Qadri Rs. 150
5. Gandhian Model of Development and World Peace by R.P. Misra Rs. 200
6. The Social Philosophy of Mahatma Gandhi by K.S. Bharathi (in press)
7. Terrorism: An Annotated bibliography by Susheela Bhan Rs. 300

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Volume and Composition of Government Subsidies in India, 1987-88

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This paper attempts to measure the volume and composition of subsidies provided by the Central government and major State governments and concludes that a substantial proportion of GNP, much larger than the explicit subsidy as revealed in the budgets or as computed even by the broader National Accounts definition, is being distributed in the form of subsidies through the Central and State budgets, much of it invisible, and that it is not at all clear that these subsidies are flowing to the intended beneficiaries.

Introduction

ECONOMISTS are interested in analysing government subsidies for a number of different reasons. A macro economist dealing with India's fiscal imbalance, i.e., the growing revenue deficit in evidence since the early eighties, would be interested in better targeting of subsidies and pruning of unintended subsidies as part of a stabilisation programme which attempts to reduce the revenue deficit. A price theorist would be interested in the allocative effects of subsidies while a welfare economist might be interested in their overall welfare effects. Political economists would want to interpret the allocation of subsidies in terms of their perception of the distributive coalitions which control the state. This paper does not belong to any of these particular perspectives. Instead, it undertakes an exercise which is a necessary first step for addressing any or all of these questions operationally. It attempts to measure the volume and composition of subsidies provided by the Central government and fourteen major State governments in India, as observed in the year 1987-88, the last financial year for which complete accounts are so far available. The first part of the paper deals with concepts and method. Part two presents estimates of the volume and composition of subsidies at the national level. Part three analyses inter-State variations and the main conclusions are summarised in part four.

I

Subsidies and Theory of Public Expenditure

Government subsidies may be defined as the difference between the cost of delivering various publicly provided goods or services (henceforth, services) and the recoveries arising from such deliveries.¹ However, a number of qualifications and adjustments must be introduced before this concept can be applied to measure subsidies from the available data on government expenditure and receipts. These are as follows.

(a) Government and Public Sector:

Government has been defined in this exercise to include only those departments which directly come under the Central government or the governments of fourteen major States. In particular, non-departmental public enterprises or co-operatives have been treated as lying outside the government proper. This is admittedly a narrow definition. However, it is necessary in order to frame the interface between the government budget and public enterprises. The difference between financial assistance extended to such enterprises and the returns which government receives from them is included in our measure of the volume of subsidies flowing through the government budget and this component of government subsidy is discussed further below.

(b) *Public Goods*: The wide range of general, social and economic services offered by the government at the Centre and in the States can, for analytical purposes, be classified into three broad groups. At one end of the spectrum there are pure public goods (services) in the Samuelson sense, characterised by non-rivalry and non-excludability in consumption.² At the other end there would be pure private goods characterised by rivalry, excludability and no externality. Then there would be the vast majority of services in the middle category, characterised by rivalry and excludability but also varying degrees of externalities. We may stretch Musgrave's notion to describe this class of services as 'merit goods'.³ Of these, the concept of subsidy is properly applicable only to the last two.

In the case of pure public goods we know from the theory of public expenditure that the well known Samuelson pricing rules cannot in fact be applied because of the free rider problem. Given the characteristic of non-excludability, consumers will not reveal their preferences for such goods and the demand information necessary for calculating Samuelson prices will not be available. Wicksell had anticipated this problem before Samuelson and he, followed by Lindhal and more recently Musgrave, argued that a voting mechanism of near unanimity, choosing between alternative expenditure proposals along

with associated tax prices, could lead to fairly efficient outcomes. However, in the absence of such voting mechanisms, the optimal level of public provision of these services remains indeterminate and their costs have to be met out of the general budget since they cannot be easily recovered.⁴ Under these conditions it would be inappropriate to apply the concept of a subsidy to the expenditure on pure public goods. Could we say, for instance, that defence expenditure is a subsidy?

There is clearly a case for excluding pure public goods from our computation of subsidies. But empirically where does one draw the line between pure public goods and merit goods or private goods? There are obvious public good candidates like defence and police. But then there are less clear cases where the benefits are not immediately tangible, such as agricultural extension, or the beneficiaries not exclusively identifiable, as in a literacy programme. The conservative rule of thumb followed in this exercise is to treat the general administrative services in the functional classification of government expenditure as pure public services, along with relief on account of natural calamities, the general secretariat expenses of social and economic services and the compensation and assignment to Local Bodies and Panchayati Raj institutions. The expenditure incurred on these items has been excluded from the computation of subsidies.

It is possible to take the view that a number of other items, particularly certain social services, are also pure public services. To the extent that these have not been eliminated, the estimated value of subsidies would be larger than the actual value. Readers are welcome to apply their own judgment on which additional social or economic service ought to be treated as a public good and use our disaggregated subsidy estimates to make the appropriate adjustments and arrive at their preferred measure of the total volume of subsidies. However, it must be noted that there could be an element of hidden producer subsidies even in pure public goods, whether they be supplied by government departments or

firms, if these are not supplied cost effectively.

(c) *Transfer Payments and Tax Expenditure*: The public expenditure incurred on transfer payments have been excluded from the computation of subsidies since these cannot be treated as costs incurred in the public provision of a service which could be priced in principle. For the same reason tax expenditures, i.e., revenue losses incurred in tax incentives, have also been excluded from the computation of subsidies though these are usually treated as subsidies in the literature.

(d) *The Different Elements of Subsidy*: The concept of subsidy adopted in this exercise actually combines three different elements of subsidy as demonstrated in the diagram. Let OY be the quantity of some service which is publicly provided, YB the actual cost per unit, YD the efficient cost per unit and EF the curve of per unit recoveries. XX is the demand curve for the service.

The rectangle ABHG measures the total volume of subsidy actually required in order to ensure that the market absorbs OY quantity of this publicly provided service if the market clearing quantity OY' is considered socially inadequate. However, ABHG has two components, i.e., a necessary element CDHG which is a genuine allocative subsidy and an additional element ABDC paid to suppliers to cover their inefficiency. Finally, there is a subsidy element GHFE which need not have been paid to support consumption level OY, given the state of demand. We may therefore describe this as a purely distributive subsidy. Thus, our measure of subsidy which conceptually corresponds to the rectangle ABFE, in fact combines three distinct elements, i.e., a producers subsidy, the allocative subsidy and a distributive subsidy. However, it is not possible to disentangle these different elements of the subsidy without detailed estimates of cost and demand functions for all the different subsidies.

(e) *Method of Computation*: The exercise covers the provision of public services by the Central government and fourteen major State governments for the year 1987-88. In all, there are 123 major categories of public services or sectors of government activity identifiable from the budget classification, of which 37 sectors in general administrative services, etc., are treated as pure public services. For each of the remaining 86 social and economic services subsidy has been computed as

$$s_j = v_j + i(K_j + L_j) + dK_j - y_j - r_j - t_j \quad (1)$$

where $j = 38 \dots 123$ indexes the services.

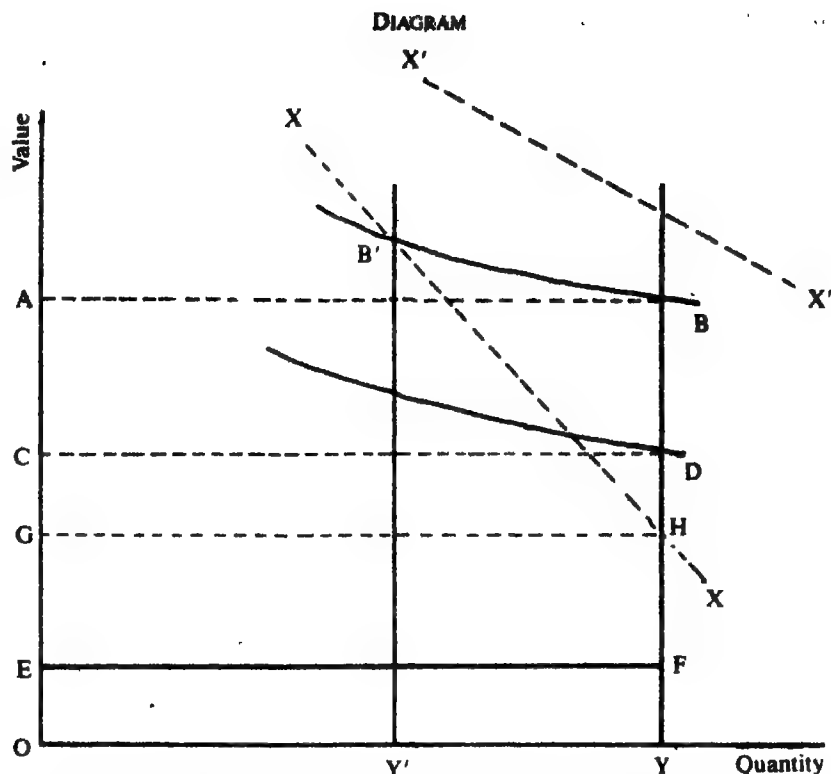
For the j^{th} sector;

s_j is the subsidy;

v_j is the variable cost or revenue expenditure on the service;

K_j is the capital stock in the sector;

L_j is the stock of investments outside government by the sector in the form of loans or equity;



i is an imputed interest rate representing the opportunity cost of money for government;

d is the depreciation rate;

y_j is revenue receipts by the sector;

r_j is income by way of interest or dividend on loans and equity; and

t_j is a transfer payment from the sector to individual agents.

The total volume of subsidies on all services is given by

$$S = \sum_{j=38}^{123} s_j \quad (2)$$

Similarly the cost of any service j ($j=1 \dots 123$) is given by

$$c_j = v_j + i(K_j + L_j) + dK_j - t_j \quad (3)$$

while the total cost of all services, including transfer payments and pure public services is given by

$$C = \sum_{j=1}^{123} c_j + \sum_{j=1}^{123} t_j \quad (4)$$

Notice that in calculating the cost of a service we have added the variable cost or revenue expenditure (net of transfer payments) of the sector with the imputed interest cost of cumulative capital expenditure by the sector and the depreciation on capital accumulated within the sector. It is this interest cost and the depreciation rate which together constitute the element of fixed cost associated with the current level of a service and not the capital expenditure of the sector in the current period. That will form a component of the cumulative capital expenditure which supports future deliveries of services from the sector. Therefore c_j is not the same

as total expenditure of the j^{th} sector and C is not a measure of the total volume of public expenditure.

The imputed interest rate or the average cost of money to the government, calculated as the ratio of domestic interest payments by government to the stock of domestic public debt, works out to 6.04 per cent. The depreciation rate has been set at 2 per cent in real terms, assuming an average life of fifty years for capital stock in government activities as on March 31, 1987.³ Allowing for an inflation rate of 7.4 per cent this works out to 10.4 per cent depreciation in nominal terms.

The data used for the exercise has been drawn primarily from the Finance Accounts of the Union and State governments published by the Office of the Comptroller and Auditor General. This has been supplemented by additional information drawn from budget documents and the *Indian Economic Statistics: Public Finance* published by the ministry of finance.

The concept of subsidy employed in this study should be distinguished from the concepts used in the budget and National Accounts. The concept of 'subsidy' used in the budgets simply applies to the explicit payments made to producers to alter their price or output decisions. The best examples are the food and fertiliser subsidies. The National Accounting concept is broader as it includes, in addition to these explicit payments, the implicit subsidies arising from the losses of departmental enterprises. The concept of subsidy employed in this study is still broader because, in addition to the National Accounts concept of subsidies, it includes subsidies to households implicit in the provision of social and economic services.

below cost as well as the unrecovered cost of loans given and investments made in non-departmental enterprises and co-operatives.

(f) *Potential Sources of Bias:* It has already been noted above that the volume of subsidy measured in this exercise may be an under estimate because it excludes tax expenditures. Another possible source of under estimation could be some services, e.g., higher technical education such as medicine or engineering, where the market clearing price may be higher than the actual cost of supply, viz., a state of demand illustrated by curve $X'X''$ in the diagram. On the other hand, there are also some sources of upward bias in our estimate. The possibility of some pure public services not being excluded from the computation has been noted earlier. In addition we must remember that if the existing level of subsidies, and therefore the aggregate level of public expenditure were to be reduced, then *ceteris paribus* this would also reduce the level of aggregate output and the volume of revenue. Thus, in principle, subsidies should be calculated net of the revenues which they indirectly generate. Keeping in view these possible sources of bias it must be emphasised that the estimates presented in this paper should be regarded as nothing more than a first approximation.

II

Level and Composition of Subsidies: All India, 1987-88

(a) *The Volume of Subsidies:* Going by this user charge method of costing public services, the total cost of all services plus transfer payments for the year 1987-88 worked out to Rs 91,276 crore, of which Rs 48,599 crore was accounted for by the Centre and the balance of Rs 42,677 crore was attributable to the States. Compared to the accounts figures of total government expenditure in that year of the order of Rs 1,01,754 there is a difference of about Rs 10,000 crore. This difference arises primarily because in this exercise the imputed interest cost and depreciation on the cumulative capital expenditure shown in the accounts has been taken as the fixed cost element instead of the actual capital expenditure in 1987-88.

Transfer payments, including the allocation for employment programmes, amounted to Rs 3,836 crore in 1987-88 and the cost of pure public services (general services) accounted for another Rs 25,000 crore. The balance Rs 62,440 crore would have been the total user charge on social and economic services provided by the Central and State governments, if these services were not subsidised. In fact only 32 per cent of the cost of these services was recovered, thus leaving a subsidy element amounting to Rs 2,324 crore or almost 70 per cent of the cost of these services. As a proportion of GDP this works out to about 15 per cent (Table 1). A little over a third of this total bill of subsidies, adding up to about Rs 16,065 crore, flowed through the Central government and

the rest through State governments, even though the aggregate cost of social and economic services is more or less evenly shared between the Centre and the State governments. This is because the States account for the bulk of social services, which are more heavily subsidised as a matter of policy, while the Central government is predominant in the provision of economic services. These details are discussed further below. It is this difference in the composition of publicly provided services which also accounts for a lower overall recovery rate of 16 per cent in the States as compared to 48 per cent at the Central level.

It should be clarified here that in calculating the recovery rate of the States, receipts in the form of transfers from the Centre have not been counted and these have also been excluded from the expenditure side of Central government accounts. These receipts and expenditures cancel out when the accounts of the two levels of government are combined for a consolidated picture of government finance. Even if the accounts at different levels of government are analysed separately it would be odd to treat such transfers at the Central level as expenditure on services which it has not delivered and at the State level treat them as if they were recoveries from recipients of publicly provided services at the State level.

(b) *Social Services:* Social services accounted for 40 per cent of the total volume of subsidies or about Rs 16,760 crore in 1987-88. This works out to almost 6 per cent of the GDP in that year. As noted above, the major component of these subsidies on social services, amounting to Rs 14,460 crore, flowed through the budgets of the State governments. These social services have been provided virtually free to the recipients as a deliberate matter of policy, with less than 4 per cent of the cost of these services being recovered (Table 2). Such a policy could be seen as an effective redistributive measure if the subsidies were targeted to reach intended beneficiaries. Experience has shown that progressive tax structures by themselves are usually not very effective redistributive instruments, whereas the expenditure on social services covers all the non-food basic needs items which are known to be highly correlated with welfare indicators in the physical quality of life index.⁶

However, the data presented here does not indicate that the subsidisation of social services is being effectively targeted towards disadvantaged groups. Take for instance education—the single largest item of subsidies which alone accounted for Rs 9,576 crore or 23 per cent of all subsidies (Table 2). Much less than half of this was spent on primary education. The major component of Rs 5,460 crore was spent on secondary and higher or technical education, sports, art and culture (Table 3). In our view, this reflects rather weak targeting of the disadvantaged in a situation where 64 per cent of the population is illiterate. This issue is further discussed

in the inter-State analysis of subsidies in Section 3. It is worth noting that user charge recoveries from secondary education and, especially, university or technical education such as medicine and engineering would make it possible to almost double the volume of subsidies in primary education even without any increase in the total volume of subsidies. Of course, this would require associated action, such as means test scholarships and special bank loan schemes, to ensure that higher levels of education remain accessible to the disadvantaged. These issues are not pursued further in this paper.

Poverty group targeting in the allocation of subsidies in other social services appears to be equally weak. In health services, for instance, out of total subsidies of the order of Rs 2,925 crore in 1987-88, less than Rs 600 crore flowed to the rural sector. Similarly in the case of water supply, sanitation and housing, out of a total subsidy of Rs 2,363 crore, only Rs 823 crore flowed to the rural sector. Such an allocation of subsidies does not even appear to be equitable, let alone progressive, given that about 76 per cent of the total population and the vast majority of those below the poverty line live in rural areas.

Clearly, there would be much room for substantially increasing the volume of carefully targeted subsidisation of social services to genuinely deserving sections of the population, even without any increase in the total volume of subsidies, if a serious attempt could be made to prune subsidies flowing to unintended beneficiaries. Whether or not such expenditure switching is compatible with the political economy of fiscal policy in India is, of course, another matter.

(c) *Economic Services:* Subsidies in economic services amounted to Rs 25,564 crore or about 60 per cent of the total volume of subsidies. A little over half of this flowed through the Central budget. Costs were not fully recovered in any economic service and the average recovery rate was less than 44 per cent. However, there was considerable variation around this average with recovery rates varying from as little as 20 per cent to over 75 per cent (Table 4).

The highest recovery rates of 75.7 per cent and 70 per cent were recorded in items like transport and communications. Disaggregated data show that these rates were in fact higher for some items, e.g., 95 per cent in the case of rail transportation. However, the sector averages were brought down by very low recovery rates of around 3 per cent in other items like roads and bridges. Given the critical role of infrastructure like transport and communications and their relatively impressive performance in cost recovery, it is unfortunate that the share of these sectors in aggregate public expenditure has tended to diminish⁷ in recent years.

We next come to power and energy which is generally believed to be a major area of hidden subsidies. Admittedly, the recovery rate of around 35 per cent in this sector is only about half of that observed in transport

and communications. However, it is much higher than the recovery rates recorded in services relating to agriculture or industry and the subsidy of Rs 3,221 crore to power and energy, in fact, accounted for less than 8 per cent of the total volume of subsidies in 1987-88. Much of this covered the losses of State Electricity Boards.

The average recovery rate in services related to industry was only about 25 per cent and the volume of subsidies close to Rs 5,000 crore. However, of this over Rs 2,000 crore flowed as subsidies to the fertiliser industry alone and it is debatable whether this element should be treated as a subsidy to the industry or to the activity of crop production. This issue is taken up further below. Apart from fertilisers the other industries which absorbed substantial subsidies in 1987-88 include village and small industries (Rs 640 crore), engineering and telecommunication equipment (Rs 490 crore), consumer industries (Rs 490 crore) and atomic energy (Rs 342 crore).

Finally, we come to agriculture and co-operation. The cost of these services, taken along with irrigation and flood control, was close to Rs 15,000 crore. Only about 20 per cent of this cost was recovered, leaving a subsidy element of around Rs 11,554 crore. This works out to a little under half the total volume of subsidies in economic services. The bulk of this subsidy in services related to agriculture obviously flowed through the State budgets since they account for an overwhelming proportion of the outlay on agri-

culture and irrigation.

The single largest item in the bill of subsidies to agriculture is the food subsidy which amounted to Rs 2,572 crore in 1987-88. Here, a question arises as to whether the difference between the cost of grains to government, calculated as a mark up on the procurement price, and the issue price of grain in the public distribution system should really be treated as a subsidy to crop production or to consumers. This will make no difference to the total volume of subsidies, but it will effect our assessment of the incidence of subsidies. This question is discussed further below.

Apart from food, the other important items of subsidy to agriculture include various types of rural development and special area programmes (Rs 1,397 crore), crop husbandry (Rs 1,105 crore), animal husbandry (Rs 472 crore) and agricultural research, etc. (Rs 384 crore). The subsidy in major and medium irrigation, minor irrigation and flood control worked out to Rs 2,679 crore, Rs 1,362 crore and Rs 327 crore respectively.

(d) *Subsidy to Public Enterprises:* We turn now to the interface between government and the public enterprises. It was explained in Section I that the subsidies estimated in this paper are only the subsidies flowing from government proper. Subsidies extended by public sector enterprises to the rest of the economy are not estimated. However, we do estimate the extent of net budgetary support or subsidy to the public enterprises

themselves from the government. These are shown separately for departmental enterprises, non-departmental enterprises and co-operatives in Table 5.

Subsidies to public enterprises added up to Rs 15,080 crore or a little over a third of the total volume of government subsidies in 1987-88. Of this, Rs 9,213 crore went to Central public enterprises whereas the State level enterprises received Rs 5,866 crore worth of subsidies. The average recovery rate was only 55 per cent for the public enterprises sector as a whole, while the average rate for State level enterprises was still lower at 41 per cent.

In other words, far from contributing a net surplus to the revenues of the government, the public enterprises have remained a major source of resource drain from the government. In the present fiscal crisis this calls for a major policy reform *vis-a-vis* the public sector. Ways must be found of hardening their budget constraint and ensuring some improvements in their financial performance so that they at least cease to drain financial resources from the government, even if they are not able to immediately contribute a net surplus to the revenues of the government.

It is interesting to note in this context that there is considerable variation between the recovery rates from different types of public enterprises. The recovery rate from co-operatives is the lowest at 20 per cent. However, since the total cost incurred on this category of enterprises is quite small, subsidies to co-operatives account for less than

TABLE 1: COST OF GOVERNMENT SERVICES 1987-88

(Rs crore)

| | Revenue Expenditure | Imputed Interest Cost on Loans | Imputed Interest Cost and Depreciation on Capital Outlay ⁶ | Total Cost of Service Column (2+3+4) | Revenue Receipts | Interest and Dividends Receipts | Total Recoveries | Recovery Rate Column (8/5)×100 | Subsidy | Subsidy as Per- centage of Total Subsidy | Subsidy as Per- centage of Total Cost of Services and Transfers | Subsidy as Per- centage of GDP |
|--|------------------------|---|--|--|---------------------|--|---------------------|---|---------|--|--|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
| I Transfer Payments | | | | | | | | | | | | |
| Centre | 649 | 0 | 0 | 649 | — | — | — | — | — | — | — | — |
| States | 3186 | 0 | 0 | 3186 | — | — | — | — | — | — | — | — |
| India | 3836 | 0 | 0 | 3836 | — | — | — | — | — | — | — | — |
| II General Services | | | | | | | | | | | | |
| Centre | 14757 | 0 | 2173 | 16931 | 2009 | 4 | 2013 | 11.89 | — | — | — | — |
| States | 7853 | 3 | 213 | 8069 | 720 | 52 | 772 | 9.57 | — | — | — | — |
| India | 22610 | 3 | 2387 | 25000 | 2729 | 57 | 2785 | 11.14 | — | — | — | — |
| III Social and Economic Services | | | | | | | | | | | | |
| Centre | 21471 | 1584 | 7963 | 31019 | 12198 | 2756 | 14954 | 48.21 | 16065 | 37.96 | 17.60 | 5.46 |
| States | 23602 | 1702 | 6117 | 31422 | 3288 | 1875 | 5162 | 16.43 | 26259 | 62.04 | 28.77 | 8.92 |
| India | 45074 | 3286 | 14080 | 62440 | 15485 | 4631 | 20116 | 32.22 | 42324 | 100.00 | 46.37 | 14.38 |
| IV All Services (Including transfers and general services) | | | | | | | | | | | | |
| Centre | 36878 | 1584 | 10136 | 48599 | 14206 | 2760 | 16967 | 34.91 | 16065 | 37.96 | 17.60 | 5.46 |
| States | 34642 | 1705 | 6331 | 42677 | 4007 | 1927 | 5934 | 13.91 | 26259 | 62.04 | 28.77 | 8.92 |
| India | 71520 | 3289 | 16467 | 91276 | 18214 | 4687 | 22901 | 25.09 | 42324 | 100.00 | 46.37 | 14.38 |

portant contrast is between non-departmental enterprises and departmental enterprises which account for 16 per cent and 18 per cent of total subsidies respectively. The recovery rate from the former is only about 30 per cent as compared to an average recovery rate of 67 per cent realised from the latter. Thus, the rate of resource drain is much higher in the case of non-departmental enterprises as compared to the departmental enterprises. This is despite the fact that the former includes all the oil companies which have been enjoying windfall gains because of the oil shocks. If these were excluded, the recovery rate from non-departmental enterprises would be even lower.

(c) *The Rural Share of Subsidies:* Measurement of fiscal incidence or the incidence of taxes and subsidies remains one of the most intractable problems in public finance and certainly no firm measure of the incidence of subsidies can be culled out of the present data. Nevertheless, some very broad contours of the pattern of subsidy incidence have been indicated such as the share of social and economic services, the share of public enterprises and so on. We now present an estimate of the share of the rural population in total subsidies.

Each item of subsidy has been classified as rural or non-rural based on the evidence available in the budget documents about the identity of the beneficiaries. However, there are three major items where such an unambiguous classification was difficult. The largest item is education which accounted for 23 per cent of all subsidies as indicated earlier. It has been assumed here that the flow of education subsidy to the rural sector is in proportion to its share of popula-

The other two items are food and fertiliser which respectively account for about 6 per cent and 4 per cent of all services. In the basic classification the food subsidy is shown under agriculture which is included in the rural sector. However, it is arguable that much of this subsidy flows to the urban sector since a major portion of the actual off-take of subsidised foodgrains from the public distribution system actually goes to consumers in urban areas. In the case of the fertiliser subsidy, on the other hand, though in the basic classification it appears as a subsidy to the fertiliser industry, it can be argued that the beneficiaries of this subsidy are really the farmers belonging to the rural sector.

Estimate II in Table 6 gives an upper bound estimate of the rural share in subsidies by including both the food and fertiliser subsidies along with the rural share of the education subsidy. Estimate III gives a lower bound estimate which includes the rural share of the education subsidy but not the food and fertiliser subsidies. Estimate IV is our preferred estimate which includes the rural share of the education subsidy and the fertiliser subsidy, but not the food subsidy. With these assumptions it turns out that the rural share lies between 41 per cent and 53 per cent of the total volume of subsidies. Our preferred estimate places it at about 46.5 per cent. It may appear that some rural-urban inequity is implied here since the rural share is less than in proportion to its share of population and per capita incomes are also lower in the rural sector. However, any such inference about fiscal incidence would be premature without taking into account the flow of transfer payments and the in-

is likely to be lower for the rural sector.

III

Inter-State Analysis of Budgetary Subsidies

The analysis of subsidies at the all-India level presented above cannot address a number of subsidy related issues which come into focus only when the data are analysed at the level of the States. For example, the problem of resource inadequacy is particularly severe at the State level⁶ and this underlines the urgency of targeting subsidies for the intended groups and making adequate cost recoveries from those with higher purchasing power so that the prevailing levels of social and economic services which are abysmally low can be expanded to satisfactory levels and equitably distributed.

(a) *Inter-State Analysis of Subsidy:* As indicated in section 2, the total cost of providing public services and transfers in the States in 1987-88 amounted to Rs 42,677 crore. The cost of general and administrative services was Rs 8,070 crore and transfer payments amounted to Rs 3,186 crore. Of the total cost of social and economic services of Rs 31,422 crore, cost recoveries amounted to Rs 5,162 crore, leaving the subsidy amount of Rs 26,259 crore or 7.9 per cent of GDP. The subsidy amount formed over 62 per cent of the total cost of public services and transfers.

The most notable feature of inter-State distribution of subsidies presented in Table 3.1 is its inequitable spread. It is clearly seen that more than a proportionate share of subsidies accrued to the high and middle

TABLE 2: SUBSIDY ON SOCIAL SERVICES

| (Rs crore) | | | | | | | | |
|---|------------------------|-----------------------------|---------------------|--------------------------------------|---------|---|---|------------------------------------|
| | Revenue Expenditure | Total Cost of Service | Total Recoveries | Recovery Rate Col (4/3)×100 | Subsidy | Subsidy as Percentage of Total Subsidy | Subsidy as Percentage of Total Cost of Services and Transfers | Subsidy as Percentage of GDP |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| 1 Education | | | | | | | | |
| Centre | 1241 | 1281 | 8 | 0.59 | 1273 | 3.01 | 1.39 | 0.43 |
| States | 8336 | 8422 | 118 | 1.41 | 8303 | 19.62 | 9.10 | 2.82 |
| India | 9577 | 9702 | 126 | 1.30 | 9576 | 22.63 | 10.49 | 3.25 |
| 2 Health | | | | | | | | |
| Centre | 344 | 365 | 20 | 5.56 | 345 | 0.81 | 0.38 | 0.12 |
| States | 2485 | 2653 | 73 | 2.74 | 2580 | 6.10 | 2.83 | 0.88 |
| India | 2830 | 3018 | 93 | 3.08 | 2925 | 6.91 | 3.20 | 0.99 |
| 3 Water supply, sanitation and housing | | | | | | | | |
| Centre | 122 | 319 | 17 | 5.35 | 302 | 0.71 | 0.33 | 0.10 |
| States | 1619 | 2194 | 133 | 6.06 | 2061 | 4.87 | 2.26 | 0.70 |
| India | 1741 | 2513 | 150 | 5.97 | 2363 | 5.58 | 2.59 | 0.80 |
| 4 Other social services | | | | | | | | |
| Centre | 429 | 557 | 177 | 31.84 | 380 | 0.90 | 0.42 | 0.13 |
| States | 1498 | 1603 | 88 | 5.46 | 1515 | 3.58 | 1.66 | 0.51 |
| India | 1927 | 2160 | 265 | 12.26 | 1895 | 4.48 | 2.08 | 0.64 |
| 5 Total social services | | | | | | | | |
| Centre | 2137 | 2522 | 222 | 8.82 | 2300 | 5.43 | 2.52 | 0.78 |
| States | 13938 | 14872 | 412 | 2.77 | 14460 | 34.17 | 15.84 | 4.91 |
| India | 16075 | 17394 | 634 | 3.65 | 16760 | 39.60 | 18.36 | 5.69 |

with only 20 per cent share of population claimed almost 26 per cent of the subsidies, whereas the share of the five low income States with over 46 per cent of population was only about 38 per cent. In fact, all the high and middle income States with the sole exception of West Bengal claimed a share of subsidies higher than their population share. Similarly, in each of the low income States with the exception of Rajasthan, per capita subsidies were lower than the all-States average. While, for the high income States taken together per capita subsidies amounted to Rs 466, the corresponding figure for the low income States was just about Rs 299. This was lower than the all States average by 17 per cent. Per capita subsidies in the middle income States amounted to Rs 384 which was higher than all-States average by 6 per cent.

Per capita subsidies in high and middle income States were larger because either the per capita expenditures in these States were higher or their recovery rates were lower. So far as recovery rates are concerned our analysis shows that recoveries as a ratio of the cost of social and economic services were, by and large, very low with an average of 16 per cent for the States taken together. In eight States, it was less than 15 per cent, the lowest being about 6 per cent in West Bengal. Only in four States, it was higher than 20 per cent. However, inter-State differences in subsidy levels cannot be largely

since they do not seem to follow any systematic pattern (see, Table 7) consistent with differences in subsidy levels. In fact, recovery rate in the middle income States was only 12 per cent whereas, in the low income States it was 17 per cent. Nevertheless, in the States of Gujarat, Kerala, Punjab and Tamil Nadu, the higher subsidy levels have to be partly attributed to their lower recovery rates. In contrast Haryana, Karnataka and Maharashtra present cases where subsidy levels were higher despite relatively high recovery rates and among the low income States, Bihar and Madhya Pradesh present cases of low subsidy levels with high recovery rates.

The observed pattern of higher per capita subsidies in more developed States clearly shows that subsidy levels were higher in States with higher capacity to raise revenues. In other words, the federal transfer policy has failed to achieve its major objective, namely, offsetting the lower revenue raising capacities of fiscally disadvantaged States. In other words, Central transfers have failed to enable the fiscally disadvantaged States to provide a standard⁹ level of public services at a uniform tax-effort. Consequently, the residents in fiscally disadvantaged States have had to be satisfied with lower levels of services as well as lower subsidy levels than their counterparts in the better off States.

(b) *Subsidy in Social Services:* Subsidies in the provision of Social Services in all the major States taken together amounted to

of the total subsidy flowing through State governments. Among the social services, subsidy in education alone constituted over 32 per cent of the total subsidy, while the subsidy to protective and preventive health care (medical, public health, water supply and housing) constituted another 18 per cent.

The estimates presented in Table 8 show that in each of the 14 major States, social services claimed a predominant share of subsidies ranging from 47 per cent in Haryana to about 68 per cent in Kerala. The broad similarity in the relative shares of various sub-sectors of social services among the States is also notable. In every State, the highest share of subsidy was in education. A large share of subsidy was also claimed by protective and preventive health care (including medical, public health, water supply, sanitation and housing) in all the States. Considering that social services accounted for almost 50 per cent of subsidies in many of the States, it would be instructive to analyse this in greater detail.

The most striking feature that emerges from the analysis of subsidies in education and health is that, generally, per capita subsidies were higher in the States where the levels of educational and health services were also higher and vice versa. In the case of education, for example, per capita subsidies were higher in States where the literacy rates were higher. In Kerala, both the literacy rates

TABLE 3: SUBSIDY TO EDUCATION, HEALTH AND WATER SUPPLY, SANITATION AND HOUSING

(Rs crore)

| (1) | Revenue Expenditure (2) | Total Cost of Service (3) | Total Recoveries (4) | Recovery Rate Col (4/3) × 100 (5) | Subsidy (6) | Subsidy as Percentage of Total Subsidy (7) | Subsidy as Percentage of Total Cost of Services and Transfers (8) |
|---|----------------------------|------------------------------|-------------------------|--|----------------|---|--|
| I Education (all India) | 9577 | 9702 | 126 | 1.30 | 9577 | 22.63 | 10.49 |
| a Elementary education | 4114 | 4127 | 11 | 0.26 | 4116 | 9.73 | 4.51 |
| b Secondary education | 3028 | 3063 | 57 | 1.87 | 3006 | 7.10 | 3.29 |
| c University/higher and technical education | 1827 | 1865 | 32 | 1.71 | 1833 | 4.33 | 2.01 |
| d Other education | 266 | 274 | 17 | 6.03 | 258 | 0.61 | 0.28 |
| e Sports, art and culture | 341 | 373 | 10 | 2.68 | 363 | 0.86 | 0.40 |
| II Health | | | | | | | |
| a Centre | 344 | 365 | 20 | 5.56 | 345 | 0.81 | 0.38 |
| i) Rural | 2 | 9 | 0 | 1.15 | 8 | 0.02 | 0.01 |
| ii) Non-rural | 342 | 356 | 20 | 5.67 | 336 | 0.79 | 0.37 |
| b States | 2485 | 2653 | 73 | 2.74 | 2580 | 6.10 | 2.83 |
| i) Rural | 548 | 566 | 0 | 0.01 | 566 | 1.34 | 0.62 |
| ii) Non-rural | 1937 | 2087 | 73 | 3.48 | 2014 | 4.76 | 2.21 |
| c India | 2830 | 3018 | 93 | 3.08 | 2925 | 6.91 | 3.20 |
| i) Rural | 550 | 575 | 0 | 0.03 | 575 | 1.36 | 0.63 |
| ii) Non-rural | 2279 | 2443 | 93 | 3.80 | 2350 | 5.55 | 2.58 |
| III Water supply, sanitation and housing | | | | | | | |
| a Centre | 122 | 319 | 17 | 5.35 | 302 | 0.71 | 0.33 |
| i) Rural | 13 | 16 | 0 | 0.19 | 16 | 0.04 | 0.02 |
| ii) Non-rural | 110 | 304 | 17 | 5.61 | 287 | 0.68 | 0.31 |
| b States | 1619 | 2194 | 133 | 6.06 | 2061 | 4.87 | 2.26 |
| i) Rural | 658 | 815 | 8 | 0.92 | 807 | 1.91 | 0.88 |
| ii) Non-Rural | 961 | 1379 | 125 | 9.10 | 1254 | 2.96 | 1.37 |
| c India | 1741 | 2513 | 150 | 5.97 | 2363 | 5.58 | 2.59 |
| i) Rural | 671 | 830 | 8 | 0.91 | 823 | 1.94 | 0.90 |
| ii) Non-Rural | 1071 | 1683 | 143 | 8.47 | 1541 | 3.64 | 1.69 |

and per capita subsidies were the highest. Similarly, in the States of Gujarat, Karnataka, Maharashtra, Punjab and Tamil Nadu where literacy rates were higher than the all-States average, the per capita subsidies were also substantially higher. Subsidy levels were the lowest in Bihar, Madhya Pradesh, Orissa and Uttar Pradesh all of which had very low literacy rates.

A similar positive association between levels of the service and per capita subsidy is also noticed in the case of preventive and protective health care (medical, public health, water supply, sanitation and housing). In the States of Haryana, Karnataka, Kerala, Maharashtra, Punjab and West Bengal the infant mortality rate were very low indicating substantially higher than the average availability of health care services. These were also the States with higher per capita subsidies in protective (medical and public health) health care services. In Kerala, which had the lowest infant mortality rate (27 per cent per 1,000 births), per capita subsidy in protective health care was higher than the average by 33 per cent. In Punjab where per capita subsidies were higher than the average by 54 per cent, the infant mortality rate was 29 per cent lower than the average. Similar pattern can be observed in the case

of subsidies in preventive health care services also.

Thus it is seen that per capita subsidies in social services were larger in more developed States. What is more, even within the States the benefit of subsidies is concentrated to a small proportion of the population. Even in less developed States, although per capita subsidies were lower, it is probable that the benefit of subsidies accrues mainly to a smaller proportion of population which is literate. Therefore, per capita subsidy received by the benefiting group may not be very much lower even in less developed States. The more literate who also have greater purchasing power seem to have better access to social services and, therefore, it would be reasonable to infer that the benefit of subsidy in social services accrues mainly to this small and relatively privileged proportion of population.

The data presented in Table 9 also show that the recovery rates in social services were extremely low in all the States, only 5 per cent or less. The recovery rates were very low both in education and health sectors. Clearly, the low recovery rates reflect a deliberate policy of providing these services free or at very low prices. However, the consequence is that small and relatively privileged section

of population who have better access to social services get them virtually free, and hence, appropriate large consumer surpluses while the vast majority do not even have access to these services, let alone, availing the subsidies involved in their delivery. Ensuring greater accessibility to larger proportion of population involves both better targeting and massive expansion in the levels of these services. Given the severity of the resource constraint with the States, expansion in the levels of services can come about only by charging higher user charges on those consumers having higher purchasing power. In fact, in the case of higher education and technical education, there is no reason why greater recoveries cannot be made from economically better off consumers. At the same time, it is necessary that the benefits of these services should be made accessible at subsidised rates to those who are economically disadvantaged.

We may now look at some equity aspects of the subsidy to the education sector. As mentioned above, education accounts for almost a third of total subsidies at the State level. The composition of subsidies in various sub-sectors within the education sector presented in Table 9 points to a number of important inferences. First, in spite of the

TABLE 4: SUBSIDY ON ECONOMIC SERVICES

| (Rs crore) | | | | | | | | |
|---------------------------------------|------------------------|-----------------------------|---------------------|--|---------|---|---|------------------------------------|
| | Revenue Expenditure | Total Cost of Service | Total Recoveries | Recovery Rate Col (4/3) × 100 | Subsidy | Subsidy as Percentage of Total Subsidy | Subsidy as Percentage of Total Cost of Services and Transfers | Subsidy as Percentage of GDP |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| 1 Agriculture and co-operation | | | | | | | | |
| Centre | 2626 | 3178 | 208 | 6.53 | 2970 | 7.02 | 3.25 | 1.01 |
| States | 5106 | 5636 | 1627 | 28.87 | 4009 | 9.47 | 4.39 | 1.36 |
| India | 7732 | 8815 | 1835 | 20.81 | 6980 | 16.49 | 7.65 | 2.37 |
| 2 Irrigation and flood control | | | | | | | | |
| Centre | 81 | 112 | 3 | 2.95 | 109 | 0.26 | 0.12 | 0.04 |
| States | 1907 | 5686 | 1221 | 21.47 | 4465 | 10.55 | 4.89 | 1.52 |
| India | 1988 | 5798 | 1224 | 21.11 | 4574 | 10.81 | 5.01 | 1.55 |
| 3 Power and energy | | | | | | | | |
| Centre | 690 | 2949 | 1162 | 39.42 | 1786 | 4.22 | 1.96 | 0.61 |
| States | 708 | 1998 | 564 | 28.20 | 1435 | 3.39 | 1.57 | 0.49 |
| India | 1399 | 4947 | 1726 | 34.89 | 3221 | 7.61 | 3.53 | 1.09 |
| 4 Industry | | | | | | | | |
| Centre | 3412 | 5638 | 879 | 15.59 | 4759 | 11.24 | 5.21 | 1.62 |
| States | 581 | 937 | 817 | 87.19 | 120 | 0.28 | 0.13 | 0.04 |
| India | 3993 | 6575 | 1696 | 25.80 | 4879 | 11.53 | 5.34 | 1.66 |
| 5 Transport | | | | | | | | |
| Centre | 8459 | 10903 | 9463 | 86.80 | 1440 | 3.40 | 1.58 | 0.49 |
| States | 1099 | 1937 | 254 | 13.12 | 1683 | 3.98 | 1.84 | 0.57 |
| India | 9558 | 12840 | 9717 | 75.68 | 3122 | 7.38 | 3.42 | 1.06 |
| 6 Communication | | | | | | | | |
| Centre | 2096 | 3511 | 2468 | 70.31 | 1042 | 2.46 | 1.14 | 0.35 |
| States | 0 | 1 | 0 | 0.00 | 1 | 0.00 | 0.00 | 0.00 |
| India | 2096 | 3511 | 2468 | 70.30 | 1043 | 2.46 | 1.14 | 0.35 |
| 7 Other economic services | | | | | | | | |
| Centre | 1971 | 2207 | 548 | 24.82 | 1659 | 3.92 | 1.82 | 0.56 |
| States | 262 | 354 | 268 | 75.74 | 86 | 0.20 | 0.09 | 0.03 |
| India | 2232 | 2560 | 816 | 31.86 | 1745 | 4.12 | 1.91 | 0.59 |
| 8 Total economic services | | | | | | | | |
| Centre | 19334 | 28496 | 14731 | 51.70 | 13765 | 32.52 | 15.08 | 4.68 |
| States | 9664 | 16549 | 4750 | 28.70 | 11799 | 27.88 | 12.93 | 4.01 |
| India | 28997 | 45045 | 19481 | 43.25 | 25564 | 60.40 | 28.01 | 8.69 |

in the States are illiterate, the allocation to primary education was just about 48 per cent. Thus, more than a half of the subsidies in education is allocated to higher levels. The pattern was broadly similar in all the States, the share of primary education ranging from 39 per cent in Haryana and West Bengal to 57 per cent in Bihar, Madhya Pradesh and Orissa.

The bill of subsidies on higher, technical and other education which accrues largely to the literate sections of population

this has to be added an additional amount of Rs 210 crore on account of agricultural education and Rs 190 crore due to medical education. Thus, the total subsidy bill involved in higher levels of education amounts to a staggering Rs 1,900 crore. It may be noted that complete cost recoveries at higher education levels can augment the primary outlay on education almost by 50 per cent. Of course, this is not to imply that economically weaker sections availing higher educational facilities should not receive sub-

sidy target the subsidies on higher educational levels. These statistics sharply underline the inequitable allocation of subsidies not merely in terms of the regional spread but also in terms of the distribution between the better off and the worse off within the regions.

Reduction in the subsidy to the privileged groups can be achieved only by enhancing recoveries on higher education. It is interesting to note that recovery rates on higher education for the States averaged only 1.7 per cent, which was lower than even the

TABLE 5: SUBSIDY THROUGH PUBLIC ENTERPRISES

| (Rs crore) | | | | | | | |
|--|------------------------|-----------------------------|---------------------|--------------------------------------|---------|---|---|
| | Revenue Expenditure | Total Cost of Service | Total Recoveries | Recovery Rate Col (4/3)×100 | Subsidy | Subsidy as Percentage of Total Subsidy | Subsidy as Percentage of Total Cost of Services and Transfers |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| I Departmental Enterprises | | | | | | | |
| Social Services | 457 | 561 | 198 | 35.20 | 364 | 0.86 | 0.40 |
| Economic Services | 14061 | 22618 | 15363 | 67.92 | 7255 | 17.14 | 7.95 |
| Total | 14518 | 23180 | 15561 | 67.13 | 7619 | 18.00 | 8.35 |
| II Non-Departmental Enterprises | | | | | | | |
| Social Services | 82 | 149 | 20 | 13.40 | 129 | 0.31 | 0.14 |
| Economic Services | 6033 | 9768 | 3029 | 31.01 | 6739 | 15.92 | 7.38 |
| Total | 6115 | 9917 | 3049 | 30.75 | 6868 | 16.23 | 7.52 |
| III Co-operatives | | | | | | | |
| Social Services | 5 | 29 | 4 | 14.06 | 25 | 0.06 | 0.03 |
| Economic Services | 234 | 709 | 141 | 19.95 | 568 | 1.34 | 0.62 |
| Total | 239 | 738 | 146 | 19.72 | 593 | 1.40 | 0.65 |
| IV All Public Enterprises | | | | | | | |
| Social Services | 544 | 740 | 222 | 29.97 | 518 | 1.22 | 0.57 |
| Economic Services | 20327 | 33096 | 18534 | 56.00 | 14562 | 34.41 | 15.95 |
| Total | 20872 | 33836 | 18756 | 55.43 | 15080 | 35.63 | 16.52 |
| of which | | | | | | | |
| Central Public Enterprises | 16485 | 23814 | 14601 | 61.31 | 9213 | 21.77 | 10.09 |
| States' Public Enterprises | 4387 | 10021 | 4155 | 41.46 | 5866 | 13.86 | 6.43 |

TABLE 6: SUBSIDY TO RURAL SECTOR

| (Rs crore) | | | | | | | | |
|----------------------------|------------------------|-----------------------------|---------------------|--------------------------------------|---------|---|---|------------------------------------|
| | Revenue Expenditure | Total Cost of Service | Total Recoveries | Recovery Rate Col (4/3)×100 | Subsidy | Subsidy as Percentage of Total Subsidy | Subsidy as Percentage of Total Cost of Services and Transfers | Subsidy as Percentage of GDP |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Estimate I : Rural | | | | | | | | |
| Centre | 2723 | 3347 | 326 | 9.75 | 3021 | 7.14 | 3.31 | 1.03 |
| States | 8100 | 12582 | 2512 | 19.96 | 10070 | 23.79 | 11.03 | 3.42 |
| India | 10822 | 15929 | 2838 | 17.82 | 13091 | 30.93 | 14.34 | 4.45 |
| Estimate II : Rural | | | | | | | | |
| Centre | 5728 | 6641 | 526 | 7.92 | 6115 | 14.45 | 6.70 | 2.08 |
| States | 14414 | 18964 | 2601 | 13.72 | 16363 | 38.66 | 17.93 | 5.56 |
| India | 20142 | 25605 | 3128 | 12.21 | 22478 | 53.11 | 24.63 | 7.63 |
| Estimate III: Rural | | | | | | | | |
| Centre | 1652 | 2186 | 332 | 15.19 | 1854 | 4.38 | 2.03 | 0.63 |
| States | 13776 | 18315 | 2601 | 14.20 | 15714 | 37.13 | 17.22 | 5.34 |
| India | 15428 | 20501 | 2933 | 14.31 | 17568 | 41.51 | 19.25 | 5.97 |
| Estimate IV: Rural | | | | | | | | |
| Centre | 3715 | 4506 | 526 | 11.68 | 3980 | 9.40 | 4.36 | 1.35 |
| States | 13776 | 18319 | 2601 | 14.20 | 15718 | 37.14 | 17.22 | 5.34 |
| India | 17491 | 22825 | 3127 | 13.70 | 19698 | 46.54 | 21.58 | 6.69 |

Notes: Estimate I: Unadjusted Estimate: Includes food subsidy but not fertiliser subsidy or any share of education subsidy.
Estimate II: Maximum Estimate: Includes food and fertiliser subsidy plus share of education subsidy.
Estimate III: Minimum Estimate: Excludes food and fertiliser subsidy but includes share of education subsidy.
Estimate IV: Preferred Estimate: Excludes food subsidy but includes fertiliser subsidy and share of education subsidy.

TABLE 7: BUDGETARY SUBSIDIES IN MAJOR STATES

| States | Revenue Expenditure | Depreciation and Interest Cost on Investments and Loans | Total Cost of Public Services | Transfer Payments | Cost of Social and Economic Services | Revenue from Social and Economic Services | Interest and Dividends Receipts | Total Recoveries from Social and Economic Services | Recovery Rates in Social and Economic Services | Total Subsidies | Per Capita Subsidy (Rs) | Subsidies as Per Cent of Total Cost of Services | Share of Individual State's Subsidy in All States' Subsidies | Share of Individual State's Population in All States' Population |
|--------------------------------|---------------------|---|-------------------------------|-------------------|--------------------------------------|---|---------------------------------|--|--|-----------------|-------------------------|---|--|--|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | |
| High Income States | | | | | | | | | | | | | | |
| 1 Gujarat | 238791 | 56217 | 295009 | 13998 | 230910 | 8720 | 21472 | 30193 | 13.08 | 200717 | 519.72 | 68.04 | 7.64 | 5.3 |
| 2 Haryana | 113201 | 27972 | 141172 | 8149 | 109831 | 16062 | 16197 | 32259 | 29.37 | 77572 | 507.34 | 54.95 | 2.95 | 2.1 |
| 3 Maharashtra | 430939 | 101969 | 532908 | 52040 | 380666 | 63119 | 37872 | 100991 | 26.53 | 279674 | 392.09 | 52.48 | 10.65 | 9.8 |
| 4 Punjab | 143435 | 37506 | 180940 | 4748 | 130779 | 9903 | 6573 | 16476 | 12.60 | 114303 | 604.46 | 63.17 | 4.35 | 2.6 |
| Aggregate-High Income States | 926366 | 223664 | 1150029 | 78925 | 852186 | 97804 | 82116 | 179920 | 21.11 | 672266 | 466.37 | 58.46 | 25.60 | 19.8 |
| Middle Income States | | | | | | | | | | | | | | |
| 1 Andhra Pradesh | 299211 | 63813 | 363023 | 28507 | 273676 | 25768 | 18975 | 44743 | 16.35 | 228933 | 379.72 | 63.06 | 8.72 | 8.3 |
| 2 Karnataka | 237749 | 51731 | 289480 | 24432 | 210643 | 21185 | 18985 | 40170 | 19.07 | 170473 | 401.87 | 58.89 | 6.49 | 5.8 |
| 3 Kerala | 155522 | 29262 | 184784 | 12496 | 129229 | 9269 | 3851 | 13120 | 10.15 | 116110 | 407.83 | 62.84 | 4.42 | 3.9 |
| 4 Tamil Nadu | 300525 | 42967 | 343492 | 27684 | 256414 | 16245 | 7173 | 23418 | 9.13 | 232996 | 434.29 | 67.83 | 8.87 | 7.4 |
| 5 West Bengal | 260105 | 37790 | 297895 | 17007 | 210884 | 8789 | 3294 | 12082 | 5.73 | 198802 | 321.84 | 66.74 | 7.57 | 8.5 |
| Aggregate-Middle Income States | 1253111 | 225564 | 1478675 | 110126 | 1080847 | 81256 | 52278 | 133533 | 12.35 | 947314 | 384.15 | 64.07 | 36.08 | 33.9 |
| Low Income States | | | | | | | | | | | | | | |
| 1 Bihar | 260525 | 79277 | 339803 | 19888 | 250913 | 57632 | 1677 | 59309 | 23.64 | 191604 | 239.50 | 56.39 | 7.30 | 11.0 |
| 2 Madhya Pradesh | 270476 | 68824 | 339300 | 25439 | 257370 | 42848 | 8757 | 51605 | 20.05 | 205765 | 344.03 | 60.64 | 7.84 | 8.2 |
| 3 Orissa | 120871 | 34951 | 155823 | 11166 | 117632 | 12560 | 799 | 13359 | 11.36 | 104273 | 352.87 | 66.92 | 3.97 | 4.1 |
| 4 Rajasthan | 220989 | 48867 | 269856 | 34602 | 193751 | 14216 | 12795 | 27011 | 13.94 | 166740 | 410.79 | 61.79 | 6.35 | 5.6 |
| 5 Uttar Pradesh | 411818 | 122432 | 534250 | 38499 | 389452 | 22443 | 29062 | 51505 | 13.22 | 337948 | 267.19 | 63.26 | 12.87 | 17.4 |
| Aggregate-Low Income States | 1284680 | 354351 | 1639031 | 129593 | 1209117 | 149698 | 53091 | 202788 | 16.77 | 1006329 | 299.12 | 61.40 | 38.32 | 46.3 |
| All States | 3464157 | 803578 | 4267735 | 318644 | 3142150 | 328757 | 187484 | 516241 | 16.43 | 2625909 | 361.11 | 61.53 | 100.00 | 100.0 |

Notes: 1 Classification of the States has been done on the basis of per capita net State Domestic Product estimates for (1982-83). The same classification was followed by the Ninth Finance Commission to estimate taxable capacities of the States.

2 To estimate per capita subsidies, mid-year population estimates of Registrar General of India employed.

TABLE 8: STATEWISE DETAILS OF BUDGETARY SUBSIDIES IN SOCIAL SERVICES

| Sectors | Andhra Pradesh (2) | Bihar (3) | Gujarat (4) | Haryana (5) | Karnataka (6) | Kerala (7) | Madhya Pradesh (8) | Maharashtra (9) | Orissa (10) | Punjab (11) | Rajasthan (12) | Tamil Nadu (13) | Uttar Pradesh (14) | West Bengal (15) | All States (16) |
|--|--------------------|-----------|-------------|-------------|---------------|------------|--------------------|-----------------|-------------|-------------|----------------|-----------------|--------------------|------------------|-----------------|
| 1 Education | | | | | | | | | | | | | | | |
| (i) Total subsidy (Rs 1 lakh) | 67572 | 77409 | 57651 | 22067 | 56096 | 50713 | 53022 | 104951 | 29028 | 33357 | 47219 | 65268 | 94127 | 71854 | 830332 |
| (ii) Per capita subsidy (Rs) | 112.08 | 96.76 | 149.28 | 144.32 | 132.24 | 178.13 | 88.65 | 147.13 | 98.23 | 176.40 | 116.33 | 121.66 | 74.42 | 116.32 | 114.19 |
| (iii) Share of total state subsidy (per cent) | 29.52 | 40.40 | 28.72 | 28.45 | 32.91 | 43.68 | 25.77 | 37.53 | 27.84 | 29.18 | 28.32 | 28.01 | 27.85 | 36.14 | 31.62 |
| (iv) Recovery rate (per cent) | 1.92 | 0.26 | 1.08 | 2.92 | 1.69 | 3.38 | 0.66 | 0.97 | 1.37 | 0.72 | 0.57 | 1.95 | 2.18 | 0.82 | 1.41 |
| (v) Literacy rate (per cent) | 29.90 | 26.20 | 43.70 | 36.10 | 38.50 | 70.40 | 27.90 | 47.20 | 34.20 | 40.90 | 24.40 | 46.80 | 27.20 | 40.90 | 36.20 |
| 2 Medical and Public Health | | | | | | | | | | | | | | | |
| (i) Total subsidy (Rs lakh) | 22278 | 17404 | 14154 | 6330 | 17946 | 13482 | 18959 | 31864 | 9513 | 10603 | 15105 | 19939 | 36934 | 25530 | 258039 |
| (ii) Per capita subsidy (Rs) | 36.95 | 21.75 | 36.65 | 41.40 | 42.30 | 47.36 | 31.70 | 44.67 | 32.19 | 56.07 | 37.21 | 37.16 | 29.20 | 38.09 | 35.48 |
| (iii) Share of total state subsidy (per cent) | 9.73 | 9.06 | 7.05 | 8.16 | 10.53 | 11.61 | 9.21 | 11.39 | 9.12 | 9.28 | 9.06 | 8.56 | 10.93 | 11.84 | 9.83 |
| (iv) Recovery rate (per cent) | 1.37 | 1.99 | 3.73 | 1.16 | 2.38 | 2.81 | 3.74 | 1.72 | 0.41 | 2.30 | 0.76 | 8.87 | 3.21 | 1.27 | 2.74 |
| (v) Infant mortality rates (per 1000 births) | 82 | 101 | 107 | 85 | 74 | 27 | 118 | 63 | 123 | 68 | 107 | 90 | 132 | 71 | 71 |
| 3 Water supply and sanitation and housing | | | | | | | | | | | | | | | |
| (i) Total subsidy (Rs lakh) | 16555 | 11059 | 19224 | 5694 | 10156 | 8573 | 22198 | 31955 | 8101 | 5722 | 16190 | 17794 | 16453 | 16415 | 206089 |
| (ii) Per capita subsidy (Rs) | 27.46 | 13.82 | 49.78 | 37.24 | 23.94 | 30.11 | 37.11 | 44.80 | 27.41 | 30.26 | 39.89 | 33.17 | 13.01 | 26.57 | 28.34 |
| (iii) Share of total state subsidy (per cent) | 7.23 | 5.77 | 9.58 | 7.34 | 5.96 | 7.38 | 10.79 | 11.43 | 7.77 | 5.01 | 9.71 | 7.64 | 4.87 | 8.26 | 7.85 |
| (iv) Recovery Rate (per cent) | 3.18 | 1.73 | 5.86 | 7.31 | 2.71 | 1.23 | 5.00 | 7.37 | 5.48 | 6.04 | 21.04 | 5.41 | 1.17 | 2.67 | 6.06 |
| 4 Other social services | | | | | | | | | | | | | | | |
| (i) Total subsidy (Rs lakh) | 25209 | 7343 | 11107 | 2688 | 12116 | 6400 | 18135 | 11680 | 8644 | 2910 | 3239 | 10611 | 22075 | 9384 | 151542 |
| (ii) Per capita subsidy (Rs) | 41.81 | 9.18 | 28.76 | 17.58 | 28.56 | 22.48 | 30.32 | 16.38 | 29.25 | 15.39 | 7.98 | 19.78 | 17.45 | 15.19 | 20.84 |
| (iii) Share of total state subsidy (per cent) | 11.01 | 3.83 | 5.53 | 3.46 | 7.11 | 5.51 | 8.81 | 4.18 | 8.29 | 2.55 | 1.94 | 4.55 | 6.53 | 4.72 | 5.77 |
| (iv) Recovery rate (per cent) | 3.54 | 9.73 | 10.55 | 6.57 | 4.35 | 2.35 | 3.60 | 10.57 | 1.94 | 11.67 | 5.75 | 8.59 | 3.97 | 1.14 | 5.46 |
| 5 Total social services | | | | | | | | | | | | | | | |
| (i) Total subsidy (Rs lakh) | 131614 | 113215 | 102135 | 36779 | 96313 | 79168 | 112315 | 180450 | 55285 | 52592 | 81753 | 113612 | 169589 | 121182 | 446003 |
| (ii) Per capita subsidy (Rs) | 218.30 | 141.52 | 264.46 | 240.54 | 227.05 | 278.07 | 187.79 | 252.98 | 187.09 | 278.12 | 201.41 | 211.76 | 134.08 | 196.18 | 198.85 |
| (iii) Share of total state subsidy (per cent) | 57.49 | 59.09 | 50.89 | 47.41 | 56.50 | 68.18 | 54.58 | 64.52 | 53.02 | 46.01 | 49.03 | 48.76 | 50.18 | 60.96 | 55.07 |
| (iv) Recovery rate (per cent) | 2.30 | 1.35 | 3.48 | 3.60 | 2.27 | 2.97 | 2.55 | 2.96 | 1.92 | 2.31 | 5.65 | 4.42 | 2.55 | 1.19 | 2.77 |

Notes: Estimates of literacy rates according to 1981 census.

Estimates of infant mortality rates has been taken from Sample Registration System, Registrar General of India.

TABLE 9: STATEWISE DETAILS OF SUBSIDIES IN EDUCATION

| Sub-Sector Under Education | Andhra Pradesh (2) | Bihar (3) | Gujarat (4) | Haryana (5) | Karnataka (6) | Kerala (7) | Madhya Pradesh (8) | Maharashtra (9) | Orissa (10) | Punjab (11) | Rajasthan (12) | Tamil Nadu (13) | Uttar Pradesh (14) | West Bengal (15) | All States (16) |
|--|--------------------|-----------|-------------|-------------|---------------|------------|--------------------|-----------------|-------------|-------------|----------------|-----------------|--------------------|------------------|-----------------|
| I Literacy Rate (Per Cent) | 29.50 | 26.20 | 43.70 | 36.10 | 38.50 | 70.40 | 27.90 | 47.20 | 34.20 | 40.90 | 24.40 | 46.80 | 27.20 | 40.90 | 36.20 |
| II Total Subsidy (Rs lakh) | | | | | | | | | | | | | | | |
| (i) Primary education | 31531 | 44415 | 29595 | 8703 | 29003 | 25983 | 30524 | 48235 | 16658 | 11005 | 24391 | 29859 | 45533 | 28315 | 403750 |
| (ii) Secondary education | 18609 | 15290 | 19129 | 8655 | 16241 | 14173 | 12103 | 39911 | 6560 | 15569 | 15674 | 23842 | 33826 | 28026 | 267608 |
| (iii) Higher education | 13115 | 11538 | 4562 | 2940 | 7084 | 6346 | 6094 | 10337 | 3804 | 4698 | 4468 | 6227 | 7740 | 8803 | 97755 |
| (iv) Technical education | 1817 | 1003 | 1752 | 561 | 1374 | 2268 | 2065 | 3275 | 645 | 435 | 749 | 2592 | 3772 | 1420 | 23729 |
| (v) Other education | 2500 | 5164 | 2613 | 1209 | 2393 | 1942 | 2236 | 3193 | 1360 | 1651 | 1936 | 2748 | 3255 | 5289 | 37490 |
| (vi) Total education | 67572 | 77409 | 57651 | 22067 | 56096 | 50713 | 53022 | 104951 | 29028 | 33357 | 47219 | 65268 | 94127 | 71854 | 830332 |
| III Share of Subsidy in Education (Per Cent) | | | | | | | | | | | | | | | |
| (i) Primary education | 46.66 | 57.38 | 51.33 | 39.44 | 51.70 | 51.24 | 57.57 | 45.96 | 57.39 | 32.99 | 51.66 | 45.75 | 48.37 | 39.41 | 48.63 |
| (ii) Secondary education | 27.54 | 19.75 | 33.18 | 39.22 | 28.95 | 27.95 | 22.83 | 38.03 | 22.60 | 46.67 | 33.19 | 36.53 | 35.94 | 39.00 | 32.23 |
| (iii) Higher education | 19.41 | 14.90 | 7.91 | 13.32 | 12.63 | 12.51 | 11.49 | 9.85 | 13.10 | 14.08 | 9.46 | 9.54 | 8.22 | 12.25 | 11.77 |
| (iv) Technical education | 2.69 | 1.30 | 3.04 | 2.54 | 2.45 | 4.47 | 3.90 | 3.12 | 2.22 | 1.30 | 1.59 | 3.97 | 4.01 | 1.98 | 2.86 |
| (v) Other education | 3.70 | 6.67 | 4.53 | 5.48 | 4.27 | 3.83 | 4.22 | 3.04 | 4.69 | 4.95 | 4.10 | 4.21 | 3.46 | 7.36 | 4.52 |
| (vi) Total education | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| IV Cost Recovery Rate (Per Cent) | | | | | | | | | | | | | | | |
| (i) Primary education | 0.47 | 0.01 | 0.32 | 3.48 | 0.00 | 0.25 | 0.00 | 0.15 | 1.25 | 0.05 | 0.36 | 0.02 | 0.11 | 0.02 | 0.26 |
| (ii) Secondary education | 4.38 | 0.23 | 0.34 | 2.80 | 4.73 | 6.33 | 0.20 | 0.24 | 0.00 | 1.06 | 0.58 | 2.83 | 3.93 | 0.09 | 2.00 |
| (iii) Higher education | 1.37 | 0.30 | 5.24 | 2.13 | 0.00 | 7.35 | 1.64 | 0.61 | 1.88 | 0.99 | 0.83 | 2.92 | 0.13 | 1.30 | 1.68 |
| (iv) Technical education | 2.71 | 0.53 | 3.09 | 1.79 | 5.30 | 7.85 | 9.50 | 10.52 | 1.85 | 3.13 | 1.63 | 7.51 | 2.13 | 7.56 | 5.73 |
| (v) Other education | 3.37 | 2.37 | 5.81 | 2.08 | 3.31 | 2.65 | 0.46 | 11.37 | 7.35 | 0.40 | 2.08 | 6.89 | 15.03 | 5.89 | 5.59 |
| (vi) Total education | 1.92 | 0.26 | 1.08 | 2.92 | 1.69 | 3.38 | 0.66 | 0.97 | 1.37 | 0.72 | 0.57 | 1.95 | 2.18 | 0.82 | 1.41 |

TABLE 10: STATEWISE DETAILS OF BUDGETARY SUBSIDIES IN ECONOMIC SERVICES

| (1) | Andhra Pradesh (2) | Bihar (3) | Gujarat (4) | Haryana (5) | Karnataka (6) | Kerala (7) | Madhya Pradesh (8) | Maharashtra (9) | Orissa (10) | Punjab (11) | Rajasthan (12) | Tamil Nadu (13) | Uttar Pradesh (14) | West Bengal (15) | All States (16) |
|--|--------------------|-----------|-------------|-------------|---------------|------------|--------------------|-----------------|-------------|-------------|----------------|-----------------|--------------------|------------------|-----------------|
| 1 Agriculture and Allied Services | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 52918 | 36179 | 36146 | 11883 | 24905 | 10954 | 10596 | 39182 | 12653 | 11513 | 22958 | 42890 | 56778 | 31458 | 401013 |
| b Per capita subsidy (Rs) | 87.77 | 45.22 | 93.59 | 77.72 | 58.71 | 38.48 | 17.72 | 54.93 | 42.82 | 60.88 | 56.56 | 79.94 | 44.89 | 50.93 | 55.15 |
| c Share of state subsidy (per cent) | 23.12 | 18.88 | 18.01 | 15.32 | 14.61 | 9.43 | 5.15 | 14.01 | 12.13 | 10.07 | 13.77 | 18.41 | 16.80 | 15.82 | 15.27 |
| d Recovery rate (per cent) | 11.61 | 17.50 | 12.17 | 10.87 | 28.15 | 32.56 | 78.11 | 56.75 | 35.38 | 11.54 | 6.92 | 18.26 | 17.98 | 14.11 | 26.91 |
| 2 Irrigation | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 35454 | 54511 | 40742 | 17789 | 32944 | 13503 | 47323 | 38130 | 25352 | 17503 | 35015 | 10006 | 60035 | 18215 | 446521 |
| b Per capita subsidy (Rs) | 58.81 | 68.14 | 105.49 | 116.34 | 77.66 | 47.43 | 79.12 | 53.46 | 85.79 | 92.56 | 86.26 | 18.65 | 47.47 | 29.49 | 61.40 |
| c Share of state subsidy (per cent) | 15.49 | 28.45 | 20.30 | 22.93 | 19.32 | 11.63 | 23.00 | 13.63 | 24.31 | 15.31 | 21.00 | 4.29 | 17.76 | 9.16 | 17.00 |
| d Recovery rate (per cent) | 22.60 | 2.34 | 30.89 | 27.39 | 27.01 | 7.36 | 3.69 | 41.11 | 2.66 | 18.87 | 21.82 | 31.00 | 26.77 | 13.28 | 21.47 |
| 3 Power and Energy | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 2848 | 13106 | 8405 | 5476 | -1598 | -716 | 9908 | 7119 | 506 | 23202 | 8336 | 36724 | 23767 | 6391 | 143474 |
| b Per capita subsidy (Rs) | 4.72 | 16.38 | 21.76 | 35.82 | -3.77 | -2.51 | 16.57 | 9.98 | 1.71 | 122.70 | 20.54 | 68.45 | 18.79 | 10.35 | 19.73 |
| c Share of state subsidy (per cent) | 1.24 | 6.84 | 4.19 | 7.06 | -0.94 | -0.62 | 4.82 | 2.55 | 0.49 | 20.30 | 5.00 | 15.76 | 7.03 | 3.21 | 5.46 |
| d Recovery rate (per cent) | 79.12 | 0.29 | 0.03 | 60.14 | 119.22 | 145.44 | 42.42 | 65.99 | 78.93 | 6.19 | 0.93 | 0.00 | 0.05 | 6.21 | 28.20 |
| 4 Industry and Minerals | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 4721 | -39427 | 6919 | 625 | 7290 | 3820 | 5531 | 5104 | 2709 | 2670 | -1050 | 6208 | 926 | 5935 | 12002 |
| b Per capita subsidy (Rs) | 7.83 | -49.28 | 17.92 | 4.09 | 17.18 | 13.42 | 9.28 | 7.16 | 9.17 | 14.12 | -2.59 | 11.57 | 0.73 | 9.61 | 1.65 |
| c Share of state subsidy (per cent) | 2.06 | -20.58 | 3.45 | 0.81 | 4.28 | 3.29 | 2.70 | 1.83 | 2.60 | 2.34 | -0.63 | 2.66 | 0.27 | 2.99 | 0.46 |
| d Recovery rate (per cent) | 41.79 | 571.11 | 8.71 | 52.74 | 31.48 | 11.14 | 6.00 | 31.66 | 43.21 | 14.83 | 120.30 | 29.29 | 91.54 | 17.70 | 87.19 |
| 5 Transport and Communication | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 899700 | 12752 | 5524 | 5106 | 10655 | 8850 | 19523 | 9371 | 7492 | 6919 | 21420 | 11422 | 26048 | 14288 | 168341 |
| b Per capita subsidy (Rs) | 14.88 | 15.94 | 14.30 | 33.40 | 25.12 | 31.09 | 32.64 | 13.14 | 25.35 | 36.59 | 52.77 | 21.29 | 20.59 | 23.13 | 23.15 |
| c Share of state subsidy (per cent) | 3.92 | 6.66 | 2.75 | 6.58 | 6.25 | 7.62 | 9.49 | 3.35 | 7.18 | 6.05 | 12.85 | 4.90 | 7.71 | 7.19 | 6.41 |
| d Recovery rate (per cent) | 11.72 | 1.77 | 2.44 | 70.99 | 0.73 | 4.49 | 3.75 | 6.19 | 3.13 | 49.61 | 0.30 | 8.50 | 2.96 | 3.45 | 13.12 |
| 6 Other Economic Services | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | -7591 | 1268 | 846 | -87 | -35 | 530 | 549 | 318 | 276 | -96 | -1692 | 12134 | 804 | 1332 | 8555 |
| b Per capita subsidy (Rs) | -12.59 | 1.58 | 2.19 | -0.57 | -0.08 | 1.86 | 0.92 | 0.45 | 0.93 | -0.51 | -4.17 | 22.62 | 0.64 | 2.16 | 1.18 |
| c Share of state subsidy (per cent) | -3.32 | 0.66 | 0.42 | -0.11 | -0.02 | 0.46 | 0.27 | 0.11 | 0.26 | -0.08 | -1.02 | 5.21 | 0.24 | 0.67 | 0.33 |
| d Recovery rate (per cent) | 652.20 | 36.20 | 74.62 | 107.32 | 101.36 | 68.38 | 53.29 | 67.30 | 62.34 | 112.73 | 165.61 | 3.56 | 69.68 | 25.64 | 75.81 |
| 7 Total Economic Services | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 97319 | 78388 | 98582 | 40793 | 74159 | 36942 | 93451 | 99224 | 48987 | 61711 | 84987 | 119384 | 168359 | 77620 | 1179907 |
| b Per capita subsidy (Rs lakh) | 161.42 | 97.99 | 255.26 | 266.79 | 174.82 | 129.76 | 156.25 | 139.11 | 165.78 | 326.34 | 209.38 | 222.52 | 133.11 | 125.66 | 162.26 |
| c Share of state subsidy (per cent) | 42.51 | 40.91 | 49.12 | 52.59 | 43.50 | 31.82 | 45.42 | 35.48 | 46.98 | 53.99 | 50.97 | 51.24 | 49.82 | 39.04 | 44.93 |
| d Recovery rate (per cent) | 29.97 | 42.43 | 21.19 | 43.09 | 33.84 | 22.45 | 34.25 | 49.04 | 20.04 | 19.80 | 20.65 | 13.20 | 21.85 | 12.04 | 28.01 |

TABLE 1 R E F E R E N C E P U B L I C E N T R P R I S E

| (1) | Andhra Pradesh (1) | Bihar (2) | Gujarat (3) | Haryana (4) | Karnataka (5) | Kerala (6) | Madhya Pradesh (7) | Maharashtra (8) | Orissa (9) | Punjab (10) | Rajasthan (11) | Tamil Nadu (12) | Uttar Pradesh (13) | West Bengal (14) | All States (15) |
|--|--------------------|-----------|-------------|-------------|---------------|------------|--------------------|-----------------|------------|-------------|----------------|-----------------|--------------------|------------------|-----------------|
| I Departmental | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 55191 | 4234 | 10095 | 6076 | 32018 | 19388 | 17124 | 30185 | 8941 | 45094 | 16150 | 367368 | | | |
| b Proportion to state subsidy (per cent) | 24.11 | 2.36 | 18.06 | 9.30 | 11.45 | 18.59 | 14.98 | 18.10 | 3.84 | 13.34 | 8.12 | 13.99 | | | |
| c Recovery rate (per cent) | 25.86 | 31.19 | 3.35 | 48.43 | 69.60 | 31.81 | 19.00 | 15.76 | 51.30 | 42.12 | 34.24 | 46.08 | | | |
| II Non-Departmental | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 88 | 8099 | 21216 | 66.8 | 49 | 307 | 25860 | 5591 | 58549 | 29722 | 14945 | 192534 | | | |
| b Proportion to state subsidy (per cent) | 0.04 | 4.23 | 10.57 | 8.52 | 1.44 | 2.97 | 22.62 | 3.35 | 25.13 | 8.79 | 7.52 | 7.33 | | | |
| c Recovery rate (per cent) | 99.25 | 11.54 | 6.09 | 9.14 | 66.21 | 46.94 | 26.33 | 3.02 | 2.54 | 11.85 | 2.99 | 32.00 | | | |
| III Co-operative | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 5843 | 1700 | 1926 | 606 | 2345 | 1156 | 916 | 936 | 3693 | 2515 | 2698 | 26747 | | | |
| b Proportion to state subsidy (per cent) | 2.55 | 0.89 | 0.96 | 0.78 | 1.38 | 1.11 | 0.80 | 0.46 | 1.59 | -0.74 | 1.36 | 1.02 | | | |
| c Recovery rate (per cent) | 1.05 | 3.42 | 31.16 | 10.51 | 2.16 | 12.96 | 15.17 | 8.18 | 17.88 | 208.59 | 3.64 | 29.05 | | | |
| IV All Public Enterprises | | | | | | | | | | | | | | | |
| a Total subsidy (Rs lakh) | 61122 | 14325 | 66954 | 21233 | 37132 | 45883 | 43900 | 36713 | 71183 | 72302 | 31793 | 586649 | | | |
| b Proportion to state subsidy (per cent) | 26.70 | 7.48 | 33.36 | 27.38 | 21.78 | 5.43 | 38.41 | 22.02 | 30.55 | 21.39 | 17.00 | 22.34 | | | |
| c Recovery rate (per cent) | 33.61 | 79.25 | 24.82 | 5.58 | 44.79 | 32.92 | 23.42 | 31.73 | 14.17 | 36.55 | 20.98 | 41.46 | | | |

TABLE 12 SUBSIDIES IN RURAL SECTOR

| (1) | Andhra Pradesh (2) | Bihar (3) | Gujarat (4) | Haryana (5) | Karnataka (6) | Kerala (7) | Madhya Pradesh (8) | Maharashtra (9) | Orissa (10) | Punjab (11) | Rajasthan (12) | Tamil Nadu (13) | Uttar Pradesh (14) | West Bengal (15) | All States (16) |
|---|--------------------|-----------|-------------|-------------|---------------|------------|--------------------|-----------------|-------------|-------------|----------------|-----------------|--------------------|------------------|-----------------|
| I Total rural subsidy (undisputed) (Rs lakh) | 106496 | 98120 | 90402 | 44377 | 60840 | 29680 | 120907 | 47192 | 43859 | 29792 | 75397 | 67405 | 136776 | 55497 | 1007041 |
| II Total rural subsidy (adjusted) (Rs lakh) | 158438 | 166061 | 130329 | 61611 | 100724 | 70922 | 163219 | 115412 | 69462 | 53910 | 112699 | 111236 | 213963 | 108312 | 1636297 |
| a Alternative 1 | 135740 | 165311 | 122866 | 60676 | 94705 | 71437 | 161590 | 110126 | 67755 | 52630 | 111032 | 96323 | 214294 | 106840 | 1571325 |
| b Alternative 2 | 135853 | 165319 | 123071 | 60676 | 94705 | 71437 | 161590 | 110126 | 67755 | 52630 | 111032 | 96324 | 214297 | 106842 | 1571673 |
| III: Rural subsidy per rural person* (Rs) | 352.88 | 241.23 | 501.51 | 533.42 | 346.63 | 312.09 | 352.67 | 257.15 | 273.14 | 407.15 | 360.73 | 315.77 | 212.44 | 241.62 | 300.29 |
| a Alternative 1 | 302.33 | 240.14 | 472.79 | 525.33 | 325.92 | 314.36 | 349.15 | 245.17 | 266.43 | 397.49 | 355.39 | 273.44 | 212.77 | 238.34 | 288.37 |
| b Alternative 2 | 302.58 | 240.15 | 473.58 | 525.33 | 325.92 | 314.42 | 349.15 | 245.38 | 266.43 | 397.49 | 355.39 | 273.44 | 212.77 | 238.34 | 288.43 |
| c Alternative 3 | | | | | | | | | | | | | | | |
| IV Share of rural population** in total population (per cent) | 76.7 | 87.5 | 68.9 | 78.1 | 71.1 | 81.3 | 79.8 | 65.11 | 88.2 | 72.3 | 79.0 | 67.0 | 82.0 | 73.5 | 75.7 |
| V Share of rural subsidy in total states subsidy | 69.21 | 86.67 | 64.93 | 79.42 | 59.08 | 61.08 | 79.32 | 41.27 | 66.62 | 47.16 | 67.59 | 47.74 | 63.31 | 54.48 | 62.31 |
| a Alternative 1 | 59.29 | 86.28 | 61.21 | 78.22 | 55.55 | 61.53 | 78.53 | 39.38 | 64.98 | 46.04 | 66.59 | 41.34 | 63.41 | 53.74 | 59.84 |
| b Alternative 2 | 59.34 | 86.28 | 61.32 | 78.22 | 55.55 | 61.54 | 78.53 | 39.98 | 64.98 | 46.04 | 66.59 | 41.34 | 63.41 | 53.74 | 59.85 |
| c Alternative 3 | | | | | | | | | | | | | | | |

Notes: Alternative 1 Includes both food and fertiliser subsidy and rural share of education subsidy estimated in proportion to the share of rural population. Alternative 2 Excludes both food and fertiliser subsidy from Alternative 1. Alternative 3 Excludes food subsidy from Alternative 1.

* Estimated by applying the rural share of population in 1986 projected by the Office of the Registrar General on the mid year population of 1987-88.

** According to 1981 census.



UNIVERSITY OF DELHI

DELHI-110 007

No. Estab. IV/Advt.-129/

Dated, April 30, 1991

Applications, on the prescribed form, are invited for the following posts in the University so as to reach the Registrar, University of Delhi, Delhi-110 007, latest by May 31, 1991:

1. AFRICAN STUDIES

Reader in Geography (1)

Special/desirable qualifications (if any):

- (a) Doctorate Degree or published work on Africa;
- (b) field work in Africa or visiting assignments at an African University;
- (c) knowledge of an African language

2. LAW FACULTY

Professors (2)

Lecturers (2)

Research Associates (2)

Special/desirable qualifications (if any).

Professors:

One in International Business Law including Taxation and other in Science, Technology & Environment or in Law & Development

3. GERMANIC & ROMANCE STUDIES

Reader in German (1)

Lecturer in German (1)

(Leave vacancy upto 05/11/91 but likely to continue)

Special/desirable qualifications (if any)

Reader German Literature

4. PERSIAN

Research Associate (1)

5. MANAGEMENT STUDIES

Placement Adviser (1)

Special/desirable qualifications (if any)

A person having Industrial background or the knowledge of

working of private and/or public undertakings or educational institutions with special reference to placement and training work will be given preference.

6. HINDI

Lecturers (2)

7. CENTRAL OFFICE

I. System Analyst-cum-Senior Programmer (Finance Wing) (1)

Special/desirable qualifications (if any)

- a) Experience of participation in training programmes in Computer related disciplines
- b) Intensive experience in System Programming on a Third Generation Computer System

II. Deputy Registrars
(Panel to be drawn)

III. Assistant Registrars/
Administrative Officers:
Assistant Controller of
Examinations
(Panel to be drawn)

IV. Junior Programmer
(Finance Wing) (1)

Special/desirable qualifications (if any)

- a) Experience of participation in training programmes in Computer related disciplines, and
- b) knowledge of an assembly language

8. ENGINEERING DEPARTMENT

University Engineer (1)

Number of posts is given, within parenthesis, against each post.

SCALES OF PAY :

Professor/University Engineer:
Rs 4500-150-5700-200-7300

Reader/System Analyst-cum-Senior
Programmer/Deputy Registrar/
Placement Adviser
Rs 3700-125-4950-150-5700

Lecturer/Junior Programmer/
Assistant Registrar / Administrative
Officer/Assistant Controller of
Examinations
Rs 2200-75-2800-100-4000

Research Associate*
Rs 2200-100-2700
Rs 2700-100-3200
Rs 3200-100-3700
Rs 3700-125-4325

(*Depending upon the recommendations of the Selection Committee)

All above posts, other than those of the Research Associate, carry DA, CCA, HRA etc. as are admissible under the rules in force in the University from time to time

The details regarding prescribed qualifications and application forms, for various posts, can be had from **Establishment Section-IV (Room No. 205), New Administrative Block, University of Delhi, Delhi-110 007**, during working hours, either personally or by sending a self-addressed and postage stamped (worth Rs 8/-) envelope (size 13cm x 28 cm)

J.C. KOCHHAR
REGISTRAR

Except in Gujarat and Kerala where the rates were a little over 5 per cent and 7 per cent respectively, all the States had recovery rates lower than 3 per cent. In as many as five States, it was even less than 1 per cent. In technical education too, the recovery rate was only 5.7 per cent on the average and 5 per cent in eight States including the economically more advanced States of Gujarat (3 per cent), Haryana (1.8 per cent) and Punjab (3 per cent), the rates were lower than 5 per cent.

Apart from the stated equity consideration highlighted above, the low recovery rates in social services also have an unfortunate dynamic implication. It has been noted elsewhere that the expenditure on social services has been growing faster than both general and economic services. If the recovery rates continue to remain at such low levels, it follows that both inter-regional and inter-personal inequity in the allocation of subsidies will increase over time. Better targeting of subsidies in social services, perhaps through differential pricing should therefore, constitute an important item on the agenda on fiscal reform.

(c) *Subsidy in Economic Services* The quantum of subsidies in economic services amounted to Rs 11,800 crore, forming about 45 per cent of the total bill in the 14 major States taken together. The largest component of this amounting to Rs 4,465 crore was absorbed in irrigation and another Rs 4,010 crore was in agriculture and allied activities. Other important sectors involving significant subsidies include irrigation, power and transport and communication sectors. These together accounted for almost Rs 7,600 crore of subsidies.

The inter-State variation of subsidies in economic services pictured in Table II again points towards a large concentration of subsidies in the more developed States. In Punjab, per capita subsidy on economic services amounted to Rs 326 which was more than 3.3 times the amount in Bihar, the least developed State and about two times the average. In Gujarat and Haryana, the subsidies were higher than the average by 57 per cent and 65 per cent respectively. On the other hand, as mentioned above, per capita subsidy in Bihar amounted to only Rs 98 and in Uttar Pradesh and Madhya Pradesh at Rs 126 and 146, it was lower than the average by 18 per cent and 4 per cent respectively.

The inter-State distribution of subsidies in some important economic services also points towards the inequitable pattern observed above. In irrigation, significantly larger than the average per capita subsidies accrued to the residents of better off States like Gujarat, Haryana and Punjab. However, higher levels of subsidy were also seen in some of the poorer States like Madhya Pradesh, Orissa and Rajasthan. At the same time, within the States there is no evidence to show that the benefits of irrigation sub-

sidy consequence of improperly designed subsidy schemes is the possibility of over use of water resources and undesirable changes in the cropping pattern induced by subsidised irrigation. Of course, this is not to argue that subsidising irrigation *per se* is undesirable. What is implied, however, is the need to ensure that the objectives of such subsidisation should be clear and it should not result in unintended resource misallocation. With regard to other subsidies in agriculture and allied activities, the shares of agriculturally advanced States of Gujarat, Haryana, Maharashtra, Punjab and Tamil Nadu were much higher than their population shares. In the power sector also a very high percentage of subsidies went to agriculturally advanced States like Haryana, Punjab and Tamil Nadu, largely on account of the abysmally low rates of power tariff levied on electricity consumed for irrigation purposes.

Irrigation and power, along with road transport, constitute three important economic services accounting for about 29 per cent of total State subsidies mainly because of low recovery rates. In irrigation in all the States except Maharashtra (41 per cent) the recoveries were less than a third of the cost and lower than 10 per cent in Bihar, Kerala, Madhya Pradesh and Orissa. The average recovery in the States taken together was just about 21 per cent. In the power sector in all the States except Karnataka and Kerala the volume of subsidies on account of recoveries was substantial. The all States average recovery rate was about 28 per cent. However, in Bihar, Gujarat, Rajasthan, Tamil Nadu and Uttar Pradesh there was virtually no recovery and in Punjab and West Bengal the recovery rate was as low as 6 per cent. In fact, in Punjab per capita subsidy in the power sector at Rs 123 was about 6 times the average. In the transport sector the average recovery rate was only 13 per cent and in as many as 9 States including the more advanced States of Gujarat and Kerala, recovery rates were less than 5 per cent of the cost.

(d) *Budgetary Subsidy to Public Enterprises* The flow of subsidies to public sector enterprise as a whole have been analysed in section II. We now take up the flow of subsidies to these enterprises at the State level. Table I presents the subsidies given to departmental and non-departmental enterprises as well as to co-operatives in 14 major States. In the aggregate, the total subsidy accruing to public enterprises and co-operatives amounted to Rs 5,866 crore, forming 22 per cent of the total subsidy given at the State level. However, the share showed wide variation across States, ranging from 7.5 per cent in Bihar to over 38 per cent in Punjab.

In the aggregate, the largest share of State subsidy, constituting almost 14 per cent, accrued to departmental enterprises, while the subsidy to non-departmental enterprises constituted about 7 per cent. Departmental enterprises claimed a larger share of subsidy in all the States except Punjab and Tamil

Nadu. The share of subsidies to non-departmental enterprises was larger. This is mainly due to the large subsidies accruing to the electricity boards in the States. The share of co-operatives in total State subsidy averaged to about 1 per cent in the States taken together and it was generally low in all the States.

In no State was the recovery rate high enough to meet the entire cost of providing the services, in the case of either departmental or non-departmental enterprises or co-operatives. The average recovery rates in departmental enterprises (46 per cent) was higher than in non-departmental enterprises (32 per cent) and co-operatives (29 per cent). This pattern however was not uniform across the States. In fact, the recovery rates showed very wide inter-State variations with respect to departmental and non-departmental enterprises as well as co-operatives. In the case of departmental enterprises, the rate varied from 19 per cent in Punjab to about 92 per cent in Bihar. Similarly, the variation in non-departmental enterprises ranged from less than 3 per cent in Rajasthan, Tamil Nadu and West Bengal to more than 90 per cent in Andhra Pradesh and Karnataka.

(e) *Subsidy to the Rural Sector* As explained in section II, we have constructed three different estimates of the share of subsidy accruing to the rural sector according to three alternative definitions. The estimates are presented in Table 12. In the aggregate, the subsidy accruing to the rural sector amounted to Rs 15,713 crore according to the narrowest definition and Rs 16,363 crore according to the broadest definition. This formed about 60 to 62 per cent of the total bill of subsidies in the States. Substantial inter-State differences were also seen in subsidies per rural person ranging from about Rs 213 in Uttar Pradesh in all alternatives to over Rs 525 or Rs 513 in Haryana, depending upon which definition was considered.

The point to note, however, is that even if we take the broadest definition, the share of subsidies accruing to rural areas was

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all these cases the disadvantaged seem to be getting less than their proportionate share of subsidies.

In every State except Haryana where the two shares are more or less equivalent. In the aggregate, whereas the share of rural population was over 76 per cent, the share of subsidies accruing to the rural sector was just about 62 per cent. The maximum difference was in Punjab where the subsidy share was lower than the population share by over 25 percentage points. Very large difference in the shares was seen also in Orissa, Tamil Nadu, Kerala, Uttar Pradesh, Maharashtra and West Bengal. It may be noted that these only indicate a broad pattern of subsidies accruing to the rural sector. In order to arrive at firm conclusions, however, a detailed analysis of the incidence of subsidy would have to be undertaken, which is not attempted in this study.

IV

Concluding Remarks

In this paper an attempt has been made to estimate the total volume and composition of government subsidies in India in the year 1987-88, after costing government services on a user charge basis. The exercise shows that the actual volume of subsidies was huge, amounting to Rs 42,324 crore or almost 15 per cent of the GDP.

Pure transfer payments are transparent and their beneficiaries are explicitly targeted. Unfortunately, such direct transfer payments are still relatively small in India. By comparison the total volume of subsidies in 1987-88 was more than ten times as large and it turns out that the bulk of this subsidy was not visible. The explicit subsidy, as revealed in budgets for 1987-88, amounted to only Rs 5,982 crore. Even by the broader National Accounts definition, the volume of visible subsidy worked out to only Rs 11,795 crore or about 28 per cent of the actual volume of subsidies.

There can, of course, be differences in judgment about whether or not a part of this includes expenditure on pure public services, on what should be the correct interest rate or the appropriate depreciation rate and so forth. But none of this can detract from the essential fact that a substantial proportion of the GDP is being distributed in the form of subsidies through the budget, much of it invisible, and that it is not at all clear that these subsidies are flowing to intended beneficiaries.

We have attempted to make this phenomenon transparent by quantifying the flow of these subsidies, even if only as a first approximation. The resulting estimates show not only that the total volume of subsidies is very large but also that it is inequitably distributed. This is the picture which comes through if we look either at the distribution of social services between socially disadvantaged groups and others or the inter-regional allocation of subsidies per capita between high and low income States or the inter-sectoral allocation of subsidies between the rural sector, where per capita incomes are

all these cases the disadvantaged seem to be getting less than their proportionate share of subsidies.

Admittedly, this in itself cannot be taken as conclusive evidence that the overall fiscal system is regressive. For that the incidence of taxation and expenditure and the other indirect effects of fiscal policy must also be taken into account. But clearly, where subsidies are concerned, it is necessary to reform them in a more egalitarian direction. Our estimates show that with greater transparency and better targeting it should be possible to significantly increase the flow of services as well as subsidies to disadvantaged groups without any increase, perhaps even with a reduction, in the total bill of subsidies. This can be done provided the leakage to unintended beneficiaries is plugged. This particular implication is of immediate relevance in the context of the fiscal imbalance and negotiations with the International Monetary Fund which are likely to lead to a major fiscal squeeze from the next financial year. Careful advance planning is necessary if we are to protect those who are already vulnerable from bearing the further costs of adjustment.

We must also reconsider in this context the issue of budgetary support to public enterprises. Our estimates show that over 35 per cent of government subsidies have been flowing to these enterprises. Given externalities and missing markets, there is no question that public enterprises must play a major role in any programme of industrialisation. However it is worth asking whether, even after 40 years of protected domination of the commanding heights of the economy, these enterprises should still remain dependent on budgetary support. Even if they are not immediately able to pay back to government an adequate return on its investments, surely they should at least pay their own way, especially when the opportunity cost of budgetary support to these enterprises may have to be measured in terms of forgone wages for unemployed agricultural labourers in government employment programmes.

Notes

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1 We ignore, for the moment, the issue of difference between actual cost and efficiency cost of publicly provided goods or services.

2 See A. Chatterjee, 'The Theory of Public Expenditure', *Review of Economics and Statistics*, Vol 36, 1954, and 'Diagrammatic Exposition of a Theory of Public Expenditure', *Review of Economics and Statistics*, Vol 37, 1955.

3 See R A Musgrave, 'On Merit Goods', *Public Finance in a Democratic Society*, Wheatshaf Books, 1986, Vol 1, Chapter 3.

4 See R A Musgrave and A Peacock (ed), *Classics in the Theory of Public Finance*, London, Macmillan, 1958; R A Musgrave, Samuelson on Public Goods in E C Brown and R Salow (ed), *Paul Samuelson and Modern Economic Theory*, McGraw Hill, New York, 1983 and K Arrow, *Social Choice and Individual Values*, Wiley and Co, New York, 1951.

5 A rough estimate of the average life of different types of fixed assets attempted by the CSO shows that these range from as little as 10 to 30 years in the case of machinery and transport equipment to 80 or 100 years in the case of construction such as buildings, dams and other construction works. See *Estimates of Capital Stock of Indian Economy*, Central Statistical Organisation, Ministry of Planning, Government of India, New Delhi, 1988. Checks indicated that the subsidy estimates are not very sensitive to the assumed life of capital assets.

6 See Sudipto, Mundle 'The Human Element in India's Economic Development' Paper presented at the North South Round Table at Istanbul, September, 1985 and reprinted in K Haq and U Kirdar (ed), *Human Development: The Neglected Dimension*, Islamabad, 1986. On the limits of tax policy as a redistributive instrument in developing countries, See Richard Goode, *Government Finance in Developing Countries*, Brookings Institution, 1984.

7 See Sudipto Mundle 'Pattern of Public Expenditure in India: A Financial Perspective of the Developmental State' Paper presented at a conference on 'The State and International linkages', The Hague, October, 1988.

8 During the Seventh Plan, for example, the States' actual plan expenditure (Rs 74,519 crore) was lower than the planned outlay by about 8 per cent. This shortfall was largely due to below target budgetary contributions. It may also be noted that during the eighties the severe resource constraint has caused a substantial deceleration in the growth of capital expenditures at the State level. On this see, Rao, M G, and Tulasidhar, V B, *Public Expenditure in India—Emerging Trends*, NIPFP (Mimeo), 1991.

9 In some federations, 'average' level is taken as the 'standard' level. For the shortcomings in the design of general purpose transfers in India, see, Rao, M G and Aggarwal, V, 'Central Transfers to Offset Fiscal Disadvantages of States. Measurement of Cost Disabilities and Expenditures Needs', *Indian Economic Review* (forthcoming).

10 This excludes a small element (about Rs 100 crore) of subsidy on account of adult education, which really qualifies as primary since this item largely consists of a basic literacy programme for illiterate adults.

11 This is partly due to the higher recovery from the activity of selling text books at secondary education level in some States.

Probing the Jharkhand Question

Arunabha Ghosh

A close study of the nature and growth of the Jharkhand movement brings to light four basic issues which have been instrumental in mobilising the otherwise peace-loving tribal people of the region to raise their voice of protest against subordination and injustice—land and forest alienation, immigration, cultural identity and underdevelopment.

JHARKHAND, the land of forests, variously called as 'Nagadesh' and 'Dasharanya' in different periods of history and often described as the 'Ruhr of India', has time and again, given rise to various social and political groups, championing the cause of the local people against the exploitation by the outsiders. During the last decade or so, such protests have assumed a much more organised form and consequently, have gained in political significance, demanding more attention from researchers.

I

Brief History

Perhaps the earliest settlers in this central tribal belt were the 'Asurs', whose occupation was iron smelting and the 'Saraks' or Jain Shrivakas.¹ They were followed by the Mundas with their language family the Kharias, the Hos and the Santhals around 500 BC. The Nagbanshis (Nag community) arrived during the first century AD while the Dravida-speaking Oraons came even later.

Socio-economic exploitation of these 'original inhabitants', in the form of land alienation and indebtedness, started along with steady flow of immigrants during the reign of the fourth Nagbanshi King Pratap Rai in the fourth century AD.² During the Muslim period brave, chivalrous and scholarly people as well as priests were invited from distant places to serve the region in their various capacities. Refugees and military invaders also came and settled down in the region from time to time. These 'diku' (outsider) immigrants not only infiltrated tribal territory but also into their life and culture. The influx of immigrants which continued till the Mughal era, upsetting the demographic pattern of the region, however, did not result in any major protest from the aborigines at that time.

Around the sixth century AD the Mundas and Oraons jointly selected a 'manki' (leader) who was not the sovereign of the land but had to play a prominent role during wars.³ A descendant of this 'manki' was later made a tributary of the Mughals and by 1585 the Chotanagpur Raj was virtually annexed by the Mughals. Another 'manki' Durjansal was imprisoned by the Mughals for his failure to pay tributes in time and on his return from the Gwalior jail in 1680 he surrounded himself with Hindu courtiers and mercenaries whom he made 'jagirdars' of Munda and Oraon villages with the right to collect and enjoy taxes from those villages.⁴ The immigrant 'jagirdars' and 'thikadars' in course of time, introduced land rent in the Chotanagpur region and gradually ousted many of the original inhabitants of the land for their inability to

pay rent or reluctance to render 'begar' or forced labour to the new masters. Thus, the transfer of ancestral tribal lands to outsiders began as early as the 17th century reducing the tribal peasants to mere cultivators of land, paying rent to the non-tribal 'diku' landlords, who in turn paid a share to the Maharaja of Chotanagpur, who then paid a share to the Mughal emperor.

By the middle of the 18th century, the communitarian 'adivasi' society began to lose its own distinctive qualities under the influence of a larger Hindu society. Its disintegration was expedited by the introduction of social division of labour in the form of the caste system.⁵ Pressure of immigrant Rajputs, Brahmans and other high caste Hindus and the exploitation by these newly emerging mahajans, thikadars and zamindars, completely shattered the 'adivasi' economy.

In 1771, Jharkhand came under the jurisdiction of the East India Company. The company initially subordinated the Maharaja of Chotanagpur almost in the same way as did the Mughals. But as they were actually interested in revenues from the land, they introduced a permanent legal and administrative structure to ensure regular and smooth collection of revenue. British administrators gradually introduced money economy, individual ownership of land and a police system to control tribal uprisings. The traditional right of tribals over land and forests as well as the age-old panchayat systems thus slowly gave way to the forces of modernisation.

The Permanent Settlement Act of Lord Cornwallis in 1793 legalised the individual proprietorship in land and led to further alienation of tribal lands. Besides, indiscriminate destruction of forests and unplanned mining in the region pauperised the tribals. The 'adivasi' population, thus divested of all possible means of production, were gradually transformed into a vast army of 'coolie' labour.

Almost all the 'rajas' of the Jharkhand region accepted British supremacy and started paying rents to the crown by the end of the 18th century. Thus the whole administrative machinery of the 'former 'raja' became a useful instrument in the hands of the alien rulers to exploit the indigenous people. By the beginning of the 19th century, Chotanagpur came under a four-tier system of administration.⁶ The East India Company was at the top of the ladder, followed by the maharaja of Chotanagpur, then a number of local 'rajas', mostly of non-tribal origin and finally the 'thikadars', appointed by the 'rajas', to collect rent directly from the peasants.

II

Tribal Protest during 19th Century

Periodic tribal uprisings against the 'diku' exploiters marked the history of the region throughout the 19th century. Christoph Von Furer-Haimendorf, an anthropologist specialising on Indian tribes, observed that "anyone with first-hand experience of conditions in areas where aboriginals are subject to exploitation by more advanced populations must be surprised not by the occurrence of uprisings, but rather by the infrequency of violent action on the part of aboriginals deprived of the ancestral lands and the freedom they enjoyed before their contact with populations superior in economic and political power".⁷

In 1798-99, the Bhumi of Manbhum and all other tribal communities, including the Kurmis of Jharkhand, joined hands to fight against the oppression and exploitation let loose by the 'diku' migrants and the British. The effort to drive away their common enemies from their homeland sometimes took violent forms of looting and arson, particularly in the Bankura and Midnapur regions. The British described this expression of tribal consciousness as anti-social and anti-status quo and to discredit this uprising gave it a derogatory name, 'Chuar' rebellion.⁸

The famous 'Kol Vigulan' (rebellion) took place during 1831-32. It was led by Snighray and Binray Manki, against the 'diku thikadars'. The British administration, under the East India Company, defended the rent collecting 'thikadars', under attack, even with the help of troops under the company. The Mundas, Hos, Bhunyas and Oraons of the Chotanagpur region, joined hands to fight against the double oppression of the 'diku-British' alliance. The armed rebellion was against the oppressive system perpetuated by the non-tribal 'zamindars', traders, contractors, police and moneylenders. Though it was primarily against the land alienation, bonded labour and loss of honour of the tribals, it was also a protest against the ideological and cultural domination over them.⁹

The 'Santhal Hul' (rebellion) led by Sido and Kanhu in 1855, was a violent expression of the simmering discontent and tension among the Santhals against the exploitation by the non-tribal 'mahajans', 'zamindars' and British merchants. The Santhals claimed the right to the lands which they used to cultivate. In many areas people were organised on the pattern of private armies, equipped with bows, arrows and battle axes. Several cases of arson, looting and even killing of 'mahajans' were reported. Govern-

rebellion as the local administration proved to be inadequate for the purpose.

McPherson opines that apart from the oppression of the 'mahajans' and landlords, a deeper sense of freedom—"Santhal yearning for independence, a dream of the ancient days when they had no overlords, perhaps a memory of prehistoric times when they were themselves masters of the Chotanagpur valley and had not yet been driven back by the Aryan invaders"—was instrumental in giving rise to the uprising.¹⁰ The movement, though it had an apparent ethnic bias, was not confined to the Santhals alone. Though the Santhals provided the leadership, even the indigenous artisan castes like the Kumars (potters), the Jelis (oilmen), the Kamars (blacksmiths), the Cowals (milkmen) as well as the Momins (Mohammedan weavers), all of whom had developed close relationship with the Santhals through the ages, were intimately connected with the movement against the tyranny of outsiders.¹¹ Thus, it had developed almost a class character in its organisation and objectives rising above narrow ethnic sentiments.

The experience of the "Santhal Hul" made the Santhals realise that such violent uprisings alone were perhaps not enough to improve their economic status and to end exploitation by the 'dikus'. The result was a Hinduised social reform movement called the 'Kherwar' movement which began to spread among the Santhals during the early seventies. The term 'Kherwar' represented the memory of their golden past when the Santhals, free from outside interference, were their own masters and were known as 'Kherwars'. This movement was more socio-religious than political in nature and adopted many Hindu symbols to mobilise the masses.

Thus, while the "Santhal Hul" drove the Santhals away from the Hindus through its contra acculturative tendencies, the Kherwar movement, on the other hand, encouraged greater acculturation.¹² That, however, could not overcome the psychological barrier between these two communities. The Santhals retained their ambivalent attitude towards the 'dikus' as before, admiring their intelligence but hating their superiority complex as well as their exploitative tendencies.

Another anti diku agitation took shape during 1875-95,¹³ known as the 'Sardar Larai' (Leaders' war) to establish the right of tribal peasants over land by driving away alien landlords. Both the Mundas and Oraons joined the movement initially, but later in the mid eighties the Oraons broke away. 'Sardars' were the leaders of different tribal communities at the local and regional levels. They led the tribals to fight for their land and forest rights, their social and cultural identity and religious purity. It was a movement against the 'dikus', the British as well as the Christian missionaries.

At Nava Katan (1881) the Mundas and Oraons rallied around John the Baptist in 1881, to wipe out corruption and all sorts of exploitation relating to tribal lands. A corporate self consciousness was gradually developed during the course of the movement. Thus a group of tribal leaders—sar-

ganised manner. Not only did they take up arms but also took recourse to law to protect their rights and privileges.¹⁴

The Birsa Munda uprising of 1895-1900, was primarily directed against the British and the non tribal landowners. It aimed at establishing a 'Birsait Raj', with Birsa as its 'new king', after driving away all the foreigners, not only the British but even the Hindus and Muslims, from the region. The question of alienation of land was the main driving force of the uprising. Birsa fought on economic, social, political and religious fronts. Land, forest, people and religion were the key issues in this uprising. Economic exploitation in the form of land and forest alienation, social exploitation in the form of torture of tribal women and religious exploitation through the conversion of tribals to Christianity were countered. His strategies were primarily non-cooperation but he was not against direct confrontation if needed. The British tried to crush the uprising at gun point because of its potential threat to their domination.

Birsa was a reformist and a revivalist too. He became a critic of traditional tribal customs, religious beliefs and practices. He thus called upon the Mundas to fight against superstition, give up animal sacrifice, stop taking intoxicants, to wear the sacred thread and retain tribal traditions of worshipping in the 'sarna' or sacred grove (not in the temples) of the village.¹⁵ Gradually Birsa gained the stature of 'Birsa Bhagwan' in the eyes of the long exploited Mundas. With his death the movement dissipated but Birsa himself became a folk hero. The agrarian revolt spearheaded by him was successful in the sense that the British henceforth, tried to prevent or at least to minimise the loss of tribal land to the non tribal 'dikus'.

The 'Tana Bhagat' movement was organised under the leadership of Jatra Oraon around the year 1914, with a promise of millennial era of Oraon rule, free from foreign settlers on their land.¹⁶ It was an ethnic, revivalist movement among the Oraons, which called for 'purity of life'. The leaders launched a non violent agitation against the 'diku' landowners. The basic argument of the movement was that land was the gift of god and no one had the right to interfere with the tribals' right to land. Jatra Bhagat's followers came in contact with Mahatma Gandhi and joined the non-cooperation movement against the British. Jatra also denounced the traditional Oraon religious practices and asked his followers to practise 'purity of behaviour'. The movement was, however, less pervasive and less violent in comparison with other political agitations of the mid and late nineteenth century.

III

Evolution of Jharkhand Movement

All these movements up to the 20th century basically centred around the issue of exploitation and deprivation of the indigenous people by the migrants and the ruling elite. The overall pattern of these 'messianic movements' began to change under

roughly around the beginning of this century. The death of Birsa Munda in 1900, marked the end of 'traditional religious type' of leadership and was replaced by a 'rationalistic type' of leadership, whereby the new leaders started relying mostly on education and experience gained through contacts with modern civilisation.

At the turn of the present century, quite a number of institutions, led by Christian missionaries and students emerged to introduce social reforms and develop the tribal life in general. Such movements were designed to check the drinking habit among the tribals and to rescue them from the clutches of moneylenders by forming co-operative societies. One such society, the 'Roman Catholic Co-operative Society', was formed in 1906 and played a significant role in raising the standard of tribal life in the region.¹⁸

There were also societies for the promotion of education among the tribals which provided the nucleus for the latter political movements. One such society viz, the 'Christian Association' was formed by the Lutheran graduates in 1898 and was renamed the 'Christian College Union' in 1918 after the Catholics joined it.

The first students' organisation in the country 'Bihari Students' Conference', composed of students belonging to various tribes, was established by Rajendra Prasad in Patna and a 'Christian Students' Conference was convened at Hazaribagh in the year 1910.¹⁹ The Christian 'adivasi' students were initially guided by some philanthropic ideas, but soon they became concerned about the socio-economic uplift of the tribals. The first organisation for the said purpose, in the form of a movement, was organised by the Lutheran Christians and F. Bartholomew, a student of St. Columba's College, Hazaribagh organised the Christian students to form a society called 'Chotanagpur Unnati Samaj' in 1915.²⁰ It was primarily a welfare organisation, aimed at the development of the Chotanagpur area by improving the social, economic and political conditions of the tribals. Though not a political organisation, the samaj held regular meetings, panchayats, etc. It opened its gate to non-Christian 'adivasis' as well and worked for inter-tribal unity by bringing into its fold a large number of educated youth. However, it was basically an urban, elitist organisation with very little influence in the villages. The leadership was provided by the teachers and catechists, who demanded employment opportunities for the educated tribals, sought to secure reservations for them in different services and legislative bodies and planned to form a sub-state of Chotanagpur joined either to Bengal or Orissa but certainly detached from Bihar.²¹

The Simon Commission arrived in India in 1928.²² The members of the Chotanagpur Unnati Samaj, led by Bishop Van Hoeck and Joel Lakra, took the opportunity to place a memorandum before the commission seeking special privileges for the tribals and urging the commission to consider the demand for a separate administrative unit

in the Chotanagpur region.²⁴ The effort, however, did not meet with success.

The desire to overcome the urban Christian orientation of the movement was evident in the formation of a 'Kisan Sabha' in 1931, under the leadership of Theble Oraon, a non-Christian, who along with Lorentius Burla, left the Unnati Samaj to organise the Sabha. The Kisan Sabha, however, did not attain any significant success, as its programmes, suitable for Gangetic Bihar, was not that effective in Chotanagpur and Santhal Parganas regulated as they were by special tenancy acts.²⁵

In the government of India Act 1935, Chotanagpur was described as a 'partially excluded area' and was put under the special responsibility of the governor under section 92 of the act. The Chotanagpur Unnati Samaj opposed the provision through a number of resolutions and held quite a few meetings, without much success, as the government stood firm about the provision. However, when elections were held in January 1937 in accordance with the provisions of the new act, all the candidates fielded by the Unnati Samaj and the Kisan Sabha were defeated, as the Congress swept the polls. Only the 'Chotanagpur Catholic Sabha', formed in 1936, under the leadership of Boniface Lakra as the president and Ignes Beck as the secretary, was able to win two seats in the region.²⁶

Electoral reverses of the tribal candidates in the 1937 elections led to a change in the attitude of the tribal leaders and an attempt was made to bridge the gap between the Christians and non-Christians among the tribes. The result was the formation of 'Adivasi Mahasabha' in 1938, a monolithic organisation to which the Unnati Samaj and the Kisan Sabha were merged. In spite of its name, Adivasi Mahasabha did allow the non adivasis of the region to participate in its activities, at least officially. The Bengalis who considered themselves unsafe in Bihar and the Muslim League, planning to build a corridor linking the east and west wings of Pakistan, also provided moral and material support to the Mahasabha.

The Mahasabha, which worked for the creation of a separate state (not a 'sub-state' as was planned by the Unnati Samaj), demanding complete separation from Bihar, was led by some highly educated professional leaders. Prominent among the leaders was Jaipal Singh, an Oxford-returned Christian tribal, who was not only highly educated but had successfully captained the Indian hockey team to victory in the 1928 Olympics at Amsterdam. Jaipal, with charismatic qualities, came to be known as 'morang gomkey' (supreme leader) of the Jharkhandis. He presided over the second session of the Mahasabha in 1939 and gave a call for the creation of a separate province for the tribals. He also demanded an enquiry into the malpractices of the Congress ministry in Bihar.²⁷ Later, during the second world war, when the Congress ministry in Bihar resigned on October 31, 1939, Jaipal Singh, a loyalist, supported the British government and its war efforts and helped them to recruit tribals for the British army.²⁸

The Adivasi Mahasabha was not initially a political party and more or less remained outside the mainstream of nationalist politics. It sought representation in the Bihar Pradesh Congress Committee but did not get it.²⁹ Subsequently, it contested the 1946 general elections on its own and was routed by the Congress at the polls. The defeat was largely because of the emergence of 'Adim Jati Seva Mandal', a social reform organisation, formed by Rajendra Prasad, to conduct welfare activities among the tribals and 'Sanatan Adivasi Mahasabha', founded by Theble Oraon, as a counterpoise to the Adivasi Mahasabha.³⁰ The link between the Muslim League and the Adivasi Mahasabha was also broken in 1947 and the riots in Calcutta and the partition of Bengal shook the Bengalis living in Bihar a great deal. As a result the controversies between Biharis and Bengalis lost its momentum, at least temporarily.

Adim Jati Seva Mandal was a voluntary organisation financed by the government, with the objective of weakening the movement led by the Christian tribals for a separate Jharkhand state.³¹ It provided free education and medical aid to the tribals to bring them out of the missionary influence. Gradually, the Seva Mandal came to be identified with the Hindus and a convert-non-convert division among the tribals followed, affecting the cause of the Jharkhand movement adversely.³²

PARTY-BASED MOVEMENT

Justin Richard, a tribal leader, organised the United Jharkhand Party late in 1948.³³ The party was open to both the tribals and non-tribals. Jaipal Singh joined the new organisation after some initial hesitation. On March 5, 1949, at a conference of the Adivasi Mahasabha, held at Hindisala in Ranchi, 'Jharkhand Party' was formed, with Jaipal Singh as its president and Idsen Deba as the secretary, winding up the Adivasi Mahasabha.³⁴ Jaipal did not hesitate to arouse primordial loyalties of the tribals and used violent means to put an end to north Bihar dominance in the region.

In the initial years, the Jharkhand Party showed four distinct traits: (a) urban orientation in thinking and activity, (b) Christian domination and close links with the churches, (c) predominance of Mundas and Oraons—the two major tribes of Ranchi area, and (d) sectarian behaviour against non-tribal population in the name of tribal solidarity.³⁵ However, ethnicity was gradually replaced by regionalism as the rallying point for the Jharkhand Party and the militant movement gave rise to an organised political party. This was partly because of the recognition of the tribals' need for special protection under the Constitution of free India and provisions inserted under the Fifth and Sixth Schedules for their emancipation. The Jharkhand leaders were probably also influenced by the stand taken by the Congress Party that language, not ethnicity, should determine the formation of a province. Many elements of the Congress Socialist Party and quite a few members of the moneylending community,

identified as 'dikus', joined the Jharkhand Party during this period. The area of Jharkhand was enlarged to include lands inhabited by the Chotanagpur tribals but falling under West Bengal, Orissa and Madhya Pradesh. Thus, a new phase of constitutional participation based on regional sentiments dawned.

In the first general elections of 1952, the Jharkhand Party fought the elections with the call for an 'Alag Prant' (separate land) and became the largest opposition party in the Bihar legislative assembly, by winning all the 32 seats from south Bihar.³⁶ The party won 33 assembly seats in all, out of a total of 325 seats and three Lok Sabha seats from Bihar alone. Jaipal Singh himself became an MP. This electoral victory gave new impetus to the movement in and outside the assembly.

The States Reorganisation Commission was formed in 1953, with Fazle Ali as its chairman. With the formation of the commission, the Jharkhand Party submitted a memorandum 'On the Question of the Formation of the State of Jharkhand within the Indian Union'. The memorandum, signed by 34 members of the Bihar legislative assembly, was submitted on April 22, 1954. It demanded formation of the state of Jharkhand, comprising the districts of Chotanagpur, Santhal Parganas and parts of Gaya, Shahabad, Bhagalpur and Monghyr districts of Bihar, some 'tehsils' of the Mirzapur district of UP, Surguja district of Madhya Pradesh and districts of Keonjhar and Mayurbhanj in Orissa. The proposed State, according to the memorandum, was to comprise of an area of 63,859 square miles with a population of 1,63,67,177, which was bigger than West Bengal in area and Orissa in population.³⁷

K M Panikkar and H N Kunzru, two members of the States Reorganisation Commission, visited Chotanagpur region from January 27 to February 10, 1955 and faced impressive demonstrations by the members of the Jharkhand Party. The commission, however, in its report did not agree with the idea of a separate Jharkhand state. Some of the members of the commission even supported the claims of Orissa over Seraikela and Kharsawan and almost 2,407 square miles of the proposed Jharkhand state was given to West Bengal. The main reason sighted by the commission for not granting a separate statehood to the Chotanagpur plateau was the lack of viability of the region as a linguistic unit.³⁸ The tribals were shocked, but despite their disappointment, the Jharkhand Party continued to be the leading opposition party in the Bihar legislative assembly. In the general elections of 1957, its strength, however, was marginally reduced to 28 seats.

Between 1955 and 1961, a number of anti-moneylender agrarian struggles, led by the Santhal activists of the Jharkhand Party, took place in Santhal Parganas. Prominent among the leaders was Satrugna Besra, an MLA from Jamatara. Interestingly, the Jharkhand movement among the Santhals, unlike that among the Mundas and Oraons, was always oriented towards the agrarian cause.³⁹ The centre of activity during these

struggles was shifted from Ranchi to Santhal Parganas, the home of the Santhals.

However, in the 1962 general elections, the strength of the Jharkhand Party in Bihar legislative assembly was substantially reduced to only 20. This was largely because of a Christian-non-Christian schism among the tribals, weakening the party. The division was caused by the advantages enjoyed by the educated and missionary-backed Christians in getting jobs and other social benefits *vis-a-vis* the non-Christians. The developmental activities and industrialisation under the first two five-year plans in the Chotanagpur region and the participation of the tribal people in those programmes, also removed them from the agitational path, at least temporarily. Besides, experiments in Madhya Pradesh and Orissa, where tribals were represented in the council of ministers of the Congress government, amply proved that sharing of power even with the Congress could protect tribal interests up to a certain level. In the meantime, some new States had also come into being as a result of movements launched from within the Congress. Jharkhand leaders felt that they could perhaps serve the tribals' interest better from within the ruling Congress Party. Jaipal Singh, facing severe criticism for his dictatorial attitude, also sought refuge under the Congress umbrella. Thus, the Jharkhand Party merged with the Congress in June 1963, surrendering the popular party symbol of 'cock' and its legal identity altogether.

ERA OF CONFUSION

The merger dealt a severe blow to the movement and ushered in an era of confusion in the politics of Chotanagpur region. Jaipal was included in the Bihar cabinet led by Pandit Binodamanda Jha, who saw this as an opportunity to penetrate into the tribal belt, so far eluding the Congress influence. However, in August 1963, Jha had to resign as chief minister, under the Kamraj Plan and his successor K B Sahay relieved Jaipal of his post of education minister and appointed S K Bage as a minister.³⁸ Not only was Jaipal Singh dislodged from his ministership in the Bihar cabinet, but most of his followers, particularly the senior ones, turned against him. They declared the merger to be illegal and started reviving the old party. The party spirit though revived was fragmented and lapsed back to its ethnic character.³⁹

During the fourth general elections of 1967, an anti-Congress wave was evident in the Chotanagpur plateau. Tribal leaders in the Congress, with a Jharkhand background, fared badly. Jaipal Singh scraped through with a very narrow margin, while S K Bage, a minister in the Bihar cabinet, forfeited his deposit. Though the symbol of 'cock', allotted to the Jharkhand Party, was frozen, those opposed to the merger fought as independents and succeeded in winning eleven seats in total.

After this election, Bihar passed through a period of political instability and there were experiments in coalition governments from 1967 to 1972. Lack of any unified

political group of the tribals further added to the confusion. A number of splinter groups like 'Birsas Seva Dal', 'Veer Birsas Dal', 'Krantikari Mukti Morcha', 'Chotanagpur Plateau Praja Parishad', 'Adivasi Chhatra Parishad', 'Chotanagpur Front' and others claiming to be the real Jharkhand Party appeared on the scene.⁴⁰ None of these groups, backed by Christian organisations overtly or covertly, could, however, further the cause of the suffering tribals as they were infected by mutual bickerings. Thus, unprecedented factionalism marked the post-Jaipal period of the movement.

By this time, Kartick Oraon, a Hindu version of Jaipal Singh, with Western education and experience, emerged as a reaction against the Christian domination of the tribal scene. He was against the special privileges enjoyed by the Christian tribals under the Constitution of India, as the Christians were in a better position *vis-a-vis* the non-Christians in educational and other fields. In November 1968, Oraon appealed to the A K Chanda Committee, visiting Ranchi, to divert the money spent on Christian tribals to the welfare of the backward non-Christian tribals.⁴¹ Soon Kartick Oraon was rewarded with the vice-chairmanship of the Chotanagpur and Santhal Parganas Development Authority, located at Ranchi. He also won parliamentary elections of 1967 and 1971. By this time, the Bihar Scheduled Areas Regulation Act of 1969 put restrictions on the alienation of tribal land to non-tribals and provided for their restoration. This was an important legislation in preventing further loss of tribal land to the outsiders and in restoring the confidence of the original inhabitants.

On May 19, 1968, David Munzani organised the 'All India Jharkhand Party'⁴² which was dominated by Christians and naturally could not resolve the Christian-non-Christian rift. Bagun Sumbrai was named president and N E Horo, the general secretary of the party. The party was soon divided into Bagun faction and Horo faction. In the mid-term poll of Bihar in 1969, the Horo faction of the All India Jharkhand Party secured ten seats in the assembly. But in the 1972 general elections for the Bihar State assembly, it managed only one seat as against four of the Bagun faction. As a result of this dissension within the party, N E Horo left the organisation and formed a new party known as 'Jharkhand Party'.⁴³ On March 12, 1973, Horo submitted a memorandum to the prime minister Indira Gandhi, demanding the creation of a separate state of Jharkhand. This was actually a modified version of the demand placed before the States Reorganisation Commission in 1954 by Jaipal Singh.

In 1968, Justin Richard established yet another party in Santhal Parganas, namely, 'Hul Jharkhand' named after the Hul (revolution) of 1855-56.⁴⁴ The party got seven seats in the mid-term poll of Bihar in 1969. It sought to project a non-ethnic, non-parochial image by appointing non-Santhal members in its executive committees, at the central level. Christian and non-Christian (including both Hindus and Muslims) Santhals as well as representatives from Ranchi

and Singhbhum districts were taken in the committees.

Another radical group, 'Birsas Seva Dal' was quite active during 1967-69, especially in the urban areas of Ranchi and Jamshedpur. Named after the tribal hero Birsas Munda, the Dal was founded by Lalit Kuzur and had Moses Guria as its general secretary. It embraced socialism as its basic economic goal, boycotted the elections and thus, gave a new direction to the movement.⁴⁵ The Dal organised violent attacks on non-tribal landlords and led mass demonstrations in the urban areas, clamouring for a tribal state. Kuzur believed in 'detribalisation', doing away with their primitive way of living and preferred to call the adivasis or tribals 'Chotanagpuri' as both the terms were considered to be 'hateful' words.⁴⁶

Almost during the same period a social reform organisation, namely 'Sivaji Samaj', appeared in 1969 under the initiative of Sibusoren to fight the evils of liquor, money-lending, etc.⁴⁷ He was soon joined by Binod Behari Mahato and A K Roy, who after being expelled from the Communist Party of India (Marxist), had formed the Marxist Co-ordination Committee. Sivaji Samaj soon took the shape of a movement and spread over a large area of 'Jharkhand', including parts of Purulia district in West Bengal. The movement reached even remote villages, fought against the exploitation of landlords and started 'Dhan Kato Andolan' (forcible harvesting).⁴⁸ 'Gram Golas' (collective grain storages) were established to help the poor tribals at the time of crisis. Such measures made the movement very popular among the tribals and mobilised a large section of the landless tribals around the Samaj.

RADICALISATION OF MOVEMENT

Sivaji Samaj was gradually transformed into 'Jharkhand Mukti Morcha', with Binod Behari Mahato as its president and Sibusoren as its general secretary.⁴⁹ The Marxist Co-ordination Committee of A K Roy also lent able support to the Morcha. Some of the Naxalite groups operating in the Dhanbad area also provided moral support to the movement. Thus, radicalism found a new expression under the banner of Jharkhand Mukti Morcha and the movement got transformed significantly on many counts.

The Morcha projected itself as a radical Marxist party, fighting against 'internal colonial exploitation' of the Chotanagpur region. Naturally, it not only demanded a separate state, but a state free from class exploitation. The leaders promised to make Jharkhand the first 'Lalkhand' (red state) in India.⁵⁰ JMM decided to recover alienated lands from moneylenders and big peasants in North Chotanagpur, an area where Jharkhand Party was not very strong. More than hundred cases of 'land riots' and violent clashes between the tribals and the 'mahajans' were reported from the region. The agrarian radicalism of the JMM was combined with its interest in cultural revivalism. The ancient practice of 'tribal self-government' was partially revived. The 'baisi' (assembly) was revived in Santhal

Parganas, without pleaders or court fees, to deliver simple justice to the local people. Traditional collective farming on common lands was reintroduced in some areas.⁵¹

The JMM also widened its base, at least in Dhanbad, by embracing the mining and industrial workers, most of whom came from the neighbouring States. Thus, an attempt was made to bring the workers and peasants closer on a common platform. Thus far the movement, before the advent of JMM, was basically an 'Adivasi Movement', with non-tribal population being lukewarm in their response to the cause of the movement. The Morcha, for the first time, could project some non-tribal leaders like Binod Behari Mahato, A K Roy, K S Chatterji and others with considerable mass base and thus could shed its exclusively tribal character to some extent.

The protagonists of the separate Jharkhand State kept a low profile during the JP movement in 1974. Though Jayaprakash Narayan himself was in favour of creating smaller States in India.⁵² The general elections of 1977, held after the Emergency, ushered in the Janata rule both at the Centre and the State of Bihar and saw a virtual rout of the regional forces in the Chotanagpur region. Only A K Roy of the Marxist Co-ordination Committee was returned from Dhanbad. What was worse, Bagun Sumbrui, of the All India Jharkhand Party, joined the Janata Party, leaving N E Horo alone to keep the Jharkhand flag flying.⁵³

During the Janata rule in Bihar, interestingly, all the political parties, including the Congress, created their own Jharkhand cell to appeal to the pro-Jharkhand sentiment of the tribals.⁵⁴ The otherwise dead political movement started gaining ground again since 1978. Sibui Soren, by this time, emerged as a true mass leader in Dhanbad and Santhal Parganas. During 1978-80 he organised violent rallies and mass demonstrations against moneylenders, big landholders and 'mafia' leaders. The 'Jungle Bachao (save forest) Andolan', centring around the forest areas of Singbhum, also gained ground during this time.⁵⁵

In January 1980, during the seventh general elections for the Lok Sabha, Congress formed an alliance with Sibui Soren, the charismatic JMM leader, to gain ground in the tribal belt of Chotanagpur. The pattern was followed in the subsequent State assembly elections held in June, the same year. The return of the Congress to power, both at the Centre as well as in the State of Bihar, signalled a virtual end to the militancy of Sibui Soren, who gradually distanced himself from Binod Behari Mahato and A K Roy. Meanwhile, Bagun Sumbrui, another important leader of the 'Ho' faction, with considerable influence in the Singbhum region, also joined the Congress Party. By this time the Chotanagpur and Santhal Pargana Development Authority was formed in 1981, under the initiative of Kartick Oraon.⁵⁶ The authority, intended to reinforce the developmental process in the area, however, failed to implement its resolutions effectively. Kartick Oraon, like both Soren and Sumbrui, also thought of fighting for the tribals' cause from within the system and

preferred to join hands with the Congress. Thus, the Jharkhand movement reverted back to its infancy, with the dream of a separate Jharkhand State enjoying little practical value.

In May 1980, a department of tribal and regional languages was opened in the Ranchi University. B P Kesri, vice-president of the All India Jharkhand Party, Horo faction and a teacher of Hindi in the GLA College, Daltonganj, joined the department. In June 1980, A K Dhan, a Western educated Christian tribal, who was serving in the North-Eastern Hill University, Shillong (and was offered the post of treasurer of the Jharkhand Co-ordination Committee, after it was formed in 1987) was appointed as vice-chancellor of the university. Soon the university, especially its tribal and regional languages department, became the nerve centre of tribal activities. Missionary agencies like Bishop Carey Institute, Bangalore and Oxfam, banned in West Bengal, provided finances for publications and other activities of the department.⁵⁷ Dhan himself patronised missionary institutions like St Augustine College, Manoharpur; Albert Ekka College, Chainpur; St Paul's College, Ranchi and B Ed Colleges at Lohardaga and Jamshedpur run by the Christians.

In 1982, quite a number of educated tribals got appointments as lecturers and principals in different colleges of the region. Higher posts in the university administration, like that of registrar and deputy registrar, director of physical education, etc, were also filled up by tribal candidates.⁵⁸ The student hostels of the university were virtually converted into adivasi hostels, providing shelters to the tribal politicians and agitators. During a visit of Chandra Sekhar Singh, the then chief minister of Bihar, to Dumka in 1983, raids were conducted on adivasi hostels and as a result, a number of arms were recovered and large number of activists were arrested.⁵⁹

Thus, Ranchi University and its department of tribal and regional languages became a training centre for activists working under a number of front organisations of the tribals like 'Chotanagpur Santhal Parganas Sangharsh Vahini', 'Chotanagpuri Intellectual Forum', 'Chotanagpuri Teachers' Association', etc. A large number of cadres were also supplied to the All Jharkhand Students Union after its formation in June, 1986.

In the eighth Lok Sabha elections held in 1984, Sibui Soren lost along with A K Roy and in the subsequent assembly elections of 1985, JMM won 14 seats, thus becoming a major opposition party in the Bihar legislature. In 1985, 52 members of the Bihar legislative assembly, representing the Chotanagpur region, under the leadership of Devendra Nath Champia, sent a joint memorandum to the prime minister demanding Central administration in the Chotanagpur region.⁶⁰

Meanwhile, the tribal students formed the All Jharkhand Students' Union on June 22, 1986 taking a cue from their counterparts in Assam. Prabhakar Tirkey, a student of Birsa Agriculture University, Ranchi, became the president and Suraj Singh Birsa,

a student of the tribal and regional languages department, Ranchi University, became its secretary. Interestingly, Ram Dayal Munda was elevated to the post of acting vice-chancellor of Ranchi University in June 1986. The formation of the AJSV led to a rift between politicians and students, resulting in further fragmentation of the movement.

During October 19 to 20, 1986, a conference of students and intellectuals was held at Jamshedpur in which N E Horo and Ram Dayal Munda along with other prominent leaders took part. A demand was made in the conference to grant an independent status to AJSU.⁶¹ This was followed by another conference at Hazaribagh between December 30 and 31, of the same year, when the old demand for a separate Jharkhand state was revived and it was decided to launch a militant agitation to achieve the goal.⁶²

The World Council of Indigenous Tribal People founded in 1975 under the influence of World Council of Churches, provided another platform for the tribals in the Chotanagpur region when an Indian Council of Indigenous Tribal People appeared as a branch of the World Council. In the first week of August 1987, the council sent a delegation to Geneva to participate in the deliberations of the United Nations Working Group on Indigenous Populations. The delegation included A K Kisku from West Bengal representing the Santhal tribe, Bishop Nirmal Minz from Chotanagpur representing the Oraon tribe and Samari Brahmachoudhury MP, representing the Bodo tribe of Assam.⁶³ The question of survival of adivasis in the face of exploitations of various kinds and their demand for the right of self-determination under a separate Jharkhand State, were raised in the conference. The Indian Council of Indigenous Tribal People held a conference at Ranchi from October 17 to 19, 1987, where 150 delegates from eight States took part. It was decided in the conference to make a serious effort to bring all the tribal factions in India under one umbrella.⁶⁴

Lack of co-ordination among the different factions of the tribal movement was a constant source of anxiety for the well-wishers of the movement, ever since the eclipse of Jaipal Singh. The idea of co-ordinating the activities of different factions was mooted towards the end of 1986, but without much success. Meanwhile, on August 8, 1987, the president of the Jharkhand Mukti Morcha Nirmal Mahato, was killed, allegedly by Congressmen at Jamshedpur. This led to a vigorous agitation and further underlined the need for unity and co-ordination among different factions.

FROM ETHNIC TO REGIONAL MOVEMENT

A conference to bring different Jharkhand groups, irrespective of their nature and composition, on one platform was held at Ramgarh from September 11 to 13, 1987 and was attended by 438 delegates representing almost 50 political, cultural, students' and women's organisations.⁶⁵ Prominent among the participatory groups were the Jharkhand

Party led by N B Huma, the Binod Behari Mahato group of the Jharkhand Mukti Morcha, two factions of the Jharkhand Kranti Dal led by Santosh Rana and Satyanarayan Sinha, the Indian People's Front, All Jharkhand Students Union, Jharkhand Liberation Front, MKSS and others. Though the Jharkhand Mukti Morcha (Soren group) stayed away initially, later joined the Jharkhand Coordination Committee. B P Kesri, head of the department of tribal and regional languages, Ranchi University, though himself a 'sadan', became the convenor of JCC.⁶⁶ A 23-point programme was adopted in the conference to achieve the goal of a separate Jharkhand State, comprising of 21 districts of Bihar, West Bengal, Orissa and Madhya Pradesh. A number of Jharkhand bandhs, 'rail roko' agitations and a Jharkhand March (in the third week of March 1988) were organised and a provisional government was formed.⁶⁷

The Soren faction of JMM demanded a reconstitution of the Jharkhand Coordination Committee, excluding non-political men like Kesri and others. In a meeting of the JCC convened by Kesri, to chalk out the future strategy for the movement, Sibhu Soren stressed two points: first, since Jharkhand movement was a political one, JCC should be formed by political parties only.⁶⁸ Secondly, if JCC comprises both of political and non-political organisations, half of its members should be taken from the JMM alone, by virtue of its stronghold in the area. Kesri, however, did not concede any of the demands and held that all the JCC members were co-ordinators of the Jharkhand movement, with equal status.

The most significant aspect of the movement under Kesri's leadership has been its broadening of the base. The movement no longer represents tribal chauvinism and has gradually involved the 'sadan' population of the Chotanagpur hill areas as well. Besides, a new wave of intellectual participation has given the movement some degree of maturity, it had lacked in its earlier phases. It has in its ranks today, a host of young academics, who not only have studied the socio-economic problems of the region in depth, but are well equipped to analyse the situation scientifically and argue their case quite logically. The movement thus, has come out of its emotional phase and today can boast of a strong intellectual base of its own.

Factionalism resurfaced during the third week of August, 1989, when the militant AJSU severed its link with the Co-ordination Committee, disagreeing on the question of participation in the Ninth Lok Sabha Elections. However, a change in the leadership of the students' body, effected in its annual convention held at Ranchi, on January 7, 1990, reversed its earlier stand and decided to take part in the ensuing Assembly Elections in Bihar, on the JMM symbol. In another significant development, the two factions of the Jharkhand Mukti Morcha, led by Sibhu Soren and Binod Behari Mahato respectively, reunited after seven long years on January 7, 1990, at a joint convention of both the factors held at Dumari, in Giridih district of Bihar.⁶⁹

Meanwhile, in the 9th Lok Sabha Elections of November, 1989 and the subsequent assembly elections of February 1990, JMM emerged as the strongest Jharkhand group in tribal Bihar. It captured three Lok Sabha seats and 19 assembly seats in Bihar. Interestingly, Bharatiya Janata Party which won 39 assembly seats, got 21 of them from tribal Bihar alone. Thus, JMM was relegated to the third place in the tribal region after BJP and Congress(I).

Most significantly, in a major policy shift, the JMM accepted the proposal of BJP to confine the agitation for a separate Jharkhand state to the geographical boundaries of the Chotanagpur and Santhal Parganas of Bihar only. A 'Jharkhand Vanachal Action Committee' was formed at a meeting held at Patna on July 19, 1990, with Sibhu Soren as the convenor of the steering committee, having representation from even the Communist Party of India, apart from the JMM and BJP.⁷⁰

IV

Issues of the Movement

Tribal groups in India, like so many backward castes, were used to accepting their unequal economic positions without much hue and cry even a couple of decades ago. But today, the spread of education and rising consciousness have led these groups to challenge the fatalistic theory of deprivation, put forward by the privileged classes, to keep the deprived in subjugation for good. The result is an outgrowth of large scale discontent among different ethnic and regional groups within the country. A close perusal of the nature and growth of the Jharkhand movement brings into light four basic issues, instrumental in mobilising the otherwise peace loving tribal people of the region, to raise their voice of protest against the subordination and injustice done to them by the migrants.

LAND AND FOREST ALIENATION

One of the great sufferings endured by the tribals in the region, for generations, has been the alienation of their ancestral land of which they were masters from times immemorial. Land, to them, is a 'part of their socio-cultural heritage'. The emotional ties with the land resulted from the fact that it contained the burial ground of their ancestors with whom they would be united after their death and the sacrificial grave where they propitiated their spirits.⁷¹

Like land, forest is also intimately connected with tribal life. "It is the abode of the spirits, the place of worship ('sarna') and the seat of life cycle ceremonies including burial ('sadsandiri')"⁷² Forest provides the tribals with food, fuel, fertiliser, fodder, farm implements and material equipment for family use. Thus, the Birhors of Purulia in West Bengal and Cheros of Palamau in Bihar sustain on hunting and gathering. Rope-making by the Birhors, bamboo basketry of the Mahalis, Deswali Majhis' rearing of cocoons, gathering of 'lak' by Munda, Santal, Kherwar and Chero tribes of both Bihar and West Bengal amply illustrate the importance of forests in tribal

life. Moreover, the need for leaves and twigs after birth and death and many other religious rites and rituals starting from 'sandra' or 'desh sikar' to the erection of 'mandap' or canopy for marriages, unmistakably point towards a symbiotic relationship between the forest and the tribal communities.⁷³

In a memorandum submitted to the United Nations Working Group on Indigenous Populations in August, 1987, Jharkhand leaders observed that "the land rights and ownership introduced by the British colonial power and adopted and implemented by the national government after independence, the forest laws, making land and forests as commodities for sale and purchase under the money economy and marketing system have enabled outsiders, moneylenders and the government, to grab adivasi land by fair or foul means".

In fact, transference of tribal land in the hands of outsiders, especially moneylenders and absentee landlords, started much before the advent of the British into the region. Alienation of land began as early as the fourth century AD and continued even during the reign of the Mughal rulers. However, the introduction of Permanent Settlement in 1793, after the British annexation of the region and the subsequent Sale and Rent Law of 1859, further encouraged transfer of land from the original inhabitants to the outsiders. The East India Company and the subsequent British government were mainly interested in collecting revenues. They used to auction landed property of the tribal chiefs for failing to pay their dues in time. Thus, gradually, most of the fertile tribal lands were transferred to the 'diku' moneylenders and absentee landlords. The Chotanagpur Tenancy (Amendment) Act of 1903 and the Santhal Parganas Settlement (Amendment) Regulation of 1908 could control such illegal transfer of land, but only partially.

With the opening up of the area to mining and industry, at the turn of the nineteenth century, tribals were further displaced. Many of them became landless 'coolie' labourers. Some even were driven to begging. The Tata Iron and Steel Company was set up at Jamshedpur and other industries like the Hindustan Copper Mines, the Indian Aluminium Company, the National Coal Development Corporation and others followed soon. Since independence, with the launching of the Five-Year Plans, both the Central and the State governments established heavy industries in and around Ranchi, Rourkela, Bokaro and Hatia. The need for power for these industrial centres resulted into construction of several irrigation and power projects across Koel-Karo, Damodar, Subarnarekha, Tenughat, Kangsabati and Chandrapura. Construction of dams and hydroelectric power projects engulfed thousands and thousands acres of land, without providing adequate compensation to the owners or making arrangements for their proper rehabilitation. This resulted in many of the former tribal landowners working as 'coolies' on their own land on poor wages. Along with the big industries, ancillary industries also developed, taking away

more and more tribal lands. More than 230 mines, situated in the Kolhan area of Singhbhum district, also caused large-scale displacement of tribals from arable land.

All these industries, mines, irrigation and power projects brought in their wake increasing urbanisation. Thus, the Chotanagpur-Santhal Parganas belt which consisted of only 13 towns in 1901, went through an unprecedented growth of urban centres numbering 95 in 1971. In Singhbhum district alone, the number of towns jumped from four in 1931 to 24 in 1981.⁷⁴

Besides, the government, both during the pre-independence and post-independence periods, has taken away sizeable portion of forest land under the Indian Forest Acts 1878, 1927 and the Bihar Private Forest Act 1927, in the name of scientific management of forests and economic development of the nation. Critics argue that the alternative approach of social forestry, though may have a bit of forestry in it, lack any social content. Plantation of mostly non-indigenous quick-growing trees may one day drive out 'Sarna Buria' or the Golden Old Lady of the Oraons and also may displace many gods and goddesses of other tribes.⁷⁵ Such schemes are generally denounced by tribal leaders as a part of the overall policy of the government to uproot the tribals and peasants from their own land, forcing them to earn their livelihood in the urban and industrial centres.

IMMIGRATION

The people of Chotanagpur have witnessed steady flow of outsiders to the region ever since the days of the fourth Nagbanshi King Pratap Rai, in the fourth century AD. Subsequent rulers even invited outsiders to settle in the region for military, religious and scholarly pursuits. Occasional military invasions and the resultant changes in demographic patterns were taken into their strides by the local people. The process continued till the Mughal period without much of a problem in evidence. Trouble started to surface when the indigenous people, apart from losing their ancestral lands started losing their cultural identity and distinctive qualities as well, under the influence of dominant religion and cultures. Rapid industrialisation and development of surface communication facilities under the British rule, further facilitated immigrants, in increased volumes, to come and settle in the region.

The industries and power projects established in the region, needed some skilled personnel and so, moving in of some specialists from other parts of the country was quite natural. But immigrants came in large numbers even in areas where no such specialised skills were needed. This large-scale influx of outsiders, mainly from north and central Bihar, not only deprived the local people of the newly created job opportunities and training facilities but also practically forced them to leave their own land in search of menial jobs in far distant places like Punjab, Assam and others.

The steady influx of external population and gradual eviction of the local people

made the tribals minority in their own land. In 1891, there were only 1,00,000 outsiders in the Bihar portion of Jharkhand region. Till 1921, the growth of immigrants was rather slow. But since 1939 the rate picked up and today immigrants from north and central Bihar account for some 2.6 million people.

Since independence the Chotanagpur area has been one of the fastest growing areas in the country in terms of population growth. The industrial cities of Ranchi, Jamshepur and Dhanbad and their peripheries have simply exploded with population. The influx of outsiders has just reversed the tribal-non-tribal population ratio in the region over a period of thirty years. While the ratio was 60/40 in favour of tribals in 1951 it has just been reversed in 1981. Santhal Parganas, Palamau, Hazaribagh, Ranchi, Dhanbad and Singhbhum—all registered a decrease in tribal population between 1931 and 1981, ranging between two per cent and ten per cent. In Singhbhum district alone, the Scheduled Tribe population fell from 54.08 per cent in 1931 to 44.08 per cent in 1981.

Not only the tribals were made minority in their own land, their access to different industrial jobs and training facilities were also reduced. According to the leaders of the movement, till 1971, only twenty-four per cent of the total workers employed in different industries in Singhbhum were scheduled tribes or scheduled castes though they constituted fifty per cent of the population in the district and supplied 54.2 per cent of the total workforce. In the urban area of the district, only 15.9 per cent of workers belonged to these groups. The immigrants, accounting for not more than fifteen per cent of the total population of the region, thus, grabbed most of the lucrative jobs at the expense of the local Jharkhandis. This disproportionate representation of the local people in industrial sector and their involvement in temporary, lowly paid and unskilled jobs clearly proves that apart from their lack of required skill and perhaps a preference for seasonal employment, tribals, in general, were deprived of the educational and training facilities, mostly cornered by the privileged sections of the society. They were deliberately kept as a reserve workforce of cheap, segregated, unorganised labourers in the interest of the industrialists and business houses.

In spite of Constitutional provisions regarding reservation for the tribal and local people in training and jobs under the public sector, nearly 90 per cent of the training facilities in general education, engineering and medical spheres as well as in government jobs, are filled up by outsiders. The well-intended effort of the government to encourage the weaker sections by providing special privileges to catch up with the rest of the people in the society, is constantly being frustrated by vested interest groups. Dereservation of a post on the plea of non-availability of qualified candidates, is a very common occurrence today. Besides, outsiders non-tribals very often deprive the genuine scheduled tribe people by acquiring fake certificates through various unscrupulous means.

CULTURAL IDENTITY

Three major cultural streams, viz, Aryan, Dravidian and Austroasian, represented through various languages, have converged in the Chotanagpur Plateau, to create a cultural synthesis of its own kind. This culture has attained a distinctiveness over the years, marked by a close relationship between nature and man, egalitarianism in social structure, accommodative history, equal sharing of economy, secularism in religious pursuits, a democratic political thinking and a people oriented art and literature.⁷⁶

So long as the tribals maintain a safe distance from the people of the plains, they retain their own identity and culture without much distortion. Thus, the Mundas in Chotanagpur have been able to maintain their traditional social structure and customs intact, as they are less accommodative in nature. But it is known that most of the tribal societies, today, are neither isolated from the surrounding non-tribal societies nor are they free from influences of urban values and dominant religions. Improvement in communication facilities has made tribal pockets more vulnerable to outside influence. Such contacts with outside world have created a dilemma in the tribal life and culture, resulting into an identity crisis for the Jharkhandis. Neither are they able to acclimatise to the urban and alien values, nor are they in a position to preserve and pursue their own traditional rites, rituals and customs. Thus, we find the Oraons and Hos are gradually losing their identity because of their accommodative nature and readiness to mix with outsiders. In the process tribal language, religion, customs and tradition are losing their purity and in some cases are being submerged under the influence of forces of modernisation.

Jharkhandis, generally, are worshippers of nature. But a large-scale devastation of forests owing to rapid industrialisation, urbanisation and unscientific mining and the consequent social forestry schemes, planting mostly non-indigenous, quick growing trees have adversely affected their life pattern and religious beliefs. Traditional tribal religions such as 'animism', 'sarna dharam' nature worship are gradually being replaced by Christianity, Hinduism and others. Change in adivasi food habits and festivals are also quite evident. Santhals, for instance, are abstaining from beef-eating and seem to be less interested in celebrating 'Itesh Bapla' 'Njrbolok Bapla', 'Sanga Bapla' and 'Bahador Bapla' as a result of their close proximity with the neighbouring Hindu society.⁷⁷ Possessing a very rich tradition of their own they are thus, not only denying themselves of a rich protein diet but also sacrificing their age old cultural heritage. Besides, the adivasi society, traditionally known for its egalitarianism, is being divided today on communal lines and even the hierarchical notions of caste and class are creeping in. Agriculture is made subservient to business and industry, literary and artistic pursuits are losing their participatory nature and becoming more passive and observation oriented. As a matter of fact, the tribals, unable to

sides, are a frustrated lot and as a natural consequence developing marks of a negative identity for themselves. They are being branded by the 'civilised' world as 'lazy bum', 'good for nothing', 'drunk' and 'criminal'.⁷⁸ Some adivasis like the Lodhas of Bengal and sections of the Gond in Madhya Pradesh are even described as criminal tribes. Thus, the notions of a noble, savage and a healthy tribe are fast becoming a myth. These signs of cultural degradation, sometimes, generate among the tribals a common psychology of identity assertion, for their own survival.

The Jharkhand region abounds in minerals and provides a substantial portion of India's total requirements in the field. Chotanagpur and Santhal Parganas though comprise only 2.5 per cent of the total geographical area of our land, nevertheless, account for more than twenty-five per cent of the mineral production of the country. The Jharkhand region alone, comprises of one-fifth of the public sector enterprises of the country. No less than 14 large-scale industries, with investments of crores of rupees, are scattered around Singhbhum district only. These industries produce iron and steel, copper, aluminium, uranium, lead, mica, glass, cement and fertiliser which are essential as far as India's growth and all round developments are concerned. But, if one looks at the development of this region in particular, in respect of irrigation, rural electrification or road construction, its backwardness is more than evident.

The people of this hilly terrain of south Bihar feel discriminated against the plains of northern parts of the state. The Chotanagpur plateau, enriched with mineral, forest and industrial resources, though contributes almost seventy per cent of the total revenue collection in Bihar, the expenditure of revenue made in this region is a paltry 20 per cent. Only five per cent of the total land in the region has irrigation facilities, while not more than five per cent of the total rural areas of south Bihar have electricity and only five kilometre road per thousand kilometre is paved.⁷⁹ Thus, perpetual neglect of the Chotanagpur region by the successive governments in Bihar, has led to mass discontent in the area.

The most disturbing feature of the development process in the region is that out of the meagre amount of money allotted, only a small portion reaches the actually needy. Thus, though the local people are known for their sincerity and hard work they are sliding down below the poverty line day by day. Many of them who are literally forced to leave the region in search for menial jobs, under the pressure of large-scale influx of immigrant job-seekers, nevertheless, find them in a precarious situation as they are not treated as scheduled tribes, eligible for the developmental benefits guaranteed under the Constitution of India. Thus, over a million tribal people from Chotanagpur, who had migrated to the north-eastern region of the country and eventually settled there as tea plantation labourers, face an additional discrimination.⁸⁰ This discrimination, however, is caused by their local tribal brethren who are not prepared to share the

under the Constitution. Those who still remain in their ancestral lands, as unskilled 'coolie' labourers, are gradually being sandwiched into slum areas of newly developed industrial and urban centres.

Besides, the tribals are still exploited by middle men who, most of the time, corner the fruits of meagre developmental activities carried out in the region. Some times they take advantage of the distance of the collection centres of the Forest Development Corporation from the tribal villages and exploit the tribals by controlling the sale of 'tendu' leaves and 'Mahua' fruit. Tribals produce the best lac in the world on their host trees, apart from vegetables and fruits. But regarding the marketing aspect of their produce, they are practically at the mercy of the middle men.

The attack on the ecological balance of the region by greedy timber merchants as well as by unscrupulous miners, affect the tribal life in more than one ways. Apart from large-scale destruction of forests, unplanned mining activities, by hollowing the earth underground, seriously reduce the capacity of the soil to retain moisture, which in turn, affect the productivity of land in general. With little irrigation facilities and problems of diminishing productivity of land, the large 'mono-crop' area of Jharkhand is gradually robbing its inhabitants of all the possible means of livelihood, turning them into a vast reserve of 'coolie' labour.

V

Conclusion

The Jharkhand movement is basically a protest movement against the exploitation of the indigenous tribal people by the outsider 'dikus'. To quote the election manifesto of the Jharkhand Mukti Morcha in 1980, "we want Jharkhand free from exploitation; a Jharkhand where those who work will eat and those who loot will go". The aim of the leaders is to emancipate the area from the clutches of exploiters, moneylenders, corrupt bureaucrats and vested interests. They describe the movement as a search for national identity in an environment of extreme exploitation and demand "the collective right of self-determination for economic, social, cultural and political identity of indigenous tribal people".⁸¹

It must be admitted to the credit of the leaders of the movement that separatism in this region has not so far degenerated into secessionism. It is true that a five-member delegation, representing different tribes of India, went to Geneva to present a memorandum to the UN Working Group on Indigenous Population, in the first week of August 1987, to contest government of India's contention that "there are no indigenous peoples in India". But over and above, the movement leaders have confined their demand to a separate state "within the national and constitutional framework of the Sovereign Democratic Republic of India".⁸²

In defining a 'Jharkhandi' or 'local people', the movement's leaders are quite liberal and have not taken any narrow ethnic view. The term 'Jharkhandi' today, includes both

who, apart from residing in the region, observe local festivals, worship the tribal deities, share tribal culture and take pride in the martyrdom of local heroes, irrespective of their language, religion, caste or sects, are considered to be 'Jharkhandis'.⁸³

The leaders of the movement argue that the 'Jharkhandis', belonging to the same tradition and cultural identity, have been artificially divided and put into four different states. Such division, they hold, has not only weakened the 'Jharkhand nationality' as a whole and given rise to several problems like that of a common link language and common script for the people, but has also facilitated the vested interests to perpetuate socio-economic exploitation in the region.

One finds some logic in the arguments of the movement leaders when they point out that if Andhra Pradesh could be created out of Madras (in 1953), if Maharashtra and Gujarat could be carved out of bilingual Bombay (in 1960), if Haryana could emerge out of Punjab (in 1966) and Assam could be divided into so many states in the north-east like Nagaland, Meghalaya, Tripura, Mizoram or Arunachal Pradesh, without damaging India's national unity, then why the demand for an additional Jharkhand state should be labelled as anti-national, as one, going against national integration?

But one must remember that creation of a separate State is not an end in itself. The movement's leaders feel that the creation of such a State will put an end to all sorts of discrimination and exploitation they face today. Such optimism may not necessarily prove to be correct. Formation of a separate Jharkhand State may not provide an adequate answer to the problem of exploitation. There is no guarantee that a new set of exploiters will not take over from the present set of beneficiaries. Problem of exploitation is, basically, a class problem. There is no reason to believe that the 'local people' are exploited only by outsider 'dikus' and once the ruling power is restored to the Jharkhandis themselves, all sorts of discrimination will disappear.

Moreover, it is not possible to carve out exclusive homelands for each and every ethnic group in India. Even if a Jharkhand State is created, not all of its inhabitants will share Jharkhandi culture, take pride in Jharkhandi tradition or participate in different festivals of the region. So there is a possibility of similar separatist demands cropping up in the future, within the same region. As there exists a great deal of intermingling of different communities all over the country, it is almost impossible to satisfy the aspirations of each one of them to have separate and distinct lands of their own, free from outsiders. Actually, there can be no end to such demands in a multi-ethnic society like that of ours. Even partial success of any such movement, to draw attention of the government and resulting in subsequent pacts or agreements, often encourages similar forces to raise the voice of separatism to gain some concessions from the government.

This is not to oppose the demands of creating more and more States. Whether

question of administrative expediency, ethnicity should not be the determining factor. In fact, considering the number of nationalities and sub-nationalities residing within India, even 50 States may prove to be too inadequate to satisfy all of them.

Whether a separate State of Jharkhand is created or not, one cannot and should not overlook the genuine grievances of the people of the region. The problem of economic underdevelopment along with that of cultural submergence are to be understood in two different planes. The Jharkhand question is not merely an economic one, it has its psychological aspects too. The Indian economy, as such, is under-developed, but not everywhere does economic backwardness result in movements of this type. The fear of being swamped by the dominant cultural streams, the suspicion of losing one's own identity as well as the feeling of alienation from the national mainstream, very often lead to movements of self assertion, which demand sympathetic consideration but certainly do not deserve contempt or negligence.

Notes

- 1 B P Kesri, 'Problems and Prospects of Jharkhand: Languages' in Nirmal Sengupta (ed), *Fourth World Dynamics: Jharkhand*, Authors Guild Publications, Delhi, 1982, p 140
- 2 Ibid.
- 3 Philip Ekka as quoted by PP Mahato, 'Agrarian Situation in Jharkhand' in Chakrabarti, Ghosh and Danda (eds), *Agrarian Situation in India*, Vol II, ASI, Calcutta, 1985, p 50.
- 4 N Minz, 'Meaning of Tribal Consciousness', unpublished paper
- 5 Ghosh and Sengupta, 'Nationality Question in Jharkhand' in Sengupta Nirmal, op cit, pp 243-44
- 6 Myron Weiner, *Sons of the Soil*, Oxford University Press, Delhi, 1978, p 158.
- 7 Foreword in K S Singh, *The Dust Storm and the Hanging Mist: Story of Birsa Munda and His Movement in Chotanagpur*, Firma, KLM, Calcutta, 1966, pp ix-x
- 8 The term 'chuar' according to N Minz comes from 'chor'-chuhar meaning uncivilised/arrogant.
- 9 F C Lakra, 'Christianity and Tribal Identity', unpublished paper.
- 10 H McPherson, *Final Report on the Survey and Settlement Operations in the District of Santhal Parganas*, Calcutta, 1909, as quoted by S C Panchbhui, 'The Jharkhand Movement among the Santhals' in K S Singh (ed), *Tribal Movements in India*, Vol II, Manohar, New Delhi, 1983, p 32.
- 11 K K Datta, *The Santhal Insurrection of 1855-57*, University of Calcutta, 1940, as mentioned in S C Panchbhui, op cit, pp 32-33.
- 12 S C Panchbhui, op cit, p 33.
- 13 Discrepancies exist among different authors regarding the period in which 'Sardar Larai' was actually fought. While Ram Dayal Munda, in his article 'The Jharkhand Movement: Retrospect and Prospect', *Social Change*, Vol 18, No 2, June 1988, mentions 1875-95, K S Singh, op cit, p 23, mentions 1859-95; N Minz, op cit, refers to 1870-85 and Myron Weiner, op cit, p 163, mentions 1880s.
- 14 N Minz, op cit.
- 15 Myron Weiner, op cit, p 163.

- 16 Ibid.
- 17 Movements of a single tribe under the traditional religious type of leadership of a messianic leader, in Stephen Fuchs, *Rebellious Prophets: A Study of Messianic Movements in Indian Religions*, Bombay, 1965.
- 18 K S Singh, 'Tribal Autonomy Movements in Chotanagpur' in K S Singh, (ed), *Tribal Movements in India*, Vol II, p 2.
- 19 Nirmal Sengupta, 'Background of the Jharkhand Question' in Nirmal Sengupta (ed), *Fourth World Dynamics*, op cit, p 28
- 20 *Jharkhand Andolon Kee O Keno*, Jharkhand Sahayak Samiti, Calcutta, 1987, p 30
- 21 A P Sharma, 'The Jharkhand Movement: A Critique' in *Social Change*, Vol 18, No 2, June 1988
- 22 Sachidanand, *The Changing Munda*, Concept Publishing Company, New Delhi, 1979, p 242.
- 23 Nirmal Sengupta, op cit
- 24 A P Sharma, op cit.
- 25 Home Department Political Proceedings, March 18, 1940 (National Archives) as quoted in A P Sharma, op cit
- 26 A P Sharma, op cit
- 27 K L Sharma, 'Jharkhand Movement in Bihar' in *Economic and Political Weekly*, Vol I, Nos 1-2, p 42
- 28 A P Sharma, op cit.
- 29 Satyabrata Chakrabarty, 'Jharkhand Movement in West Bengal—A Case Study of Sub-National Politics' in Rakhahari Chatterji (ed), *Politics in West Bengal*, World Press, Calcutta, 1985, p 173
- 30 Myron Weiner, *Sons of the Soil: Migration and Ethnic Conflict in India*, OUP, Delhi, 1978, p 192
- 31 A P Sharma, op cit.
- 32 L K Mahapatra, 'The Jharkhand Party in Orissa' in K S Singh (ed), *Tribal Movements in India*, op cit, p 67
- 33 Nirmal Sengupta, op cit, p 29
- 34 *Jharkhand Andolon Kee O Keno*, op cit, p 30.
- 35 Memorandum presented to the State Reorganisation Commission by the members of the Jharkhand Party in the Bihar legislature on April 22, 1954
- 36 R D Munda, 'The Jharkhand Movement. Retrospect and Prospect' in *Social Change*, Vol 18, No 2, June 1988
- 37 Nirmal Sengupta, op cit, pp 31-32.
- 38 Manohar Lal, *The Munda Elite*, Amar Prakashan, New Delhi, 1983, p 38
- 39 R D Munda, op cit
- 40 Manohar Lal, op cit, p 38
- 41 Ibid
- 42 A P Sharma, op cit, but according to K S Singh it was formed on December 28, 1967, op cit, p 10.
- 43 A K Roy, *Jharkhand aur Lalkhand*, Marxist Co-ordination, Dhanbad, 1981, p 52.
- 44 According to A P Sharma 'Hul Jharkhand' was established on December 28, 1968, but according to Satyabrata Chakrabarty it was established in 1969
- 45 A K Roy, op cit, p 52
- 46 Kuzur's interview with Myron Weiner, as quoted in his *Sons of the Soil*, pp 178-79.
- 47 A P Sharma, op cit
- 48 Satyabrata Chakrabarty, op cit, p 176.
- 49 JMM according to A P Sharma was founded at Dhanbad on February 4, 1973. But Sailendra Mahato mentions May 4, 1973 as the date in which it was formed (*Jharkhand Rajya aur Upanibeshbad*, in Hindi, JMM Singhbhum District Committee, February 4, 1985), and R D Munda in his article, refers to 1972 as the formation year.

- 51 K S Singh, 'Tribal Autonomy Movements in Chotanagpur' in K S Singh (ed), *Tribal Movements in India*, op cit, pp 12-13.
- 52 A P Sharma, op cit.
- 53 Ibid.
- 54 R D Munda, op cit.
- 55 *Jharkhand Andolon Kee O Keno*, op cit, p 32.
- 56 R D Munda, op cit.
- 57 A P Sharma, op cit.
- 58 P K Poojari, *Parde ke Peechhey* (in Hindi), Ranchi, 1983.
- 59 *Times of India*, New Delhi, November 19 and 20, 1983.
- 60 R D Munda, op cit.
- 61 Shyamal Sarkar, 'Rekindling Pride in Tribal Culture' in *The Statesman*, Calcutta, December 18, 1987.
- 62 *Ranchi Express* (Hindi Daily), Ranchi, January 2, 1987.
- 63 R D Munda could not attend the conference as he went to Moscow in connection with the Festival of India.
- 64 *Jharkhand Darshan* (in Hindi), January-March 1988, pp 29-31.
- 65 A P Sharma in *Social Change*, June 1988, has referred to 48 organisations attending the conference. But according to Rajat Ray in *Ananda Bazar Patrika* (Bengali daily, Calcutta, February 8, 1989) and Shyamal Sarkar in *The Statesman* (December 18, 1987) altogether 49 organisations took part in the conference. While Murari Mohan Mukherji in *Amrita Bazar Patrika*, July 16, 1989 has mentioned the number of participating organisations as 53.
- 66 'Sadan' implies indigenous non-tribal people. In the words of Sajal Basu and Pashupati Prasad Mahato, in their unpublished joint paper entitled 'Ethnicity, Identity Symbols and Regional Nationalism', 'Sadan' refers to the 'original dikus'.
- 67 A P Sharma, op cit.
- 68 Murari Mohan Mukherji, 'Jharkhand: A House Divided?' in *Amrita Bazar Patrika* (English daily), Calcutta, February 8, 1989.
- 69 *The Statesman*, January 8, 1990.
- 70 *The Statesman*, July 21, 1990 and *Amrita Bazar Patrika*, July 22, 1990.
- 71 K S Singh, *The Dust Storm and the Hanging Mist: Story of Birsa Munda and his Movement in Chotanagpur*, op cit, p 190.
- 72 K S Singh, *Tribal Movements in India*, op cit, pp XIII-XIV.
- 73 K Chattopadhyay, 'Tribal Cultures: Caught between Two Worlds', paper presented at the All India Workshop on Alternative Tribal Development Perspective, Calcutta, March 8-10, 1988.
- 74 Shyamal Sarkar, in *The Statesman*, December 19, 1987
- 75 K Chattopadhyay, op cit.
- 76 R D Munda, op cit.
- 77 K Chattopadhyay, op cit.
- 78 R D Munda, op cit
- 79 Ibid
- 80 Ibid.
- 81 Memorandum submitted to the UN Working Group on Indigenous Populations at Geneva, August 3-7, 1987.
- 82 Memorandum presented to the State Reorganisation Commission by the representatives of the Jharkhand Party in the Bihar legislative assembly on April 22, 1954.
- 83 P P Mahato, 'Social Movement: Sanskritisation to Secularisation: A Case Study of the Mahato of Jharkhand' in Siddique (ed), *Acculturation and Social Change in India: An Interdisciplinary Appraisal*, ASI, Calcutta, 1989.

On Birati, the CPI(M) and Tradition in Bengal

Brinda Karat

AT a time when the formation of broad political alliances is an issue of debate in the women's movement, critiques of differing ideologies from a gender point of view have an added relevance. As the biggest Left force, the CPI(M) has often been the focus of debate, as also the subject of harsh criticism. There is ample room for a discussion on the weaknesses of gender insights in the prevailing ideology and practice of the Left, particularly the CPI(M). Such a discussion should strengthen the process of self-criticism and correction at different levels of the party and the Left in general. As is clear from its own documents, the CPI(M) is far from claiming for itself the mantle of infallibility. However, it cannot be denied that on all major issues facing the women's movement the CPI(M) and the Left parties have taken an unambiguous pro-woman stand. In the last decade or so starting from the Mathura rape case and the changes in rape law, to the debate on dowry and domestic violence, the Muslim Women's Bill, the Sati murder, the offensive of religious fanaticism on women's rights, the question of economic independence of women, the role of the state vis-à-vis women's rights, as in Tripura, and on many other issues the CPI(M) has reflected the concerns of women.

However, these positions have been prompted by a particular understanding of the 'gender question' which seeks to find its roots not in a male-female contradiction or male attitudes but in the development of class society and locates its specificity in wider socio-economic realities. Many women's groups reject this approach as 'class subsuming gender' and hence as patriarchal. One or two incidents are picked out and propagated as proof of Left patriarchal ideology. Tactically this position is manifested in an approach politically hostile to the Left in general and the CPI(M) in particular.

Although Tanika Sarkar's article 'Reflections on Birati Rape Cases—Gender Ideology in Bengal' (EPW, February 2) implicitly distances itself from the viewpoint of gender as the axis of social analysis, with reference to the relevance of 'original socialist critiques of bourgeois decadence which included critiques of modern patriarchy' the approach is not dissimilar. One is also struck by the language used to describe CPI(M) supporters, such as 'besotted believers in the Left Front's general progressive potential'.

Sarkar's attempt is to use Birati and Shamali Gupta's statement printed in *People's Democracy* as the basis for what

is a preconceived theoretical construct. If Sarkar was indeed interested in a 'comprehensive' analysis of Birati by the CPI(M) or AIDWA she could as easily have referred to a detailed analysis by the CPI(M) member of parliament Malini Bhattacharya published in the AIDWA bulletin *Women's Equality*, or even to the AIDWA's own statement on it. But because Sarkar is *politically* not prepared to even consider that the language used in the statement in question was indeed an aberration and does not reflect either the party's or AIDWA's stand, she uses the questionable method of ignoring the other statements and analysis made on the same incident by party and AIDWA spokespersons. Is not the reliance on a single statement to build a theory, the trivialisation of theory itself? Perhaps Sarkar will be interested to know that when a parliamentary committee was set up in 1980 to amend the rape laws, the CPI(M) representative on the committee, Sushela Gopalan, was one of those who strongly argued for inclusion of the Law Commission's recommendation prohibiting the reference to 'previous sexual history' of the victim in a rape case.

Further, the actual role of the CPI(M) and mass organisations in the aftermath of Birati is distorted and underplayed. This again is a logical fall out of a preconceived prejudice—how can a party which believes that the rape of 'prostitutes' is no rape at all (Sarkar's inference) then organise big protests against it? As described in Bhattacharya's article referred to earlier, there was a big campaign launched by the CPI(M) along with other mass organisations to 'mobilise mass opinion for prevention of such incidents in future', to break illicit liquor dens and protest police complicity. Sarkar does not mention the former and dismisses the latter as 'policing functions'. Any activist working with women in slums knows how such liquor dens make the women in that area so much more vulnerable. In a city like Delhi, for instance the absence of a network of Left mass organisations and the subsequent lack of grassroots level social intervention make the work of women's organisations that much more difficult when faced with criminal activities and the power of underworld hoodlums. No amount of 'consciousness raising projects' as advocated by Sarkar would have the slightest meaning unless accompanied by a frontal attack on these criminal vested interests.

In Birati most of the women in that particular 'jhuggi' cluster were very poor Bangladeshi immigrants working as

domestic maids. The local police in spite of previous public protests, continued to connive with rival gangs of smugglers and illicit liquor barons operating from that area. Some of the women were also involved in this activity with different gangs and it was the rivalry between two gangs which directly led to the rapes. Understanding the circumstances of a particular rape case is not to justify the rape but to identify the factors which make women even more vulnerable.

One of the biggest problems faced by women's organisations is the protection given to rapists by local political forces. One need only recall the experience of Pararia, for example, where the then Congress(I) woman MP denied that the rape had taken place, or even Gajraula where eight months after the rape of two nuns the criminals have not been apprehended because of the protection given by local politicians. Sarkar dismisses the efforts of the local CPI(M) and others to apprehend the culprits, which they did in a short time, as locating a gender problem as 'a law and order one' or 'a bureaucratic preoccupation with law and order'. Perhaps if ruling parties in other States showed a similar preoccupation there would be an improvement in the dismally low figure of only 3 per cent convictions in cases concerning atrocities against women. This is not a question of law and order or bureaucratic preoccupation, but of the political will of the state agencies to take action against perpetrators of crimes against women. The women's movement has repeatedly underlined the importance of this issue. This political will and action would convey important messages, the implications of which have been known to be significant on public consciousness.

Similarly, on the Bantala issue, Sarkar completely distorts the CPI(M) position. The chief minister's statement that it 'was the work of anti-socials and criminals' was in response to the charge made by the Congress(I) and picked up by sections of the Bengali press that the savage lynchings were motivated by political considerations. It did not at all attempt to justify the lack of a preventive social intervention as is implied by Sarkar's criticism of it being a 'sadly circumscribed notion of society' and an 'admission of lawlessness in the Left capital'. The criminalisation of politics and social life in general has been a major concern of women's organisations all over the country because of its direct impact on the lives of women. In Bengal, far from being defensive about the continued existence of a criminal underworld the CPI(M) has taken the initiative to organise big social campaigns through the formation of citizens' committees against their activities, which include cultural functions, youth club activities, public meetings, etc. One of the successful campaigns run by these committees for in-

in Kallighat. On numerous occasions the efforts of these committees functioning at the grassroots level have been directed towards the protection of women in cases of domestic violence. If instances of a woman screaming for help being met by the closed doors of her neighbour are not the rule in Calcutta, it is precisely because of the continued efforts for raising social consciousness, and encouraging grassroots level participation in community work.

Unlike Sarkar, activists in Bengal cannot be satisfied with such smug conclusions that 'Bantala mocks the notion of civic values of Calcutta citizens'. Rather it is a grim reminder of how deeply entrenched and powerful such forces are at different levels of society and how much more needs to be done to prevent such failures of social intervention. There is no particular 'Bengali trait of respect for women' which Sarkar scoffs at. On the contrary it is because of the continuous activity at the ideological political and social level of the Left Front that the kind of degeneration of social life that we see in other cities is not there. Those who lived in Calcutta in the early seventies when criminals almost ruled the city under political patronage will remember the terror and insecurity which confined women to their homes after dusk.

For weeks after Bantala the CPI(M) organised numerous processions, a whole series of street corner meetings in South 24 Parganas, Calcutta and other areas in Bengal. In Calcutta where the Municipal Corporation elections were being held the issue was discussed on political platforms on an extremely wide scale in the city. For Sarkar, none of these occurred. A feature of yet greater political significance she writes "was that after the initial visits and speeches by Left Front dignitaries and MPs the matter was left to rallies by women's organisations alone". Is this informed criticism or outright hostility?

On reading Sarkar's piece, another question emerges repeatedly. What if Bantala and Birati had not occurred? What if the offending statement had not been made? Would Sarkar's theory have been different?

No, it would not have been. Sarkar's fundamental argument is based not on Birati but on a particular reading of history which sees the Left in Bengal carrying forward certain traditions *vis-à-vis* women which militate against the concept of a free 'womanhood'. According to her these traditions relating to dependent female identities were fixed by the so called Bengal renaissance, and were all encompassing and powerful enough to form a stable consensus for gender ideology in Bengal a century later. Although the analysis may add new insights into the particular literary works she mentions, her view of the 19th century bourgeois social reform movements is both restricted and static. In a reaction perhaps to what she sees as an uncritical glorification of that period by standard 'Bengali'

aspect. Although she asks the question, 'what are the prominent traditions for looking at womanhood in Bengal' her analysis is based on a discussion of only one trend in the movement ignoring others as though they were irrelevant to the formation of tradition.

Vidyasagar for instance may have died a broken man disillusioned by the failure of his widow's marriage efforts as she says but how does that negate the possibility of his work forming an enduring tradition? One has to look at the Bengal renaissance in its entirety in its historical context and in what it achieved at that time otherwise an understanding of its impact on later developments may be partial and also lead to a distorted perception of contemporary processes.

Even assuming that there is an enduring tradition which sees women only in the mother image as Sarkar argues, what is the evidence that she puts forward for the CPI(M) subscribing to it?

Her argument is built, firstly through a confusion in the terms she uses. Who is she referring to? Is it 'Bengalis'? Is it writers and film makers? Is it radical cultural workers? Is it the Left in general? Is it the CPI(M)? She uses all these terms interchangeably and ultimately reaches a position where everything 'Bengali' is attributed to the CPI(M) 'almost in the nature of an ideal socialist state where working class ideology is the dominant ideology for all sections of the people'. Just as Sarkar fails to see the Bengal renaissance in its historical context,

so she fails to see the objective conditions in which the CPI(M) and other Left parties are working in Bengal. These conditions relate to the correlation of social forces in India including Bengal, the class character of the Indian state and the reach of dominant ruling class ideology in the country as a whole, the circumscribed powers of a State government, apart from the substantial political base ruling class parties have in Bengal itself.

Having asserted that Bengali Left-CPI(M) where does Sarkar look for the CPI(M)'s consensus on patriarchal traditions? Once again she relies almost exclusively on an extensive analysis of modern Bengali literature and films to show the dominant mother image from the works of Satyajit Ray, Mrinal Sen, Shriyashendu Mukhopadhyay, Manik Bandopadhyay. As a critique of aspects of the contemporary cultural scene in Bengal it would have some relevance but what has this to do with the fundamental theoretical distortions she accuses the CPI(M) of? The problem is not just the method used but also the viewpoint. The dominant concern appears to be that of the Bengali 'bhadralok'. It hence, becomes possible for a supposed critique of Left gender ideology to completely detach itself from the basic classes it represents. In her entire article there is only a single reference (and that also a literary one) to tribal and peasant women whom she describes as 'distant and exotic figures' as no doubt they are, for the 'bhadralok'. There is no effort to test the validity of her suppositions against the lives of working class

SAMEEKSHA TRUST BOOKS

Selections of articles from *Economic and Political Weekly*

General Editor: **Ashok Mitra**

Lopsided Growth

Political Economy of Indian Development

by **Pradhan H Prasad**

This collection of essays in political economy unravels the forces which have acted as a drag on Indian development. The Achilles heel of Indian development plans, the author argues, has been their preoccupation with investment planning to the neglect of institutional transformation. Within this broad framework the author discusses a wide range of subjects including macroeconomic plan models, choice of techniques, the persistence of outmoded production relations in agriculture, growing political assertion by the middle peasantry, roots of agrarian violence and uneven regional growth.

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women belonging to the minority community. Has there been any change in their status, in their self-image in the last decade in relation to the socially dominant classes as well as within the family? What has been the increase in their social and political participation? What has been the impact of the huge literacy drive led by the CPI(M) and mass organisations, as a method of empowering women? What has been the impact of land reforms on their lives? How far are they conscious of their rights and how far have the democratised Panchayats aided this process? It is significant that in both the States of West Bengal and Kerala where there have been CPI(M)-led governments, the parameters for measuring the status of women such as employment, health, education, wages, etc, show a better trend. But these questions are irrelevant in Sarkar's analysis. Although Sarkar is critical that the 'collective self-image' of 'Bengalis' (?) rarely elaborates women's status in terms of better health, education, employment facilities, she herself does not do so.

In what has now become standard so-called feminist critique, the participation of women in party work is seen as an extension of familial roles; in Sarkar's words 'essentially a giving and nurturing role, i.e. serving the party and class struggle' In bracketing non-party and non-domestic together, she implies that the opposite is the equation—of party work and domestic activity for women. Women do indeed serve the party and class struggle just as men do. It is ironic that whereas major women's organisations have identified the marginalisation of women's participation in the political process as an important factor in their declining status, Sarkar should not only dismiss but demean the splendid spirit and work of women activists in Bengal. The logical conclusion of her argument is that all female activity is necessarily unthinking and subordinate. She substantiates her point with reference to such trivia as the red and white saree worn by women volunteers, which for her denote 'haste motherhood'—completely missing that for them it represents the red and white colours of the party flag, a symbol of struggle. In challenging old stereotypes of women as mothers, sisters, daughters, care needs to be taken against the construction of a new model based on a middle class notion of free womanhood. Self-fulfilment as a hallmark of the emancipated woman could mean for the poor peasant women participation in struggles against those whom she perceives as responsible for the miserable conditions in which she lives.

Finally, the ultimate proof offered by Sarkar of the tortuous path of 'tradition' from the 'Bengal renaissance' to the CPI(M)'s endorsement of it is the three term electoral mandate the Left Front has received which according to her reflects the 'stable consensus' on gender ideology. The ideological and political work, the big struggle

and men, which permits the existence of a Left centre in an increasingly hostile political environment is thus negated by an absurd theoretical deduction which goes something like this:

Left Front rule = stable consensus on 'Bengali' tradition;
Bengali tradition = dependent female identities.

Left Front rule = dependant female identities.

Presumably if the Left Front lost the elections, the consensus would be broken! Or alternatively since the Left Front may not

that it does in other parts of the State, the 'consensus' has already been broken in the 'Left's capital'!

In conclusion, it may be said that one would have hoped that a serious scholar like Sarkar who has been sympathetic to the Left would have placed the weaknesses of the CPI(M) within the framework of its efforts to create an ideological alternative through the struggle to raise the quality of life for the mass of women in Bengal. That would have helped readers of her article form a balanced and objective assessment of the Left Front in that State, both in terms of its ideology and its practice.

Soaring Stock Prices

S M Sundaram

BARUA and Raghunathan (*EPW*, November 17, 1990) use the discounted cash flow model to value shares. In a modified form, the price/earnings ratio is taken as the measure which depends on factors such as the payout ratio, the return on investment of the projects to the companies and the return expected by the investors from the company's scrips.

For a sample of 23 companies, Barua and Raghunathan estimate 'g' (growth in dividends) and 'b' (payout ratio). Then they compute the P/E ratio for a chosen set of 'k', the return expected. The average of the computed fundamental P/E value, viz, 3.20, is compared with the observed average P/E value, viz, 21.42, for a chosen period. This marked deviance of the observed vs *a-v-s* the fundamental is highlighted. The authors go

on to explain the reasons for the present stock market boom and how this high P/E cannot be sustained.

The accompanying table presents another picture of the story. It can be seen that never in the past four years has the observed P/E been lower than 14 and anyway never near the theoretically computed 'fundamental' value of 3.20. The month of August was chosen as that was the mid-period for the article also. But the results can be checked for any month of the year. In the sample, some cases with absurdly high P/Es have been omitted.

Perhaps the reasons for the high deviation of the observed P/E values from the theoretically computed fundamental values may be more 'fundamental' than just 'technical', as made out by the authors.

TABLE

| Company | Aug 7 1989 | Aug 21 1989 | Aug 1 1988 | Aug 15 1988 | Jul 27 1987 | Sep 7 1987 | Aug 4 1986 | Aug 18 1986 |
|----------------|---------------|----------------|---------------|----------------|----------------|---------------|---------------|----------------|
| Asian Paints | 19.53 | 19.28 | 17.21 | 16.26 | 21.67 | 19.67 | 22.41 | 20.69 |
| Bajaj Auto | 20.64 | 21.63 | 7.70 | 8.05 | 11.75 | 14.00 | 14.13 | 13.08 |
| Colgate | 22.74 | 22.65 | 22.62 | 22.12 | 29.37 | 37.54 | 34.46 | 30.75 |
| Century | 78.44* | 80.45* | 16.19 | 15.92 | 32.55 | 17.48 | 9.73 | 9.35 |
| Century Enka | 12.32 | 12.34 | 12.40 | 12.74 | — | — | 7.66 | 6.93 |
| E-I Hotel | 20.07 | 20.07 | 10.98 | 10.98 | 12.41 | 10.75 | — | — |
| Escorts | 12.69 | 14.08 | 10.94 | 10.60 | 5.50 | 5.24 | 15.83 | 19.17 |
| Glaxo | 17.03 | 17.54 | 16.22 | 15.03 | 20.22 | 23.51 | 18.00 | 16.00 |
| Grasim | — | 30.11 | — | — | — | — | — | — |
| ISFC | — | — | 92.62* | 91.61* | 20.67 | 18.05 | 17.31 | 16.93 |
| HIL | 17.43 | 18.00 | 14.01 | 13.81 | 21.90 | 20.24 | 25.45 | 24.33 |
| Indian Rayon | 29.62 | 30.50 | 10.52 | 10.44 | 5.47 | 6.30 | 25.90 | 24.19 |
| Ingersol Rand | 34.55 | 36.82 | 28.18 | 25.59 | 33.09 | 35.68 | 44.28 | 43.20 |
| Indian Organic | — | 8.80 | 5.81 | 5.24 | 6.81 | 8.88 | 12.79 | 11.36 |
| ITC | — | 13.79 | 12.74 | 11.70 | 7.07 | 7.13 | 13.74 | 13.58 |
| JK Synthetics | 21.07 | — | — | — | 3.19 | 3.22 | 31.43* | 6.72 |
| Kirloskar Cum | 13.59 | 14.86 | 13.83 | 13.83 | 15.16 | 17.62 | 9.77 | 8.98 |
| L&T | 15.99 | 15.01 | 19.22 | 21.16 | 11.98 | 14.70 | 22.14 | 20.85 |
| Raymond | 23.06 | 23.33 | 10.02 | 10.22 | 11.41 | 10.84 | 13.81 | 14.18 |
| Reliance | 21.37 | 21.66 | 86.25* | 83.33* | 45.74* | 46.51* | 21.15 | 18.12 |
| TELCO | 23.80 | 14.96 | — | 15.80 | 39.96 | 38.10 | 23.68 | 24.78 |
| TISCO | — | — | 9.84 | 12.80 | 9.72 | 8.76 | 9.10 | 8.64 |
| Volta | 10.95 | 14.99 | 5.50 | 5.96 | 11.46 | 13.11 | 12.30 | 12.17 |
| Average | 19.79 | 19.50 | 13.55 | 13.59 | 16.57 | 16.54 | 18.68 | 17.33 |

Notes: * Omitted for computing average.

— Negative P/E or data not available.

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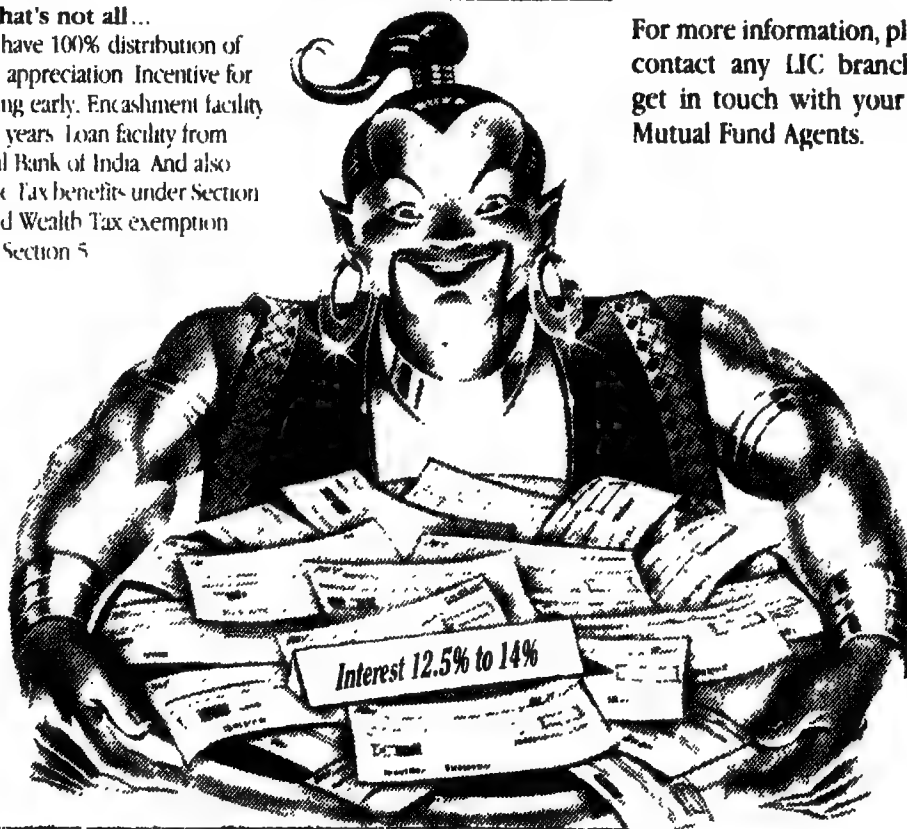
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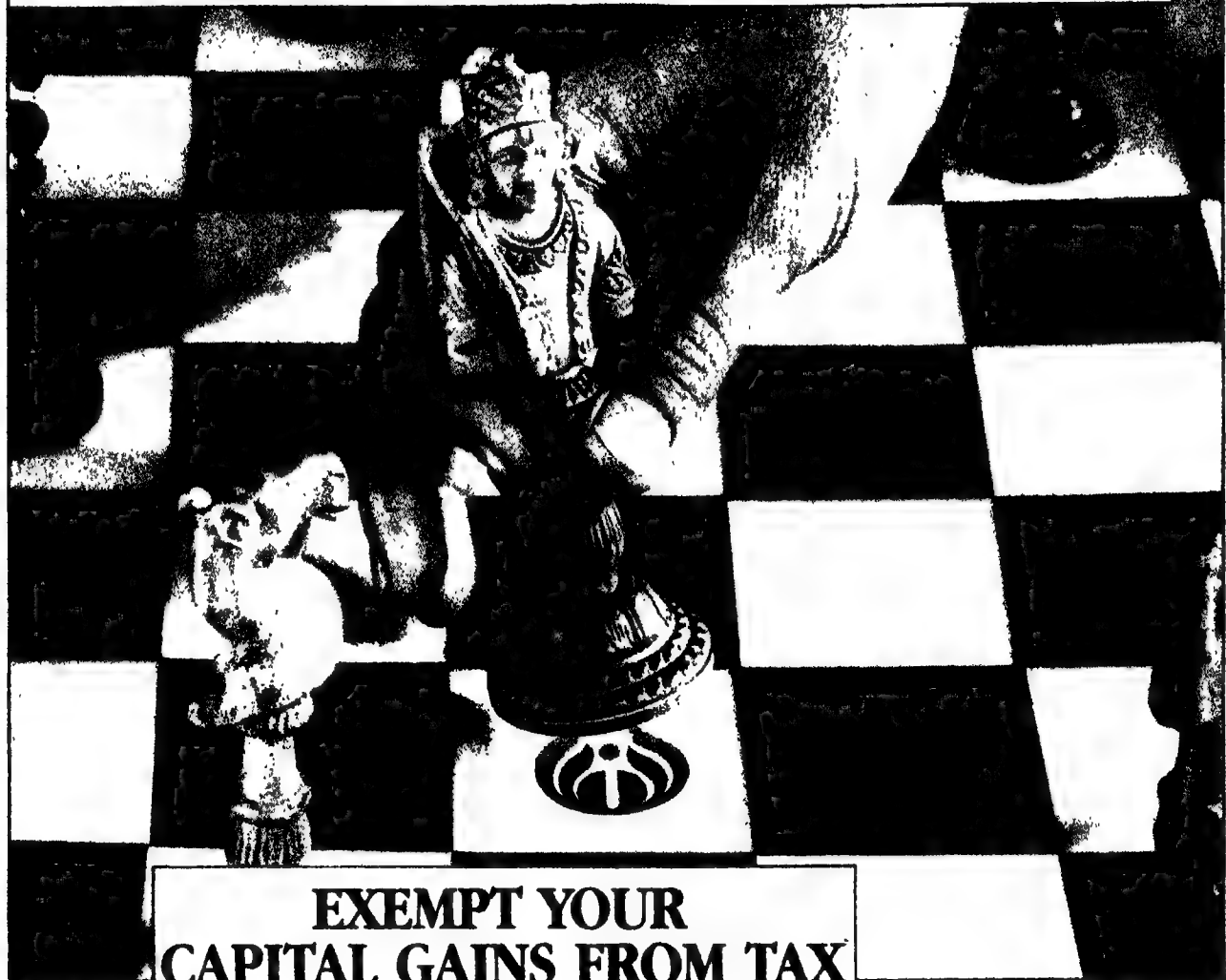
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Compound Effect

With the entry of East Europe into the world's 'free market', products of developing countries are not only being flushed out of the East but are also being nudged out of markets in the North.

1219

Curious Afflictions

Each one of the elections in Tripura after 1988, when the Congress(I)-TUJS came to power, has been marred by large-scale rigging and booth capturing clearly instigated by ministers and ruling party MLAs. Given this, why has the Election Commission chosen to ignore the election-eve mass transfers of officials in the State?

1203

Jayalalitha has synthesised a new election-eve 'cause' to glorify women's issues. But why is she silent about the misuse and the abuse of women which has come to constitute the basis for the cinema and the print media in Tamil Nadu?

1204

Against Isolation

Today in the face of rising communalism and attacks on even the existing rights of women, it is more important than ever for the women's movement to build up wider links and alliances and not isolate itself.

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Input-Output Linkages

India's official input-output matrices can be a useful analytical tool for studying the structure of the economy and for projection exercises. Can the utility of this powerful tool be enhanced?

1235

Test of Public Gaze

Fuller public disclosures by financial institutions will go a long way towards correcting the inherent systemic deficiencies in the core area of financial intermediation. But there are too many interests which will oppose such a move.

1195

Losers All

The current elections in Nepal are taking place in an atmosphere of disillusionment among the people—and yet only a year ago there was so much enthusiasm about the overthrow of the party-less panchayat system.

1210

Partisan Press

The Gujarati print media played a highly biased role throughout the five weeks of the Jan Vikas Sangharsh Yatra. A revealing review.

1207

Of Plans and Planning

With a new government coming to power soon, will the goals of sustainable development which informed the deliberations of the Planning Commission under the V P Singh government continue to play a role?

1199

No Evidence

An inquiry into the reported planned 'massacre' of hospital patients of a particular community during the riots in Aligarh.

1205

Inside Sociology

The most significant and unexplored aspect of sociology in India today is the 'field' itself: the individual sociologists who have contributed to the making of the discipline in India in various ways.

1229

No Deceleration?

How valid is the hypothesis of an industrial deceleration in India after the mid-sixties? An examination of the evidence.

1244

Article 356

I WAS quite dismayed by the editorial column in your issue of April 6 on Article 356 with reference to the Madras seminar in which Jyoti Basu and M Karunanidhi participated. Your contention that the Chauthala case is a clincher for not altogether abrogating Article 356 is unacceptable. Having 'arguably' lost his majority, Chauthala disregarded the governor's advice to prove it in the legislature. A little earlier, at the Centre, Chandra Shekhar having got into the same boat evaded the issue of proving his majority by resigning and recommending the dissolution of parliament. And, since there is no counterpart to Article 356 at the Centre, all that the president could do (and did) was to dissolve parliament, with Chandra Shekhar continuing in a caretaker capacity, after satisfying himself that no other party was able to form a government.

Mutatis mutandis governor Mandal could have done the same. If no other party or coalition was willing to form a government in Haryana, he could have himself dissolved the assembly with Chauthala continuing as a caretaker. There was no need for using Article 356 and its use cannot be justified because of the 'violent proclivities' of Chauthala. What if Chauthala, who cannot change his stripes, had been able to muster a majority? What about other reigning chief ministers who might have a similar taste for rigging elections? In Amethi 1989 were we able to insure ourselves against the proclivities of Rajiv Gandhi? All that is necessary and possible in such circumstances is to trust the disciplinary proclivities of a T N Seshan to suitably deal with electoral malpractices.

Your statement that 'fundamentally' sovereignty in the Indian Constitution lies with the Centre is pernicious. Sovereignty lies, not with the Centre or the States, but with the people who are represented, in our dual polity, *both* in parliament *and* in their State legislatures. You have also suggested that unless the Centre has the powers to dismiss State governments, self-determination might have to be yielded to the States. This is a familiar bogey. In wanting to delete Article 356, Jyoti Basu and M Karunanidhi are demanding only the right to survival. It is in Punjab, which has been under president's rule for the last four years, that the demand is being made for 'self-determination'.

The problem with Article 356, as you have yourself recognised, is that it has

been systematically misused to undermine both democracy and federalism through arbitrary and wanton imposition of president's rule in the States. So much gangrene has set in over the years in this limb of the Constitution that it is best amputated. This was the thrust of the speeches of Jyoti Basu and M Karunanidhi in the Madras seminar. If you wish to take issue with their position, you need to be a little more thoughtful than you have been.

S GUHAN

Madras.

Against Communalism

THE Committee Against Communalism of the Jawaharlal Nehru University has organised a number of public meetings and participated in the activities organised by other organisations to uphold secularism. The committee has, over this period, been involved in distributing the document entitled *The Political Abuse of History* produced by the Centre for Historical Studies, JNU. On October 27, 1990, a day's symbolic fast involving people from all walks of life was organised at the Boat Club. This fast was in pro-

test against the danger posed by communal forces to the Constitutional commitment to secularism.

We believe that this threat to our country can only be challenged by people asserting their commitment to the secular ideals which formed the basis of our federation. There is, however, an urgent need to counter the propaganda of the communal forces. The task we have therefore set for ourselves for the immediate future include: Publication and distribution of documents, both academic and popular, to fight communalism; Organisation of workshops and seminars; especially for school teachers; Coordination with other organisations devoted to the cause of secularism to facilitate the sharing of information and of materials.

Towards this end we request you to form a similar committee in your institution. We could thus strengthen each other's efforts to forestall the communal apocalypse that threatens to engulf us all.

K N PANIKKAR, ROMILA THAPAR
ANURADHA M CHENY, MOHAN RAO

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Bihar Drama

THE general election to the tenth Lok Sabha may accurately be characterised as an election which the major political parties, with one or two exceptions, did not want. After all, it was the unwillingness of these parties, the Congress(I) especially, to face the electorate that gave Chandra Shekhar the chance to adorn the prime minister's office, if only for a few months, with no more than a tiny break-away group from the Janata Dal accounting for barely one-tenth the Lok Sabha's total strength. So it is not entirely surprising that, even after the setting in motion of the formal election process, efforts should continue on the part of different political groupings to dispense with the elections in parts of the country at least where they themselves perceive their electoral prospects to be precarious.

Over the last week we have been entertained by what can only be termed a drama on the issue of elections in Bihar. Taking off from the prime minister's warning issued at a public meeting in Purnea in Bihar that the Centre would not hesitate to intervene if the law and order situation in Bihar did not improve, the Central government went through a series of contrived moves which were obviously its best attempts to put off the polls in Bihar. The law minister disclosed that the Centre was seriously concerned about the violence in Bihar and that it had sent a high level team to report on the situation in the State. He further volunteered the view that the situation in Bihar was '100 times worse than in Punjab' and that a report had been sent to the Election Commission indicating how alarming the situation was. This gave rise to speculation, no doubt deliberately fuelled by the party in power at the Centre, that a move to dismiss the Bihar government was under contemplation. But days after this statement the Election Commission maintained that it had received no report from the government and that it was in fact awaiting reports from its own 27 observers to decide on the issue of elections in the State. As we go to press the Election Commission is still awaiting the reports of its observers and the Central government is trying its best to get out of a situation which it had short sightedly provoked.

What prompted the drama hardly needs to be stated: the Samajvadi Janata Dal (SJD) is fielding some of its heavy-weights in the elections from Bihar apart from Subodh Kant Sahay from Ranchi, there is Yashwant Sinha from Patna and Hukumdeo Yadav and Digvijay Singh. And according to most assessments, none of them is likely to do particularly well. Even the chances of the caretaker prime

minister's close comrade-in arms, Surajdeo Singh in the Arrah constituency are rated hardly good, though if there are more than the usual quota of dirty tricks on polling day in this particular constituency, there are likely to be few doubts about where the responsibility for that will lie, given Surajdeo Singh's long-established reputation as the don of the coal belt mafia. In any case, that the SJD which needed considerable persuasion to take action against Chauthala in Haryana should sound so concerned about the possibility of rigging in Bihar is laughable.

Ironically, the Centre's convoluted attempts to postpone elections in Bihar have almost succeeded in creating a halo around the Laloo Prasad Yadav government. Bihar's reputation in the matter of election violence is, of course, well established. In the last elections repolling had to be ordered in as many as 1,239 booths in the State. This time too Bihar has seen its share of pre election thuggery, along with some of the other States. Even if it is accepted as a fact that the level of violence in Bihar has been marginally higher than that in the other 'sensitive' states, there are simply no grounds for postponement of the elections or dismissal of the State government. In fact that would be precisely reason for the Central government (and the Election Commission) to render all possible assistance to the State government to ensure smooth elections.

It is in this context that the Election Commission's ruling on the home guards issue is puzzling. It may well be that the home guards in Bihar, not unlike security forces of other descriptions in other States, have their own multiple and conflicting loyalties and biases. It may also be true that the force has been less than exemplary in its regard for public property or people's rights: witness the rampage it let loose recently in the State capital. But there is little evidence that in the other 'sensitive' States, such as Gujarat, the local security forces are any more responsible or impartial. In any case, if a highly communalised Provincial Armed Constabulary, the notorious PAC, can be used in communal riots, it is difficult to convincingly adduce communal or caste bias as sufficient ground for seeking to keep the home guards in Bihar away from election duties. If the home guards are to be confined to their barracks, Bihar will need further assistance with 25,000 of the 65,000 booths in the State having been declared 'sensitive' and as needing special security measures. In such circumstances can one expect anything other than a sharp rise in election violence, booth capturing and rigging?

Fractured Politics

FOR all the exchange of heated words between the government, the Election Commission and 'all the major political parties', the uncertainty surrounding the revival of the electoral process in Punjab has not lifted. Considering the all-round hostility that the idea has generated, with BJP and the Left being reluctant contestants and the Congress(I) avoiding the Punjab campaign altogether, there is every possibility of this fresh 'initiative' in the State being snuffed out. To begin with there is the curious conduct of a government that has been making much of its eagerness to find a solution to the Punjab problem. Having overruled the president's objections and promulgated an ordinance notifying elections in the State it subsequently climbed down and pressed the EC to postpone the date of the election. It is not unlikely that the EC, acting either independently or on advice, had fixed this schedule to call the government's bluff. It is perhaps merely a coincidence, but nevertheless one of some significance, that the announcement of the new date of June 22 was immediately preceded by the splintering of the Shiromani Akali Dal, after a brief unity of four months, into several groups of barely any consequence, leading to the almost total irrelevance of Simranjit Singh Mann in State politics.

The gap of over two weeks between the projected constitution of the tenth Lok Sabha and the date of the elections in Punjab provides adequate scope for devious arguments of the kind that has so far prevailed and whose sole contribution has been to aggravate a redeemable situation. Justifying his party's decision to abstain from participating in the Punjab elections Rajiv Gandhi has furnished characteristically infantile reasons. It is his contention that the decision of the minority government on Punjab is illegitimate, forgetting that as the abandoned progeny of his party whatever legitimacy the government has ever possessed is the invention of the Congress(I) and overlooking also the fact that other decisions of as much if not greater significance taken by the same minority government have evoked no principled protest from him. And much given to constructing the 'downside scenario', he has argued that in the event of a hung parliament and a secessionist-dominated assembly, the former will be able to do little about any move by the latter to secede. As president of a party whose entire recent history has been a record of casual disregard for democratic norms Rajiv Gandhi in obstructing the democratic process in Punjab is merely adhering to tradition.

Considerations other than the danger of secession have also undoubtedly motivated the Congress(I)'s withdrawal from the proposed joint platform of the

'major political parties' and its intention to review the election notification if it returns to power. The party is well aware of its loss of influence in the State and rather than make this obvious by contesting, it has opted to conceal it behind jingoistic hyperbole. In addition, a judicious use of the 'downside scenario' will give some flesh to the party's otherwise abstract appeal for a stable government.

Likewise for the BJP, purveying the Hindu version of nationalism, a great show can be made by misconstruing even a demand for greater decentralisation by the Sikhs as one more instance of the minorities supposedly getting above themselves. The Left, particularly the CPI, has much to lose considering its erstwhile following in Punjab. By projecting the fear that the electoral loss of the mainstream parties is the proportionate gain of secessionists, a disingenuous way will have been found to obstruct elections in Punjab.

Consequently, contrary to the Election Commission's brave but naive stance that the election process in the State under the April 19 notification is unalterable, there is a likelihood that no matter what the outcome of the general elections the new government may rescind the process. Already the BJP has announced its intention to review the notification. Meanwhile, the killing of candidates that is gradually under way will ensure countermanding in the affected constituencies. While the claim is that this is the handiwork of rival militant groups, the antecedents of the State's security establishment and its high stakes in preventing election make it difficult to absolve the latter.

Even so electioneering has commenced in Punjab and by all indications the various militant groups, all avowedly uncompromising proponents of secession, are in seeming disarray amidst mutual allegations of financial impropriety and betrayal of the cause. Unity has eluded Sikh political groups and though each splinter celebrates its break as an advancement of the Panthic cause it is more likely that the scramble for seats is the operative cause. AISSF (Manjit) and what is left of Akali Dal(M) are contesting separately since the modalities of seat sharing could not be worked out despite the intervention of Damdami Taksal chief Baba Thakur Singh. A faction of the Akali Dal (Badal) has split to form the Akali Dal (Panthic). And even as the proliferation of Akali Dals proceeds apace the number of AISSFs and Panthic Committees is also on the rise. The AISSF(M) split at Kapurthala, Ferozepur and other places accompanied by damaging allegations against the leadership while three versions of the Panthic Committee with different electoral sympathies have emerged. And even as each group prefaces its commitment to boycott elections with a denunciation of all other groups for par-

ticipating in elections, an unconcealed scramble for seats is on.

SPECIAL 301

Impermissible Procedure

NO sooner were we taken off Super 301 than we are back on clause Special 301 of the US Trade Act, this time in the company of China and Thailand. India has been hauled up supposedly for not providing sufficient protection to US patents. According to the US ambassador to India, William Clark Jr, the damage on account of insufficient protection to US patents "could be in the region of \$ 150 million".

Having been placed on the so-called 'priority list', retaliatory action on the part of the US government could follow unless a satisfactory process of negotiations for a solution—satisfactory to the US, that is—is set in motion. The Indian argument that such unilateral action on the part of the US government is inadmissible and improper because there are international forums for dealing with bilateral disputes of this type, in this case the GATT, does not cut any ice with the US, on the ground that it is still not decided whether or not protection of intellectual property rights comes under the GATT's purview. Indeed, India is known to be opposed to letting GATT cover intellectual property rights. Still, the basic Indian point remains that if in disputes relating to matters involving economic relations between nations resort is taken to unilateral actions, the result is bound to go in favour of the economically stronger nations. Just because the GATT does not cover disputes in regard to protection of intellectual property rights, the US cannot claim freedom to threaten unilateral moves, particularly when the threats, were they to materialise, would most likely affect relations which would come within purview of the GATT.

In this context it is relevant to note that soon after placing India on the priority list of Special 301, the US government notified the European Community as being on its 'priority watch list'—which is not quite the same as the 'priority list'—because of the alleged "barriers to entry of American TV programming embodied in the community's broadcasting legislation". Of course, the particular piece of offending legislation is scheduled to come into effect later in the course of the year. So the US move is a sort of advance warning.

But the point being made in Brussels is no different from that in New Delhi, namely, that the US moves are totally contrary to Uruguay Round understandings in regard to matters under negotiations. Whatever else the Uruguay Round negotiations succeed in realising, the resort to unilateral action must never be allowed, it does not matter how strong economically a party to the dispute is.

ASSAM

Justifying State Lawlessness

THE Supreme Court's decision to stay the Guwahati High Court judgment on the Armed Forces Special Powers Act's application in Assam adds yet another spark to the contentious issue of Centre State relations.

The Act itself has earned considerable notoriety during the last several years in the course of its use in all the seven north-eastern States, and of late in Punjab and Jammu and Kashmir. Initially introduced as a temporary measure in 1958, it has remained in force for the past over thirty years. A major amendment to the Act made in 1972 empowers the Centre to deploy troops into a State without the latter's consent. In an important judgment on March 20 this year, the Guwahati High Court challenged the Centre's right to declare the whole of Assam as 'disturbed area' under the Armed Forces Special Powers Act, which it did soon after the imposition of President's rule and the dissolution of the Assam assembly in November last. The High Court ordered the withdrawal of the Assam Disturbed Areas Act from 12 of the 23 districts of the State on the ground that 'there was no material to warrant the imposition of the Act'. A division bench of the Supreme Court has now stayed the High Court judgment and given the executive free hand to act without being affected by the High Court's order.

Although the Guwahati High Court judgment did not rule out the Armed Forces Special Powers Act, it upheld a part of the plea made in the batch of writ petitions that challenged the validity of the Act. It ruled that whenever the army made an arrest it must hand over the arrested person to the nearest police station within the shortest possible time and that such arrested persons must be produced before a magistrate within 24 hours of arrest. It further said that the army was empowered to arrest only such persons against whom there was some material to show that they were involved in a cognisable offence, but the army would not have the power to take each and every person into custody and thereafter release such innocent persons by giving them a clean chit. Significantly however, the Supreme Court division bench while staying the High Court order has asked the concerned authorities to obey the two above mentioned rulings made by the High Court.

Arbitrary arrests and defiance of the civil administration by the army have been regular features in every place which has been brought under the purview of the Armed Forces Special Powers Act. These issues formed the basis of the main arguments made in the written submission in 'Boothbar' vs Union of India, Civil

Rule No 11 of 1991 before the Guwahati High Court. It was pointed out by the petitioner who challenged the constitutional validity of the Act that the armed forces operating under the Act invariably committed serious cognisable offences in course of their arrests, detentions, interrogations, searches, seizures and raids. In the absence of any clear guidelines to ensure that the armed forces operate under the control of the civil administration, conflicts between the armed forces and the civil authorities are quite common. Investigation by competent authorities becomes impossible and the right of the accused to a fair trial is thus jeopardised. The police have in effect been deprived of their power to conduct investigations since they are not on the spot when the army arrest people and they get the custody of the arrested person several days after the arrest. Thus the provisions of the Act violate those specific provisions of the Code of Criminal Procedure which ensure basic safeguards against unreasonable restriction on the fundamental rights of the citizens.

It is unfortunate that the High Court failed to take proper cognisance of the other major arguments made in the petition relating to Section 4(a) of the Act which confers powers on junior non-commissioned officers to shoot to kill and allegations of torture by the army. The Attorney General's argument in defence of such draconian measures during the hearing before the High Court was that they are justified in the border areas to protect these States against 'external aggression and internal disturbance'. The implicit assumption behind this argument is that the unity and integrity of India relate only to its territorial boundaries without taking into account the fundamental rights of the people living in those territories. Unfortunately such reasoning seems to have entered into judicial decisions also

as even courts appear to ignore the plight of citizens of the border areas in the name of defending India's 'unity and integrity'.

ENVIRONMENTAL MOVEMENTS

Changing Status

LAST week the newspapers reported yet another case of police harassment of an environmentalist associated with the anti Narmada dam movement in Gujarat. A young environmentalist from Maharashtra, Chittarup Palit, who had gone to a police station in Rajpipla taluka of Broach district in Gujarat to enquire about the body of Manosh Skaria, a journalist who had recently drowned in the Narmada, was abused and manhandled by the police causing her physical injury and was then charged with disturbing a police officer on duty and with vulgar behaviour in a police station.

The incident is just one among many such that environmentalists in general and those in any way associated with the Narmada movement in particular are being subjected to in Gujarat. It is as if the police now regard all environmentalists as worse than criminals and are to be so treated. In this case for instance, there was a legitimate reason for the inquiry. Skaria's body had not been found even after several days of his death and the police had earlier been evasive about the incident pleading that it had taken place in an area which was under the jurisdiction of the Maharashtra police. The police seem to have attempted to browbeat Palit to obtain information about the movement and individuals in it. When she resisted these attempts she was threatened and abused.

It is not that the police are using new methods to harass environmental protesters; these are tried and tested methods in the police dossier having been used against the working class, the powerless

Giri Institute of Development Studies

Sector C, Aliganj Housing Scheme, Lucknow 226 020

Applications are invited from teachers and research scholars in social sciences (i.e. Economics, Sociology, Political Science and Geography) working in Universities and Degree Colleges in Uttar Pradesh, Madhya Pradesh, Bihar and Orissa for a two week ICSSR sponsored Research Methodology Course commencing from 21 June 1991. Interested candidates may apply through the Principal/Head of the Department or Institution giving full details of name, address, age, educational qualifications, teaching and research experience and the topic of research on which they are working/propose to work. Applications should reach the Director, Giri Institute of Development Studies on or before 31 May 1991. Selected candidates will be paid to and from Hind class Railway or Bus fare for attending the course. They will also be provided with boarding and lodging facilities during the training period.

Director

and the dispossessed for decades. What is significant is this: that so far, or at least till the beginning of the anti-Narmada and other environmental movements, the police had acted on the orders of 'higher authorities' in the government. And such action was usually taken only during particular mobilisations or events. But today, obviously, environmental protest and all activities associated with it have come to be regarded as anti-state activities *at all times*. The consequences of the internalisation of such a view of environmental protest has dangerous implications. This means for one thing that harassment of activists takes place without any reference to higher ups. It also implies that an important aspect of the democratic system, whatever its other limitations, the right to protest, is being effectively eroded even though the system may show no signs of damage from such protest—at least as yet. Given this, it is imperative that civil liberties activists everywhere, regardless of their stand on the particular environmental issue, whether it be the Narmada dam or the Koodankulam atomic power project raise the issue in public.

BANGLADESH

Compounding the Disaster

NATURE's fury may make no distinction between the rich and the poor. But clearly, the impact of natural disasters is much more intensely felt in poor nations—a consequence of their location—geographical, ecological and political—in the global environment. A tragic example is Bangladesh. Natural disasters have become a way of life there; the existence of a separate relief ministry is an illustration of this. And the recent devastating cyclone, many say the worst in over 20 years, brings into focus the many factors which come into play when a natural disaster strikes a struggling-to-develop country.

The cyclone—at least a storm severe enough to cause prime minister Khaleda Zia to adjourn parliament for three days—had been predicted. And yet even the experience of past disasters—there is not a year when Bangladesh has not experienced a cyclone or a severe storm, even though the damage has not always been as extensive—did not move the government to do more than this. While storm warnings were issued, there appears to have been no attempt to facilitate the movement of people away from the danger zones. Not that this would have been easy; people in the south-western coast are so used to storm warnings and are also so poor that they are not easily persuaded to leave their meagre possessions, their shelter and their means of livelihood. And even if they had been

persuaded, the government had not the machinery to physically move the thousands of people and to settle them in safer places. And again there probably was little indication of what might be 'safer' areas—a typical consequence of the limited systems of weather and storm forecasting in most Third World countries. Obviously the relief ministry in Bangladesh has functioned almost entirely as a set-up to facilitate the periodic routing of international relief funds rather than to take on such tasks as building up disaster-preparedness. But this time around the ministry appears to have failed in even this limited role—there have been reports of unnecessary wrangles between contending ministries on who is to take charge of the relief supplies coming in. That there is no emergency plan on how to swing various government departments into action in such a contingency is ominous, given that the coming monsoons will once again cause loss of crops, lives and livelihood.

Apart from the human misery, for Bangladesh the disaster means a massive economic set-back—standing crops have been destroyed and tillable land inundated with saline water; the export processing zone and especially the garment industry have been severely damaged and the country's major port, Chittagong, will need extensive restoration to function again. It is pertinent to recall that in 1988 in the wake of 'the worst ever floods in 40 years' then president Ershad had called for an urgent meeting of experts in the area from China, India and other countries to inquire into the causes of recurring floods in the country and had requested SAARC to convene such a meeting. In December 1990 such a meeting had indeed been convened, though not under SAARC auspices, with participation from international organisations to discuss an action plan drawn up by the World Bank for the control of annual flooding in the country, and to 'alleviate the devastation caused by the floods'. This plan had envisaged the institution of not only several pilot projects and studies on flood control and drainage, but also ecological impact studies, keeping in mind Bangladesh's delicate ecological balance. (The Bay of Bengal incidentally is reported to produce 10 per cent of the world's cyclones.) Nothing much has been heard of this massive project since then, though the current disaster will very likely revive it.

Clearly, caught in the trap of repeated disasters countries like Bangladesh have no choice but to become increasingly indebted to the North through the World Bank or other institutions and 'restoration of democracy' will remain only a phrase to be bandied about by political parties. If SAARC is to ever function as an alternate support system it is issues such as these which must be the focus of intra-regional action.

TWENTY YEARS AGO

EPW, May 8, 1971

The decision to appoint a cabinet minister in charge of planning portends a major change in the planning set-up—the first formal change of consequence since the appointment of the commission two decades back (the much talked of reorganisation in 1967 having amounted to nothing more than a change of members). . . Now for the first time, the tasks which were given to the Planning Commission have been formally assigned to the new ministry of planning. . . The prime minister did not say what role was envisaged for the Planning Commission in the new set-up it seems to have been assumed—perhaps correctly since it is difficult to conceive of two parallel agencies with exactly the same set of functions—that the commission will henceforth have a considerably reduced status.

The myth of an independent Planning Commission has obscured the fact, which should have been obvious all along, that the real, and in fact only, underpinning that planning can have is the commitment to it of the political leadership which means, in effect, the government of the day. That it is this commitment which makes all the difference could be seen in the virtual demise of planning towards the end of the Third Plan when the Central government under the late Lal Bahadur Shastri just simply lost interest in the whole business. Proof of a different kind may be seen in the sterility of the Planning Commission under the late D R Gadgil when it sought to assume independent postures *vis-a-vis* the government on matters which belonged to the realm of political decision-making (e.g., nationalisation of banks, industrial licensing policy).

★ ★ ★

One consequence of rapid branch expansion—a laudable achievement in itself—has been the high level of cash balances banks have maintained during the current year. . . Why did they lock up funds in idle cash? The answer lies probably in the rapid branch expansion and, even more perhaps, in the random pattern of branch expansion. . . Is it likely that the idea of fostering competition among the banks, especially the nationalised banks, has been carried a little too far? The case for competition in metropolitan cities and the larger towns—the biggest deposit and advances centres—is unquestioned, but need the principle be extended with the same vigour to backward rural areas which are being opened up to banking for the first time?

Higher Profit through Cost Reduction

Kumaran Pola

COASTAL PAPERS achieved a 55 per cent growth in net sales on annualised basis to Rs 16.41 crore during the year ended March 31, 1991. As shown by a lower expenses to sales ratio of 0.881 in 1989-90 compared to 0.941 in the preceding year, the company was able to achieve a drastic reduction in the cost of operations. Therefore, it could increase its operating profits by 144 per cent to Rs 2.39 crore and net profits by 321 per cent to Rs 1.60 crore. The company produced 15,059 tonnes of paper during the year as against 18,282 tonnes during the 18 month preceding period.

The overall return on investment more than quadrupled to 19.66 per cent during 1989-90 from 4.70 per cent during the preceding year. Behind this improvement

was the rise in assets utilisation ratio from 1.311 to 2.021 and an impressive spurt in the net profit margin from 3.59 per cent to 9.75 per cent. The company earned for its shareholders a return on owners' equity at 59.26 per cent in the latest year as against 30.40 per cent in 1988-89.

With the bolstering of the equity base on account of the ploughback of profits during the year, the proportion of debt in the capital structure of the company was brought down. Hence, the equity ratio stood lower at 1.191 in 1989-90 compared to 2.961 in the preceding year. The combined effect of lower interest charges on the one hand and higher operating profits on the other during the year was the spurt in the interest coverage ratio from 1.86 times in 1988-89 to 4.98 times in the

latest year. The short-term liquidity position of the company was also comfortable with a current ratio of 2.78 in 1989-90 compared to 2.44 in the preceding year. This was explained by considerable depletion in the current liabilities.

There was a funds-flow of Rs 2.08 crore during the year. Of the sources of funds, nearly 70 per cent was contributed by reserves and surpluses which increased by Rs 1.45 crore on account of transfers from profit and loss account. Increase in short-term loans on account of cash credit from banks contributed another Rs 0.22 crore to the sources of funds. The remaining sources of funds were the decreases in inventories by 0.32 crore and cash and bank balances by Rs 0.09 crore. The company utilised the funds in the following manner: decreases in current liabilities and provisions Rs 0.89 crore to liquidate bills payable, decrease in long-term loans Rs 0.72 crore to repay term loans from institutions and increases in net fixed assets by Rs 0.14 crore, receivables Rs 0.14 crore and miscellaneous current assets Rs 0.19 crore.

The company has promoted a new company, Riverdale Hotels, for which certificate to commence business has been obtained. In view of the expansion-cum-modernisation scheme already on hand, the implementation of the hotel project is being delayed. However, necessary steps for identifying required architects and consultants have been initiated for the project which would be implemented after taking final approval from ICICI.

The Week's Companies

(Rs in lakh)

| Financial Indicators | Coastal Papers | | IDL Chemicals | | Nav Bharat Ferro Alloys | |
|---|--------------------|---------------|--------------------|---------------|-------------------------|---------------|
| | 1989 March** | 1990 March | 1989 March* | 1990 March | 1989 March* | 1990 March |
| Income/expenses/profit | | | | | | |
| 1 Net sales/main income | 1 586 | 1 641 | 4 615 | 6 302 | 4 603 | 7 698 |
| 2 Other income | 49 | 45 | 121 | 214 | 84 | 112 |
| 3 Raw material cost | 551 | 604 | 1 852 | 2 463 | 1 591 | 2 442 |
| 4 Employees cost | 101 | 72 | 1 002 | 1 406 | 377 | 675 |
| 5 Depreciation | 118 | 79 | 141 | 197 | 166 | 273 |
| 6 Other expenses adjustments | 718 | 692 | 1 157 | 1 628 | 2 097 | 3 841 |
| 7 Operating profit (1+2) (3 to 6) | 147 | 219 | 584 | 872 | 456 | 579 |
| 8 Interest | 79 | 48 | 190 | 354 | 258 | 398 |
| 9 Taxation | 11 | 31 | 107 | 190 | 35 | 25 |
| 10 Net profit (7-8-9) | 57 | 160 | 287 | 78 | 163 | 156 |
| 11 Dividends | 13 | 14 | 126 | 138 | 106 | 111 |
| Capital loans/assets | | | | | | |
| 12 Share capital | 81 | 81 | 629 | 629 | 353 | 389 |
| 13 Reserves and surplus | 42 | 187 | 2 160 | 2 300 | 844 | 907 |
| 14 Current liabilities and provisions | 313 | 224 | 1 609 | 1 653 | 2 988 | 3 323 |
| 15 Short term borrowings | 70 | 92 | 819 | 1 195 | 887 | 930 |
| 16 Long term borrowings | 300 | 278 | 1 240 | 1 350 | 408 | 602 |
| 17 Gross fixed assets | 627 | 720 | 3 670 | 3 846 | 3 382 | 3 807 |
| 18 Accumulated depreciation | 352 | 431 | 1 478 | 1 651 | 1 745 | 1 971 |
| 19 Inventories | 222 | 190 | 993 | 1 156 | 1 800 | 2 246 |
| 20 Receivables | 199 | 213 | 1 622 | 1 838 | 906 | 648 |
| 21 Current assets | 533 | 525 | 3 930 | 4 597 | 3 659 | 4 190 |
| 22 Investments/other assets | 0 | 0 | 135 | 334 | 183 | 127 |
| 23 Total assets/liabilities (12 to 16) or [(17-18)+(21+22)] | 808 | 114 | 6 457 | 7 177 | 5 480 | 6 151 |
| Key financial ratios | | | | | | |
| 24 Turnover ratio (1/23) | 1.31 ^a | 2.02 | 0.95 ^a | 0.88 | 1.12 ^b | 1.25 |
| 25 Return on sales [(10/1)×100 (%)] | 3.59 | 9.75 | 6.22 | 4.41 | 3.54 | 2.03 |
| 26 Return on investment (%)(10/23)×100 or (24×25)% | 4.70 ^a | 19.66 | 5.93 ^a | 3.90 | 3.97 ^a | 2.54 |
| 27 Return on equity(%) [(10/(12+13)) ×100 or (23/(12+13))×26] | 30.40 ^a | 59.26 | 11.72 ^a | 9.49 | 18.16 ^a | 12.04 |
| 28 Book value per share (Rs) | 16.67 | 36.00 | 44.36 | 46.59 | 33.93 | 36.74 |
| 29 Current market price (Rs) | — | — | 73.00 | 87.50 | — | — |
| 30 Price/earnings ratio | — | — | 11.99 | 19.79 | — | — |

— Not available a Annualised * for 9 months ** For 18 months

Balance Sheet Analysis by Manisha Chhabra

IDL CHEMICALS

Setback Despite Higher Production

IDL CHEMICALS achieved a nominal 2 per cent growth in sales on annualised basis in 1989-90, it suffered a setback in profits and profitability. The net profits of the company declined by 27 per cent on annualised basis to Rs 2.78 crore. This happened despite the expenses to sales ratio remaining steady at 0.90.1 in both years. The quantity of high explosives produced increased to 24,759 tonnes from 17,416 tonnes. Net sales amounted to Rs 63.02 crore.

The overall return on investment declined to 3.90 per cent during 1989-90 from 5.93 per cent on annualised basis during the preceding period. The deterioration in the assets utilisation ratio from 0.951 in

1988-89 to 0.88:1 in the latest year and the worsening of the net profit margin from 6.22 per cent to 4.41 per cent acted jointly to push down the rate of return on investment. The company earned for its shareholders a lower return on owners' equity at 9.49 per cent during the year as compared to 13.72 per cent on annualised basis in the preceding period.

In view of the meagre accretion of funds from operations, the company was forced to resort to borrowing, both short-term and long-term during the year. Therefore, the capital structure showed a debt/equity ratio of 0.87:1 in 1989-90 as against 0.74:1 in the preceding year. This contributed to worsening of the interest coverage ratio from 3.07 times in 1988-89 to 2.32 times in the latest year. Nevertheless, the company improved its working capital position during the year, its current ratio going up to 2.78 from 2.44 in the preceding year. As against a nominal addition to current liabilities and provisions, substantial additions were made to inventories, receivables and cash and bank balances during the year thus improving the short-term liquidity position of the company.

The company experienced a funds-flow of Rs 6.71 crore during the year. The sources of funds consisted of increases in reserves and surpluses Rs 1.40 crore, current liabilities and provisions Rs 0.44 crore, short-term borrowings Rs 3.76 crore by way of cash credit from banks and fixed deposits and long-term borrowings Rs 1.10 crore. The company utilised most of the funds to increase current assets: inventories by Rs 1.63 crore, receivables by Rs 2.16 crore, cash and bank balances by Rs 0.33 crore and miscellaneous current assets by Rs 2.55 crore. A small amount of Rs 0.03 crore was used to increase net fixed assets.

The company has submitted applications for industrial licences for oil field chemicals, amines and refampicin. It proposes to implement a gypsum project through the associate company, Coromandel Gypsum, in Visakhapatnam.

NAV BHARAT FERRO ALLOYS

Sharp Rise in Costs

NAV BHARAT FERRO ALLOYS ended up with negative growth rates of 5 per cent in operating profits and 28 per cent in net profits in the year to March 31, 1990 despite a 25 per cent increase in net sales on annualised basis. Net sales reached Rs 76.98 crore and the operating and net profits earned amounted to Rs 5.79 crore

and Rs 1.56 crore respectively. The spurt in raw materials cost by 15 per cent, employees cost by 34 per cent, depreciation by 23 per cent and other expenses by 37 per cent, all on annualised basis, pushed up the expenses to sales ratio from 0.92:1 to 0.94:1. This explained the decline in profits during the year.

Production of ferro silicon during 1989-90 amounted to 19,431 tonnes as compared to 15,259 tonnes during the preceding nine-month period. The directors say that but for the frequent power shut-downs and power restrictions, production could have exceeded the licensed capacity of 20,000 tonnes. In the Pugalur sugar factory, the cane crushed during the year was 2.96 lakh tonnes resulting in a sugar production of 28,640 tonnes. This represented an average sugar recovery of 9.76 per cent. During the preceding year, the cane crushed and sugar produced amounted to 1.72 lakh tonnes and 16,498 tonnes respectively, with an average recovery of 9.71 per cent. In the marine products division, the company was able to export 305 tonnes of shrimps worth Rs 3.42 crore during 1989-90 compared to 252 tonnes worth Rs 2.83 crore in the preceding year. There were spurts in production at the Samalkot sugar factory complex as also the carbon dioxide division whereas the production of rectified spirit in the distillery was lower during the year.

The overall return on investment declined from 3.97 per cent to 2.54 per cent as there was deterioration in the net profit margin on sales from 3.54 per cent in 1988-89 to 2.03 per cent in 1989-90. On the other hand, assets utilisation improved as shown by the rise in the sales to assets ratio to 1.25:1 in 1989-90 from 1.12:1 in the preceding year. The directors could report only lower return on owners' equity at 12.04 per cent in 1989-90 compared to 18.16 per cent during the preceding period on annualised basis.

The setback in profits and the reduction in ploughback of profits to reserves and surpluses component of the owners' equity brought about a change in capital structure in favour of debt. The debt/equity worked out to 1.18:1 in 1989-90 compared to 1.08:1 in the preceding year. The fall in profits and the spurt in interest expenses led to worsening of the interest coverage ratio from 1.77 times in 1988-89 to 1.45 times in the latest year. The current ratio only marginally improved from 1.22 to 1.26 showing a more or less steady position in short-term liquidity.

The balance-sheet changes showed a funds flow of Rs 8.32 crore. The funds

were raised through increases in share capital Rs 0.36 crore, reserves and surplus Rs 0.63 crore, current liabilities and provisions Rs 3.35 crore, short-term borrowings Rs 0.43 crore and long-term borrowings Rs 1.94 crore. Decreases by Rs 0.94 crore in miscellaneous current assets and by Rs 0.67 crore in intangible assets were the remaining sources of funds. The long-term funds thus came through borrowings from institutions and banks. The company issued equity and preference shares to the shareholders of Andhra Foundry and Machine Company while amalgamating it with Nav Bharat Ferro Alloys. The company utilised the funds to increase various assets: net fixed assets by Rs 1.97 crore representing additions to plant and machinery, inventories by Rs 4.46 crore in raw materials, work-in-progress as also finished goods receivables, by Rs 1.42 crore, cash and bank balances by Rs 0.37 crore and investments by Rs 0.11 crore.

The company has obtained a letter of intent for the manufacture of 55,000 tonnes per annum of silico manganese in Madhya Pradesh and another for the manufacture of 15,000 tonnes per annum of high carbon ferro chrome in one of the company's existing furnaces at Paloncha intended for the manufacture of calcium silicide as a measure of diversification.

SBI CAPITAL MARKETS

Growth with Innovation

SBI CAPITAL MARKETS, the wholly-owned merchant banking subsidiary of State Bank of India, completed its fifth accounting year on March 31, 1991. In spite of a general slowdown during the year in the country's primary market activity and some uncertainties thrown up by the macro-economic and political scenario, the company closed the year on a successful note with all the key business segments registering good growth. Gross income at Rs 118.93 crore (Rs 68.75 crore) recorded an increase of 72 per cent. Profit before taxation was Rs 26.48 crore (Rs 21.73 crore) and after taxation provision of Rs 1.41 crore (Rs 3.67 crore) the net profit of Rs 25.07 crore was up by 39 per cent over last year's Rs 18.06 crore. Dividend has been raised from 18 per cent to 20 per cent on the enhanced equity of Rs 50 crore, raised from Rs 20 crore.

SBICAP continued to retain its pre-eminent position in issue management activity. During the year, it lead-managed 128 issues out of 264, the highest by any merchant banker, and helped mobilise

Rs 2,611 crore representing 77 per cent of the total amount raised. The only public sector bond issue to public during the year, viz, Indian Railway Finance Corporation's Rs 100 crore issue was lead-managed by SBICAP. The post-issue performance of the issues managed by SBICAP has also proved satisfactory. Over 90 per cent of the issues managed by SBICAP during 1987-88, 1988-89 and 1989-90 are quoted above par. Out of Rs 1,066 crore of privately placed bond issues handled by SBICAP, 68 per cent were placed with financial and investment institutions evidencing the company's significant placing capabilities.

In the area of loan syndications, the company completed 24 assignments aggregating Rs 245 crore. Further, SBICAP was mandated for syndicating a Rs 650 crore term loan, the largest ever syndication of term loan by banks in the country.

Leasing remained a thrust area during 1990-91 and total disbursements at Rs 79.73 crore were more than double the disbursements of Rs 34.35 crore in 1989-90. The lease income of Rs 24.80 crore recorded an increase of 82 per cent. With the signing of the US Exim line of credit amounting to \$ 10 million, the company would be able to extend lease finance for imported equipment in foreign currency. The company plans to diversify into hire purchase of industrial equipment in the current year.

In the area of Commercial Paper, where SBICAP has done pioneering work, out of the 36 issues authorised by RBI during the year, 24 were managed by SBICAP involving an aggregate amount of Rs 170.2 crore. SBICAP is also engaged in the trading of Certificates of Deposits issued by banks and total trading in 1990-91 was Rs 116.50 crore which showed a ten-fold growth over the previous year.

As part of advisory services, during the year, mandates were received for capital restructuring of three companies including two large public sector undertakings. Another assignment for restructuring the asset ownership of a company is under negotiation. SBICAP also acted as advisers to National Housing Bank in raising US \$ 25 m under US AID programme.

A second tranche of NRI bonds was raised during the year with SBICAP acting as managers to the issue. The total collections were in excess of \$ 260 million. This successful raising was accomplished in the face of a difficult market situation and lowered country rating for India. SBICAP continues to be the Indian adviser to India Magnum Fund, the largest privately placed coun-

try fund so far. The fund, being managed jointly with Morgan Stanley Assets Management of the US, has mobilised \$ 50 m (thereby taking the total of \$ 206 m) in the second tranche during the year. SBICAP is the sole investment manager of the India tranche of \$ 12 m, raised by Asian Convertibles and Income Fund.

SBICAP has evolved suitable implementation strategies in regard to privatisation of some public sector units, so that the process could be set in motion as soon as a final view on the subject is taken by the government of India.

SBICAP is the trustee and manager to SBI Mutual Fund. During the year, the Fund has continued to reach out to small investors, through a diversified product range. The number of investors under Magnum Schemes recorded a 75 per cent growth during the year, from 3,70,000 to over 6,50,000. Four new schemes were launched in 1990-91, the last of which is still on tap. In all, the four schemes are expected to raise about Rs 500 crore which would raise public investment in the Fund's domestic schemes to about Rs 1,100 crore. Of the new launches, one was the Magnum Multiplier pure growth scheme, aimed at meeting the long-felt need of SBIMF investors for this type of product.

IPCL

Many-Sided Growth

INDIAN PETROCHEMICALS CORPORATION's turnover in 1990-91 moved up 12 per cent to Rs 1,325 crore while gross profit was Rs 259 crore, according to provisional figures. During 1989-90, IPCL's turnover had a larger share of traded goods at Rs 217 crore (18 per cent), which was Rs 134 crore (10 per cent) during 1990-91—a drop of 38 per cent. As against this IPCL's own products' turnover went up from Rs 962 crore to Rs 1,191 crore—a rise of 24 per cent.

IPCL's Baroda complex achieved a capacity utilisation of 91 per cent, not counting the xylenes plant which was constrained severely by feedstock availability. An all-time high production level was recorded, 13 per cent higher than in the previous year. Additional production was of the order of 45,000 tonnes compared to the previous year. On the energy conservation front the Baroda complex reported a reduction of 4.5 per cent with a specific energy consumption of 7.41 million KCal/tonne. This is equivalent to a saving of Rs 8.5 crore.

However, IPCL's Maharashtra gas cracker complex (MGCC) at Nagothane had an accident in November 1990 which has put its commissioning behind schedule by six months and led to a loss of Rs 37 crore by its non-operation. Efforts are on to put MGCC back into operation by May 1991.

The CATAD division of IPCL at Thane, which was consistently a loss-making unit acquired from a private sector company in 1987, was made profitable. This was achieved with an emphasis on speciality catalysts like isomerisation and reforming in its product mix and bringing in synergy between IPCL's research base and CATAD.

IPCL's proposed third petrochemical complex at Gandhar is expected to be cleared by the Public Investment Board. This Rs 2,915 crore gas-based complex in Bharuch in Gujarat would have a composite plant for supply of C2/C3 feedstock, to be jointly implemented by IPCL along with GAIL and/or ONGC. Apart from pioneering a new generation of chemicals such as alpha olefins, alcohol ethoxylates and primary alcohols, the Gandhar complex will be unique in its planning for a total area development programme, local technical and entrepreneur skill development and infrastructure development.

The joint-venture proposal for engineering plastics between IPCL and General Electric Plastics of Netherlands received government approval during the year. A 50:50 equity participation, the Rs 700 crore joint venture will bring to India revolutionary engineering plastics used in defence, security, business machines, etc.

IPCL's 4.4 million contract, signed this February with the National Petrochemical Company, Iran, for training 300 personnel from Iran, in the first phase, signalled IPCL's entry into overseas contracts. The understanding with NPC, Iran, also covers working on a joint venture. A committee has been appointed to examine the Iranian joint venture offer. A separate petrochemical joint venture on the anvil in West Asia made further progress during the year.

1990-91 also saw IPCL entering the field of speciality fibres with its 12 tonnes/year pilot plant for carbon fibre going into commercial production. This research-based facility places India on the world map of producers of strategic material used in defence, aerospace, artificial implantation, etc. The first consignment for the defence research programme was made on March 30.

STATISTICS

| Index Numbers of Wholesale Prices (1981-82 = 100) | | | Variation (per cent) | | | | | | | | |
|--|-----------------------------|-------------------|----------------------------------|-----------------------------|-----------------------|---------------------------|---------------------------|--------------------|------------------|----------------------|------------------|
| | | | Weight | Latest Week 13-4 91 | Over Last Month | Over Last Year | Over March 31, 1991 | In 90-91 ** | In 89-90 | In 88-89 | In 87-88 |
| All Commodities | 171.4 | 192.0 | | 0.6 | 11.1 | 0.4 | 10.2 | 7.5 | 8.2 | 5.8 | |
| Primary Articles | 166.9 | 197.5 | | 0.5 | 16.2 | 0.8 | 13.1 | 4.9 | 11.3 | 9.1 | |
| Food Articles | 177.3 | 211.8 | | — | 16.5 | 0.2 | 11.9 | 9.9 | 9.0 | 10.2 | |
| Non-food Articles | 176.4 | 215.2 | | 1.7 | 20.7 | 1.3 | 16.9 | -1.7 | 21.6 | 11.3 | |
| Fuel, Power, Light and Lubricants | 164.9 | 188.6 | | 0.7 | 13.8 | — | 11.9 | 5.5 | 3.5 | 6.7 | |
| Manufactured Products | 174.7 | 189.6 | | 0.7 | 7.8 | 0.5 | 11.9 | 9.4 | 7.2 | 3.7 | |
| Cost of Living Index | | | Variation (per cent) | | | | | | | | |
| | | | Base | Latest Month | Over Last Month | Over Last Year | Over March 1990 | In 1989-90 | In 1988-89 | In 87-88 | In 86-87 |
| Industrial Workers | 1982 - 100 | 202 ¹ | | 1.5 | 16.1 | 14.1 | 6.5 | 9.1 | 9.2 | 8.7 | |
| Urban Non Manual Employees | 1984 85 - 100 | 165 ¹¹ | | 0.6 | 13.0 | 12.2 | 6.9 | 6.3 | 9.0 | 7.9 | |
| Agricultural Labourers | July 60 to June 61 - 100 | 828 ¹² | | 0.5 | 10.0 | 12.5 | 3.2 | 11.4 | 9.9 | 4.7 | |
| Money and Banking | | | Variation (per cent in brackets) | | | | | | | | |
| | | | Latest Week (05 4 91) | Over Last Month | Over Last Year | Over March 23, 1991 | In 90 91 | In 89 90 | In 88 89 | In 87-88 | |
| Money Supply (M ₁) | Rs crore | 2 70,668 | | 8,672 (3.3) | 14,977 (14.8) | 6,714 (2.5) | 34,300 (14.9) | 28,571 (18.1) | 22,027 (15.7) | 22,295 (18.8) | |
| Net Bank Credit to Government Sector | Rs crore | 1,43,379 | | 3,779 | 23,697 | 5,090 | 21,778 | 12,715 | 12,811 | 12,776 | |
| Bank Credit to Commercial Sector | Rs crore | 1,72,292 | | 5,117 | 18,198 | 2,315 | 19,552 | 20,531 | 12,389 | 11,294 | |
| Net Foreign Exch Assets of Banking Sector | Rs crore | 7,977 | | -409 | 1,428 | 40 | 1,429 | 637 | 682 | 1,314 | |
| Deposits of Scheduled Commercial Banks | Rs crore | 1,98,069 | | 9,423 (5.0) | 26,627 (15.5) | 7 420 (3.9) | 24,230 (14.5) | 22,041 (18.7) | 15,321 (14.9) | 17,320 (20.3) | |
| Foreign Exchange Assets | Rs crore | 3,784 | | 583 (15.4) | 1 886 (66.7) | 214 (5.4) | 1,710 (30.0) | - 830 (11.6) | - 508 (- 6.6) | 604 (8.6) | |
| Index Numbers of Industrial Production (1980 81 = 100) | | | Weights | Latest Month (Oct 90) | Averages for | | | | | Variation (per cent) | |
| | | | | | 1990 91 | 1989 90 | 1989 90 | 1988 89 | 1987-88 | 1986 87 | 1985 86 |
| General Index | 100.0 | 196.2 | | | 200.0 | 180.5 | 8.3 | 8.7 | 7.3 | 9.1 | 8.7 |
| Mining and Quarrying | 11.5 | 196.0 | | | 204.3 | 197.8 | 5.9 | 7.9 | 3.8 | 6.2 | 4.2 |
| Manufacturing | 77.1 | 191.7 | | | 195.1 | 173.2 | 8.3 | 8.7 | 7.9 | 9.3 | 9.7 |
| Electricity | 11.4 | 227.1 | | | 228.5 | 212.9 | 10.7 | 9.5 | 7.7 | 10.3 | 8.5 |
| Basic Industries | 39.4 | NA | | | NA | NA | NA | 9.9 | 9.6 | 9.2 | 6.8 |
| Capital Goods Industries | 16.4 | NA | | | NA | NA | NA | 7.4 | 5.9 | 18.2 | 10.6 |
| Intermediate Goods Industries | 20.5 | NA | | | NA | NA | NA | 11.5 | 4.8 | 4.4 | 7.5 |
| Consumer Goods Industries | 23.6 | NA | | | NA | NA | NA | 6.0 | 6.5 | 7.1 | 12.5 |
| Durable Goods | 2.6 | NA | | | NA | NA | NA | 22.1 | 7.8 | 18.9 | 18.7 |
| Non Durable Goods | 21.0 | NA | | | NA | NA | NA | 2.4 | 6.2 | 4.9 | 11.5 |
| Foreign Trade | | | Unit | Latest Month (Jan 91) | Cumulative for* | | | | | | |
| | | | | | 1990 91 | 1989 90 | 1989 90 | 1988 89 | 1987 88 | 1986 87 | 1985 86 |
| Exports | Rs crore | 3 024 | | | 26,236 | 22,104 | 27,681 (36.3) | 20,302 (29.0) | 15,741 (26.2) | 12,452 (14.3) | 10,895 (7.2) |
| Imports | Rs crore | 4,131 | | | 35,890 | 28,955 | 35,412 (+ 25.6) | 28,194 (+ 23.9) | 22,399 (11.2) | 20,096 (2.2) | 19,658 (14.7) |
| Balance of Trade | Rs crore | 1,107 | | | 9,666 | 6,851 | 7 731 | 7892 | 6,658 | - 7,644 | 8 763 |
| Employment Exchange Statistics | | | Unit | Latest Month Aug 90 | Cumulative for* | | | | | | |
| | | | | | 1990 | 1989 | 1989 | 1988 | 1987 | 1986 | 1985 |
| Number of Applicants on Live Register as at end of Period | Thousand | 34,286 | | | 34,286 | 32,127 | 303736 | 30,050 | 30,247 | 30,131 | 26,270 |
| Number of Registrations | Thousand | 607 | | | 4,518 | 4,534 | 6,576 | 5,963 | 5,465 | 5,535 | 5,822 |
| Number of Vacancies Notified | Thousand | 45 | | | 340 | 424 | 600 | 543 | 621 | 623 | 675 |
| Number of Placements | Thousand | 18 | | | 186 | 195 | 289 | 329 | 360 | 351 | 390 |
| Income | | | Unit | 1989 90 | 1988 89 | 1987 88 | 1986-87 | 1985 86 | 1984-85 | 1983-84 | 1982-83 |
| | | | | | | | | | | | |
| Gross Domestic Product (current prices) | Rs crore | 3,92,524 | | | 3,49,105 | 2,94,408 | 2,60,442 | 2,34,159 | 2,07,869 | 1,85,991 | 1,58,851 |
| Gross Domestic Product (1980 81 prices) | Rs crore | 1,95,237 | | | 1,85,543 | 1,70,716 | 1,63,924 | 1,57,348 | 1,49,966 | 1,44,310 | 1,33,469 |
| Per Capita Income (1980 81 prices) | Rupees | 2,142 | | | 2,078 | 1,910 | 1,881 | 1,852 | 1,804 | 1,780 | 1,682 |

* For current year upto latest month for which data are available and for corresponding period of last year

** Excluding gold and SDRs + Upto latest month for which data are available NA Not available

++ Provisional data @ Quick estimates

Notes: (1) Superscript numeral denotes month to which figure relates, e.g., superscript¹ indicates that the figure is for January and so on
(2) Figures in brackets denote percentage variation over previous period

Who Is Afraid of Bank Disclosure?

D N Ghosh

The current initiatives towards reform of the financial system are mainly in the form of diversification of money market instruments and establishment of new agencies for widening and deepening the range of services in the financial market. These reforms cannot, however, correct the inherent systemic deficiencies in the core area of financial intermediation. Far more effective will it be to use the instrument of fuller public disclosure to put financial institutions to the test of the market-place.

IN the recent public issue by the ICICI, sharp questions were raised on the inadequacy of financial disclosure in the prospectus. Financial journalists were persistent in the assertion of their right to be apprised of the quality of the asset portfolio and the order of provision against bad and doubtful debts. The true state of affairs of the banks and financial institutions has become matters of serious public concern. There are uncomfortable signs of faltering confidence in the strength and viability of the system.

The banking system enjoys a somewhat privileged status, thanks to the time-honoured convention of preserving the confidentiality of the operations of its clients. It is widely believed that the plea of confidentiality is over-stretched in the name of preserving the delicate fabric of credit. Data released by different institutions are too meagre for any informed and discriminating judgment on matters of financial soundness, asset quality, prudence in management of funds, efficiency in payment mechanism and reasonableness in cost of financial intermediation.

What is available to the public is the balance-sheet and the report of the auditors on the balance-sheet. This is subject to several limitations. A bank is debarred from disclosing its total income. A fine print in the appendix to the Banking Regulation Act prescribing the format of the accounts gives it the special sanction that the income be shown after deducting the provision for bad and doubtful debts and what it has provided is not required to be disclosed.

Yardsticks for making provision for bad and doubtful debts are not uniform: they vary widely and significantly as between different institutions. To mention a few issues by way of illustration: At what

point should the bank treat a debt as bad and doubtful of recovery? If the schedule for the repayment of principal and interest is not adhered to, does it automatically become a non-performing loan? If the loan is rescheduled to take into account the borrower's fluctuating fortunes, could it count on the benefit of doubt? Again, if there is adequate security cover, is the bank obligated to make any provision? Also, availability and realisability of any specific security gives scope for wide divergence of views. Differences between management and auditors on these complex issues come to be incorporated discreetly in the notes forming part of the accounts. Drafted carefully and skilfully, the notes protect the auditors and at the same time do not damage the credibility and image of the bank. It is virtually impossible to cut through the camouflage to interpret the true underlying trends.

While ICICI did not disclose its provisions, it pointed out, and rightly so, that no single institution could afford to take a unilateral decision in the matter, but that ICICI would be fully prepared to disclose its affairs provided all banks and financial institutions opened their books. Disclosure requirements and standards have always evoked lively interest among academicians, financial journalists and public regulatory agencies in the developed countries. Surprisingly, there has been no structured and informed debate and discussion in India. The criteria for judging non-performing assets, quantification of provision, the extent and standard of disclosure—all these are matters which call for reconciliation of conflicting views and adoption of a uniform code and convention.

What should be the object of such a code? Transparency in the matter of provision for bad and doubtful debts is not

an end in itself. The central issue is to enhance the operational and functional efficiency of each unit in the financial system. The range and depth of disclosure must be designed to put all the units in the system on the reform path towards greater efficiency.

The current initiatives towards reform are mainly in the form of diversification of money market instruments and establishment of new agencies in the public and private sector for widening and deepening the range of services in the financial market. These reforms cannot, however, correct the inherent systemic deficiencies in the core area of financial intermediation: its cost, archaic payment mechanism, outdated system and technology, deteriorating asset quality and growing incapability to absorb risks are clearly matters of serious concern. It is naive to assume that infusion of private ownership in the public sector banking units, which goes generally by the name of privatisation, will necessarily remove some of the major deficiencies which are not linked to the ownership pattern. It is crucial that each unit is put to the test of the marketplace and this may be initiated through the disclosure route. Each unit will be driven to reach certain efficiency parameters to keep it strong, stable, viable and competitive as well as to comply with the regulatory requirements of the monetary authority. The pressure and forces that will thus be generated will set in motion the adjustment process. The managerial responses of each unit will markedly differ, depending on their respective financial position and the nexus with its customers and other players in the market. The adjustment process will acquire its own dynamics. One cannot, therefore, unambiguously predict or chart out the trajectory of the adjustment process. It is not unlikely that the viability of the non-competitive institutions may be threatened, particularly those in the public sector that have long enjoyed protection from the authorities against any rough environment. If disclosure tends to trigger a crisis of confidence, the authorities should step in, but such a contingency, even if likely, should not be an argument for shying away from using disclosure as the key to reform and holding back the adjustment process.

For the adjustment process to be smooth, the market participants would legitimately expect a level playing field. Certain minimum preconditions have to

be ensured. Each unit must be allowed the requisite freedom and flexibility to operate as an independent decision-maker in the matter of earning, liquidity, asset quality and cost of intermediation. Second, the subsidy element in the directed lending programmes must not be a charge on its profits: this has to be reimbursed explicitly from the budgetary resources, even if the public sector banks continue to be the vehicles for such lending. (This is not something novel in public sector banking; in the case of the State Bank of India, the losses attributable to the branches opened at the behest of the government used to be reimbursed to it from a special fund.) Third, adequacy of capital in relation to the risk-weighted assets must be brought to internationally accepted standards.

Given a consensus on the goals to be achieved and an understanding of the current conditions, the regulatory authorities will have to induce appropriate goal-adequate behaviour.¹ Their rules of the game have to change. They have to develop and sharpen their response and listen to the market and fine tune the nature and quality of intervention to correct any destabilising influence. This would demand not less but more watchful regulation, not less but more frequent interaction with the actors in the market, not less but more guidance in complex situations, but overall, less interference in the managerial decision-making process.

Can we succeed in embarking on the route to reform? Each of the groups concerned with the operation, management and regulation of the system has a vested interest in the preservation of the *status quo*. Bank managements, employees, the industrialists, the politicians and the regulatory authority—all have an interest in preserving the fine print and in shielding the banks from full public gaze. The system is becoming too flabby without any commensurate increase in productivity and efficiency in the payment and money transmission mechanism. The true cost of intermediation, if it comes out, could perhaps be a serious indictment of the management and the employees. Default is reported to be rising to a dangerously high level. Emotive debates are taking place in the financial press: who holds the system to ransom—the industrial or rural borrowers? There are no hard facts to go upon, only prejudices or surmises. Industrialists certainly would not like to expose the level of their overdue commitments, the non-disclosure provision and the confidentiality convention of industrial transactions come in handy

for their comfort. For rural credit, virtually on the brink of collapse, truth will be far too unpalatable for politicians. Will the regulatory agencies welcome disclosure? Perhaps not. Over the last forty years, parliament has been generous in granting statutory powers to the Reserve Bank as and when needed and asked for. Supervision and inspection by the Reserve Bank have been generally accepted as the impregnable shield against erosion of the net worth of the banks. Will disclosures wreck this confidence?

Interestingly, this is a situation similar to what has been analysed by Kornai in his study of market socialism in Hungary, Poland and Czechoslovakia in the early sixties. Note his perceptive observation on the common experience of these countries:

Reform could not be pushed through as it turned out that neither the bureaucracy, nor the management, nor indeed the workers were enthusiastic adherents of competition or of the marketisation of the state-owned sector. Some enlightened government officials and intellectuals may have come to the conclusion that a hardening of the budget constraint and a decrease of paternalism was needed so as to improve the performance of the economy. However, there were no strikes

or street demonstrations in favour of increasing efficiency at the expense of state protection. There did not exist a grassroot movement for the decentralisation of the state-owned sector.²

The undercurrent for the maintenance of *status quo* is strong and persistent. The management would not wish to expose themselves to the charge of inefficiency, the monetary authority for the ineffectiveness of its supervisory role, the industrialists for subverting the system for their own benefit and the politicians for encouraging defaults for favouring their own vote-banks. Seemingly, an 'unholy alliance' to preserve the mystique of the 'holy secret'.

Notes

1 This is to be interpreted within the framework of the methodology of 'instrumental influence' or 'instrumental analysis' as discussed by Adolph Lowe in his seminal work *On Economic Knowledge: Towards a Science of Political Economics*, New York, 1965.

2 Janos Kornai, 'The Affinity between Ownership Forms and Coordination Mechanisms: The Common Experience of Reform in Socialist Countries', *The Journal of Economic Perspectives*, Summer 1990, Vol 4, No 3

SAMEEKSHA TRUST BOOKS

Selections of Articles from *Economic and Political Weekly*

General Editor: Ashok Mitra

Poverty and Income Distribution

Edited by

K S Krishnaswamy

While there has been, over the years, a perceptible increase in per capita income and expenditure and possibly some decline in the incidence of poverty in India, what still remains is massive and of a kind that is not remedied quickly or smoothly. Even with radical policies, the shifts in income and occupational structures to make a serious dent on it will take more than the rest of this century. In the welter of recent exchanges between the government and the opposition as well as between planners and market advocates on the strategy of growth, these issues, have been largely obfuscated. It is therefore more than ever necessary today to recognise the magnitude of the problem and the inadequacy of the measures adopted so far to deal with it.

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Peacocks of War

Deena Khatkhate

The annihilation of life in the Gulf war takes one's mind back to Dresden in Germany where 35,000 people perished in British bombing in February 1945. The tragedy lives on in Wilhelm Lachnit's painting 'The Death of Dresden'

WE are not Benjamin Franklin with his virtues and statesmanship to pronounce that "there never was a good war and a bad peace". His times were different from ours. This is an age where there is both a bad war and a bad peace. Even if a war is started by a bad man and a good man joins it, it does not become a good war. This war which exploded on January 16 is certainly not one of that genre, and the peace that may break in after the carnage and cruel exhibition of modern destructive weaponry is not likely to be good either. In the meantime, business will be as usual, with a few kings, some sheikhs and maniacs shuffled around. Saddam Hussein, foolish and vain, menacing and Mephistophelian is counting his days but those who would come in his trail would be more of those ruthless demonic personalities who will preside over the generation of meaningless deaths in the Middle East. Why this horde of carnivores? Why this death dance? Why this lying when you are already dead—not only physically but culturally and historically? Today it is the defence of Islam, tomorrow it is the espousal of Shiaism and it is the honour of the Palestinians the day after tomorrow. But the enemies are not neatly defined. The other day the Shias were at the throats of the Sunnis, then they together were ranged against Jews and now those who lacerated the sky with 'Islam in danger' are fighting each other.

The enemy of Arabia is within itself. Iraqi poet Abdul Bayati famed for his prophetic vision, lamented that "he dreamt of democracy and peace in his land and that sounded right". After three score and ten years, he gave up—going through disillusionment, prison tortures and a perpetuating mendicancy. Not being a fatalist, he fastened the blame for this tragedy on to his leaders. The defeat in the Middle East wars, he ruefully says, is the defeat of "these peacocks" who were left behind.

A generation of meaningless deaths
In the coffee houses of the East we are
defeated by the war of words

The peacocks who strut in the halls where pride is dead

And the essays of the obedient hacks

But the peacocks are not only in the Arab world. They are here too in good measure. The peacocks with their colourful plumage do not see the ravages of war. President Bush, a war leader now with an approval rating of 80 per cent, is riding high on popular acclaim. 'Cost in lives during war is beyond the administration to measure in the same way as the cost of not resisting aggression is beyond mankind to imagine,' he thunders. Yes, how can you measure the cost of war? On television, there is an awful display of modern electronic weaponry with night vision contraptions, patriot missiles, and precision instruments which wipe out miles and miles long rows of houses and factories. How can one add up the unimaginable amount of dollars sunk into the manufacture of this weaponry? No, no one can measure the cost of war whether it relates to weaponry or human lives. Men, women and children just melt into a thickening liquid. In Saddam's Iraq they are dragged out of their homes without knowledge of their parents. In Bush's America they are just called in, if they at any time had used military service as an interim arrangement to support their education or families. And then how can you measure the cost of tears, the emotional devastation that is wrought on the families of men and women on the war front. There is a picture on television of a young girl, newly married, bidding goodbye to her young husband going to the front. Tears roll down but more tearing are her words, "But whose war are you fighting?" The distraught father, seeing off his son, about to be a doctor and an only bread-winner, saying to his departing son, "I don't believe in this war, but you can't avoid it." There is a dairy farmer, whose husband is a reservist called for duty in the Gulf. Being a reservist, he had to forgo his income. When asked how she copes with the loss of income following her husband's departure, the wife, pale and wan, pointed to her ailing father who

is helping her in milking the cow and broke down sobbing. Yes, this is the cost which is beyond the administration to measure but certainly not beyond mankind to imagine. As Bayati mused, "We are the generation of meaningless deaths", which is cost less for the peacocks who rule the destinies of modern nation states.

But it is not all doom and gloom, there are some oases of bloom—of daredevil soldiers, upright journalists and public men of conscience. Death in the Desert Storm is staring at them, the uncertainties of the morrow are unnerving them, darkness of the night is enveloping them, the sand dunes of the sprawling desert are taking them into the bowels of the earth, but the soldiers, the foot soldiers on the battlefield, singing and dancing, regale themselves with a vision of their fiancées, dream of their future happiness.

Come eh come eh
You the beautiful one
But if you don't find me here
Then let us meet in heaven

One scene fades out and another fades in with a young black soldier struggling to call his mom on the emergency phone. He shouts, "Hi mom, I am Robert, what are you cooking now? Please remember me when you eat my favourite dish. Let me tell you how grateful to you I am for bringing me in this world. If I die now, it is because I lived well under your care. And mom, I made my peace with my dad." Then he laughs and laughs till he breaks down. No, these are not the costs which can be calculated by mankind or even by gods.

It is not war if there is not disinformation or misinformation. Dreading a free media, the Pentagon did not allow non pool arrangements for journalists to report the war news. But one Peter Arnett, an intrepid CNN television correspondent, braved all these adversities and stuck to his mission in Baghdad to relay pictures of war devastation in Iraq and the killing of civilians. He was scrupulous enough to add that his news coverage has been cleared by the Iraqi authorities. But he did not shirk, even within those bonds, from announcing to the world what Allied bombing was doing in that country. But Republican senator Alan Simpson has flung a verbal scud at him, saying that he is doing a dirty propaganda job for Saddam Hussein. However, this verbal scud attack at Arnett has been repelled by most leading journalists with 'unpatriotic' missiles. In the process they have exposed

senators' cupboards. Simpson, when he met Saddam Hussein a few months ago, had told him that "the frightful things being said about you and your police state must be the work of a maligned press. I believe your problems are with Western media and not with the US government." Another, Howard Metzenbaum, had assured Saddam, "after listening to you for about an hour, I realised that you are a strong and intelligent man and that you want peace". It is these men-peacocks, as poet Bayati described them, who flaunt their colourful plumage rather than those fearless journalists, who disseminate the truth, who betray their people and egg them on to the abattoirs of war. During such traumatic times, the best in men and women surfaces and it is before this that one bows one's head and pays homage to a free and democratic society. Is such an act by a journalist conceivable in India, which boasts of truth, non-violence, and high moral values? It is high time some Indians jog their memories hard to recall a forgotten Bengali journalist who exposed the hollowness and falsity of the reams of paper prepared by the Historical Divi-

India's claim on McMahon Line.

A war without destruction of life and property would not remain war and yet, when you see the bodies of women and children dumped in broken bunkers, your soul cries for those innocent people who escaped from the living tyranny of one misanthrope into the silent cemetery of another. Only those who survive them mourn them; for them, it is like another day. With such annihilation of life, one's mind harks back to another place and time—Dresden in Germany in February 1945 where 35,000 people perished under British bombing. The tragedy lives on in a painting by Wilhelm Lachnit called 'The Death of Dresden'. There is a figure of death and a mother sitting side by side, their heads collapsed into their hands, the ruins of the city stacked behind them in the spoiled light and a powerless sun. The mother's son stares out from the picture, his small hands draped over the mother's lap, palm facing out, towards what remains. The peacocks of the world with their plumage of glorious and gory colours have always left behind such paintings for eternity.

political party in power, unless party affiliation is an appropriate requirement for the position involved. The present case concerned "low-level public employees". The court ruled that it was unconstitutional to apply any political patronage practice to them.

The US has a spoils system in public services. But there exists also the permanent civil service. This case concerned the latter. It is relevant to us for two reasons. One is that since we do not have the spoils system, the reasoning is of greater force. The other is that we also have the constitutional guarantee of free speech, Article 19(1)(a) of the Constitution.

The governor's order affected 60,000 State posts. Each year there were around 5,000 vacancies. Requests for the governor's "express permission" became routine. Political patronage policies are "tantamount to coerced belief". A situation is created in which the public servant is forced to accept the political beliefs of his political masters in order to further or protect his interests—a committed civil servant. As the court put it in an earlier case, "the coercion of belief that necessarily flows from the knowledge that one must have a sponsor in the dominant party in order to retain one's job".

The court rejected the argument that the patronage system was necessary for the political process to work. "Political parties have already survived the substantial decline in patronage employment practices in this country." Rejecting all the defences advanced in justification of the practice, the court ruled: "We, therefore, determine that promotions, transfers, and recalls after lay-offs based on political affiliation or support are an impermissible infringement of the First Amendment rights of public employees."

Viewing the situation realistically, the court observed: "A state job is valuable. Like most employment, it provides regular paychecks, health insurance, and other benefits. In addition, there may be openings with the state when business in the private sector is slow. There are also occupations for which the government is a major (or only) source of employment, such as social workers, elementary school teachers, and prison guards. Thus, denial of a state job is a serious privation."

In 1966 the court had struck down loyalty oaths for public servants. One argument given in the minority judgment deserves mention. How can the Supreme Court frown upon political appointments when the judges of the court themselves are appointed on political considerations? This shows the political polarisation in the US Supreme Court. It is not an example for emulation but a warning to be heeded.

CIVIL LIBERTIES

Protecting Public Servants from Politicians

A G Noorani

A ruling of the US Supreme Court that it is unconstitutional to apply any political patronage practice to government employees in initial employment, promotions, transfers or dismissals is of particular relevance to us.

THE Constitution, which prevents the abuse of public property for political or personal ends, protects public servants too from attempts by politicians to suborn their loyalties, or make them insecure in order to force them to lend their services for political ends. The United States Supreme Court's ruling in *Rutan vs Republican Party of Illinois* on June 21, 1990 is a landmark. It is of particular relevance to our situation.

The governor of the State of Illinois issued an executive order instituting a hiring freeze, whereby State officials were prohibited from hiring any employee, filling any vacancy, creating any new position, or taking any similar action without the governor's "express permission". The object was obvious. An applicant for employment, employees who had been denied promotions or transfers, and former employees who had not been recalled after lay-offs filed a suit alleging that by means of the freeze the governor

was operating a political patronage system. He wanted to employ or promote supporters of the Republican Party. This, they argued, violated the First Amendment—the guarantee of free speech.

The District Court dismissed the suit on the ground that it disclosed no cause of action. The Appeal Court reversed in part. It protected officials against dismissal, but not applicants rejected for political reasons.

The Supreme Court split 5 to 4 and upheld the plaintiffs' claim. Given the change in the composition of the court since in favour of the conservatives, it may be that the case would have been decided against the plaintiffs today. All the same the majority ruling is law.

Recalling two earlier rulings of 1976 and 1980, justice Brennan, who delivered the majority judgment, said that the court had decided that the First Amendment forbids government officials to discharge or threaten to discharge public employees

Eighth Plan: Challenges and Opportunities—XV

Epilogue: Towards Sustainable Development

Arun Ghosh

As the country prepares itself for another general election within eighteen months and as a new government (and presumably a new Planning Commission) is about to take over the task of formulating the Eighth Plan, the social transformation that was to inform the Eighth Plan approach approved by the National Development Council in September 1990 will have to be kept in mind by all those concerned with plan formulation and implementation. Last of a series of articles discussing the broad approach of the Planning Commission under the V P Singh government.

IN order to attain sustainable development, we need to satisfy three basic requirements. First, we need self-reliance not only in the matter of external payments, we need a spirit of self-reliance among the masses of people. Secondly, and in order to bring about this spirit of self-reliance and self-confidence, we need to focus on the problems of the poor, particularly in the rural areas, focus on the Scheduled Caste and Scheduled Tribes people, focus on the education, emancipation and development of women. The Right to Work would in effect ensure a minimum of income for every family, which is the first step to a more egalitarian pattern of development. Finally, we need to provide for a minimum of energy supply as well as potable drinking water for every citizen, so that our women and children can be freed from the drudgery of daily collection of fuelwood and drinking water for the very survival of families.

RURAL DEVELOPMENT SUMMING UP PROBLEMS

The problems of the rural poor and rural productivity are complex, and largely inter-related. Even though in percentage terms, the number of people below the poverty line has been declining, the absolute number of the poor is staggering. The Scheduled Caste and Scheduled Tribes people constitute the core group in this category. Equally distressing is the predominance of women among the poor, the uneducated, the socially backward. High rates of population growth are correlated with high infant mortality, lack of education, lack of nutrition, lack of health care services and housing. All these factors are also associated with meagre incomes. The social and economic deprivations afflicting the poor reinforce each other.

Rural development and improvement of the conditions of life as well as productivity of the rural people have therefore to be at the core of the overall development strategy. The emergence of the poor from their pover-

ty would not only temper the gross inequalities prevalent today—a major factor in social tensions—the increase in effective demand of the poor could be instrumental in bringing about a self-reliant, sustainable growth of the economy. At the same time, if the productivity of this vast reservoir of human power could be raised, the potential for the growth of output—and therefore of the rate of growth of the economy—would be vastly enhanced. Also, not only would the investment requirements for such growth be much less than for the path of development pursued during the eighties, the time lag between outlay and increased output is likely to be relatively much less. An important consideration in this context is that such development makes little demand for the import of goods and services, unlike the modern industry sector or diverse urban services and facilities. The lag between outlay on social services and a rise in the quality of life could be much shorter if we can avoid fragmentation of these services.

Obviously, diverse interventions aimed at rural development and diminishing poverty and raising rural employment, incomes and productivity must be mutually consistent; these policies must also be supported and strengthened by overall development policy. For example, education, primary health and child care services and nutrition programmes must all be welded together purposefully; this is an example of the mutuality of these strands of social policy which are today fragmented because of the exercise of departmental prerogatives. Textile policy is an example of the meshing of overall development policies with the rural development programme; this policy would, *inter alia*, reduce the energy intensity of our development programme, and the same applies to the focus required on organic fertilisers for providing the soil with nutrients for raising agricultural productivity. Improvement of agricultural productivity depends on the integrated management and

use of land, water and vegetative cover, regeneration and conservation of natural resources, together with timely and systematic inputs in the form of credit, technical advice and marketing support.

Thus, quite obviously, the nature and range of problems that the rural poor face require a holistic solution. The approach so far has been piecemeal and verucally compartmentalised. Hence, despite the many government interventions, the backwardness of rural areas has not only remained, it has accentuated the disparities between productivity and living standards between regions. The employment programmes (pace the Jawahar Rozgar Yojana) have been supplementary, superimposed on diverse fragmented programmes of different departments. All rural development programmes in the past have been expenditure-oriented, and have therefore failed to make any long lasting impact on the productivity of the rural population generally.

The people, the rural populace in particular, have also been excluded from participation in the planning or decision-making process, even in matters which concern them (and their habitat) directly. Development effort over the past 40 years has not been able to harness—except in a few States—local knowledge, experience and resources, or the energies of the people. There has been exclusive reliance on the official machinery to combat the complex (and interrelated) problems of unemployment, poverty, low productivity and social and economic disparities (There are a few isolated pockets where a few voluntary organisations have been able to make a better impact, but such experience has obviously been limited.)

The problems that we face today are formidable. There is today no systematic scientific, technical, professional, multi-disciplinary underpinning of local rural developmental programmes. There has been little attempt to learn from past successes and failures. There has been no effort to co-ordinate official interventions with the efforts of many voluntary organisations that are reportedly doing useful work, albeit such efforts are necessarily highly localised and limited. One reason for the unsatisfactory results of government intervention has been the exclusive reliance on the administrative machinery to implement measures intended to promote equity. These efforts have also, in places, been thwarted by an unholy alliance between the official machinery and vested interests. Indeed, even existing legislation like tenancy reforms, freeing of bonded labour, payment of minimum wages to agricultural workers, abolition of untouchability, all have remained laws on paper. There has, in fact, been gross violation of civil liberties and of ordinary law and order through atrocities committed on certain castes, communities and women.

Schemes initiated from above, even where

local needs and priorities. There has been little or no local area planning. This by itself has led to considerable waste of scarce resources, to leakages and corruption; and as indicated earlier, has resulted in the delivery system absorbing most of the funds currently earmarked for socio-economic development of the rural areas.

Administrators are prone to measure success by time-bound 'expenditure'. Because of the ease (for the officials) of interacting with the existing hierarchy, economic disparities have increased sharply, even after 40 years of planning. Only seven States, namely, Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu and Uttar Pradesh, account for 80 per cent of those below the poverty line and 70 per cent of the unemployed population in the country. 70 per cent of the cultivated area is rain-fed, and has low productivity.

A distressing consequence of the lack of genuine, integrated planning at the micro level (for each local 'watershed' area) has been the wanton abuse of precious natural resources. In the absence of democratic decentralisation, the local population has little say in the matter of exploitation of natural resources. Many large development projects have inflicted serious, and frequently irreparable damage on ecology and the environment, destroyed natural resources, displaced lakhs of persons, and rendered them homeless and without any means of livelihood.

The focus, in short, has been on sectoral planning rather than on area planning. There has been a steady (and unabated) tendency to over-centralise and bureaucratised rural development programmes. During the Sixth and Seventh Plans in particular, there was enormous expansion of Centrally Sponsored Schemes, and concentration of planning (even in matters of detail) and implementation of plans in the hands of the official machinery. Progress on the rural front has been thwarted essentially by over-centralisation, bureaucratisation, and fragmentation of programmes.

DEMOCRATIC DECENTRALISATION

The Eighth Plan approach of the erstwhile Planning Commission was to aim at the maximisation of employment. The focus was to give practical meaning to the notion of the Right to Work. Special focus was on the development of women, their education, their health and nutrition, their work opportunities for ensuring a minimum level of income, maternity and child care—all of which may be expected to curb population growth and to raise the quality of life.

The first step in this direction is decentralisation of the planning process, involving not only a reorientation of priorities (in each area) but also in the processes and mechanisms of plan formulation and implementation. Such reorientation requires democratic decentralisation of the body politic. This would provide greater scope for the active participation of the people,

of local government (from the village panchayat—overseen by the Gram Sabha—to mandal/block panchayat and on to the district level). This process would provide an incentive to mobilise local resources, and to shape the development programme of each area to serve better the needs and priorities of the people. This calls for a fundamental policy change, and a restructuring of decision-making and planning processes, and of the machinery for implementation of the programmes.

The first requisite in this endeavour is clear recognition of the federal principle. The Centre must learn that India is a Union of States, that it is not for a few power-brokers at the Centre to decide on the fate of the diverse groups of people of this country. Those who have been using violence—through the use of para-military and other special forces in charge of 'internal security'—in the name of national integrity are indeed causing deep fissures within the community by the wanton repression of local urges and local aspirations. Firm acceptance of the federal principle, and within each State, of the concept of democratic decentralisation, is the greatest need of the hour.

Decentralisation has to be accompanied by the introduction of area planning. Area planning on an integrated basis will release the untapped energies of the people and local resources. It will also help to release development programmes from the stranglehold of standardised 'schematic' projects conceived either at the Centre or State (bureaucratic) levels. It would obviate the wastage of resources inherent in the present fragmented scheme-wise (or department-wise) programmes meant for local development.

Decentralisation and area planning are also pivotal to the underpinning of the employment programme. Since the removal of unemployment was the principal goal of the Eighth Plan—the growth rate being a fall-out of greater employment at higher levels of productivity—the sincerity and purposefulness of the government would be on test in regard to the implementation of the concept of *Right to Work, at the official minimum wage, for eight hours every day*. This work will have to be generated by the economic system through appropriate economic and technology policies on the one hand, and building up the requisite operational system, on the other.

The operation of work guarantee during the transition to full employment will require an effective institution in every village/town, responsible for planning, organising and providing productive work (or facilitating work opportunities) on a sustained basis. Specific works will be required for the implementation of area development plans. These in turn will generate new work opportunities at higher levels of productivity. It is essential for the success of the programme that the responsibility, authority and the resources for planning and implementation of such works be entrusted to the micro-level

to both draw up the local area development plans and provide work to those seeking employment. The local bodies will have to be endowed with adequate back-up support by way of experts, in order to formulate comprehensive area plans for each village or town.

It will obviously be necessary in this context to minimise inefficiency and the wastage of resources inherent in departmentally-run, segmented services. It will also be necessary to devolve the requisite funds to the panchayats (or other local bodies like the municipalities). Thus, the large transfers being made today (under Centrally Sponsored Schemes) will become investment-oriented instead of being expenditure-oriented (as they are today).

Overriding priority has therefore to be given to building the requisite institutions and mobilising institutional resources. Rural development funds need to be entrusted to the democratically elected representative decentralised institutions, instead of the sectoral official departments. The role of the government is to be reduced to one of aiding and complementing the process of people-led development in the rural areas.

Incidentally, there are many people who feel sceptical about such devolution of authority. Their reasoning is: (a) that in the absence of land reform, the panchayats are likely to be hijacked by vested interests in the rural areas, and the funds used for benefiting themselves; and (b) that this process will unleash corruption in the implementation of rural development programmes.

Both the above arguments are incorrect. Those who argue that land reform should precede such devolution forget that extant land reform laws have not been implemented in most states, and are unlikely to be implemented without pressure from below; that such pressure will come from democratic decentralisation because: (a) local people are more aware of what happens locally than of the goings-on in a distant State capital; and (b) increasingly, the build-up of diverse activist groups is going to make it difficult for a few vested interests to really hijack the panchayat system to serve their interests. It must also be accepted unfortunately that for some time, this can and will happen in certain localised areas. But with the present revolution in communications, the news of the success stories will spread fast; and activist groups may be expected to help spread the message.

The example of the Karnataka experiment of 1986 is proof of the innate wisdom of the people in regard to their own welfare. The recent subversion of the panchayat system has come from the State-level politicians in Karnataka: this had also been the experience of Gujarat and Maharashtra in the sixties. The State-level leadership sees in the growth of the panchayats a threat to its power and authority. This has to be exposed by an upsurge from the ground level. It is possible that there would emerge violent overt op-

position to the new system in some areas. What we forget is that there is constant, unrelenting repression going on today in any case, and that a few eruptions of violence is but natural in a process of social transformation that is likely to be fundamental. No one likes to shed power voluntarily or willingly.

To recapitulate, a three-fold strategy for rural development is recommended for the Eighth Plan, comprising:

- (a) democratic decentralisation;
- (b) area planning, and
- (c) convergence of social services, with a revised role of government.

INSTITUTIONAL RESOURCES

The institutional resources for development will include, among others: (a) panchayats (and where appropriate, duly elected municipal bodies, that is, institutions of democratic decentralisation); (b) co-operatives (which need to be revamped and democratised); (c) voluntary organisations (which may act as catalysts of social change); (d) scientific, technical/professional institutes; (e) a reoriented official machinery; and (f) an evaluation network.

The basic institutions of democratic decentralisation will extend from the village up to the district level. At the grassroots level, the Gram Sabha will ensure accountability of the panchayats and facilitate active participation by the community in the development process. Hitherto, active participation by women, Scheduled Castes and Scheduled Tribes and other backward groups has generally been lacking. This has to be ensured through their representation on the panchayats. The availability of decentralised institutions at the grassroots level is therefore a necessary first step to decentralised planning and to mechanisms for improving the share in development of the hitherto depressed sections of society. A certain number of seats is to be reserved for women and the Scheduled Castes and Scheduled Tribes in the elected bodies, to enhance their capacity to press for equity in the formulation of local development programmes and the allocation of resources. In West Bengal, it is mandatory to paste all decisions of the panchayats on the notice board of the panchayat building, so as to awaken general consciousness and awareness of the populace. Periodic elections to all panchayat bodies have to be mandatory, so as to help the weaker groups of society to improve their relative position over time, with the aid of the electoral process. The content and priorities of development need to be changed, and the development programme needs to be made relevant to the needs of these sections of society. The reservation of seats or such sections will provide them with an opportunity to do so, and to participate more actively in the programmes calculated to enhance their productivity and income.

Area planning has to be the means of bringing about the requisite change, by the decentralised institutions—the panchayat bodies and municipalities—so that the

available resources are put to efficient use. The convergence of social services in each area will help in the efficiency of use of resources for improving the quality of life.

Co-operatives are yet another institution that embody economic democracy. The existing state of the co-operatives is sad; they are unrepresentative and bureaucratised; their benefits have been usurped by a few, and the lack of repayment of past loans (taken by a few) prevents them from making a dent on the problem of credit in the rural areas. The co-operatives need to be revamped, democratised through wider participation, and invigorated through legislative and other reforms. The credit needs of the poor producers cannot be met without a revamping of the co-operative structure.

Voluntary agencies can help to spearhead and sustain social reform movements. They can, on occasion, provide countervailing power against undue pressure exerted by the stronger elements and vested interests, and thereby serve the interests of democratic decentralisation. Voluntary bodies can act as articulators of problems and catalysts of change. What they can never be is to become substitutes for people's own organisations. There is thus a clear role for voluntary organisations to assist in the process of social transformation. But they cannot ever play the role that democratic decentralisation can.

Knowledge is capital. In order to enhance the capability of the rural population and to increase the competence of local bodies to plan and implement their local area development programmes, a whole network of scientific inputs will be necessary, to gather and to disseminate data/information; to provide technical and professional assistance in aid of local development effort. It would be necessary to involve numerous educational, technical, scientific institutions, as well as management, marketing and other professional bodies. There are a large number of institutions in the country as of today. Their expertise is not available for blending the latest scientific knowledge with the home-spun traditional knowledge and experience of local people. It is not only necessary to blend the two—as, for instance, by reaching the satellite imagery maps to local bodies in order to assist in the preparation of 'watershed' area plans—but also to expand local markets, establish market linkages, market information, product development and trade and credit channels.

The reorientation of the official machinery to meet the above types of developmental needs of the rural population will not be easy, but is necessary. Fortunately, the Indian bureaucracy is both enlightened and flexible. It needs firm political commitment to the above ideology and principles. It needs clear guidance as to what is expected of it. The decentralised institutions need technical and management support. Development administration has to focus on the convergence of services at the field level, instead of vertical, departmental, compartmentalised pro-

vision of fragmented services.

We also need to learn continually from our past experience, replicating successful efforts and avoiding past mistakes and failures. We need an evaluation network involving social science, technical and professional institutions. We need independent institutions throughout the country, to carry out periodic evaluation studies. Eternal vigilance is the price of democratic development.

VIABILITY IN EXTERNAL PAYMENTS

India is currently facing bankruptcy in the matter of external payments—the result of 'living it up' throughout the decade of the eighties. We have achieved a high rate of overall GDP growth at the cost of heavy dependence on savings imported from abroad, as well as of a fiscal imbalance which has led to heavy dependence on deficit financing which has been fuelling inflation despite three record harvests in the past three years. On the external front, our import demand has been increasing rapidly for four reasons: (a) the spread of the gospel of elitist consumerism even by the official media such as the TV network, which creates a large import demand, in turn fuelled by a pseudo-policy of liberalisation of the import of technology (which leads to import dependence); (b) the increase in non-commercial imports (including imports related to defence) which help to create jobs abroad but not in India, at the same time creating similar pressures in neighbouring countries, leading to futile expenditure by both our neighbours and us, when we need more regional co-operation; (c) the pattern of industrial growth in the past which has been import-intensive; and (d) the pattern of energy consumption which points to the need for a directional change in our planning approach. We need to achieve viability in external payments, for which we need to turn away from easy solutions. We need, in fact, several hard decisions and changes in policy. First, we need to reformulate our energy policy, and reduce our dependence on imports for primary sources of energy. For this, we need a systematic and sustained drive for energy conservation on the one hand and development of renewable sources of energy on the other. Long-term road transport is the biggest and most wasteful user of a precious imported fuel; and we need to focus on the development of an efficient railway system to contain the burgeoning demand for diesel oil for road transport. We must also ensure the availability of a minimum of energy to all citizens; and here again, we need to intensify our search for and exploitation of non-conventional, renewable energy sources, so as to prevent the denudation of our already meagre tree cover, and the degradation of the environment.

This also involves a significant repatterning of our industrial development programme, not only to make it less energy-intensive but also to make it more employment-oriented (and less capital-intensive). In any case, the thrust for exports has visibly come in recent

times from small-scale industry; and we must provide all the required organisational and institutional support (by way of credit, raw material supplies, marketing and design assistance, etc) to small producers. Decentralisation of the production of consumer goods in particular is likely to provide the basis for increased employment, as well as reduce the energy-intensive pattern of industrial growth followed in the recent past.

The second major change in industrial policy has to do with development of our own research and development effort, and of our design engineering capability in place of reliance on imported technology. The latter should—except where necessary to upgrade our infrastructure services and efficiency of key intermediates production—be linked to exports, or at a minimum, a favourable net foreign exchange position, through insistence on exports to pay for all imports and import payments.

The third focus in industrial policy has to be on the efficiency of capital goods and key intermediates production, which would help to bring down the cost structure generally and make our manufactures internationally competitive. One requirement in this context is greater competition within the country, which can be spurred by increasing deregulation and dismantling of licensing and other controls, and reliance on fiscal and other financial levers of policy. Another requirement in this context is the reform of public sector enterprises, the first requisite of which is the distancing of enterprise decisions from government, making the management more 'accountable' by making the management of public enterprises rely more on the capital market (including the financial institutions) for financial support, in lieu of dependence on budgetary support for survival.

PLANNING FOR SOCIAL TRANSFORMATION

To the extent that other than infrastructure, by and large public enterprises should be made self-financing, there should be available larger plan funds for the financing of social services like education, health, maternity and child care, et al. Social transformation of any kind has to start with education; and universal education has to be the key element of social policy. Within education, focus has to be necessarily on primary education, non-formal education for the adult illiterates (as well as for certain other categories), vocational education at the secondary level, with higher education being made to pay for itself (except insofar as there would be need for ample scholarships for the bright, needy students who satisfy the means test).

There are many other elements to the story. But there is little merit in recounting all of them except to stress that financial devolution is of the crux in this attempt to reorient our plan strategy. If decentralisation of the body politic is to make sense, it has to be accompanied by effective decentralisation of finance, and devolution of resources from the Centre to the States and from the States to the local (panchayat and

other) bodies.

Efficiency in the use of all resources must be a cardinal principle to be followed. One way to achieve this is decentralisation. Another is the gradual elimination/reduction of covert subsidies. As long as the distribution of income and assets remains unequal, some subsidies must remain. However, so long as such subsidies are (a) overt, and (b) properly targeted, there is nothing unusual or untoward in the system. All economic systems need taxation for the system to function; and all extant literature points to need for the taxation system to be progressive. Subsidies are nothing but a form of negative taxation, a way of compensating the poor and deserving for the inadequacy of their incomes. Equally, there are today, any number of covert subsidies which have no justification, and need to be eliminated, some gradually, some immediately. Overt subsidies also need to be suitably targeted. For example, as stated earlier, higher education ought to be made self-financing, and yet deserving poor students ought to be given scholarships for such education. That would be in the best interests of society.

SUSTAINABLE DEVELOPMENT

How does the reorientation of our development on the above lines become sustainable? In the first place, we must recognise that economic development is possible only in a framework of social and political stability. The latter depends on: (a) a measure of equity in the distribution of income, and (b) a recognition of the need for an equitable pattern of socio-economic development, or at least a move towards such a pattern.

Social tensions could arise from a variety of reasons, but economic backwardness, discrimination and repression are a major set of factors contributing to social tensions. Sustainable development requires equity in distributing the gains of development.

There is yet another essential ingredient of sustainable development; our ecology, our

environment, our natural resources must be able to sustain the pattern of development pursued. The biggest casualty in the past few decades has been our environment. We must conserve our environment, we must ensure that our natural resources are able to sustain our development. Though scientific discoveries and inventions are constantly opening up new vistas of resources—one example being the possibility of using solar energy for our development programme—there are other areas where environmental considerations (or the lack thereof) can affect the pattern of our development programme significantly. The use of water is but one example. The replenishment of soil nutrients, the maintenance of an adequate tree cover, are two others. In the past, our development programme has been singularly insensitive to these concerns. Development programmes have relentlessly benefited a few, at the cost of the environment, at the cost of future generations. There is need for a directional change in our very approach to environmental considerations in our development programme.

Equity and social justice, and sustainability of the programme for future generations, are therefore major desiderata in planning for future development.

These are matters of concern for the future. Even for the present, equity and justice require a major shift of focus from the pattern of development pursued in the eighties.

As the country prepares itself for another general election within eighteen months, as a new government (and presumably a new Planning Commission) is about to take over the task of formulating the Eighth Plan, the considerations outlined in this series of articles, the *social transformation* that was to inform the Eighth Plan approach approved by the NDC in September 1990, need to be kept in mind by all those who are concerned with the task of plan formulation and implementation in the coming days.

(Concluded)

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Tripura and Election Commission

A Correspondent

Nine IAS officers in Tripura have submitted a letter to the Election Commission expressing their apprehension that 'concerted efforts' may be made by the State government to subvert the electoral process. Yet curiously enough the Election Commission has chosen to disregard the mass election-eve transfer of officials in the State

THE Election Commission has been commended for asking the State governments of Bihar, Rajasthan, Himachal Pradesh, Uttar Pradesh and Haryana to stay the transfer of officials on the eve of the elections. Though, strictly speaking, these governments did not go against the letter of the law as they ordered the large scale transfers just before the Election Commission's deadline for making such changes, they clearly violated the spirit of the law. As these transfers were politically motivated and were clearly undertaken to further the prospects of the ruling parties in these states in the forthcoming elections, according to some sources, this crack down on the erring State governments has gone a long way in re-establishing the credibility of the Election Commission and has also demonstrated without any doubt that the commission cannot be trifled with.

However, the praise showered on the Election Commission for taking a bold stand on the transfer issue in some States deserves to be tempered by the fact that it has adopted double standards and has turned a blind eye to the same kind of violation of the spirit of the law in some other States like Tripura. While it has gone on record objecting to the transfers in Bihar, UP and some other States, it has found no reason to interfere with the mass transfer of officials in Tripura, Madhya Pradesh and Andhra Pradesh as, according to the Election Commission, in the commission's view, the complaints from these States were not of a serious nature.

It may be recalled that on March 23, beating the Election Commission's March 25 deadline banning all transfers by the skin of its teeth, the government of Tripura issued an order transferring all five IAS, SDOs of Tripura who would normally work as assistant returning officers during the forthcoming elections and replacing them with junior ranking Tripura Civil Service officers. It is alleged that the IAS officers were transferred under the chief minister's orders and the five State Civil Service officers who have replaced them are favourites of the

government. They have been promoted out of turn, flouting the seniority list of the State Civil Service according to some sources.

The incident has naturally raised a furore in the State. The CPI(M) complained to the Election Commission alleging that these transfers were politically motivated and were a prelude to the mass rigging and booth capturing by the ruling Congress(I) TUJS coalition expected during the forthcoming Lok Sabha elections in Tripura.

Seshan in his superior wisdom has chosen not only to ignore the complaints of the CPI(M) led opposition but also the letter signed by nine IAS officers of the Tripura cadre addressed to the chief electoral officer of Tripura a copy of which was sent to the chief election commissioner for his information. In this letter, these IAS officers brought to his attention "the deplorable situation prevailing in the administration of Tripura" which, according to them, "renders the holding of free and fair elections absolutely impossible". Further, according to them "the sudden recent transfer of all the five IAS, SDOs (who would normally work as AROs during the elections) in an order issued on March 23, clearly indicates the malafide intentions of the government particularly in the light of the Election Commission's orders banning all transfers from March 25". They categorically stated in their letter that "Officers and staff serving in Tripura have been so demoralised in the last couple of years by repeated and unchecked incidents of intimidation, humiliation and assault that they seriously doubt as to whether anyone will be able to perform their (sic) duty during these elections in accordance with the letter and spirit of the Representation of the Peoples Act". In their letter they also communicated their apprehension "that serious and concerted efforts may be made on this occasion to subvert the electoral process by using all the means available to the government". They therefore urged the chief electoral officer "to take up this matter with the Election

Commission and to initiate immediate remedial steps to retrieve the situation so that the right of the people to vote freely and without intimidation is ensured".

The decision of the chief election commissioner to clear the transfer of key officials in Tripura connected with election duties as routine and in consonance with administrative norms is difficult to pass off as impartial. Its inexplicable silence over the serious charge levelled against the Congress(I) TUJS State government of Tripura has led some to suggest (probably with very good reasons too) that the Election Commission has acted in a very partisan manner.

Even if the CPI(M)'s allegations are dismissed by the Election Commission as politically motivated, the serious charges brought against the government of Tripura by the nine IAS officers of the Tripura cadre can hardly be treated as a hysterical outburst deserving to be ignored. They had marshalled very relevant facts to confirm their suspicion that the transfer order of the IAS officers indicated 'malafide intentions of the government' namely, that these "transfer orders had been issued only a few days after the hasty and humiliating removal of Shyam Lal Ghosh, the acting chief secretary, and the severe curtailment in the powers and authority of the acting director general of police B J K Tampi".

Ghosh, the finance secretary to the government of Tripura and also the acting chief secretary had incurred the displeasure of the ministers of the government of Tripura by trying to enforce financial discipline in the State and by curbing financial irregularities of the government and infructuous expenditures by the ministers. He was summoned before the cabinet insulted by the ministers, relieved of his charge as acting chief secretary and forced to go on long leave as he was reputed to be a forthright and honest IAS officer. Incidentally, as acting chief secretary he was also the chief electoral officer of the State. Again, within a fortnight of the arbitrary and uncourtious removal of the acting chief secretary from his post on March 12, on the eve of the elections, the acting State director general of police was also removed from his office and asked to go on leave. His powers were transferred to the additional DGO whose post was created overnight without bothering to seek the permission of the Centre. Tampi's crime was to issue a circular on maintaining strict neutrality while on election duty to all police officers and men. Incidentally issuing such circulars before elections is the duty of police chiefs.

Besides the past track record of the

to the holding of elections in the State could hardly have impressed the election commissioner. Since the Congress(I)-TUIJS alliance forcibly captured power in the State in 1988, there have been four elections in Tripura. Each one of them has been marred by electoral violence and large-scale rigging and booth capturing in which ministers and MLAs of the ruling parties have participated actively along with their armed anti-social henchmen. The opposition has either had to withdraw its candidates or has had to boycott the counting of votes. In the Fatikroy by-election and in the last general elections, armed miscreants under the leadership of Congress(I) ministers drove out polling agents of the opposition parties and genuine voters from polling booths and stamped the ballot papers according to their own choice.

A polling agent of the CPI(M) was murdered inside a polling booth. In his message to the chief election commissioner after touring Tripura on the day of the polls to monitor the parliamentary election held in the State in November 1989, the ex-chief justice of Calcutta High Court, D S Teotin, who was sponsored by the Citizens Observer Monitoring Body, wrote "what took place, particularly in Tripura West parliamentary constituency cannot be called election. It was virtually one-sided affair. Opposition party voters were not allowed to cast their votes, their

polling booths. They were not even allowed to set up booths. I saw vehicles with covered number plates and packed with youths being escorted by police jeeps. These were earlier seen with local minister Samir Ranjan Barman's car at one polling booth. The election was totally rigged by the ruling party, i.e. Congress(I)." Clearly, on the basis of past experience alone, one can question whether polling in the state during the forthcoming elections will be free and fair. In the light of this background the transfer of officials on the eve of the deadline can hardly be treated as innocuous.

So, Tripura can be taken as the ultimate test case to prove the Election Commission's neutrality. It is extremely doubtful whether the present government of the State with its dubious track record of murder, arson, rape and looting and stifling all opposition by its musclemen before and after elections and electoral malpractices including rigging and booth capturing during elections will have the political will to conduct free and fair polls in the State. The high-sounding pronouncements of the chief election commissioner will cut no ice with the voters of Tripura unless he chooses to exercise his powers to ensure that the voters in this beleaguered State can really exercise their political choice without fear of threat or intimidation.

the villain (Karunanidhi and the DMK) and the equally deserved victory of the hero-heroine (MGR-Jayalalitha).

Since life is never larger than cinema and politics in Tamil Nadu, this grand opera of honour, revenge and redemption, comfortably translates itself into comprehensible terms of political discourse: thus, the media, purveyor of politics-and-cinema, dutifully and without the least trace of irony records with zeal the political wisdom and sagacity of 'MGR's sworn heir'. It would not matter so much if all this were to result in a public debate about violence against women but what we, in reality, are confronted with is the spectacle of Jayalalitha espousing the cause of women in MGR's name with the Congress(I) in tow, while the media in the State faithfully reproduce the strategic silences and elisions in this grand opera.

Consider, for instance:

- the silences regarding the wilful misuse and abuse of women in MGR films: specifically the covert interplay between a vulgarised female sexuality and a sickeningly fetishised motherhood that won the 'Puratchi Thalaivar' the votes of his female admirers;
- the elisions in Jayalalitha's well rehearsed passionate appeals against liquor dens; whereby MGR's shifting and opportunistic positions on prohibition are unproblematically reproduced in his heir's electoral promises. Jayalalitha, thus, promises total prohibition on the one hand but meanwhile goes ahead and nominates well known hooch dealers to contest on her party's ticket. Moreover she has refrained from issuing strictures against illegal liquor production or drink-related violence against women, something which, the 'Pattali Makkal Katchi' (PMK) has promised in its manifesto;
- the complete glossing over of the fact that sexual harassment and violence against women constitutes the basis for Tamil cinema and Tamil print media which have, in turn, contributed their own to the debasement of the public sphere of politics and to a misogynistic political culture. Jayalalitha's appeal, deriving as it does from her cinematic association with MGR would, in all likelihood, sustain and prolong rather than challenge the unashamedly anti-woman ideologies of a decrepit and moribund polity and culture.

These are pertinent and embarrassing silences but Jayalalitha's political rhetoric has sought to elide them even while making woman-related violence a main electoral concern. Her perverse political logic as regards women and violence has mostly gone unchallenged in the State. Neither the media, nor the public nor the various other political parties in the State have

TAMIL NADU

The Grand Opera Unfolds

V Geetha

The refurbished image which Jayalalitha is projecting today as the champion of 'women's cause' holds haunting lessons for women: that their multiple causes just might become the basis for a new patriarchal consensus.

JAYALALITHA JAYARAM has succeeded in enthusing not only the masses 'out there' but also the staid Tamil middle class 'in here' in the course of her election campaigns in the State. The news media, especially, has been visibly impressed by her 'performance' in far-flung villages and small dusty towns as she sets out to lay bare the DMK's 'misdeeds' under a scorching and relentless summer sky. Newspapers, both Tamil and English, have been replete with news of her promises, accusations, charm, political skill... and her fierce espousal of the 'woman's cause' has, further, legitimised her in the eyes of the liberal bourgeois press and its adherents.

There is, of course, much drama in all of this: especially since Jayalalitha never tires of bringing to public attention and

memory the violence inflicted on her on the assembly floors. She has displayed rare rhetorical skills in yoking together her personal humiliation and what she refers to as the general deterioration of law, order and norms of public morality in Tamil Nadu. Besides, her periodic, nostalgic (and politically astute) invocations of 'Puratchi Thalaivar' MGR confirm her in her self-image as the much wronged and abused woman, whose protector and redeemer (who is, by implication the protector of all Tamil women, their chastity and thereby the guardian of Tamil 'honour'), alas, is no more. On the other hand, her inflexible will to succeed, to usher in a 'golden age' under the auspices of MGR's memory legitimise her aspirations to power; thus the Tamil masses

asked to debate the issue. Jayalalitha's appeal, then, lies precisely here: in that she has managed to communicate directly with the woman voter in the State on a matter that is of existential and everyday concern to us. The current election campaigns have demonstrated that political parties have added one more gesture to their existing repertoire of ritual genuflections towards the landless, the homeless, the dalits, the tribals, the minorities; now politicians of all hues refer to 'women's equality and emancipation'. But it is Jayalalitha who has managed to bring to her campaign an 'authenticity'. After all, injured innocence and abused womanhood are eloquent in themselves and especially so to an avid film-watching public that, then, consents to systematic violence against women choosing to take note of woman-related violence only if issues of 'womanly honour and chastity' are involved.

This bizarre scenario of Jayalalitha espousing the women's cause under the benign (non) gaze of MGR's spectre, while the Congress(I) smirks behind rubbing its hands together in anticipation of victory, is all the more painful since the DMK-led alliance has refused to confront the issues raised by Jayalalitha except to confound them with their own specious arguments. Given the fact that the DMK's political rhetoric has consistently devalued women

and given the actions of DMK leaders who have in their private and public lives managed to live up to the transgressive demands of that rhetoric, it is difficult for the party to advance a credible defence in this instance. The silence of the Left constituents of the DMK alliance is altogether shameful. Thus, Jayalalitha as the stout-hearted defender of women's rights might, after all, carry the day with her.

Never mind her departures from the norms of classical Dravidian politics in her espousal of a pan-Indian Big Brother nationalism (after all, even Karunanidhi and the DMK have compromised most shabbily on the Eelam issue); never mind her vague and sentimental rhetoric (has not Karunanidhi, in a recent article, referred to the DMK as the chaste and virtuous Kannagi whose claims to justice and honour must be vindicated?); never mind her out-Mandalising Mandal (have 40 years and more of Dravidian rule enhanced the status of the most backward castes and the dalits? Witness, the rise to power of the DMK and the nature of its appeal), Jayalalitha's ideological inconsistencies will not matter in the final analysis.

But, for us, the women of this state, Jayalalitha's rise to power holds haunting lessons: that our multiple causes just might form the basis for a new patriarchal consensus, forged, as the irony of history would have it, by a woman.

JNM hospital, and to what extent doctors or hospital personnel were involved. (2) whose/what interests were involved in the misreporting (if any), and (3) role of the administration and police in this context.

Based on their extensive interviews, the team has put forward a reconstruction of the sequence of events which occurred at JNM college on December 7-9, 1990, extracts from which are as follows: "As a consequence of the Ram Janmabhoomi-Babri Masjid dispute and the Ram Mandir construction programme at the disputed site in Ayodhya after breaking/shifting of Babri Mosque by the Hindu communal forces like VHP, RSS, BJP, and Bajrang Dal, etc, the entire country has witnessed communal upsurge and violence in recent months. Communal passions, similarly, have been inflamed in Aligarh where rioting occurred in November-December 1990. Till date the city remains plagued by communal tension. On December 7, riots flared up in the city following alleged attack on two PAC jawans. However, conflicting reports could be gathered from the general public; some alleged attack on the masjid during Friday prayers as the genesis. Victims started arriving at the casualty of JNMC. The team found that after the first entry around 3.15 pm a total of 22 patients (including three Hindus) reported on the seventh, 37 patients on the eighth and 12 on the ninth (including the driver of the casualty ambulance). The crowd of relatives outside the casualty kept mounting, increasing over 1,000 on the second day, especially due to the tension in the city."

The report goes on to record, "On the eighth around noon, the Gomti Express was stopped in Aligarh despite curfew in the town, and Muslims were butchered. It was an organised plan with word of the attack all round in Hindu colonies. Around this time, the crowd outside the JNMC casualty was joined by 'anti-socials', from nearby colonies. Communal slogans were raised and stabbing occurred." The report analyses the causes of these as an exaggerated version of the Gomti Express killings, communal passions flaring up due to mutilated condition of patients being brought to the casualty, and the provocation by 'masked' anti-socials. It notes "on the eighth, two stabbings occurred, one of a Muslim youth (due to mistaken identity), who died and another of a Hindu who was successfully treated in JNMC hospital. The mob outside the casualty, meanwhile, vented its anger on the nearby Zakaria market where four shops out of a total of 25 (three were drug shops) and one 'khokha' belonging to a Muslim were looted and burnt. The team has related this attack to the probable pressing need for drugs for patients in the hospital, and

Aligarh Hospital 'Massacre': Fact and Fiction

Rajesh Sofat

An independent three-member team investigates the allegation that patients were systematically killed on communal lines by staff doctors of the Jawaharlal Nehru Medical College Hospital in Aligarh during the December 1990 communal riots in the city.

IN mid-December 1990, a devastating bout of communal violence broke out in Aligarh following certain reports in the city's local newspaper. These reports alleged that patients and their relatives had been deliberately killed on communal lines by doctors on duty at the Jawaharlal Nehru Medical (JNM) College, Aligarh. Even as this chilling charge shocked the medical community, news items appeared in the national dailies alleging false reporting of events by the local press in a deliberate attempt to vitiate the communal atmosphere, and malign the AMU and the doctors of JNMC. Meanwhile doctors of AMU appealed to the medical community to verify the facts, and this appeal was published in *Indian Express* (December 25, 1990). In response, the Delhi Medicos Front (DMF), a Delhi-based organisation of progressive doctors and scientists, con-

stituted a team after approaching the Resident Doctors Association (RDA) of AIIMS (New Delhi) and the National Co-ordination Committee of Young Scientists and Research Fellows. Consequently, a three-member fact finding team visited Aligarh on January 9 and 10, 1991, and extensively interviewed doctors (especially non-Muslim doctors on duty during the period of the reported incidents), nurses and other hospital staff, members of Junior Doctors Association (JDA), Aligarh, the medical superintendents of the JNM hospital as well as the district hospital, faculty members of JNM, and the district magistrate (DM), (Aligarh). Based on this extensive cross-section, the team released a report in Delhi. The terms of reference of the enquiry were (1) whether or not any massacre of patients and/or relatives occurred in the

stated that the mob never tried to enter the casualty or the hospital. The involvement of doctors or hospital 'karamcharis' can be ruled out authentically. The involvement of AMU students in the entire incident can also be ruled out with reasonable certainty.'

The team found that national dailies were not distributed in Aligarh during these three days and the entire source of information was the local Hindi press, which on the tenth had reported 74 persons massacred in the hospital, including 24 patients by Muslim doctors (*Aaj*, December 19, 1990). *Amar Ujala* had boxed an item on December 11, reporting that over 200 were killed by the JNMC doctors. However, as per casualty records, a total of 73 patients reported at JNMC up to tenth as riot victims, of which merely eight were Hindus.

An intriguing aspect of the report is an interview recorded with a group of Hindu doctors by the team. The report states that a Hindu member of the team was woken up by two people who were well aware of the composition of the team. They specifically excluded the Muslim member and took the other two to a 'meeting' outside the campus, after pledging them to total secrecy about the venue and the participants. Eight Hindu doctors of JNMC were present at the venue and they venomously repeated the allegations of the local press, adding that the doctors killed patients by "cutting open major arteries" and removing drips and respirators. However, on cross-questioning they admitted that none of them were on the campus on the three concerned days, and accepted that 50 per cent of the doctors of JNMC were non-Muslims. They were "unable to substantiate their charges with even second-hand evidence. All the eye-witnesses they specifically named, denied all allegations of massacre to the team. As a Hindu doctor pointed out 'doctors are aware of much more sophisticated methods of killing.'" Terming the group as 'pro-Hindutva' fundamentalists' the team comments "through one and a half hours of a meeting called by them for the express purpose none of the eight could name a single medical personnel or patient, or substantiate a single allegation".

ROLE OF ADMINISTRATION

On the basis of the evidence accumulated by it the team has branded the PAC as a communal force and advocated its dismantling. About the DM the report feels that the new incumbent has a pro-'Hindutva' bias, and substantiates this by a series of facts: first, even a month after the incident, the administration had made no move to establish what really happened. The DM had issued an official denial of the alleged massacre after visiting the

hospital but nothing was being done to counter rumours and false propaganda. Rather "the DM still has doubts as echoed to the team". Secondly, the Gomti tragedy happened in broad daylight with thousands of communal fanatics braving indefinite curfew and with the whole city knowing of the organised plan, but the administration neither prevented the attack nor did it admit to prior knowledge. Thirdly, the DM was concerned about Hindus at AMU but not about "Muslims who constantly simmer in the fear of majority communalism and administrative bias and [the DM] has issued several controversial orders like the closure of hostels, the order to channel riot victims (mainly Muslims) through the police, which discriminates the community they belong to, thereby denying them the benefit of immediate care, in gross violation of the Supreme Court verdict and medical ethics".

In fact "he initially denied any such order but later accepted it, saying that 'these patients are riot victims and not merely patients. . .'. He said that there is no police chamber near JNMC and expressed his dismay that 'even after personal request, hospital authorities are accepting riot victims'. He later justified his order by observing that Muslims go only to JNMC and not to Malkhan Singh Hospital."

Apart from active administrative connivance with the Hindu communal force the team concludes that it would not have been possible to cause widespread and continuous havoc without the involvement of political forces of the ruling class and shows the nexus of BJP and Congress(I) politicians in particular. It also notes that 'satta' (gambling) played a significant role in keeping up the tempo of communal tension and violence. The other group found overtly benefiting from the propaganda against the hospital are private practitioners, who seemed to have been "actively involved in fuelling propaganda against JN Medical College". The report also mentions that the team was unable to locate any Muslim fundamentalist groups but adds that even Hindu communalists do not levy specific charges against them.

While the active involvement of the local Hindi press with its general communal propaganda and particular vicious role in this incident is documented in detail, the team was "deeply perturbed by the role played by Doordarshan which aired the newspaper reports without verification". It is correctly pointed out that this "raises genuine doubts about the secular integrity of administration and the autonomy of Doordarshan". Thus the "brute administration succeeded in yet another outrageous plan against humanity". Some proof of the fabrications broad-

cast by Doordarshan are reports of closure of AMU and the hostels, of two policemen being stabbed by students on AMU campus, of the murder of a local VHP leader, and worst, of dead bodies being found on the campus!

The DMF report states, "At a time when communal passions are high, the value of news in a riot-stricken, curfew-bound city full of numerous rumours could only be realised by the lessons of the Aligarh tragedy". National newspapers, which could have been alternative sources of information, were burnt on the outskirts. Asserting that "the local press version of JNMC incidents are totally baseless and fabricated—what happened was not reported and what was reported never happened" the team records that the false reporting served multiple purposes as the proverbial fuel to the fire of communal passions that too on a highly emotional issue. It notes "the propaganda goes on unchallenged and unabated".

Recording that the AMU is a seat of Muslim intellectuals, known for its progressive and secular traditions and hence has been a continuous target of Hindu communal propaganda, the report states, "During the stay of two days, the team was allowed free access to all parts of the hospital and wards. There was no evidence of deliberate suppression of facts and the attitude of all authorities in JNMC and the university was very cordial and co-operative. It would be worth mentioning that a number of non-Muslim junior doctors and most of nursing and other paramedical staff were doing their duties without fear." It submits, "nothing [untoward] happened in the hospital premises of JNMC between December 7-10, 1990. No patient and/or relative was killed by any hospital personnel. The team found no reason to doubt the secular character of AMU and "defends the JNMC whole-heartedly" while contending that "there is an organised attempt to malign AMU by a nexus of Hindi press of UP, Hindu communal forces and the district administration. The Doordarshan newsdesk played a partisan role and aided Hindu communal forces to succeed in their evil designs." On the overall situation in the country, which provided the setting for the report, the team concludes, "the worsening performance of the state on all fronts, a deepening economic crisis, and its antecedent effects are forcing ruling class parties to take a stance aimed at diverting the attention of the nation to peripheral issues" and asks the people to see through the evil designs of all ruling class parties and advance democratic struggles.

[The three-member fact finding team comprised D K Saxena (NCCYS and RF), Najib Siddiqi (DMF) and the author (RDA, AIIMS).]

The Press and Jan Vikas Sangharsh Yatra

Ashish Kothari

A clear link between the government of Gujarat and the Gujarati media was revealed not merely by the fact that the latter periodically parroted everything that Chimanbhai Patel or other politicians said, but also by the similarities between official press handouts and the news reports in various papers.

THE conduct of the press during the recent five-week long Jan Vikas Sangharsh Yatra (December 25, 1990 to January 31, 1991) in the Narmada Valley invites comment. The national press (English and Hindi) was, with some notable exceptions, balanced in its reporting, but the local, especially Gujarati, media buried objectivity and bent over backwards in trying to denigrate the Yatra and its organiser, the Narmada Bachao Andolan, revealing a clear nexus between itself and the State government.

The Yatra was an attempt by tribals and peasants threatened with loss of home, land, and cultural destruction by the Sardar Sarovar Project in Gujarat to assert their right to life and livelihood. Its specific demand was a comprehensive review of the project, and a stay on all irreversible work while such a review was on. This the Yatra participants aimed to do by trying to halt themselves the construction work on this project, by offering peaceful *satyagraha* at the dam site.

It was at the level of the Yatra's aims itself that the distortions in the Gujarati press started. 'Baba Amte's band out to break the dam' was the constant refrain; the Yatra was seen as a violent move to smash the dam wall, and allegations appeared that the marchers were carrying bombs, that Medha Patkar, Girish Patel, and numerous tribals were preparing for armed combat (*Gujarat Samachar*, 31/12/90), that Gujarat's peaceful citizenry would be attacked with bows-and-arrows, spears, sticks, scythes, and other weapons (*Sandesh*, 29/12/90), that secret youth groups had been formed to 'infiltrate' Gujarat from various points and smash the dam (*Loksatta-Jansatta*, 29/12/90), that Swami Agnivesh (an active supporter of the Andolan) had overnight disappeared from the Yatra camp and would reappear at the dam site to sabotage it (*Pravasi*, 31/12/90). The cake was taken by an imaginative *Gujarat Samachar* staff photographer who got some tribals at Alirajpur (who had nothing to do with the Yatra) to pose aggressively with their weapons, and claimed that Yatra participants were being trained to use them against pro-dam people and officials! A report in the same newspaper claimed that the following

slogan was common in Baba Amte's camp: "Every bullet from Gujarat-police will be answered by two arrows from us"! Through these and other distortions and lies, the Gujarati press continued to create the impression of a violent, 'anything-goes' mob hell-bent on breaking the dam. And this despite the many clear indications of the genuinely non-violent and peaceful nature of the Yatra, including the total absence of weapons (the tribals were told specifically to leave their bow-and-arrows, scythes, etc. behind), the tying of hands of Yatris when entering Gujarat, the refusal to clash with people blocking the way, and the constant refrain *Hamla chahe jaisa hoga, haath hamara nahi uthega* ('Whatever the nature of attack, we will not raise our hands').

Perhaps even more dangerously, the Gujarati press spared no effort in trying to portray the Yatra as 'anti-Gujarat' (for once, the usual allegation of environmentalists and social activists being 'anti-national' was pushed to second place!). This was done first by equating anti-SSP protestors as anti-Gujarat elements, using the highly questionable assumption that SSP is the 'lifeline' of Gujarat, ignoring the very many substantial arguments put forth by the Andolan against this assumption. But the press did not stop at this. Subtle and not-so-subtle hints appeared of the 'clear intentions' of the Yatris to create a 'regionalist' war between Madhya Pradesh and Gujarat, as evidenced, apparently, by constant 'anti-Gujarat' slogans in Baba Amte's camp (*Gujarat Samachar*, 31/12/90). For the Gujarati media, as also for the government of Gujarat, the MP-Gujarat border almost took on the appearance of an international boundary, and the Yatris all but became foreign aggressors.

As if this was not enough, the Gujarati press started creating imaginary divides between Baba Amte and the rest of the Andolan leaders. No one will deny that there were differences of opinion between various members of the Andolan's decision-making group, consisting of village representatives and activists (including Amte). These differences pertained mainly to strategy, which was discussed every day of the Yatra. It is, in fact, a sign of the strength of the move-

ment if such differences are openly voiced and resolved. The omnipresent press is bound to hear these diverse opinions, but ought to be responsible enough to take them in the right spirit. Not so the Gujarati press. To it (and even, surprisingly, to *The Times of India*, signs of a 'split' appeared as soon as the Yatra started, and 'disenchantment' of the tribals with Amte grew as the march proceeded. And what were these signs? One, the press said, was the change in slogan, from *Baba tum sangharsh karo, hum tumhare saath hain* ('Baba carry on your struggle, we are with you'), to *Sangharsh hamara jari hai, Baba hamare saath hain* ('Our struggle is on, Baba is with us'). With a bit more investigative zeal, or perhaps simply greater honesty, the Gujarati press ought to have reported that this change was affected on Baba's own promptings, and in consultation with other Andolan leaders, to highlight the genuine mass base of the movement.

The need for the Narmada Bachao Andolan to make such symbolic changes was prompted only in part by the internal dynamics of the movement, specifically as a balance to the natural tendency of many of the Narmada Valley people to look up to Amte as a leader. But more than this, it was done to counter the excessive 'Amte-isation' of the movement by the state and the press. In this the national press was as guilty as its regional counterparts. Headlines regularly used the phrase 'Amte's followers' or 'Amte's band'. Perhaps the crucial difference between the national and regional press in this was that the former appeared to latch on to Amte simply due to his charisma, while the latter deliberately tried to make out a case of Amte vs the Andolan. Interestingly, in this the Gujarati papers mirrored the attempt of the government of Gujarat to single out Baba, deliberately ignoring the rest of the Andolan's leadership. That however, is material for another article.

COMPOSITION OF YATRA

The composition and magnitude of the Yatra were also subject to wild distortion by the press. The Gujarati papers consistently understated the number of Yatra participants (at times claiming participation to be less than 500), while a few English papers, at times overstated it (such as *The Independent*, with a figure of 7,000). Both are unacceptable if they are deliberate distortions, as they must be when an honest figure of 3,500 (the approximate number of participants when the Yatra reached the Gujarat-Madhya Pradesh border) becomes 500 on one side and 7,000 on the other.

Remarks about the composition of the Yatris were even more objectionable. *Loksatta* reported that the number of fun-seeking city youth in Baba's camp was greater than the number of Adivasis. An

youth, who claimed to have infiltrated the Yatra camp and 'discovered' that most of the Yatris were hired by Baba Amte for Rs 25 per day, and that liquor was 'flowing freely' in the camp, was eagerly lapped up and given prominent headlines (*Gujarat Samachar*, 2/1/91). Worse, *Gujarat Samachar* (7/1/91) claimed that many of the Yatris were drug pushers and wood smugglers, whose business would be affected since the dam would submerge extensive poppy fields and forests. It even went on to suggest that Baba himself was benefiting from these illegal activities; why else, it asked rhetorically, would he leave his leprosy patients and settle on the Narmada banks? According to another Gujarati paper, *Pravasi*, (2/1/91), criminal elements of Madhya Pradesh were forcing people to join the Yatra.

Direct, and not-so-direct, character assassination was also the order of the day for the Gujarati media. Baba was alternately described as senile, as a mere puppet in the hands of extremist youth, as a 'foolish environmentalist' out to cause 'regional war between Gujarat and Madhya Pradesh' (*Gujarat Samachar*, 31/12/90), and amusingly, as 'worn-out hardware' for Medha Patkar's 'software' (*Gujarat Samachar*, 7/1/91). These last two descriptions were penned by one Devendra Patel, and the newspaper can claim that it was merely allowing freedom of expression in printing his article. *Sandesh* can make the same claim for the writings of one Swami Sacchidanand, to which enormous quantities of newsprint and advertisement space were devoted, but which consisted of little more than calling Andolan participants various denigrating names ('mosquitoes' was one of the more amusing ones), or spreading canards (providing the Yatris a big laugh when, once, he married me off to a fictitious German girl, through whom the Andolan was allegedly receiving foreign funds). But a paper which allows such blatantly scurrilous and deliberately provocative writing, and simultaneously blanks out any responses/reactions from the victims of these articles, is clearly being very one-sided in its championing of the freedom of expression.

Another favourite theme of the Gujarati media, and in this it was at times joined by the Hindi and English regional and national press, was the alleged 'foreign links' of the Andolan. In the first few days of the Yatra, photographs of foreign participants in the Yatra (a handful of members of international groups who are fighting against the involvement of the World Bank and their own countries in financing the Sardar Sarovar Project) appeared prominently in almost all Gujarati newspapers to 'prove' the 'fact' that the movement was 'incited and funded' by 'outsiders' who did not want India to develop. *Gujarat Samachar*

spending lakhs and crores of rupees, and where did this money come from if not from foreign sources? A *Blitz* headline screamed 'Foreign plot exposed by Chief Minister', and thereafter proceeded to repeat all of Chimanbhai Patel's lies as if they were gospel truths. Repeated challenges by the Andolan, to the government or to any other person/agency making these allegations, to prove their charges were of course consistently ignored by the Gujarati press. Only the Hindi regional press, and a part of the national press, had the honesty to report these disclaimers and challenges by the Andolan.

Blatant acts of distortion and half-truth were mirrored by a studied silence, especially on part of the Gujarati press, where it came to news which was pro-Andolan or anti-dam. Such omission can be as important in moulding public opinion as actual reporting, and the newspapers used it to full hilt. The daily press releases issued from the Sangharsh Yatra camp were ignored. A number of events were completely blacked out or given an inconspicuous, almost hidden, space in the papers. The departure of a small group of tribals (11 in all) for

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REGISTRAR

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pressing reasons back in their villages was blown up by the Gujarati papers (*Sandesh*, 14/1/91) as indications of a collapse in the movement, but the daily arrival of dozens, sometimes hundreds, of new people from the Narmada Valley towards the latter half of the Yatra, to express solidarity with the seven fasting people, went completely unreported! A day-long 'Ghati bandh' (Valley closure) on February 12, 1991, in which entire villages and towns (Kukshi, Manawar, Anjad, and several others) participated in support of the Yatra, was similarly ignored. It was, however, picked up by the Madhya Pradesh Hindi media (*Nai Duniya* 13/1/91). Most damaging, the participation of over a score of Gujarati organisations, and several prominent Gujaratis, in the Yatra, was ignored; only the *Sandesh* once grudgingly admitted that many Gujaratis were supporting the Andolan (13/1/91). Rock-bottom was reached when not a single Gujarati newspaper reported a demonstration in Ahmedabad, in mid-January, in support of the Yatra, which was violently broken up by Janata Dal Youths. Also ignored was a statement, released to the press on 17/1/91 by over 100 eminent Gujarati academics, artists, and others, condemning the State government's misuse of resources to build a mass anti-Andolan hysteria. The statement urged the government to step down from its stubborn stand and talk with the Yatriis. These omissions were not surprising, for such reporting would have shattered the 'all-of-Gujarat-stands-united-in-support-of-the-dam' myth built up by Gujarati politicians and media over the last few years.

Also conveniently blacked out was the true nature of the pro-dam rally, the so-called Shanti Yatra, organised in Gujarat to stop the Sangharsh Yatra. The blatant use of state resources (vehicles, fuel, electricity, infrastructure, etc) for the Shanti Yatra, the lumpen behaviour of many of its participants (they actually laughed and clapped when Baba fell unconscious one day), their shameless use of below-the-belt tactics (such as blaring loudspeaker at full volume through the night, within hearing range of Baba's bus), the parading of Home Guards (some of them with their uniforms peeping out from under their 'civilian' clothes) as pro-dam Gujarati citizens, the discriminatory use of Section 144 to restrict the Sangharsh Yatra participants while allowing the Shanti Yatra members free access on certain occasions: all these and other events/features which showed up the Shanti Yatra for what it actually was, were given a royal pass by the Gujarati media. Quite the contrary, an impression was sought to be created of a 'sea of humanity' spontaneously rushing to Ferkuwa to stop the Sangharsh Yatra, braving the cold, displaying admirable patience and non-violence. Fortunately there were several independent media per-

sons, including camera wielders, who were present to record the truth (for instance, Lester Continho's report in *The Times of India*, 28/12/90). The editors of *Sandesh*, *Gujarat Samachar*, *Pravasi*, *Loksatta*, *Jansatta*, and other Gujarati newspapers, would do well to look at the video coverage of the Yatra; but then, so hardened must they be in their unconcern for such peripheral things as the truth, that perhaps they will not even blush.

A clear link between the government of Gujarat and the Gujarati media was revealed not merely by the fact that the latter periodically parroted everything that Chimanbhai Patel or other Gujarati politicians said, but also by the not-so-coincidental similarities between official Information Bureau press handouts and the news reports in various papers. Indeed, government press releases were the source of many a lie that appeared in the Gujarati media.

Daily releases from the Gujarat government's Information Bureau usually contained glowing accounts of the pro-dam Shanti Yatra, including full statements by Urmilabehn Patel (Chimanbhai Patel's wife, and one of the leaders of the pro-dam rally) and other leaders. But they often also described, in as denigrating terms as possible, the Sangharsh Yatra and its participants. An official press note on 31/12/90 reproduced Swami Sacchidanand's statement alleging that "Baba was out to break the dam even as the Gujarati public was dying of water and food scarcity". The same day another official press handout claimed that there were one or two thousand people in the Sangharsh Yatra, of whom only a handful were tribals, and the rest urbanites; this was repeated on 5/1/91, when, of the "less than 900 left, most were urbanites and fashionable youths". The note of January 5 was, indeed, full of defamatory gems: "Baba and other Andolan leaders hold no ideological position other than a stubborn opposition to SSP", "Baba is a puppet in the hands of others", "anti-dam people have little factual basis for their arguments, and are relying more on tribal weapons and fundamentalist environmentalism to oppose Gujarat's development". The previous day, an Information Bureau handout claimed that police was forced to round up 117 Yatriis, as they became violent and aggressive despite the collector and the DIG appealing for peace; this note completely ignored the fact that most of these people, who had entered Gujarat and were squatting on not being allowed to go in further, were arrested late in the evening, when they had started to eat! It also conveniently omitted any mention of the completely unprovoked lathicharge on peacefully squatting protestors, which preceded the arrests and which was reported by most national dailies and regional Hindi papers. One day before this, on 4/1/91, the clash between Yatriis

and police was described by an Information Bureau press release as "a violent attack on pro-dam people and home guards/police". A concocted story was presented, of a Yatra activist trying to snatch away the 'mangalsutra' of a woman home guard. Gujarati newspapers of course gleefully lapped up this untruth. The official press release ended by giving the amazing 'news', that it was on a complaint by this home guard that seven activists were arrested—as if it would require seven people to snatch a 'mangalsutra'!

A frequent theme of these official handouts was the allegedly growing 'disenchantment and despair' in the Sangharsh Yatra camp. A reported statement by Maneka Gandhi, union minister of state for environment and forests, that there was no question of reviewing the SSP, was thought to have caused dejection in Baba's camp while spreading cheer in the pro-dam rallyists (3/1/91). Baba was described as "standing on the doorstep of his ambulance, looking at the pro-dam rally with helplessness and despair" (5/1/91). And another official release claimed that "700 Yatriis had abandoned the camp after realising that the Andolan had misled them, that the government of Gujarat would ensure that they get everything possible".

Instances of consistently balanced reporting in the Gujarati media are hard to come by, but a few publications were more conscientious than the major dailies. *Gujarat Mitra* published a five-part article giving the Andolan's version of the story, the Gujarati edition of *The Times of India* was relatively more balanced in its coverage, and the magazine *Abhiyan* came out with a bold and truthful expose of the real issues involved. But these were flashes in the pan, exceptions to the rule.

In today's world, the media is a great opinion-builder, an influential moulder of public policy, a powerful watchdog. A press which systematically raises regionalist fervour and vilifies the atmosphere by distorting or hiding the truth is a sick press, one which has abdicated its responsibility of being the society's watchdog. When the watchdog itself turns monster, there is indeed occasion to mourn. A complaint regarding the Gujarati press's biased treatment of the Yatra, filed by the Narmada Bachao Andolan, is pending before the Press Council. The decision of the Council will tell whether the mourning can be converted into a regained sense of hope.

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Uncertain Election Prospects in Nepal

Brahmanand Mishra

None of the political parties, not even the well-organised Left, appears to have taken seriously the significant gains for democracy after the overthrow of the party-less Panchayati Raj a year ago.

THE political renaissance in Asia which began in the early part of this century was basically concerned with the right to self rule which was the principle platform of the Indian National Congress under the leadership of Mahatma Gandhi. Though Gandhi had a very clear concept of the nature of democracy he envisaged, the movement initiated by him got largely oriented towards one goal: getting rid of foreign colonial governments which were then ruling most parts of Asia. As a consequence the inherent political culture as adopted by many western countries and developed through practice over a period of centuries failed to take root here. The humiliation of being ruled by an alien country was so predominant in the minds of the leadership that other aspects of the practice of democracy were conveniently ignored, or at best ill implemented or adopted with reluctance. This naturally had an impact on neighbouring areas which were either ruled by a foreign power or an indigenous power in agreement with the colonial power. The democratic experiments carried out by the national government of India largely effected and have greatly determined the perception of democratic government in the neighbouring countries. Unfortunately in the last analysis the predominant compulsion of politics in India today is to stick to the 'gaddi' by all means. This has encouraged the free use of money and muscle power to obtain the 'consent' of the citizens to rule. This process has distorted democratic values.

Nepal successfully overthrew the Rana autocratic regime which was in the process of collapse any way with the departure of the British power in India in 1951. This movement generated high hopes of the emergence of democratic culture among the people. Everybody thought that the party instrumental bringing about the 'revolution' would do something to initiate and educate the people about democratic norms and culture. But it failed to do so. This was one of the reasons why when the first Nepali Congress government which had won by an overwhelming majority in first general

election was summarily dismissed and its leaders put behind the bars in a royal coup by the late King Mahendra in 1960, no voice was raised against the action.

Between the royal coup of 1960 and the successful movement for the restoration of democracy last year, 30 long years have passed. The people naturally believed that the political parties have learnt their lesson and remembering the past would make determined efforts to encourage the establishment of democratic norms and processes. But the year that has passed gives no indication of any such thing. The old style political bickerings are again visible and the extensive use of muscle power and money has replaced whatever political ideals the parties have been harping about in the last 30 dark years of party-less Panchayati Raj.

With the general election scheduled for May several incidents in various parts of the country indicate that the democratic process matters very little here. Reports of violence and attacks on opponents have become so common that the people have begun to accept it as a part of the political game.

Though voluminous manifestos have been issued by various political parties they do not seem to have touched the core problems of the people. Slogans which sound good are hardly ever translated into reality which is evident from the fact that promises made by the interim coalition government to the people have only remained on paper in last 12 months. The government's promise to curb and control the prices has had little impact: the price rise during the period has been 50 per cent. The government's determination to eliminate corruption and give a clean and efficient administration has proved to be a mirage. Corruption is more visible now than in the ousted panchayati regime and administration is virtually at a standstill. The law and order situation has worsened and citizens are dismayed to hear that they themselves are responsible for their safety and security.

It is against this background that voters are scanning the election manifestos of

political parties. The leaders of various political parties having failed to reassure the people and have taken recourse to the old style of manipulative politics. Though the election manifestos make brilliant promises they do not spell them out in concrete terms. All parties have tried to incite base emotions of people for their party's benefit ignoring existing ground realities. Some parties, like the Nepal Communist Party (United Marxist Leninist Party or UML) have called for the scrapping of the Indo-Nepal peace and friendship treaty of 1950 and stoppage of recruitment of the Gorkha soldiers into the British and Indian army ignoring the economic consequences it entails. Though it is largely realised that the water resources should be harnessed to the benefit of both the countries, India and Nepal, and the lapses in the past in this connection should be corrected through mutual understanding, two parties, UML and the Rashtriya Prajatantra Party (Chand) have stated that there would be no question of sharing Nepal's water resources with India. This thinking in itself is absurd as the vast power resources of the kingdom are going waste much to the disadvantage of the people of both countries and most people here including, ironically enough, the people who have drafted the manifesto, maintain privately that properly planned use of water resources would bring immense benefit to both the countries.

Though various promises on bold lines have been made in the manifestos for the welfare of the ethnic groups and the people of both the 'terai' and hilly regions, they have failed to convince them about the parties' seriousness on the issue. Prominent parties have for instance, failed to establish their good intentions—evident from the distribution of tickets for the forthcoming elections. So long as various ethnic and regional groups are not assured and taken into confidence the process of nation building will suffer and the situation may even threaten the national integration of the kingdom. Ethnic groups and regional organisations, are, therefore, making a determined bid to win maximum number of seats in the election and make a strong presence in the next parliament.

As the situation prevails today the Nepali Congress, though the oldest and largest political party in the kingdom has failed to gain the confidence of the people and it is the United Marxist Leninist Party popularly known as UML which, with disciplined cadres and well-knit organisational cells in the hills and the 'terai' which seems to be heading for success.

The other parties between them have

also areas of influence and strong bases of their own. For instance Rashtriya Prajatantra Party, RPP (Thapa); and the Nepal Sadbhavana Party will bag many seats on their own and in many constituencies their presence will cause the defeat of Nepali Congress candidates.

This, it is said, has alarmed the South Block in New Delhi and they are reportedly working towards a patch up among the three parties. The anguish of the people of the 'tea' is mounting so much that observers are apprehensive of a situation similar to that in Sri Lanka unless satisfactory rational efforts are made at the top

levels and the situation stopped from deteriorating further. The Left organisation in Nepal being inclined towards China the South Block seems to have been alarmed and is reportedly going out of its way to help the democratic parties materially as well. The red wave of the early 1950s which resulted in the victory of the Left combine in the local election is still obviously casting its shadow on South Block. This could have a far-reaching impact on the Nepalese psyche and strong reactive nationalism may sweep over the kingdom which may in turn result in strong anti-Indian feelings.

Uneven Benefits of German Unification

Hemen Ray

In 1989 all warnings that a rapid monetary union of the two Germanies would spell disaster were brushed aside impatiently. Today, some of these warnings may be coming true

THE euphoric hope that the former GDR would lead Germany to a new economic miracle making the nation the strongest economic power of the world has suddenly vanished. Instead of becoming the golden nest of German economy, East Germany has become an economic graveyard with the German nation divided into a prosperous and economically booming west and a pitiable dilapidated and hopeless east.

The reckless dream of the East Germans of jumping into a luxurious life soon after the introduction of the German mark has burst like soap bubble. The magnetic power of the German mark that electrified East German population to vote for the unification of Germany has withered away. Their hope that mere possession of the German mark would enable them to acquire the glittering West German living standard has proved fruitless. They are today as poor as they had been during the past 40 years under communist rule. They are embittered, despondent and dismayed and do not understand that they should work hard to raise their living standard. A recent remark by Karl Poehl, president of the Federal Bank that the German mark, that everyone in the world wants to possess, is the 'main cause' of the economic 'disaster' in East Germany have shocked the East Germans. They now openly question the benefits of the unification of Germany to the East Germans.

The market economy has created many problems. The factories are collapsing one after another. Others, which still function, are drastically reducing their personnel. There is a threat of mass employment and life has become expensive. West German industries, the hope of East German economic

development, have adopted a wait and see policy. The German mark and the market economy have turned East Germany into a poorest part of the richest nation.

With each passing day, East Germany is sinking into an economic morass. Fear, frustration and hopelessness have gripped the entire population. The economic woes have also had dramatic consequences. More and more East Germans are committing suicide because they have lost their jobs and because they cannot pay their debts and see no future. In 1990 a total of 4,292 people committed suicide in East Germany and the number is growing each day.

The disparities between rich and poor has created social and political unrest. It has demolished East Germans' faith in Chancellor Kohl and his government. According to the latest opinion poll 82.5 per cent East Germans are disappointed with the Bonn government because of its failure to offer them the luxurious life they expected after the unification. For the first time since the unification of the country, hundreds and thousands of dissatisfied East Germans have gone to the streets to protest against the economic misery and particularly against Chancellor Kohl for his 'failure to keep his promise'. Thousands of jobless East Germans are also migrating to West Germany in search of jobs and better life as they have done during the past 40 years. According to the Institute of German Economy in 1990, 4,80,000 East Germans migrated to West Germany. This year one million or more East Germans are expected to migrate in search of jobs and shelter. In addition 4,00,000 commute to work in West

Germany for six marks an hour while a West German worker earns 40 marks an hour for the same job. Every fifth person in East Germany is today jobless and the number of unemployed is expected to rise to four million by the summer of the year. The Institute warned that "if chances are not offered soon to remove the current hopeless situation, a social conflict with serious consequences is inevitable". According to an East German politician the growing number of jobless persons and the social discrepancies have created a 'dangerous' situation. "It is like a dynamite that can explode any moment. East Germany is heading toward a serious confrontation. The prices of all foodstuffs have gone up to West German levels, while the income of the people constitutes less than 50 per cent of West Germany. The financial apartheid is responsible for the social unrest."

In 1989 when communism fell apart, many East Germans endeavoured to persuade the Bonn government to support the East German mark for a stable economy. But their suggestion was curtly rejected. Even the appeal of the president of the Federal Bank for a gradual conversion of East German mark remained unheard. Warnings by economists and financial experts of the devastating consequences of an early monetary union were dismissed as idle talk. Nine months after the monetary union, the consequences of financial apartheid are visible everywhere. A Berlin newspaper commented that "the people of East Germany, who have been promised a glittering edition of an economic wonder in the West, have been cunningly deceived. The East Germans can now express their heartfelt thanks to the Bonn authorities for their miserable economic situation."

The gigantic financial experiment of the century to restore ailing East German economy has confronted the Bonn authorities with many invisible problems they did not dream of earlier. Many people believe that the magical power of the German mark and the market economy will not solve the East German problems. Others tend to the failure of the Bonn authorities to rebuild East German economy as a harbinger of an unstable era. Bonn's finance minister Theo Waigel warned that Germany finds itself in 'the midst of a crisis' and called the East German problem a 'psychological issue'. The pessimists recall that November 9, the day communism toppled in East Germany, was the most inauspicious day in German history. It was on November 9, 1918, that Germany capitulated. On November 9, 1923, Adolf Hitler set up his National Socialist Movement, which a few years later entangled Germany in the bloodiest war in its history, besmirched its name and divided the nation for more than 40 years. They now fear that history might repeat and Germany might march toward a new economic catastrophe—the third in a century.

Technology in Third World

Bernard D'Mello

Technological Advance in the Third World: Strategies and Prospects by M R Bhagavan; Zed Books, London, 1990; pp xii + 156, price not stated.

THERE are enormous differences in the technological capabilities of countries comprising the Third World. And given the considerable political, economic, social and cultural diversity, one might question the utility of formulating general strategies of technological advance. M R Bhagavan has tried to circumvent the problem by classifying Third World countries into four categories depending on the degree of industrialisation and technological self-reliance.

Bhagavan first sets out rather neatly the characteristics that distinguish the three industrial-technological revolutions that have occurred since 1760. The leading sectors of the first revolution (1760-1860) that took place in England were textiles and iron and steel with steam as the major motive power. The leading sectors of the second revolution (1860-1960) that took place in Germany, US, UK and France were steel, railway equipment, automobiles, chemicals (in particular synthetic dyes and plastics), electrical equipment and synthetic textiles with electricity and petroleum as the major energy sources. The leading sectors of the third revolution (1960 onwards and still underway) that began in Japan and the US are telecommunications, aerospace, computers, microelectronics, informatics, robotics, biotechnology and new materials (e.g. optical fibres). The author labels the technologies of the three successive industrial-technological revolutions 'early modern technology', 'standard modern technology' and 'highly modern technology'. The degree of automation, science-relatedness and research intensity increase as one moves down the line from early modern to highly modern technology. The dominant skills and dominant innovators change from arts and crafts and master craftsmen/ingenious mechanics/individual engineers to engineers and scientists in R and D departments to more specialist scientists and engineers in R and D departments.

The degree of technological self-reliance among Third World countries is defined with respect to 'standard modern technology' since these countries have not yet made much headway in highly modern technology. The author posits an almost complete correspondence between the degree of industrialisation and the degree of technological self-reliance. As already mentioned, Bhagavan classifies Third World countries into four categories according to the degree to which they possess these qualities. Category 1 is that of 'industrialis-

ed, technologically highly self-reliant' countries. Brazil, China, India and South Korea qualify. Category 2 is that of 'industrialised, technologically nearly self-reliant' countries. Argentina, Malaysia, Mexico and Turkey qualify. Category 3 is of 'semi-industrialised, technologically partly self-reliant' nations. Algeria, Chile, Egypt, Ecuador, Indonesia, Iran, Peru, Philippines and Venezuela qualify. Category 4 is composed of the 'non-industrialised, technologically totally dependent' countries like Bangladesh, Cameroon, Ghana, Jamaica, Kenya, Libya, Nigeria, Saudi Arabia, Tanzania, etc. The sample is of 31 countries. There is a reference category of some highly industrialised and technologically highly developed countries of the 'West' and 'East' like West Germany, Italy, Japan, US, UK, Czechoslovakia, East Germany, Hungary and the USSR.

Categories 1 to 4 are defined with respect to manufacturing output as a percentage of GDP, value added in capital goods as a percentage of total value added, value added in the machinery sector as a percentage of value added in manufacturing, net domestic output of capital goods to consumer goods, stock of technicians, engineers and scientists in the economically active population, manual workers in industry and services as a percentage of the economically active population, capital goods imports to consumer goods imports and machinery imports to total capital goods imports. For instance, a country is 'industrialised' if manufacturing output as a percentage of GDP is greater than 15. The same country is technologically highly self-reliant in production if value added in capital goods as a percentage of value added in manufacturing is greater than 30, value added in machinery as a percentage of value added in manufacturing is greater than 15, net domestic output of capital goods to consumer goods is greater than 1, imports of capital goods to consumer goods is greater than 1.5, and so on. According to these criteria Brazil, China, India, South Korea, Argentina, Malaysia, Mexico and Turkey are 'industrialised' and the first four of them are 'technologically highly self-reliant'.

The proportion of GDP in manufacturing, as we know, often overstates the degree of industrialisation in Third World countries since manufacturing activity in domestic money terms is inflated due to inordinately high prices with tariff protection. I say this because the author has used the data of the 'highly industrialised' countries as a reference category. The proportion of the

labour force in industry and/or manufacturing (ISIC divisions 2 and 3) is more reflective of qualitative, structural change that industrialisation implies. If such a criteria is used then the industrialisation process of large-sized economies such as India and China which have very high ratios of the working population engaged in agriculture would have to be evaluated differently from that of medium-sized economies such as South Korea and Taiwan. A country such as China, which has experienced a trend rate of industrial growth of 10 per cent since 1949 and where the share of industry in national income rose to 42 per cent in 1982 still had 72 per cent of its economically active population in agriculture, forestry, etc. in the same year. In contrast, medium-sized economies such as South Korea and Taiwan which have had very high rates of industrial growth have experienced a major shift in the structure of their labour forces towards industry. Of course, statistics on the structure of labour forces in Third World countries are not very reliable. Even if we take Bhagavan's UN statistics of distribution of GDP we find that his so-called industrialised countries such as Brazil and India have not made any significant progress between 1965 and 1984 in terms of the share of industry and manufacturing, whereas a medium-sized economy such as South Korea has.

Technological self-reliance is actually a refusal to accept an unequal international division of labour and an ability to change it. Here analysis of the evidence is complex, for the capitalist centre holds on to its gains not in a static sense, but dynamically, by concentrating on strategic technologies as they emerge. The capitalist centre thus relinquishes at a price, the technologies of a whole set of consumer, intermediate and capital goods for economic reasons. A changing international division of labour is determined largely by the capitalist centre. The question is of finding out the extent to which the capitalist centre relinquishes these technologies and industrial branches in its own long-term interests and the extent to which it concedes due to the political-economic strength and capability of the Third World countries. Statistics of the kind marshalled by Bhagavan tell only part of the story and may even be misleading. For instance, Korea has been heavily dependent on Japanese components and technology in consumer electronics, computers and automobiles. Hyundai's car, the Excel, has its transmission designed and produced by Mitsubishi in Japan, its engine designed in Japan; its body style is an Italian design, and so on (see *Multinational Monitor*, November 1989, pp 13-14). In fact, in UN statistics, South Korean output of cars and commercial vehicles is classified under 'assembly' and not 'production'. Intermediates in fact do not figure in Bhagavan's ratios that osten-

ably show the degree of technological self-reliance. And, if one were to go by his indicator of industrialisation, then, certain large regions of colonial India may have been industrialised before the onset of 'de-industrialisation', under British capitalist colonialism!

Further, in the 1980s in India five of six fertiliser plants to be set up (some already set up) along the HBJ pipeline—at Gadepan (Rajasthan) (K K Birla Group), Guna (NFL), Jagdishpur (Aditya Birla Group), Aonla (IFFCO) and Babrala (UP) (Tatas)—have 'opted' for the design, engineering, etc, of Snamprogetti-Haldor Topsoe. Part of the detailed engineering (that too under the supervision of Snam) and some routine project work is being done by an Indian public sector engineering firm. These projects will certainly further increase India's self-sufficiency ratio in fertilisers. But is this what we mean by technological self-reliance? Bhagavan should have examined (a) the attitudes towards foreign capital, (b) the conditions under which technology imports are/were permitted, and (c) the concrete measures taken to foster indigenous technology in South Korea and India, his so-called technologically highly self-reliant countries.

The author hits the nail on the head when he recommends strategies for the rapid growth of the domestic market for manufactured products for achieving technological advance. The growth of exports of manufactured goods is more difficult, for a lot of Third World countries are competing for shares in roughly the same export markets and the change of shares in those markets is slow and uncertain. It is therefore the growth of domestic demand for manufactures that in general, distinguishes one Third World country's growth of demand for manufactures from the other. And technological advance in manufacturing is a function of the growth of demand for manufactures as Nicholas Kaldor has shown (*The Causes of the Slow Rate of Growth of the UK*, Cambridge University Press, 1966).

Bhagavan does not relate the growth of demand for manufactures to the choice of technology and therefore employment. The choice of technique debate, I feel, is still important, for manufacturing output has grown rapidly in developing countries since the 1950s but yet, outside the 'socialist' Third World countries, the growth of employment has stagnated. Bhagavan does say nice things about Maoist China's 'walking on two legs' strategy but his account is devoid of any analysis.

In discussing strategies for technological advance in highly modern technologies like telecommunications, computers, biotechnology, etc, Bhagavan falls into the orthodox trap of emphasising huge R and D outlays, economies of scale in innovation, alliances with TNCs (p 87) and so on. If the Japanese had followed orthodox economic rationalism, they would never have established industries such as steel, petrochemicals,

automobiles and computers and eventually become first rate in them. Competing with TNCs in oligopolistic markets is however not being suggested. It should be remembered that a significant proportion of the R and D outlays of Western TNCs is accounted for by the fact that they are in oligopolistic market structures where risks are high and there is duplication of effort. Surely a Third World country can avoid such expenditure. C-Dot (Centre for Development of Tele-matics) in India, with financial support of less than Rs 50 crore over five years, *protection from imports* and a fair degree of autonomy (for a while), was able to successfully develop and market small telecom switching equipment like EPABX, RAX, etc, and even developed a prototype of a 16,000 port digital electronic exchange, all in five years' time. Committing very large sums towards R and D is not always necessary for success.

In discussing China the author recommends both Maoist as well as post-Maoist technology strategies. He discerns a "continuity in the strategy for raising the technological level of the masses" (p 97). The differences are however not adequately dealt with. It is true that the strategy of 'walking on two legs' has been continued. Rural industrialisation has gone much further and village and township industry now employs more than 100 million persons. But in the 'modern' sector, the emphasis seems to have shifted from import-substitution of technology to achieving economic and technical efficiency. For instance, the Volkswagen Audi-100 and Audi-200 are local only in

name (*Beijing Review*, 38, 1989, p 8 quoted in Nirmal K Chandra, 'Crisis in China: End of Socialism?', *EPW*, November 18, 1989, p 2555). Indigenous technology in the 'modern' sector does not seem to be progressing in the post-Maoist period. (I have so far not come across any evidence to the contrary.)

A factual error in the book is Bhagavan's assertion that the Japanese colonialists were responsible for implementing land reform in Korea (p 97). Actually, it was the US occupation force that was responsible for the land reform in South Korea (Eddy Lee 'Egalitarian Peasant Farming and Rural Development in South Korea' in D A Gha et al (eds) *Agrarian Systems and Rural Development*, New York, Macmillan, 1979). In fact, the US occupation forces were responsible for land reforms in Japan too (more radical land reform than the earlier one).

The book is highly readable (superb copy editing?) but leaves one with a sense of disappointment at the simplistic and cursory manner in which important issues are handled. Given the wide exposure of the author to problems of industrialisation and technology in Africa and India one expects a deeper analysis. After all, success at import substitution (France and Japan after the war) and/or export expansion (Italy and West Germany after the war) have clearly been associated with technological advance

[I benefited from a discussion with Nirma Chandra of some of the issues raised here. However, the viewpoint is entirely my own.]

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COPING WITH INFLATION

The Experience of 1990

By S.M. Datta, Chairman, Hindustan Lever Ltd.

At the end of the Eighties, we could look back with satisfaction on the remarkable increase in the growth rate of the Gross Domestic Product to an annual average of 5.5 per cent. A satisfactory growth in agricultural output, combined with an average growth rate of over seven per cent in industrial production, kept prices in check. The average rate of inflation in wholesale prices, which was a little over eight per cent in the first half of the decade, dropped significantly to seven per cent in the second half. The resilience in the economy was adequately demonstrated when the severe drought of 1987-88, following as it did upon two relatively poor monsoons, did not lead to a sharp escalation in prices.

After a sedate start, however, the past year has brought into question all our economic assumptions. The annual point-to-point inflation rate, based on the Wholesale Price Index, moved into double digits by September, 1990. The last three months of the year did not show the expected seasonal decline in the prices of agricultural commodities and by the end of the year the inflation rate had reached nearly 12 per cent.

FACTORS OF INFLATION

The unfolding drama in the Middle East provided the most visible reason for this inflation. Our country depends upon imports for as much as 40 per cent of its requirement of petroleum products and this dependence is increasing as a result of the gradual decline in domestic production. The administered price increases of March, 1990, and the 25 per cent Gulf surcharge imposed in October did succeed in curbing the growth in consumption but the combined effect served to increase the inflation rate by 1.5 percentage points. The full impact of this escalation on the consumer prices will undoubtedly be higher and is yet to be fully realised.

The real impetus for inflation, however, was provided by the sharp increase in the prices of primary products, derived from agriculture by as much as 16.5 per cent over the year. This factor alone accounts for nearly half of the total inflation in wholesale prices. The administered increases in the minimum support prices for various crops have contributed significantly to this price increase. Another major factor has been the sharp spurt in the prices of edible oils and pulses due to our inability to import sufficient quantities of these essential commodities. The inflationary spiral has been further accelerated by the nearly automatic indexation of wages and salaries with the inflation rate.

While inflation is an extremely complex phenomenon, it is clearly influenced by the growing fiscal imbalance in the administration of the economy. Public attention is usually confined to the Budgetary Deficit, which is somewhat narrow in its definition. Even so, the recurring deficits in the last three years alone have amounted to a total of over Rs 27,000 crores. Excessive liquidity of this magnitude can only serve to fuel inflation, especially when the deficits arise from consumption-oriented non-Plan expenditure. It is, therefore, particularly pleasing to note the positive response of organised industry which contained the costs and restricted the rise in the index of Manufactured Products to less than eight per cent.

The cost of materials consumed constitute nearly two thirds the total nett sales value generated by Hindustan Lever. About 60 per cent of the materials consumed are industrial intermediates, which include chemicals, paper and board, packaging and other similar manufactured goods. The remaining 40 per cent are of agricultural origin, mainly consisting of oils and fats but also other similar items such as tea, rice and seeds. Therefore, the increase in material costs due

to inflation had created a sustained upward pressure on the overall costs, which was further enhanced by the increase in energy and transportation costs arising from the fuel price increases mentioned earlier.

The economic scenario in 1990, however, was not a picture of unrelieved gloom; there were several bright features as well. The country experienced the third consecutive year of good rainfall in 1990 and the agriculture sector responded with a further sizeable increase in output. The increased support prices pushed up the estimated value of agricultural output by more than 16 per cent to a record level of Rs 123,400 crores. The industrial sector, too, maintained the growth rate of eight per cent achieved during the Seventh Five Year Plan.

HINDUSTAN LEVER STRATEGY

Consequently, the year witnessed an upsurge in the demand and consumption of consumer non-durables in general and, more particularly, of the daily necessities which constitute the bulk of Hindustan Lever's output. We, therefore, decided to utilise this enhanced rate of market growth to generate a sharp increase in volumes as our first defence against the upward pressure of costs.

As the growth in consumption was the largest in the rural markets, we had to reorganise our distribution system to efficiently and economically serve a significantly larger number of widely dispersed communities. The consumer preference in terms of product presentation and pack sizes had to be determined and the necessary adjustments had to be made in the manufacturing programme. The experience gained earlier in the area of rural communications and consumer contact for the marketing of fertilisers and seeds was not only utilised for increasing the sales of agricultural inputs but also harnessed in the task of developing the market for consumer goods.

Equal importance was accorded to the urban markets as well. The programme for servicing retail outlets was thoroughly overhauled in order to cater more efficiently to the requirements of a significantly larger number of outlets, not only in the larger cities but in the small and medium sized towns as well. The communications programme was redistributed over the improved choice of available media in order to contact consumers more effectively. The product portfolio, too, was expanded and refurbished in response to consumer needs which were measured and monitored through a broader programme of Market Research. The more than 20 per cent increase in physical volumes which we experienced in 1990 as a result of these efforts has helped to offset in large measure the increase in costs, more particularly the fixed costs, by spreading them over a larger output base.

MANUFACTURING OPERATIONS

A second measure of defence against cost increases devised in 1990 lay in harnessing our process technology resources in order to improve the reliability of machinery and the quality of output. Manufacturing operations were simplified to eliminate unnecessary equipment. Systematic fault diagnosis methodologies, such as Condition Monitoring, were employed to improve the functioning and the performance of production lines. Measurements of line efficiencies revealed bottlenecks, the removal of which led to a significant increase in throughput rates. Quality assurance measures were integrated with manufacturing operations in order to bring down rejections, and consequent reprocessing costs.

Simultaneously, the training and skills development efforts were stepped up as a measure to further enhance the capability of the operating staff in the factories. All these efforts culminated in the achievement of a 20 per cent increase in nett sales value with a less than 10 per cent increase

in the value of fixed assets. So, it was possible to reduce the impact of manufacturing costs on the overall cost profile of the company.

INVENTORY MANAGEMENT

Borrowings constitute a significant, and important, source of funds for business operations. In Hindustan Lever, too, secured and unsecured loans contribute over a third of the total deployment of funds. Bank borrowings in India have seldom been cheap and, of late, increases in interest rates have accentuated the cost of such borrowings. Since loan funds are primarily deployed for financing working capital, it became necessary to devote attention to inventory management as a means of containing costs.

We maintain a direct distribution system for reaching our products even to the remotest parts of the country which means that a minimum quantity of stocks has to be maintained in the pipeline to ensure uninterrupted supplies. The inventory management issues are even more complex in the case of agri-inputs whose sales are highly seasonal in nature. The distribution system was subjected to a thorough review as a result of which a revised methodology was implemented to reduce the supply planning cycle by taking advantage of the modest improvements in the telecommunications system. Thus, it has been possible to improve the servicing level as well as reduce the minimum requirements of working capital in the finished products supply chain. Further refinements are undergoing tests before they are fully implemented. The movement of chemicals and packaging materials to the large number of manufacturing establishments has been streamlined and tighter linkages have been established with selected suppliers in order to reduce the quantum of minimum stocks which needs to be retained at the various factories to ensure uninterrupted production runs.

The seasonal nature of the availability of oils and fats makes it necessary to tie up appreciable amounts of working capital in stocking adequate quantities to maintain the production activities around the year. Long standing research and development efforts aimed at the exploitation of non-traditional oils have resulted in a broader basket of choices in these areas. It has, therefore, become possible to smoothen somewhat the peaks and troughs in the seasonality of oil purchases which has had a beneficial effect on inventories. Advantage has been taken of the recent advances made by the engineering industry to reduce the inventory of spares and components. Similarly process flows have been streamlined to reduce the hold-up of materials and intermediates within the manufacturing system.

The success of these efforts is demonstrated by the fact that inventories recorded a growth of only 18 per cent, despite the higher replacement costs, although the turnover increased by 20 per cent. An even better indicator of the management of working capital, as well as of the improved management of funds, is the interest cost which increased by only 4.5 per cent.

MATERIALS CONSERVATION

The major part of the cost control effort, however, was directed towards conserving the cost of materials, where significant economies were achieved not only through more efficient utilisation but also through suitable substitution measures. The most appropriate example is, perhaps, presented by the consumption of oils and fats. Firstly, by exercising the wider choice of raw materials made available through technological efforts, it was possible to prevent an increase in the average cost prices. Secondly, although production of soap increased by 24 per cent, the consumption of oils and fats went up by only 14 per cent. This conservation measure was a direct outcome of the application of the structurant technology derived from Research insights into the functionality of the various components present in a tablet of soap. On an average this technology resulted in the cumulative saving of about 30,000 tonnes of oil per annum, an amount which is significant even in the context of the national oil economy.

VALUE ANALYSIS

The cost reduction effort has been a sustained one. It encompasses all aspects of the company's operations and involves the application of Value Analysis techniques to every significant item of cost.

The effort is based on the acquisition and application of knowledge, of materials and functionalities arising from Scientific Research, of consumer attitudes and perceptions arising from Market Research and of operational systems arising from Business Research. The cost control effort has succeeded in improving the perceived value of the products and has contributed significantly to the increased volumes achieved last year.

BENEFIT TO CONSUMERS

Employing this multilateral approach to the problem at hand, it has been possible for Hindustan Lever to restrict the average level of price increases in its finished goods during the year to well below five per cent. In the case of major brands, such as Lifebuoy, the price variations have been even lower. This benefit to the consumer was not achieved at the expense of the employees, who participated fully in the efforts mentioned earlier and enjoyed better working conditions and emoluments. Nor has it adversely affected the shareholders, because the 20 per cent increase in turnover has resulted in a 24 per cent improvement in Profit Before Tax. Despite a 30 per cent increase in the tax liability, part of which was due to the increase in the surcharge as well as to the changes in depreciation allowances, the net profit after tax has recorded a 20 per cent increase, which is exactly in line with the growth recorded in the turnover.

The modest success achieved in 1990, however, should not lead to complacency because a task of even greater magnitude lies ahead. The domestic fiscal imbalance continues without correction under the influence of sharply increasing non-Plan expenditure and debt servicing obligations. Inflation, if allowed to continue unchecked, will eventually decelerate consumption, which is the ultimate engine for growth. The options for correction are not easy because a reduction in subsidies will be extremely unpopular, while massive doses of taxation will be good neither for industry nor for the consumers. Draconian measures are needed to restrict the growth of imports but these are already putting brakes on the industrial growth rate. Therefore, the greatest value that one can attach to the experience of 1990 perhaps lies in the guidance which it may give us in navigating the troubled waters which await the business in the current year.

NATIONAL PERSPECTIVE

The rich experience that Hindustan Lever has earned in the course of managing inflation at the micro-economic level may also be drawn upon to suggest steps which will prove beneficial at the macro-economic level.

The encouraging growth in both the output and value of agricultural products gives an opportunity to better integrate that sector with the whole economy. To begin with, efforts should be made to widen the scope and range of savings, through specially formulated schemes for the rural population, so that there is a matching increase in the volume of funds available for investment. Simultaneously, productivity of the very large investments already made should be improved, taking advantage of the present deceleration in the pace of public investment expenditure. The recently enhanced bank rates should be supplemented by suitable fiscal incentives to foster an improvement in inventory management at every level in the economy.

On the infrastructure front, the rail and road transport systems should be made more complementary to each other for removing the bottlenecks that frequently hinder the movement of freight traffic. Last but not the least, the various industry related Development Councils and the corresponding CSIR laboratories should put their heads together to the task of reducing costs and upgrading quality in the manufacturing sector.

The best way, therefore, of managing and controlling inflation in the economy will be to create a policy environment and plan perspective to permit the fullest latitude to the productive forces and competitive trends latent in our economy.

This is the text of the speech delivered at the Annual General Meeting of Hindustan Lever Ltd., held in Bombay on 3rd May, 1991. If you wish to obtain this speech in a booklet form, please write to: The Communications Department, Hindustan Lever Ltd., P.O. Box 409, Bombay 400 001.

husband—she displays a rare sensitivity to how the proximity to power and ideology can distort, if not corrupt. Her failure, though, lies in her inability to bear witness to the self-limiting social nature of the modern elite, including the best amongst them. She never questions the self-assumption of their right to rule, plan and remake this society. It would seem that for her none else, outside the charmed elite, in this society is equipped and located so as to be free of the tyranny of the past—able to deliver this ancient country into modern times.

Maybe, this is why so few of this set ever felt constrained by the ends and means dilemma. The country was crying out to be transformed and the urgency was all too evident. Compunctions about procedures could not be permitted to block the march to progress. After all these were good people engaged in doing good to the country!

It is only through such rare anthropological accounts of the social elite that we may begin to understand why even the circle of dissent that marks our capital city is so hollow. For the dissenters and the rulers are joined together in a common cultural enterprise—they just happen to be joined on opposing sides. The ostensible sharp difference of opinion aired in the comfortable environs of the India International Centre, the various university fora or the Nehru Memorial Museum and Library can easily be dissolved in the evening round of socialising. All that needs to be ensured is that no whiff of 'another India' enters this charming and graceful world.

To be fair, there are stray passages in the book that indicate that Raj Thakur was not oblivious of this predicament—the structural mental block so intrinsic to our modern elite. Her recognition of the ingrained sense of dignity in masses that resulted in the historic 1977 electoral verdict, her impatience with the Communist Party leadership's preoccupation with itself, an abstract proletariat and a global situation when their knowledge of the concrete Indian reality was so shallow, her coming to realise how her ideology and power can play with one's memory, one's integrity, almost unconsciously, or even her later priding appreciation of Gandhi the Mahatma and his call for austerity and his larger historical project—these are clearly some of the instances where one discerns an attempt on her part to rise above herself as a social archetype. But overall, the dominant tenor of the narrative reveals a deep fascination for and sympathy with the elite world of the Nehru-Gandhis, a regret that the dreams of her early years lie shattered. The gut level disgust with this cow dung world, the discomfort with which the others of one's own culture are looked at can never be effectively buried. In more ways than one, *All My Years* remains a story of this regret, of the inability of the best of our modern elite to come to terms with themselves.

NOTICE

EWAC ALLOYS LIMITED

It is hereby notified for the information of the public that EWAC ALLOYS LIMITED proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval to the establishment of a new undertaking/unit/division. Brief particulars of the proposal are as under:

- Name and Address of the applicant**
EWAC ALLOYS LIMITED
L&T House
Narottam Morari Marg
Ballard Estate
Bombay 400 038
- Capital structure of the applicant organisation**
Authorised
7 00 000 Equity Shares of Rs. 100 each
Issued and subscribed
2 56 000 Equity Shares of Rs. 100 each
Rs. 1 00 00 000
Rs. 2 56 00 000
- Management Structure of the applicant organisation**
indicating the name of the director including the Managing Whole time Director and Manager if any
The business and affairs of the Company are managed by the Manager subject to the superintendence, control and direction of the Board of Directors

Director:
1. Mr. U. V. Rao
2. Mr. S. R. Subramanian
3. Mr. D. Kulkarni
4. Prof. Dr. H. R. D. Wasth
5. Mr. F. Balchandani
6. Mr. G. Roth
7. Mr. Paul A. Kammer
8. Mr. T. Pooran (alternate for Mr. S. Roth)

Manager:
Dr. Naval N. Katarik (Designated Chief Executive)
- Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division**
The proposal relates to the establishment of a new unit/division
- Location of the new undertaking/unit/division**
Ankleshwar Dist. Bharuch Gujarat State
- Capital structure of the proposed undertaking**
No. of new undertaking proposed to be set up
1
- Indicate the proposal relates to the production, storage, supply, distribution, marketing or control of any goods/articles indicate:**
(i) Name of goods/articles: Specially formulated quick setting compounds for cold repair and maintenance applications
(ii) Proposed licensed capacity: 120 Tonnes per annum
(iii) Estimated annual turnover: Rs. 185 lakhs in the fifth year after commencement of production
- Indicate the proposal relates to the provision of any service, state the volume of activity in terms of usual measure, such as value, income, turnover, etc.**
Not applicable
- Cost of the project**
Rs. 90 00 000
- Scheme of finance indicating the amounts to be raised from each source**
The entire cost of the project will be met from the internal cash generation of the Company

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein.

Dated this 22nd day of April 1991

For EWAC ALLOYS LIMITED

Naval N. Katarik
Chief Executive

Registered Office: L&T House, Narottam Morari Marg, Ballard Estate, Bombay 400 038

East European Developments

Impact on Trade of Developing Countries

R G Nambiar

Rajesh Mehta

G A Tadas

This article makes an attempt to evaluate the potential impact of East's entry into the 'global economic zoo' on developing countries particularly from the standpoint of latter's trade opportunities in the nineties. The East's entry into the world's 'free markets' appears to have ruinous ramifications for developing countries' trade. There are two circumstances which reinforce this conclusion. The first is the findings of the 1980s which show a firm trend of trade diversion that has already begun to flush out the developing countries not only from the markets of North, but also from its own markets. The second circumstance is the apparent tendency for the structure of intra-East Europe trade to be very similar to the export structures of the developing countries.

Introduction

SO much has been happening in the geopolitical environment as the eighties drew to a close, so many new and totally unpredictable developments, that it is difficult to say what tomorrow will bring, as forces, evil or beneficent, when once set in motion move with accelerated speed to their natural conclusions. Who would have thought, for instance, that half of Europe would shuck off its four-decade old communism? Who would have thought that the great 'command economies' of the world will switch over to 'demand economies'? Who would have thought that the elements of market place economics would kick in the womb of mother Russia? Who would have thought that the Warsaw Pact powers would begin their journey to a common European home? Who would have thought that the East-West conflict which dominated the post-war era would become a self-liquidating ideal in the nineties? And yet, these are no more than indicative of the direction and magnitude of the changes which are wrought upon the global landscape. In sum, as the world enters the last decade of the twentieth century, it bears testimony to the birth of a new global era, marked decreased divisiveness, diminished ideological hostility and defunct superpower tension, and the key to all these is, of course, the disintegration of the allegorical second world.

All these cataclysmic changes in the European polity, however, contribute to a harassed outlook to poor and developing countries of the South. For one thing, they see East's entry into the 'global economic zoo' as a potential threat to their interests. Economic strategists here continue to worry over a heady mixture of possibilities: Will the six nations of Europe, who were until now considered all but extinct in the world's free market challenge the developing countries' ascendancy in the global trade when

the former starts prowling outside their own neighbourhood? Will the East-West axis, which is gaining enough substance, result in evaporation of Western economic assistance to the developing countries? Will the East's opening up stifle investment and technology transfer to the developing countries? Each of these possibilities have ruinous ramifications to the developing world. But there are other risks too. The disintegration of the second world would render a major set back to the third world in the latter's struggle against imperialism and colonialism. It is important to realise that it was this second world with Soviet Union as its centrepiece which had helped the third world through moral and logistical support to withstand the Western pressures mounted upon them on issues such as tariffs, terms of trade, technology transfer, international debt burden, etc. Now, with the withdrawal of this

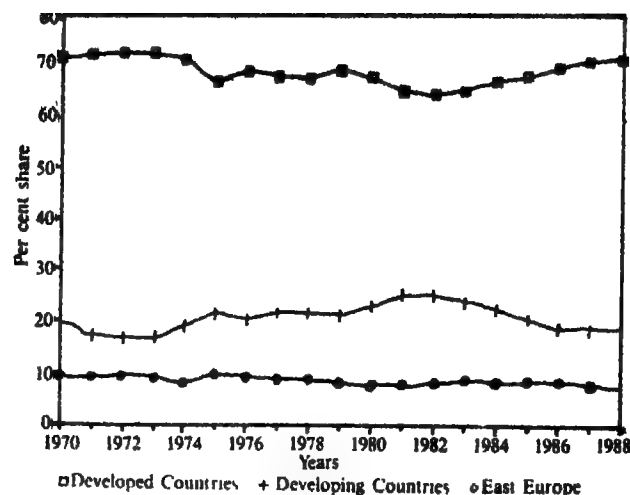
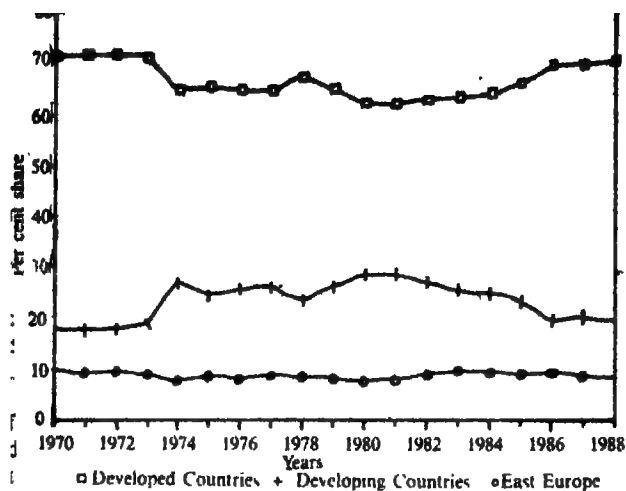
essential prop, the third world countries are caught in a weak spot. Other things remaining the same, they can expect a stiffening of the West's attitude on trade and investment related issues. In short, the East European episodes would, it is widely perceived, maul the life of the developing countries: messier and more intricate than ever before; and if not handled properly and with intelligent foresight and some imagination, these forces would set out to disorganise all walks of their economic and social life.

Although there are such clear indications in practice very little is known on what impact it will have on the industrialisation and trade prospects of developing countries. For until now, these discussions are in general always in the abstract. To gain some insight into this, we provide in this article some discussion and economic analysis. But we hasten to add that the task of going into

TABLE I. EXPORTS BY REGIONS
(Percentage share in exports to world)

| | Developed | Developing | East Europe | Soc Asia | USSR |
|-------------|-----------|------------|-------------|----------|-------|
| Developed | | | | | |
| 1980 | 70.94 | 23.28 | 3.70 | 1.15 | 1.93 |
| 1985 | 73.99 | 20.25 | 2.66 | 1.97 | 1.65 |
| 1987 | 77.85 | 17.89 | 2.18 | 1.30 | 1.19 |
| 1988 | 77.31 | 18.47 | 2.20 | 1.33 | 1.24 |
| Developing | | | | | |
| 1980 | 70.28 | 24.81 | 2.85 | 0.73 | 1.67 |
| 1985 | 62.63 | 29.19 | 4.72 | 2.49 | 2.92 |
| 1987 | 65.78 | 25.71 | 4.47 | 3.23 | 2.77 |
| 1988 | 63.83 | 27.39 | 3.45 | 4.13 | 2.01 |
| East Europe | | | | | |
| 1980 | 30.71 | 14.86 | 50.70 | 2.70 | 17.37 |
| 1985 | 24.53 | 17.73 | 53.21 | 3.68 | 19.04 |
| 1987 | 21.47 | 11.93 | 58.12 | 3.94 | 20.36 |
| 1988 | 22.37 | 16.52 | 55.74 | 5.07 | 18.75 |
| USSR | | | | | |
| 1980 | 35.29 | 18.53 | 42.15 | 3.20 | |
| 1985 | 25.64 | 22.31 | 46.82 | 5.11 | |
| 1987 | 21.18 | 14.65 | 51.53 | 6.03 | |
| 1988 | NA | NA | NA | NA | |

Source: Based on UN, *Handbook of International Trade and Development Statistics*, different issues.



Data Source: UNCTAD, *Handbook of International Trade and Development Statistics*, various issues.

FIGURE 2 A: EAST EUROPE EXPORT TO EAST AND SOUTH
(Per cent in total East Europe export)

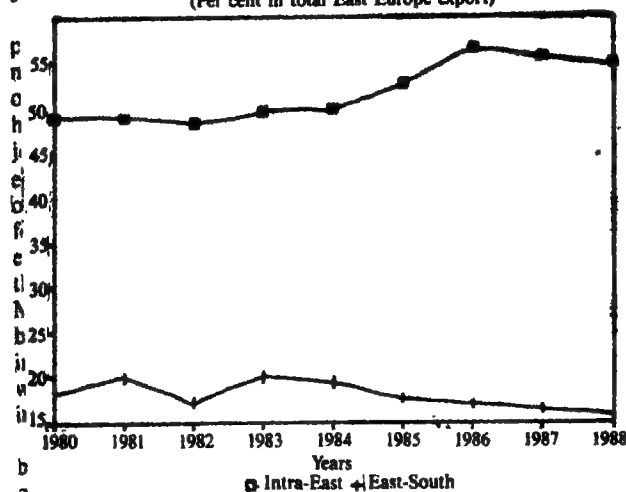
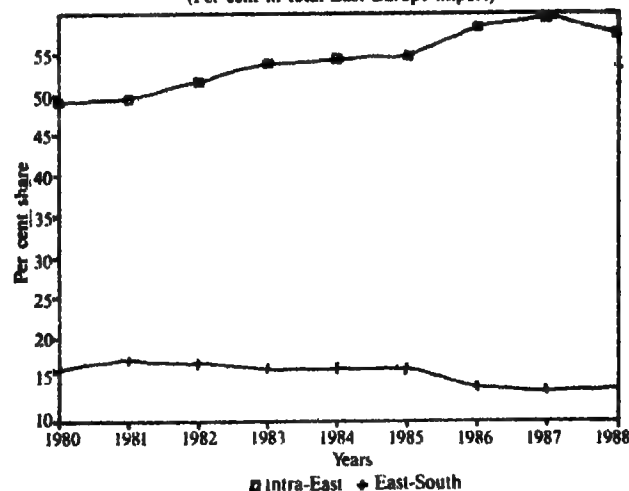


FIGURE 2 B: EAST EUROPE IMPORT FROM EAST AND SOUTH
(Per cent in total East Europe import)



Data Source: UN, *Monthly Bulletin of Statistics*

the dimensions of the problem at equal depths could not be performed in this paper. What we have done is to present some data which bear upon the magnitude and direction of effects to developing countries from the standpoint of their global trade in the light of structural changes in East Europe. Need our focus on trade might have led to ignore some other very important effects, but even a modest attempt in this direction may, we believe, be of some use.

The following empirical procedure is used to determine the precise dimensions of this trade threat. First, our concern is to seek what evidence we have, if any, to suggest that these countries will challenge the developing countries out of their present market, while competing for markets abroad. Working towards this end, we go behind the trade records of three major country groupings—capitalist East, the developing South and the developed North—over the period 1980 to 1988; and observe the changes in the structure of trade of the former vis-à-vis the changes in the latter two respectively. The end of the eighties is significant because

just prior to the pensioning of communism, almost similar forces have been at work across the Eastern block. In the next step, taking the 1980-88 experience as *prima facie* evidence, we try to speculate on the magnitude and the dimension of the problem to developing countries, when the East's transition to a capitalist economy is completed in the years to come. Something is known, for instance, about the East's trade, that until very recently a large part of their trade moved within their own neighbourhood. It is obvious that with the disintegration of this group, much of this intra-East trade will get diverted to markets abroad. If the structure of their intra-East exports is found to be very identical with the structure of the developing countries' exports then we can expect both East and the developing countries coming into friction in international trade. A usual way to verify the proposition is to use a measure of export similarities. At an analytical level, this measure aids to identify whether the export structures of two countries or groups of countries are mutually competitive or

complementary.

When the inputs from this statistical investigation are put together, the natural conclusion is that the East's entry into the global economic zoo has harmful ramifications for developing countries in terms of opportunities to trade. There are two circumstances which reinforce this conclusion: The first circumstance is the findings of the 1980s which show a firm trend of trade diversion that has already begun to flush out South not only in the markets of North, but also in the markets of its own region. The second circumstance is the apparent tendency for the structure of intra-East Europe trade to be very similar to the export structures of the South. Four product groups—mineral fuels, textiles, manufactured goods and machinery and transport equipment—account for 60 per cent of the intra-East trade. Needless to say, the South's exports are also concentrated in these four product groups.

The organisation of the paper is as follows: In Section II, we begin by taking stock of the march of events. What propelled

TABLE 2: WORLD EXPORTS BY REGIONS
(Percentage share in exports to world)

| | Developed | Developing | East Europe | Soc. Asia | USSR | | Developed | Developing | East Europe | Soc. Asia | USSR |
|---|-----------|------------|-------------|-----------|-------|--|-----------|------------|-------------|-----------|-------|
| 1 All Food Items (SITC 0+1+12+4) | | | | | | 4 Mineral Fuels (SITC 3) | | | | | |
| Developed | | | | | | Developed | | | | | |
| 1980 | 66.32 | 24.41 | 6.56 | 1.83 | 3.76 | 1980 | 86.23 | 8.06 | 0.77 | 0.06 | 0.13 |
| 1985 | 69.77 | 23.69 | 5.39 | 0.66 | 4.22 | 1985 | 87.62 | 7.89 | 0.77 | 0.06 | 0.22 |
| 1986 | 75.69 | 19.74 | 3.39 | 0.60 | 2.32 | 1986 | 86.44 | 9.04 | 0.83 | 0.09 | 0.26 |
| 1987 | 77.48 | 18.29 | 2.64 | 0.96 | 1.77 | 1987 | 85.36 | 9.72 | 0.81 | 0.06 | 0.21 |
| Developing | | | | | | Developing | | | | | |
| 1980 | 59.19 | 24.45 | 13.34 | 1.41 | 10.30 | 1980 | 75.96 | 21.65 | 1.03 | 0.03 | 0.25 |
| 1985 | 58.50 | 25.01 | 14.23 | 1.80 | 11.34 | 1985 | 64.67 | 32.04 | 2.02 | 0.10 | 0.46 |
| 1986 | 63.87 | 22.34 | 11.21 | 1.67 | 8.22 | 1986 | 62.36 | 32.74 | 3.07 | 0.29 | 0.79 |
| 1987 | 64.67 | 21.68 | 10.74 | 2.05 | 7.60 | 1987 | 65.32 | 30.82 | 2.17 | 0.27 | 0.83 |
| East Europe | | | | | | East Europe | | | | | |
| 1980 | 30.46 | 19.57 | 46.41 | 3.29 | 26.82 | 1980 | 55.90 | 6.66 | 34.75 | 0.98 | 1.09 |
| 1985 | 25.60 | 26.79 | 45.11 | 1.00 | 33.76 | 1985 | 42.41 | 12.03 | 43.89 | 1.68 | 0.80 |
| 1986 | 28.62 | 23.46 | 44.95 | 1.15 | 32.93 | 1986 | 30.87 | 9.63 | 57.13 | 2.21 | 0.87 |
| 1987 | 34.03 | 21.98 | 41.00 | 1.39 | 29.61 | 1987 | 32.93 | 11.22 | 53.23 | 2.40 | 0.69 |
| USSR | | | | | | USSR | | | | | |
| 1980 | 16.42 | 39.99 | 29.23 | 13.97 | | 1980 | 53.63 | 7.25 | 36.78 | 0.90 | |
| 1985 | 16.62 | 66.85 | 11.31 | 4.62 | | 1985 | 37.24 | 12.92 | 47.92 | 1.91 | |
| 1986 | 21.93 | 60.44 | 12.34 | 4.96 | | 1986 | 26.71 | 9.66 | 61.19 | 2.43 | |
| 1987 | 21.74 | 57.49 | 13.28 | 7.13 | | 1987 | 28.98 | 11.60 | 56.77 | 2.63 | |
| 2 Agricultural Raw Materials (SITC 2 - (22 + 27 + 28))* | | | | | | 5 Chemical Products (SITC 5) | | | | | |
| Developed | | | | | | Developed | | | | | |
| 1980 | 77.79 | 14.54 | 4.13 | 3.54 | 1.57 | 1980 | 67.56 | 24.87 | 5.19 | 1.36 | 2.35 |
| 1985 | 76.37 | 16.53 | 3.69 | 3.69 | 1.78 | 1985 | 71.21 | 22.85 | 3.72 | 1.75 | 1.77 |
| 1986 | 78.19 | 16.17 | 2.84 | 2.76 | 1.28 | 1986 | 73.20 | 21.57 | 3.42 | 1.33 | 1.53 |
| 1987 | 77.86 | 16.68 | 2.80 | 2.54 | 1.34 | 1987 | 73.71 | 20.88 | 3.42 | 1.53 | 1.59 |
| Developing | | | | | | Developing | | | | | |
| 1980 | 58.83 | 28.42 | 6.97 | 5.57 | 3.50 | 1980 | 48.43 | 46.05 | 1.59 | 1.70 | 0.92 |
| 1985 | 57.78 | 30.20 | 7.71 | 4.00 | 3.81 | 1985 | 38.57 | 46.01 | 6.06 | 7.22 | 3.40 |
| 1986 | 55.62 | 31.98 | 7.75 | 4.30 | 4.58 | 1986 | 36.85 | 48.98 | 5.89 | 7.25 | 3.35 |
| 1987 | 56.69 | 30.65 | 7.36 | 5.06 | 4.53 | 1987 | 35.91 | 49.10 | 4.89 | 8.95 | 2.54 |
| East Europe | | | | | | East Europe | | | | | |
| 1980 | 49.52 | 8.43 | 37.54 | 3.60 | 4.72 | 1980 | 28.76 | 17.02 | 46.44 | 3.71 | 21.61 |
| 1985 | 33.78 | 23.47 | 35.72 | 4.92 | 5.52 | 1985 | 28.68 | 22.42 | 42.00 | 6.17 | 19.78 |
| 1986 | 37.19 | 19.40 | 36.15 | 6.33 | 5.34 | 1986 | 24.65 | 20.79 | 48.07 | 5.66 | 23.18 |
| 1987 | 36.73 | 27.32 | 29.89 | 5.17 | 4.90 | 1987 | 24.21 | 20.58 | 48.38 | 5.97 | 22.73 |
| USSR | | | | | | USSR | | | | | |
| 1980 | 47.70 | 7.38 | 43.09 | 1.60 | | 1980 | 38.52 | 16.68 | 41.80 | 2.39 | |
| 1985 | 26.72 | 24.88 | 42.07 | 6.10 | | 1985 | 32.25 | 20.20 | 37.27 | 10.28 | |
| 1986 | 31.76 | 19.37 | 40.70 | 8.14 | | 1986 | 26.42 | 18.93 | 44.02 | 10.67 | |
| 1987 | 29.29 | 32.12 | 32.06 | 6.40 | | 1987 | 20.14 | 19.29 | 48.29 | 12.26 | |
| 3 Crude Fertilisers and Crude Minerals SITC (27+28)* | | | | | | 6 Iron and Steel (SITC 67) | | | | | |
| Developed | | | | | | Developed | | | | | |
| 1980 | 83.43 | 10.59 | 2.38 | 0.55 | 0.58 | 1980 | 59.52 | 29.11 | 8.20 | 3.08 | 5.61 |
| 1985 | 75.32 | 13.53 | 1.59 | 1.20 | 0.41 | 1985 | 59.72 | 23.42 | 8.03 | 8.51 | 6.66 |
| 1986 | 74.04 | 16.60 | 1.65 | 1.29 | 0.85 | 1986 | 64.76 | 20.97 | 7.57 | 6.63 | 6.31 |
| 1987 | 74.09 | 16.75 | 1.68 | 0.97 | 0.49 | 1987 | 67.00 | 20.82 | 7.24 | 4.56 | 6.15 |
| Developing | | | | | | Developing | | | | | |
| 1980 | 80.86 | 11.25 | 6.19 | 0.73 | 2.11 | 1980 | 43.78 | 49.81 | 2.21 | 2.57 | 1.45 |
| 1985 | 71.54 | 17.19 | 9.31 | 1.80 | 4.05 | 1985 | 43.68 | 39.57 | 3.17 | 12.72 | 1.57 |
| 1986 | 70.20 | 19.67 | 7.98 | 1.66 | 3.52 | 1986 | 46.98 | 36.82 | 3.41 | 11.12 | 1.92 |
| 1987 | 19.80 | 22.07 | 7.28 | 1.20 | 3.53 | 1987 | 55.85 | 34.64 | 3.50 | 4.68 | 1.86 |
| East Europe | | | | | | East Europe | | | | | |
| 1980 | 27.89 | 3.22 | 68.32 | 0.56 | 2.94 | 1980 | 25.88 | 13.29 | 58.49 | 2.32 | 8.44 |
| 1985 | 24.09 | 30.20 | 44.95 | 0.76 | 2.61 | 1985 | 16.82 | 26.46 | 47.22 | 9.14 | 6.69 |
| 1986 | 18.05 | 28.60 | 52.35 | 0.61 | 2.90 | 1986 | 16.11 | 24.70 | 48.55 | 10.39 | 9.56 |
| 1987 | 17.45 | 30.05 | 51.51 | 0.51 | 2.77 | 1987 | 21.02 | 20.55 | 48.14 | 10.00 | 8.96 |
| USSR | | | | | | USSR | | | | | |
| 1980 | 20.34 | 2.59 | 76.64 | 0.40 | | 1980 | 7.12 | 7.70 | 83.09 | 2.03 | |
| 1985 | 14.88 | 33.14 | 51.18 | 0.31 | | 1985 | 1.78 | 23.88 | 64.43 | 9.70 | |
| 1986 | 12.07 | 29.50 | 57.76 | 0.41 | | 1986 | 3.39 | 26.20 | 58.93 | 11.37 | |
| 1987 | 10.62 | 33.10 | 55.93 | 0.35 | | 1987 | 4.46 | 20.31 | 63.18 | 12.02 | |

(Contd)

TABLE 2 (Contd)

| | Developed | Developing | East Europe | Soc Asia | USSR | Developed | Developing | East Europe | Soc Asia | USSR |
|--|-----------|------------|-------------|----------|-------|---|------------|-------------|----------|-------|
| 7 Non Ferrous Metals (SITC 68) | | | | | | 9 Machinery and Transport Equipment (SITC 7) | | | | |
| Developed | | | | | | Developed | | | | |
| 1980 | 35.13 | 10.71 | 2.68 | 0.51 | 0.81 | 1980 | 61.62 | 27.99 | 2.75 | 0.95 |
| 1985 | 80.72 | 13.22 | 1.46 | 2.28 | 0.73 | 1985 | 72.58 | 22.61 | 1.80 | 2.44 |
| 1986 | 83.20 | 13.55 | 1.14 | 1.47 | 0.41 | 1986 | 75.40 | 20.42 | 1.95 | 1.87 |
| 1987 | 83.53 | 14.20 | 1.12 | 0.74 | 0.38 | 1987 | 76.64 | 19.65 | 1.68 | 1.41 |
| Developing | | | | | | Developing | | | | |
| 1980 | 76.89 | 18.90 | 2.45 | 1.42 | 1.82 | 1980 | 51.49 | 45.73 | 0.18 | 1.79 |
| 1985 | 71.02 | 20.33 | 4.61 | 4.20 | 1.62 | 1985 | 59.63 | 28.87 | 4.29 | 6.42 |
| 1986 | 68.69 | 23.82 | 3.23 | 3.83 | 0.56 | 1986 | 64.91 | 26.91 | 36.66 | 4.06 |
| 1987 | 67.64 | 24.86 | 3.26 | 3.86 | 0.61 | 1987 | 67.03 | 25.38 | 2.74 | 4.50 |
| East Europe | | | | | | East Europe | | | | |
| 1980 | 50.31 | 4.04 | 44.39 | 0.21 | 1.37 | 1980 | 7.83 | 14.93 | 71.46 | 4.35 |
| 1985 | 65.58 | 6.84 | 22.07 | 4.35 | 1.24 | 1985 | 4.92 | 15.74 | 73.16 | 4.78 |
| 1986 | 66.95 | 5.23 | 21.68 | 4.52 | 1.69 | 1986 | 4.98 | 15.09 | 73.08 | 5.20 |
| 1987 | 65.45 | 5.55 | 21.26 | 5.99 | 1.39 | 1987 | 5.88 | 15.52 | 72.54 | 4.62 |
| USSR | | | | | | USSR | | | | |
| 1980 | 37.74 | 2.94 | 59.27 | 0.06 | | 1980 | 5.84 | 27.73 | 55.44 | 10.46 |
| 1985 | NA | NA | NA | NA | | 1985 | 3.67 | 35.42 | 47.45 | 13.44 |
| 1986 | NA | NA | NA | NA | | 1986 | 4.35 | 33.45 | 48.59 | 13.61 |
| 1987 | NA | NA | NA | NA | | 1987 | 4.54 | 34.01 | 49.76 | 11.62 |
| 8 Manufactured Goods (SITC (6+8) (67+68)) | | | | | | 10 Textile Fibres Textile Yarn (SITC 26+67+24) | | | | |
| Developed | | | | | | Developed | | | | |
| 1980 | 72.68 | 21.98 | 4.03 | 1.14 | 2.39 | 1980 | 73.89 | 18.67 | 4.84 | 2.53 |
| 1985 | 74.45 | 19.63 | 3.28 | 2.35 | 2.19 | 1985 | 76.10 | 17.93 | 3.78 | 2.12 |
| 1986 | 78.18 | 16.84 | 2.91 | 1.75 | 1.87 | 1986 | 79.33 | 15.90 | 1.72 | 1.55 |
| 1987 | 79.92 | 15.86 | 2.64 | 1.25 | 1.66 | 1987 | 80.53 | 14.93 | 2.97 | 1.46 |
| Developing | | | | | | Developing | | | | |
| 1980 | 63.78 | 37.12 | 2.14 | 1.37 | 1.35 | 1980 | 65.11 | 26.56 | 4.28 | 3.24 |
| 1985 | 65.71 | 25.43 | 3.34 | 4.79 | 2.22 | 1985 | 66.13 | 23.49 | 4.88 | 4.64 |
| 1986 | 68.87 | 23.13 | 2.64 | 1.52 | 1.92 | 1986 | 6.45 | 23.07 | 3.91 | 4.91 |
| 1987 | 70.65 | 21.87 | 2.43 | 4.53 | 0.16 | 1987 | 68.89 | 22.00 | 3.72 | 4.89 |
| East Europe | | | | | | East Europe | | | | |
| 1980 | 26.97 | 14.36 | 54.87 | 2.30 | 24.95 | 1980 | 37.13 | 8.04 | 51.77 | 2.35 |
| 1985 | 24.75 | 17.02 | 52.95 | 4.33 | 24.11 | 1985 | 28.64 | 12.97 | 50.50 | 4.20 |
| 1986 | 23.10 | 14.78 | 56.03 | 4.61 | 29.59 | 1986 | 29.67 | 11.44 | 53.45 | 4.34 |
| 1987 | 28.33 | 12.63 | 53.81 | 4.13 | 28.30 | 1987 | 33.48 | 11.88 | 49.33 | 4.14 |
| USSR | | | | | | USSR | | | | |
| 1980 | 9.64 | 21.85 | 64.64 | 3.77 | | 1980 | 32.50 | 6.91 | 53.12 | 6.36 |
| 1985 | 4.11 | 27.96 | 57.46 | 10.14 | | 1985 | 6.81 | 30.22 | 42.15 | 13.78 |
| 1986 | 5.25 | 28.64 | 55.09 | 10.8 | | 1986 | 11.48 | 27.69 | 45.92 | 14.67 |
| 1987 | 6.74 | 22.76 | 59.33 | 11.17 | | 1987 | 13.77 | 27.80 | 43.24 | 14.08 |

Source: Based on UN *Handbook of International Trade and Development Statistics* different issues

the counter reformation in East Europe? Where do they stand in their resurrection business? What is the West doing towards its Eastern neighbours? Such broad questions can, no doubt be treated only briefly and incompletely but at least it may help to organise our discussion. In Section III, we put into relief some of the stylised facts relating to how these changes in the East European polity would affect the trade opportunities of the developing countries? Will they ripple through their trade in the years to come? Should they be pessimistic about their trade prospects? Finally in the last section we make our concluding observations.

II

March of Events

What propelled the counter reformation? It is no secret that the past few years have been a period of increasing puzzlement and disillusion for the people of East Europe. Economic stagnation had engulfed the whole region and the living standards had taken a nosedive.¹

Czechoslovakia after doing rather well in income per head by comparison with both France and Austria in the 1950s, is believed to have fallen in the 1960s, and further down in the 70s and 80s. Similarly, the gap between East Germany's income per head and that of West Germany seems to have been more or less constant till 1970, but since then the gap has continued to widen. Both Romania and Bulgaria when compared with Spain and Greece—the two relatively poor capitalist countries—turn out to have lost ground for the latter. By the beginning of 80s, Poland had also been exhibiting strains in the economic system which were structural in nature.² The obvious fact appears to be that the centrally planned economies of the East did tolerably well in the first decade of the communist rule—probably when they were shifting the surplus labour from land to a few easily organisable industries but since then, economic progress in the region has been less than spectacular, especially when the test came to improve labour productivity, absorb new techniques, make a wider range of products, and even make them better. The investment rate had

been sluggish.³ The great borrowing of money from the West was an attempt to arrest the continuing deceleration. But it failed and sank into a morass of debts and deficits. With a mounting debt burden, which cost countries like Poland and Hungary nearly 50 per cent of their hard currency earnings,⁴ deterioration in their terms of trade with the Soviet Union, and the inability to obtain imports from the West due to constraints in expanding exports, everything appeared to be on the brink of disaster—that they are in a deep structural crisis. There have been other problems too. For instance, fulfilment of targets in the farm sector tended to lag behind in most centrally planned economies, thus causing serious difficulties in the supply of essential items like food. Again, introduction of advanced technology in consumer goods industry was purposely held back, probably because the planners stuck rigidly to the social welfare function introduced in the immediate post-war years. But with changing incomes and changing social compositions, the texture of needs too tended to change in the centrally planned economies; and in

discontent and resentment started breeding.

The immense psychological impact of this growing discontent cannot be underrated. It led to a feeling that their position was hopeless; that they had been beaten not only by their Western neighbours, but also by the new economic miracle-makers like South Korea and Taiwan; and to catch up with them, there should be a crossing over to the efficiency of free-market. This tide of dissatisfaction—euphoria over gaining the freedom of choice—became widespread especially after the Gorbachev revolution. The unprecedented 'flare up' in the winter of 1989—country after country presenting a picture of carnival shading off into near chaos—culminated finally in the overthrow of the communist rule, and the beginning of a new journey towards restoration of political and economic democracy.

While 1989 has been a year of miracles, the forthcoming years are likely to be less brilliant, more difficult and confused. There are a host of problems to be solved. Prices are distorted, inflation rates are very high, and no less a challenge is the process of reversing from totalitarianism to a capitalist democracy. A thorny question here is: should a reforming communist country concentrate first on political or economic reform? Most people seem to believe that economic pluralism inevitably leads to political pluralism—people free to choose how to run factories and farms, will insist on choosing their governments too.

Here is an account of where the main countries stand in their efforts to transform an atrophied command economy into a demand economy.

Reviving private sector: Poland has been doing the best here. Already there is a law in her statute book promising equal treatment to private companies along with state enterprises; and in principle can employ as many people as they like. Hungary too has enacted a similar law permitting private enterprises.⁶ Czechoslovakia allows only family business. In Soviet Russia a law was passed in 1988 permitting the establishment of co-operatives outside the agricultural sector, and about 20,000 manufacturing enterprises were transferred to a system of self-financing. The intention is that the enterprises should not only make profits, but also finance their own investment.

Opening up public sector: For economic survival, it has been felt essential in nearly all these countries to break up the huge inefficient public sector industries into smaller units. Poland, for instance, has created several hundred enterprises out of a relative handful of old conglomerates. Hungary has been following the same course, but at a slower pace. Czechoslovakia is still cautious.

Price reform: No real competition is possible between companies—private or public—until most of the prices of what they buy and sell are set by the market. Here the prospects are seen to be better. In Poland,

try's prices should be free by 1993. The Hungarians claim that they have liberated nine-tenths of their producer prices. The Czechs say that they will move from the present 10 per cent of their free prices to 80-85 per cent by 1993. Yugoslavia has already something close to a free market system. In Soviet Russia, about 60 per cent of the wholesale trade is to be freed over the next few years.

Money market: While they wrestle with prices, subsidies and inflation, the reforms have to create a more flexible banking system, which lends money to firms. Both the Hungarians and Poles have already broken up their old banking system. In law, their central banks are now confined to a central bank's proper job; and the lending functions have been transferred to several commercial banks that can compete with each other, and even decide for themselves what interest rates to charge on the money they lend. Both Yugoslavia and Czechoslovakia plan to introduce a similar reform late this year.

Western investment and technology: One possible stimulus to the growth of East European economies is to bring in Western help. But vast flows of credit from the West, like that of the 1970s, are unlikely to work. Nearly all of these countries would like to promote joint ventures. The Hungarians have so far been the most energetic on this. The Western partners can now buy up to 100 per cent of a Hungarian company, send the money home, and get some handsome tax break. Similarly, there have been moves towards acquiring Western technology with a view to restructuring production and make it internationally competitive.

Foreign trade: Efforts are on to end the state monopoly of foreign trade. Enterprises may now negotiate directly with foreign suppliers and customers. The disintegration of COMECON—the Soviet common market—is also on the way. In its recent meeting, the group has decided to move to a market based trading system.

These six things are the skeleton on which

usually grow. They, of course, do not include other normal issues of economic management, above all inflation. In all these countries the system has allowed an extraordinary amount of inflationary pressure to build up; but it will have to be brought under control by the methods so painfully familiar elsewhere.

The current state of reforms may, therefore, be described as a kind of 'half way

TABLE 4: EAST SOUTH TRADE ACCORDING TO DEVELOPING REGIONS, 1980
(US \$ million)

| Countries | Eastern Europe | |
|-----------------------------|-----------------|------------------|
| | Export To | Import From |
| <i>Developing countries</i> | 35524 | 29790 |
| I Africa | 3942 (11.09) | 4156 (13.95) |
| Libya | 673 (1.89) | 869 (2.92) |
| Egypt | 602 (1.69) | 673 (2.26) |
| Algeria | 362 (1.02) | 436 (1.46) |
| II Latin America | 8557 (24.09) | 10682 (35.86) |
| Cuba | 6814 (19.18) | 6907 (22.85) |
| Brazil | 231 (0.65) | 867 (2.91) |
| Argentina | 80 (0.22) | 1107 (3.72) |
| III Asian market economies | 9504 (26.75) | 9120 (30.61) |
| India | 2172 (6.11) | 2195 (7.37) |
| Iraq | 1033 (2.91) | 2185 (7.36) |
| Europe | 4770 (13.42) | 5585 (18.75) |

Note: Figures in () indicate per cent share in developing exports to and imports from East Europe.

Source: Based on UN, *Monthly Bulletin of Statistics*, May 1989

TABLE 3: AVERAGE ANNUAL GROWTH RATES IN EXPORTS AND IMPORTS BY COUNTRIES AND REGIONS

| | Growth Rate of Exports (Log E = $\alpha + \beta T$) | | Growth Rate of Imports (Log M = $\alpha + \beta T$) | |
|----------------|---|---------|---|---------|
| | 1973-81 | 1981-88 | 1973-81 | 1981-80 |
| Bulgaria | 16.74 | 6.75 | 15.04 | 6.55 |
| Czechoslovakia | 12.42 | 7.70 | 11.89 | 7.90 |
| GDR | 12.16 | 6.66 | 11.71 | 6.83 |
| Hungary | 8.80 | 1.89 | 9.84 | 1.35 |
| Poland | 10.91 | 0.75 | 9.44 | -1.10 |
| Romania | 15.12 | 2.88 | 16.66 | 0.20 |
| USSR | 18.05 | 4.34 | 16.52 | 4.96 |
| East Europe | 15.04 | 4.79 | 13.86 | 4.54 |
| Developing | 19.86 | 0.36 | 20.86 | -0.01 |
| Developed | 15.12 | 7.63 | 15.46 | 7.14 |
| World | 16.35 | 5.48 | 16.46 | 5.43 |

Notes: E = Exports; M = Imports; and T = Time.

Source: Based on UN, *Handbook of International Trade and Development Statistics*, different issues.

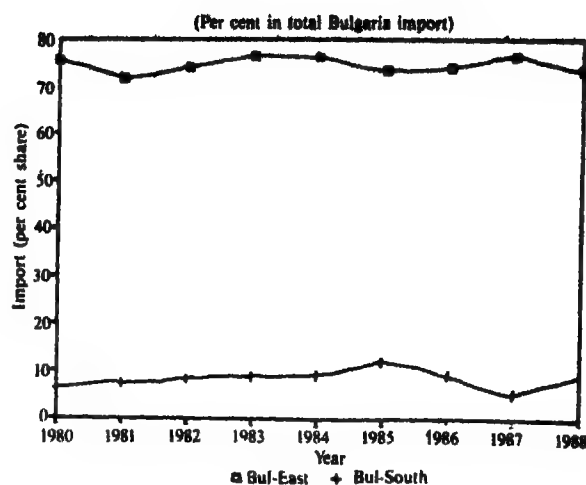
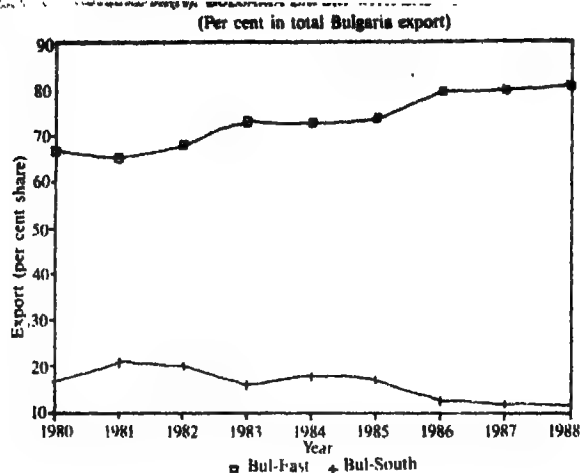


FIGURE 3.2(A): CZECHOSLOVAKIA EXPORT WITH EAST AND SOUTH
(Per cent in total Czechoslovakia export)

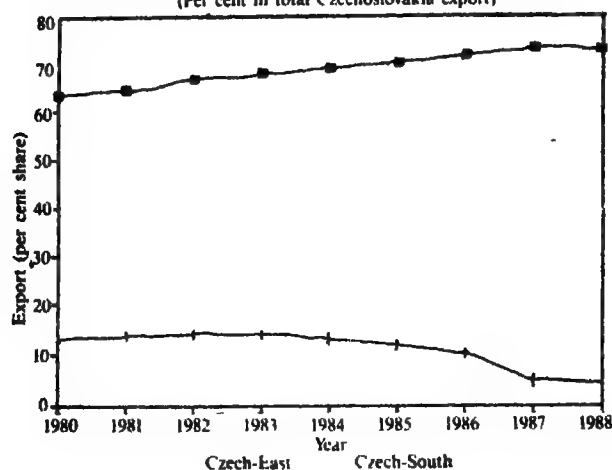
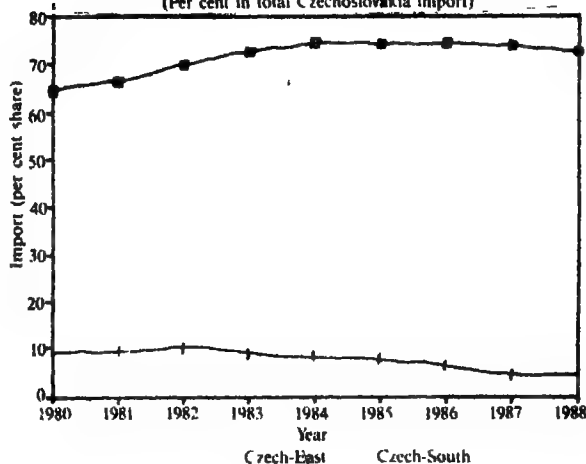


FIGURE 3.2(B): CZECHOSLOVAKIA IMPORT WITH EAST AND SOUTH
(Per cent in total Czechoslovakia import)



house' in which there has been a departure from some of the dominant institutions, motivations, and behaviour of traditional socialist model; but this departure is yet to successfully fructify by yielding to a full-fledged market economy.

Western society continues to re-enact the philosophical history of ancient Greece. Swept under the alluring carpet of liberal reforms, East-West relations have already thickened. The West's spokesmen have called for an elaborate strategy to help the economic recovery of the East.

A powerful actor in mending the East-West divide is the European Economic Community. The Community, already in the process of welding itself into a single market of some 320 million people, wants to embrace as many as possible of the 140 million people of the East, partly to increase its own power in the region and partly in the hope that a united Europe would have major political significance. Stalking across this wild imagination, the Community is in a hurry to help the East's resurrection business;⁷ and is seen to think in terms of giving better access to East's products in the West's markets, making it easier for Western firms

to invest in the East, encouraging joint ventures, collaborating in scientific research, and helping to train East's managers in the West to run factories. Already, it has promised in its trade treaties, with Hungary and Poland, to end all quotas on manufactured imports into the Community by 1995. Also there is evidence that the Community would reward East Europeans who are trying to be more capitalists and democrats with more attractive treaties than with their retrograde neighbours. For instance, in the agreement with Poland, the Community has broken further ground by lowering customs duties on Polish farm exports. Promises of more attractive agreements with Hungary and Romania are also there. In short, the Community offers to extend trade pacts to East Europe with alacrity.⁸

Suppose things go as well in the next three or four years. Both Poland and Hungary, already ahead in reforms, move over to capitalist democracy more or less smoothly. Czechoslovakia and Romania follow them. Yugoslavia is already close to a market economy. Bulgaria does whatever Russia does; and the latter might have loosened its grip over 70 per cent of the economy. Albania remains a blur in the corner of

everybody's eye. By 1993, even on fairly cautious estimates, the destabilisation in Europe will be considerable—the old order of post-1945 stability will have been broken at the heart of the region.

For the sake of argument, one can also perceive that political consideration will be uppermost in the West's attitude towards the East, i.e. West's Eastern neighbours could get more favourable treatment than producers elsewhere. It seems then most likely that the European Community will grant Generalised System of Preferences (GSP) to a wide variety of East European goods in order to soften the impact of the Community's common external tariff as well as abolishing quantitative restrictions on imports. This could mean significant access for East European products ranging from agricultural products to textiles, and manufactures in the markets of the West's. On similar grounds, one can expect European Free Trade Area (EFTA) to provide wider access to the East's products. Given this endless web of temptation, one can expect the COMECON—the post-war economic co-operation among the socialist countries—to disintegrate, and the countries on an individual basis to divert their trade.⁹

FIGURE 3.3(A): GDR EXPORT WITH EAST AND SOUTH
(Per cent in total GDR export)

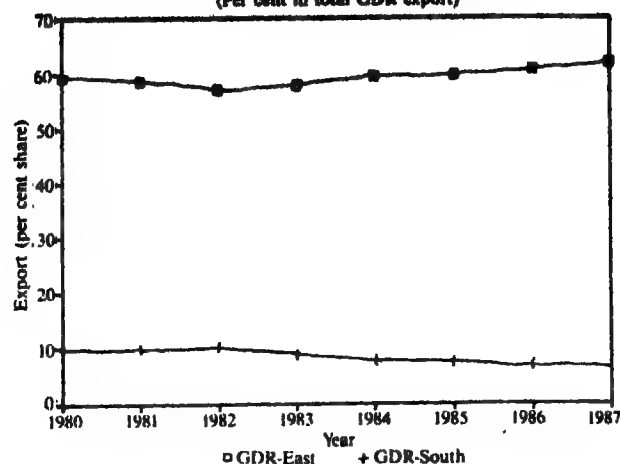


FIGURE 3.3(B): GDR IMPORT WITH EAST AND SOUTH
(Per cent in total GDR import)

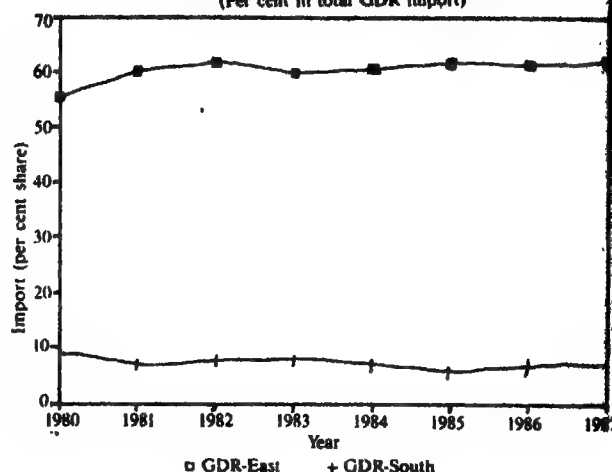


FIGURE 3.4(A): HUNGARY EXPORT WITH EAST AND SOUTH
(Per cent in total Hungary export)

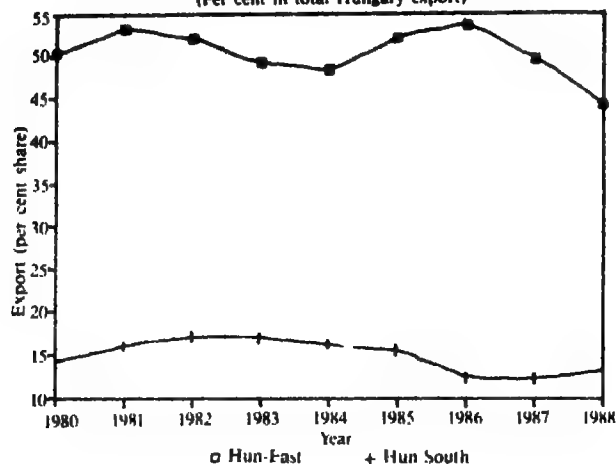
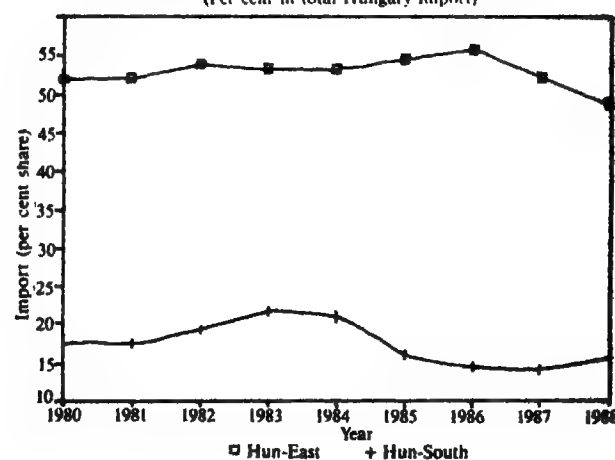


FIGURE 3.4(B): HUNGARY IMPORT WITH EAST AND SOUTH
(Per cent in total Hungary import)



III

Ramifications for Developing Countries

A convenient starting point is to look at how big East's trade is in the global context and how that compares with the positions of the developing and the developed countries respectively. To provide this perspective, an effort has been made to place the distributive shares of the three groups—the centrally planned economies of the East, the developing countries of the South, and the developed market economies of the North—in the world totals of exports and imports. This is shown in Figures 1 A and 1 B. Two observations can be made from the data contained in the figure. First, the East's trade has not yet reached a sufficient size to have quantitatively sufficient impact upon the North's trade. But, it seems clear for the same reason that its trade can become sufficiently large to destabilise South's trade. Second, for a long time until now, East has remained only on the sideline, while the North and the South have been the main frontliners in the world trade. In fact, the former's share altered very little in the course

of the past 18-year period, and the changes whatsoever have occurred, are seen to have affected the latter two who had varying fortunes.

Is there something qualitatively different about East's trade—say about its trading ties as compared to trade flows of the South and North? Alternatively, does the direction of trade matter? To gauge this, we present in Table 1 the distribution of each region's exports between intra- and inter-regional destinations. The data applies to 1980, 1985 and 1987. Reading across the rows, and down the columns, the table gives an insight into an important aspect of trading ties, namely, the intra-regional trade versus the inter-regional trade. The table discloses, for instance, that a significant proportion of the East's trade is within its own region. The share was 51 per cent in 1980, and climbed up to 58 per cent in 1987. Compensating this gain in intra-trade is the loss in its inter-regional trade, especially in the trade with the North, where the latter's share in the former's exports dropped from 31 to 21 per cent. Contrastingly, the South has very weak trading ties with its own region. Most of its ties are with the North. For instance, in 1987,

the North's share alone in the South's exports was 66 per cent. The South as a whole has also weak trading ties with the East; the former's share in the latter's market was less than 5 per cent.¹⁰ Like the East, the North has again strong trading ties within its own region. Almost 80 per cent of the North's exports in 1987 were within its own region and a major proportion of the balance amount went to South with the East remaining only at the margin.

The years 1980, 1985 and 1987 in the preceding analysis were selected for reasons of statistical convenience, and not to represent any historical watershed. However, if one wants to know whether the reforms following the Gorbachev revolution had any perceived effects upon this trade pattern, it would be intelligible to update this data to a year of latest vintage. To bring this precision in our analysis we updated the data to 1989 and part of 1990 and then drew up the directional effect on trade. What emerges unmistakably is the tendency—an oblique indication—for a relative decline in intra-East trade vis-a-vis inter-regional trade.¹ Beginning from mid-eighties, the intra-East trade is in the process of waning, and the

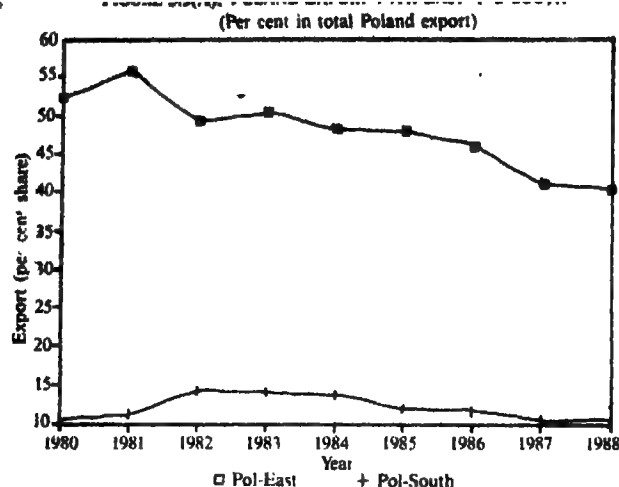


FIGURE 3.6(A). ROMANIA EXPORT WITH EAST AND SOUTH
(Per cent in total Poland export)

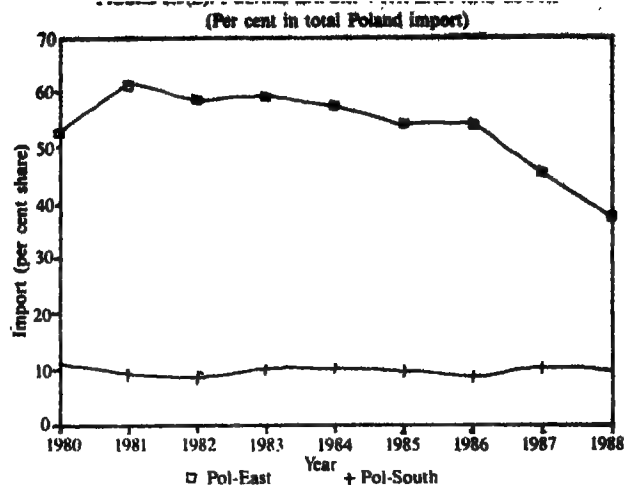
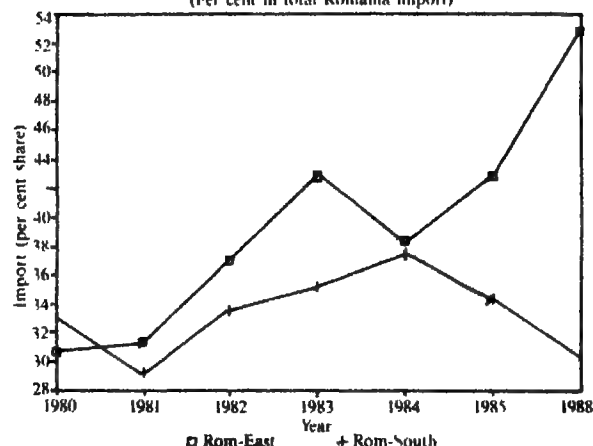
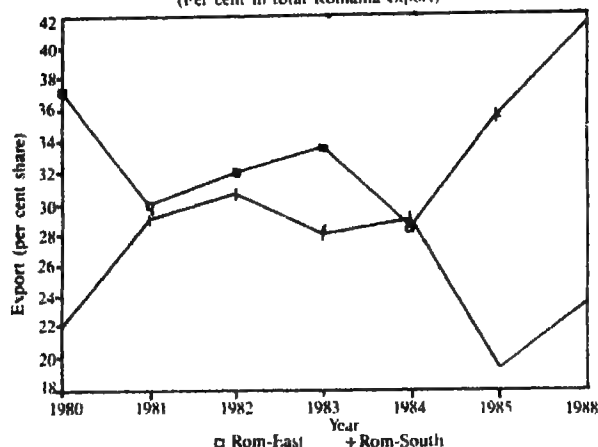


FIGURE 3.6(B). ROMANIA IMPORT WITH EAST AND SOUTH
(Per cent in total Romania import)



inter-regional trade is going up. It is also likely that the kind of market shifts implied in these figures are not likely to be reversed; and instead, the current economic restructuring can be expected to further accelerate this process.

While the data presented above pertain to aggregates, they suggest the desirability of a further analysis aimed at identifying both the products and the countries primarily responsible for bringing these changes. More specifically, we ask: which are the commodities presently undergoing (or not undergoing) this redirection? Have all the countries of the East partaken of this change? We take these questions sequentially.

In Table 2 we have displayed the commodity composition of exports originating from each region and flowing to different destinations under ten commodity headings. The table reveals that intra-East trade is mainly concentrated in four commodity groups, viz, machinery and transport equipment, manufactured goods, mineral fuels, and textiles. For machinery and transport equipment, the proportion is as high as 73 per cent. In textiles, more than half of the East's exports are destined to its own region.

Almost the same story can be repeated for the two other items mineral fuels and manufactured goods. The items which frequent in inter-regional trade are non-ferrous metals, iron and steel, chemicals, agricultural raw materials, and food items. All of these items show declining trends in intra-trade and rising trends in inter-regional trade. The two striking cases are those of non-ferrous metals, and iron and steel which show increasing shifts from intra-East trade to inter-regional trade. Now if we try to posit this pattern of the East with the revealed patterns of South, one could make two casual observations:

(a) The East appears to be pushing down the South's trade not only in the markets of the North, but also in the South's own markets. Signs of this happening can be seen from the experiences in commodities like iron and steel, and non-ferrous metals. In the former, the East's export share in the South increased from 13 to 21 per cent between 1980 and 1987, while the South's share in its own market declined from 49 to 34 per cent. In the latter case, the South's share in the North's market declined from 77 to 68 per cent and that of the East climbed from 50 to 66 per cent.

In machinery and transport equipment, and textiles also the East's share in the South increased, while intra-South trade in these products tended to decline.

(b) Any further redirection of the East's trade will certainly be at the cost of disturbing her present intra-trade which is predominated by textile, machinery and transport equipment, mineral fuels and manufactured goods. The continuing influx of these exports from the east is likely to cut the South's opportunities further because these are the items in which the South has gained comparative advantage in recent years.

It is idle to pretend that all the countries of the East have contributed to this change. The countrywise experiences, displayed in Figures 3.1 to 3.7 tell a different story. The experiences of Hungary, Poland, and to some extent Soviet Russia are seen to be quite different from the rest. All the three indicate trends of diversion of trade from intra- to inter-regional destinations after 1986. Hungary, for instance, is seen sending only declining proportion of its exports to other countries of the East after 1986. For Poland, it dates from the early 1980s and for Soviet Russia, it starts from 1986. On the

FIGURE 37(A) USSR EXPORT WITH EAST AND SOUTH
(Per cent in total USSR export)

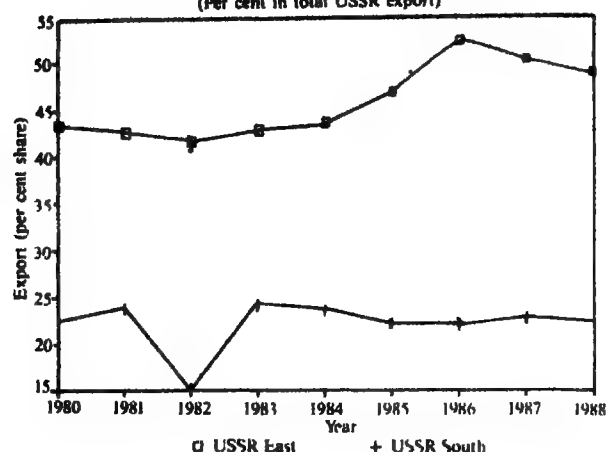
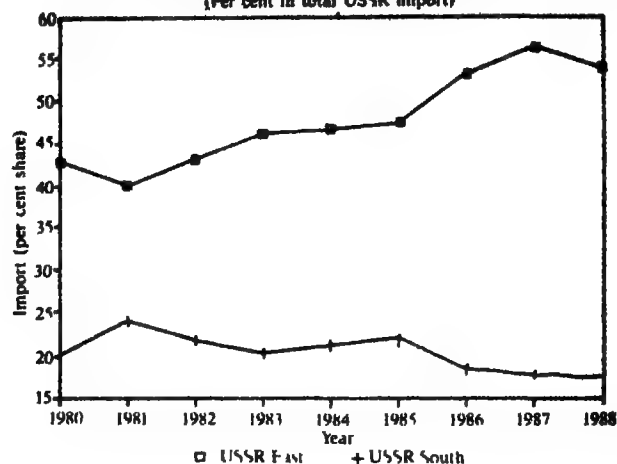


FIGURE 37(B) USSR EXPORT WITH EAST AND SOUTH
(Per cent in total USSR import)



Data source UN, *Monthly Bulletin of Statistics*, various issues

other hand, Romania, East Germany, Bulgaria and Czechoslovakia have been sending an increasing proportion of their exports to the region. East Germany sells 80 per cent of her exports to other countries of the East. For Bulgaria and Czechoslovakia, this proportion is again as high as 75 to 80 per cent.

The countrywise picture educates us in another way—it sheds light on the intensity of each country's trade with the South. The general picture emerging from the figures is an overall decline in their trade with the South. There are, of course, some notable differences. Poland, for instance, has been receiving a steady flow of imports from the South. One can recite almost the same story for Soviet Russia. East Germany provides a different experience—the South's share in both exports and imports has remained steady without any major change.

Before concluding this general review of the structure and pattern of East's trade, two further points will be briefly touched upon. The first is about the historical trends in the foreign trade—exports and imports. This is illustrated in Table 3 which gives the annual growth rate in the value of their aggregate exports and imports for individual countries of the East as well as for all the three regions separately. What can be seen is the relative slow-down in the 1980s as compared to the 1970s, in all the countries of the East trade accelerated during the seventies and slowed down in the eighties.

The second point concerns the distribution of East-South trade across different geographical regions of the South—Africa, Latin America, Asia and Europe. Table 4 gives these details. The gross impression conveyed by the table is that the Asian region constitutes the single-largest market for the East in the South, if one ignores Cuba.

To sum up, the analysis tends to confirm much of what has already been suspected. There is a structural shift in the pattern of the East's trade, at least from the beginning of the mid-eighties. A decreasing share of

its goods are now being exchanged within the region, while an increasing share is shipped to markets abroad. This redirection of trade has already begun to flush out the South not only in the markets of the North but also in the markets of its own region.

FUTURE PERSPECTIVE

Taking this as *prima facie* evidence, we can also predict that with the present transformation in the East, this shift can presumably be expected to gather further momentum. The developments in the next few months would indicate when this phase would arrive finally. But then one can witness the curious spectacle of the East groping for markets abroad. This brings us to the last and final phase of our enquiry—how would the East's integration with the world economy shape the South's trade in the years to come? The facts suggest that in such an event, a substantial proportion of the South's exports would face difficult adjustment problems. We have two clues which tend to reinforce this conclusion.

The first relates to the kind of products which will be diverted from the East's markets to markets abroad. There are already some clear expectations on this. The intra-East trade is concentrated in four product groups: mineral fuels, textiles, manufactured goods, and machinery and transport equipment. With the disintegration of this group, it is obvious that these will be product groups which will be shipped to the world market. Needless to say, the developing countries' exports are also concentrated in these four groups.

The second clue to our problem is one of a more systematic way of finding out the similarities between the structure of intra-East export and the export structure of developing countries. Table 5 contains our results of these similarities/dissimilarities where we have tested homogeneity of distributions¹² between exports of alternative pairs of groups: intra east vis a vis the

South, intra East vis a vis the North, etc. Though the statistical test of significance does not clearly confirm our hunch, there is some definite evidence of export matching between intra-East and the South. Contrastingly, the evidence in the intra-East-North comparison yields increasing dissimilarity.

A highlight of the result is that for both 1980 and 1986, export flows from the East to the South were as similar as the flow within the East. On the other hand, intra-

TABLE 5. COMPETITIVENESS BETWEEN INTRA-EAST TRADE AND TRADE FLOWS IN ALTERNATIVE DIRECTION
(Chi square results for test of homogeneity of two distributions)

| Intra-East Trade Vs | Calculated Value of Chi Square | |
|---------------------|--------------------------------|-------|
| | 1980 | 1986 |
| 1 South World | 348.9 | 71.0 |
| 2 North World | 37.7 | 120.1 |
| 3 East North | 178.2 | 143.9 |
| 4 East E/C | 276.6 | 153.0 |
| 5 East South | 14.7 | 15.3 |
| 6 North South | 126.5 | 285.3 |
| 7 South South | 162.1 | 63.67 |
| 8 South North | 508.2 | 80.5 |
| 9 North North | 27.2 | 103.7 |

Notes: (1) Chi square statistic is computed by using data on 10 categories of exports (1/2 digit SITC level). In case the calculated value of Chi square is less than tabled value, the hypothesis that 'there is no difference in the distributions of exports of intra-East and other regional groups' is accepted. It should be noted that the results are only suggestive. For details about the test see Yule, G. and M. G. Kendall, *An Introduction to the Theory of Statistics* (Griffin, London, 1977).

(2) Tabulated value of Chi-square (9 d.f.) for 1 per cent level of significance is 21.7.

East-North or East-EEC. The corollary of this could be that Eastern Europe may try to increase its exports to the South if its intra-trade finds outside markets. Supposing the South becomes the target-market for the East, it is the South-South trade which will be adversely affected, and not the flows from the North to the South. The Chi-square estimates presented in the table bring out that the export structures of intra-East flows and intra-South flows tended to become more competitive over the years, while that of intra-East and North-South grew more dissimilar. It then appears that South-South trade is going to face more hurdles in the coming years than before.

The South, however, cannot become a sole market for the East because the latter would have to depend on the North as well for technology and hard currency earnings. In that case again, the South would have to compete with the East in the Northern market. The export structure of intra-East flows turned out to be more competitive over a few years to the export flows from the South to the North, while intra-North trade flows and intra-East flows tended to grow more dissimilar.

Going by these tentative estimates, the tendencies are thus towards more of a competition between Eastern Europe and the South, rather than between the East and North. The South may stand to lose both its own market and in the markets of the North.

IV

Conclusion

Countries of the poor and developing South have been hoping against hope that the 1990s would not turn out, like that of the 1980s, to be a lost decade. But viewed against the backdrop of changes in the political environment in the past couple of months, they can no longer afford to draw comfort. Teetering already they can expect to encounter further problems in expanding their trade. In their own region, the continuing influx of exports from the East block pose a threat. They will encounter problems in penetrating the preferred markets of Europe after the integration there. Across the Atlantic, the supposedly greatest champion of free trade is using its muscles to doze the poor developing countries of Africa and Latin America in the international trading arena. On top of this, it is embarking on a free trade agreement with Canada which will one day be another dress. And, in a tussle between the two presses, the developing world will be caught to its knees as a supplicant for petty favours.

Notes

The authors thank Pranab Bardhan for a useful discussion on the subject. An earlier version of the paper was presented at a workshop

| | Imports from USSR (Per Cent of Imports from World) | | Exports to USSR (Per Cent of Exports to World) | |
|----------------|---|------|---|------|
| | 1988 | 1989 | 1988 | 1989 |
| Bulgaria | 53 | 55 | 90 | 66 |
| Czechoslovakia | 41 | 38 | 81 | 39 |
| CIDR | 40 | 22 | 69 | 25 |
| | (1987) | | | |
| Hungary | 25 | 23 | 78 | 26 |
| Poland | 23 | 21 | 73 | 24 |
| Romania | na | 26 | 68 | 22 |

Source: Based on UN, *Monthly Bulletin of Statistics*, and *The Economist*, August 11-17, 1990.

on 'Open Economy Macroeconomics' at Gokhale Institute of Politics and Economics, Pune.]

1 See for instance, Friedlander, M (ed), *Foreign Trade in East Europe and the Soviet Union*, Westview Press, London, 1990, for an account of the present crisis.

2 See Summers, R and A Heston, 'A New Set of International Comparisons of Real Product and Prices for 130 Countries, 1950-85', *Review of Income and Wealth*, Vol 34 (1), March 1988, for the comparison of real per capita income of East European countries with other countries.

3 For details see Trzeciakowski, Witold, 'Reform, Restructuring, Indebtedness', *Eastern European Economics*, Spring 1989.

4 Mihalyi, P, 'Cycles or Shocks: East European Investments, 1950-85', *Economics of Planning*, Vol 22 (1 and 2), 1988

5 For details see World Bank, *World Debt Tables*, 1989-90; and Narayanswamy, R, 'Soviet and East European Indebtedness', *Economic and Political Weekly*, January 6, 1990.

6 See for details *Economist*, 'Privatisation in Poland and Hungary', August 26-September 3, 1989; and *European Economy*, No 43, March 1990, among others.

7 See for instance, *The Economist*, 'The EEC and Eastern Europe', August 5, 1990; and *SUNS*, 'EEC Ministers Pledge More Assistance', No 2311, February 7, 1990.

8 See *SUNS*, 'Eastern Europe: EEC Drive to Strengthen Links', No 2293, January 12, 1990; and *South*, 'The Big Switch', April 1990.

9 See *Economist*, 'Welcome to This Cruel and Competitive World', August 11, 1990; and *Financial Times*, 'COMECON Divided on Move to Free Market', January 11, 1990

10 Also see Lavigne, M, 'East-South Trade: Trends, Partners, Commodity Composition, Balances' in M Lavigne (ed), *East-South Relations in the World Economy*, Westview Press, London, 1988.

11 Refer Figures 2A and 2B for trends from 1980-88. The decline in intra-East trade continued in 1989 and the current year. For instance, trade with USSR, a major trading partner, of all the COMECON countries dipped in 1989 as compared to 1988 (see Table A). The first half of this year also

showed a decline in exports, for instance, of Hungary to the Soviet Union further by 29 per cent.

12 The test of homogeneity was conducted by Chi-square statistics for the hypothesis that there is no difference in the distribution of intra-East exports and intra-South and South-North exports. For details about the test. See Yule, G U and Kendall, M G, *An Introduction to the Theory of Statistics*, Griffin, London, 1977.

When human conflicts are divorced from ethical considerations, the road can only lead to the use of the Atom Bomb.

—Gandhiji

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Sociology in India

A View from Within

Meenakshi Thapan

Informed largely by the work of the French sociologist, Pierre Bourdieu, this article attempts to identify and analyse the 'field' of sociology in India. It traces the development of sociology as a discipline and then its institutionalisation in the Indian context. Against this background are set out some of the various divisions, struggles, and relationships that constitute the field of sociology.

In order to identify and analyse the field of sociology in India, it is first necessary to define both my use of the term field in a specific sense and of sociology as it has been conceived and practised in India.¹ But first, let me state that my interest in this subject grew out of a wider concern with field work, both as it is conducted and written about.² As sociologists or anthropologists we do field work on 'the other', an entity, being, or situation somewhat separate from ourselves as professional sociologists. My interest lies in turning the sociological gaze inwards, or more appropriately, on ourselves as practitioners of a particular discipline in which we have been trained. The question arises as to whether it is in fact possible to turn this gaze, so used to looking outside at the other, inwards to look at ourselves? Can we apply the same norms and principles of method to look at ourselves as we do, so critically and analytically, with 'the other'?³ This sociological self of course also includes the author who is in fact attempting to turn the sociological gaze not only upon 'other' practitioners of the discipline but also on herself as a member of the community of sociologists. This is by no means an easy task for it may yet be simple to examine sociologists as 'the other' but far more difficult to understand sociologists and sociology in India with oneself as an integral part of both the object of study as well as in the role of the observer. Bourdieu of course, argues that for the development of a 'genuine social science' what is required is *participant objectivation* in which the researcher "reflexively situates his or her own position in relation to the study" [1989a]. This is considered an essential prerequisite for a truly reflexive sociology.

The 'discipline' of sociology in India is one aspect of my analysis, i.e., an attempt will be made to briefly examine the historical development of the discipline as well as its substantive content. I would however like to distinguish sociology as a 'discipline' from sociology as a 'field'.⁴ This necessitates an explanation of the term field as it is being used in this paper. "Field", as Bourdieu uses it, in particular, the "intellectual field" (since this is our concern) is "like a magnetic field, made up of a system of power lines. In other words, the constituting agents or system of agents may be described as so many forces which by their existence, opposition or combination, determine its specific structure at a given moment in time" [Bourdieu 1969:39]. Later, however, Bourdieu conceded that it was necessary to go beyond this particular

construction which viewed the intellectual field "as a relatively autonomous universe of specific relations" [Bourdieu nd:77]. The field in fact does exist in relation to other fields in social space, most notably to that of power (i.e., economic and political power). In other words, relations within it are constituted by relations within the field of power.

Next an important consideration is the place of sociology as a discipline within the intellectual field viz., its relation to other social sciences or to the 'pure' or natural sciences. It is quite clear that sociology in India does not have an autonomous existence and is closely linked to religion, or economics and politics for example, that influence both its substantive content and method. It is thus important to locate sociology in its intellectual moorings in relation to other disciplines in order to establish the influences that prevail both on the discipline and on the field. The most important concern nonetheless, remains the field itself: the relations that obtain in it, the positions occupied in it by institutions, agents, participants or the practitioners of the field, the struggles for positions and for the reproduction or transformation of the capital which is specific to the field.⁵ The possession of this capital, in varying degrees or forms in fact endows with power the participants depending on their position in the field. The 'habitus' of the practitioners, i.e., the system of dispositions they have acquired by internalising a determinate type of social and economic condition and which find in a definite trajectory within the field under consideration a more or less favourable opportunity to become actualised" [Bourdieu 1989b:32] and the more specific trajectories indicate to us the essential character of the field that is reflected or manifested in the social space of the relations, struggles, varied positions and 'position takings' in the field.⁶

There are then several concerns or many strands of concern that are reflected in this paper to define sociology as a discipline and as a field to trace the development of the discipline and the broad rubric of its content and method and to undertake an analysis of the field itself in terms of the practitioners of the discipline who both constitute and reproduce or transform the field.⁷

SOCIOLOGY AS A DISCIPLINE

In order to understand sociology as a discipline in India, we first need to clarify

whether we are referring to sociology or social anthropology as both have been used almost synonymously in India. Beteille [1974] suggests that there is in fact no clarity in the conception or in the usage of sociology and social anthropology in India.⁸ It is therefore not possible to formulate neat definitions and following Beteille, I would argue that both disciplines "have the same approach to the study of social life, that their methods are similar, but that they have developed different techniques of investigation and analysis" [Beteille 1974:9]. He suggests that the most common difference in techniques is probably that between intensive fieldwork and survey investigation. An analysis of what constitutes sociological and social anthropological research in India does not, however, suggest great discrepancies, either in terms of interest or in terms of approach, as we will be obvious when we discuss the content of sociology as a discipline. I therefore, find it difficult to accept Guha's rather simplistic assertion regarding the separate concerns of sociology and social anthropology, the former reflecting an interest in 'macro', the latter in 'micro' processes, or in conflict and social order respectively. Even more superficial is his illustration of these differences with reference to two works by Srinivas without explaining the basis or the method, by which he does so [see Ramachandra Guha 1989:344-345].

Both sociology and social anthropology were established in India as a result of the colonial encounter with Britain. This affected the manner in which the disciplines were institutionalised with separate departments being established for both and the manner in which research was sought to be conducted and the disciplines taught. More significantly it points to the extent of the influence of the political field on the intellectual field in India.

It was as a colony of the British in the nineteenth and twentieth centuries that we can trace the beginnings of an interest in sociology as a discipline and its institutionalisation in India. The manner in which the discipline took root in the colonial context is reflected in two events: an increase in a kind of social and cultural activity or sociological reflection, as it were, that could be considered intellectual activity of a sort and the institutionalisation of the discipline in different universities across India. Of course this process was accelerated in the period after 1947.⁹

From all accounts, it would appear that

general sense was established in Bengal in the eighteenth and nineteenth centuries. The political field of colonial bureaucracy influenced the development of the intellectual field in two ways. On the one hand it influenced the establishment of certain social and cultural societies for the benefit of intellectual activity. For example, in Calcutta, Sir William Jones founded the Asiatic Society of Bengal in 1784. History, science and art were the major themes of interest. In 1828, the Academic Association was started by Henry Derozio in Calcutta with several active Indian members and functioned mainly as a debating club. Another short lived club but with wide ranging interests was established in 1838 again in Calcutta. The interests and activities of this club—the Society for the Acquisition of General Knowledge—covered history, geography, language, and social conditions. In 1839, the *Tatwa Bodhini Sabha* started in Calcutta to discuss social conditions and problems and also to question certain established customs and institutions. While the British certainly aided in the establishment of several of these societies in Calcutta, the efforts of some Indians at the time need to be specified. The most notable of these was Raja Rammohun Roy (1777-1833), social reformer and founder of the Brahmo Samaj. In fact Dube has suggested that Rammohun Roy's views on religion, caste, position of women, etc., were to characterise much of Indian sociology later on [see Dube 1977 for more details]. Similarly, other active societies and institutions were established in other cities in India.¹⁰

Dube has chronicled the development of sociology through some of these institutions. For example, the Oudh Scientific Society of Lucknow which was concerned with 'social problems' had a paper on the 'sociology of India' presented before it by one Syed Shurafuddin Mohtashim, specifically, in 1869, the Society for Sociological Studies was established in Jaipur. The most important institution concerned with social science was the Bengal Social Science Association (1867-1876) which was dedicated "to the promotion of social science in the Presidency of Bengal" [Dube 1977: 7]. Papers presented before this association reflected a 'deep social concern' and were essentially concerned with reforming and 'energising' India [Dube 1977: 7].

On the other hand, the colonial bureaucracy contributed inadvertently to the further development of sociology through its requirements for purposes of administration. That is, British officials realised the importance of an adequate knowledge of Indian culture and social life to an efficient functioning of India. In 1769, Henry Verelst, the governor of Bengal and Bihar realised the need for collecting information on the "leading families and their customs" and issued directives to his officials [Srinivas and Panini 1973: 181]. Subsequently, many British officials and also missionaries undertook this task (for example, Abbe Dubois,

Hindu Manners and Customs was published in 1816). In 1871, the first all-India census was undertaken by the British government which has subsequently become an important source of information for social and cultural analysis. Srinivas and Panini however also suggest that the census also became an 'instrument of social policy' [Srinivas and Panini 1973: 181]. For example, distinguishing between different castes resulted in a certain 'self awareness' and competition to claim higher caste positions. The practice of recording data on the basis of caste was discontinued except for certain categories in 1951 [Srinivas and Panini 1973: 181]. In 1901 the Ethnographic Survey of India was established and collected a mass of crude social data. It has however been suggested that neither of the two agencies for various reasons, were the 'perfect agencies' for the collection of data [Dube 1977: 7].

Clearly then, while the British did succeed in launching, as it were, an interest in the collection and analysis of data, of whatever kind, it was not without a suggestion of their own position as the rulers gathering information on the 'natives' perhaps in order to categorise them better for purposes of administration but in effect of rule. The field of power is thus very closely linked to the creation and establishment of the contemporary intellectual field in India. This is also evident in the overall education system that colonial bureaucracy sought to impose on India.¹¹

INSTITUTIONALISATION OF THE DISCIPLINE

The next important question is when does sociology then become sociology as a discipline? This may be analysed by tracing the growth of institutions for the teaching of sociology and social anthropology in India, the establishment of professional journals, as well as through contributions to the discipline over a period of time.¹²

It is clear that the first university department of sociology was started at Bombay (as the School of Economics and Sociology) in 1919 but prior to that, sociology was being offered as a course or part of a course in different departments in the country. The first known university to start teaching sociology as part of a course was Mysore University in 1917/18 soon after the assumption of headship by A. R. Wadia [Parvatham 1972: 61]. In 1917, sociology was introduced in the Post Graduate Council of Arts and Sciences and in 1921, a department of anthropology was established at Calcutta University. In 1919, as already stated, Bombay University started what is considered the first department of sociology with Patrick Geddes as the first occupant of the chair of sociology. In 1921, a combined department of economics and sociology was started under the headship of Radhakamal Mukherjee at Lucknow. He was joined in 1922 by D. F. Mukherjee and in 1928 by D. N. Majumdar. Clearly, the close

links with other disciplines—biology, economics, are self-evident in the early institutionalisation of sociology in India.¹³ Moreover, the agents, or practitioners, responsible for the different institutions belonged to other disciplines and had varying interests, not limited to sociology alone. Thus, Wadia was essentially a philosopher, Geddes a biologist, human geographer and town-planner, R. K. Mukherjee was an economist with an interest in ecology and social work, and so on. These varied interests, one would have thought, would surely have contributed to the growth of sociology in many different directions. While this may have been so in the beginning, in the work of particular sociologists, we find that in later years, sociology in India was channelled into three or four major avenues which were not without a form of social hierarchy in terms of the kind of status that came to be associated with each of them.

Sociology in India has thus been characterised by different approaches and methods—all of which reflect underlying theoretical and ideological convictions. There is also the important influence of western interest in India as an object of study. This suggests the interplay of different fields and proves beyond doubt that in terms of content at least sociology does not constitute an autonomous field in India. The content of sociology in India is thus not specifically limited to a particular area or discipline nor to a single approach.

If we view sociology and social anthropology coterminously, then the Indological approach has dominated sociological study in India especially in the early development of the discipline evident, for example, in the works of G. S. Ghurye and J. Karve. It is important to point out, however, that both tradition and problems of modernity interested Ghurye unlike Karve who was a more strict adherent of the Indological method. D. P. Mukherjee is another exception who maintained an interest in the study of tradition and yet, perhaps due to his Marxist leanings, concerned himself with problems of social change.

The Indological method was later developed by Dumont and Pocock in their programmatic statement when they launched the journal *Contributions to Indian Sociology* (CIS) in 1957. Such an approach, exemplified in the works of Ghurye and Karve, and later in that of Dumont and also in the pages of CIS, essentially reflects a concern with Indian tradition. This approach is linked to the past and is therefore supportive of a world view that examines India as it was rather than as it is today. It is also an approach that has many takers in the west evident in the number of articles published in CIS by western scholars culminating in a recent issue on 'An Ethnosociology of India' which recommends a specifically Indian (read Hindu) sociological way of looking at culture [see CIS 1989, Vol. 23, No. 1]. India, the esoteric, exotic and even erotic has not ceased to be a marketable

commodity in the west. It has, therefore, remained an attractive and popular object of study for Indian scholars and Indianists abroad who subscribe to a particular approach. This approach, however, can also unwittingly lead to the glorification of the Indian (mainly Hindu) tradition to the neglect of other traditions as well as of contemporary sociological problems for research.¹⁴

Scholars such as R K Mukherjee used a more inter-disciplinary approach for the study of Indian society and especially advocated the use of economics and ecology in understanding different aspects of the social reality. Such an approach is an outcome of Mukherjee's concern for the underprivileged reflected in his pursuit of social work among the underprivileged sections of society in Calcutta and elsewhere.¹⁵ The interventionist role of the sociologist was recommended by D N Majumdar as far back as 1956 [see Madan 1982: 19-20] and such an approach has formed a second stream in the history of Indian sociology.

There have been several studies on different aspects of Indian society related to, for example, the agrarian structure, urbanisation, institutions, industrial relations, education and so on. In terms of publication in professional journals, however, such problems have been largely discussed in *Sociological Bulletin*¹⁶ and the *Economic and Political Weekly* rather than *CIS* which has had a different image by its association with Dumont and his kind of sociology. This is a telling comment on the nature of the field itself, divided as it has been in terms of different orientations and relations emanating from these orientations. Of course, one approach is often considered intellectually superior to another in the order of things and this inevitably affects relations among the practitioners of different approaches as well as the student fraternity.

Another approach, dominated by the early works of M N Srinivas, has been concerned with different aspects of village life and falls under the rubric of 'village studies' in general. Such studies have been influenced largely by the fieldwork tradition (in terms of method) and produced monographs on different aspects of village life (for example, those of Srinivas [1952b]; Beteille [1965]; Madan [1965]; Srinivas [1976]; among others). Village studies have constituted a significant area of research in Indian sociology largely because of the emphasis on field work and on the sociologist studying his own society.

There has nonetheless been an unfortunate tendency towards neglecting contemporary urban and modern India as a domain of inquiry. Thus traditional and village India has remained a more popular and somewhat exalted area of study than modern India, encouraged and abetted by a particular worldview of Indian society. This is also true of particular institutions (university departments of sociology) which emphasise certain approaches and areas of interest.¹⁷

Finally, there has been the work of Indian

scholars on other cultures, societies and thinkers. Although such work has been rare (for example, Uberoi [1984], among others), it has not succeeded in generating any particular interest in the discipline as a whole. One reason for this is that some professional journals in India, such as *CIS*, do not lend themselves to the publication of such work. This makes the plea for the indigenisation of the social sciences [see, for example, Madan 1966, 1979] a hollow one. Is indigenisation to be viewed only as work in the field of India as the object of study from Indian perspectives or points of view? Does this further imply that the work of Indian scholars on other cultures or their participation in theoretical debates taking place in other cultures is not to be viewed as making a significant contribution to Indian sociology? Another moot question is why is it that such work has not received favourable attention in the field of sociology in India. A major reason is that western interest in India as an object of study has resulted in its great popularity among Indian scholars. Another reason is the view that the study of one's own society is a somewhat easier proposition than that of another culture in terms of not having to learn a foreign language, familiarity with one's own culture, and so on.¹⁸

Western theoretical approaches and methods have nonetheless always had a certain respectability in Indian sociology notwithstanding attempts at indigenisation or intellectual *swaraj* (by, for example, Uberoi [1968], Uberoi [1974]). Of late, recent trends in structuralism, post-structuralism, the sociology of science, medical sociology, feminist work, and other innovative theoretical paradigms that have found popularity in the west have increasingly penetrated the research problematic in Indian sociology. This is especially true of particular institutions that have, over time, acquired the reputation of being 'elite' centres of Indian sociology. The interest in western paradigms is however a result of a greater awareness of recent developments in western thought and of a view that gives priority to the inclusion and use of such approaches and methods over developing indigenous ones. Moreover, an interest in such work bestows the sociologist with capital symbolic of a certain status emanating from the west but located in what s/he considers an increasingly modern, intellectually developed and 'aware' Indian sociology. It also lays greater emphasis on the development and refinement of ideas as opposed to the analysis of material emerging from fieldwork. This can result, in the foreseeable future, in the possible death of the fieldwork tradition emphasised by Srinivas and developed and perfected to a fine art by other senior practitioners of the discipline. This is bound to result in a major change in Indian sociology as it has been practised and developed so far.

For all the variety of approaches and methods that constitute Indian sociology, it has nonetheless remained a largely 'soft'

discipline, partaking neither in social change at a practical, societal level nor in contributing in any depth to theoretical developments in the discipline as a whole. If it is anything that Indian sociology is renowned for, it is for the study of Indian tradition popularised largely by the interest of western scholars. Indian sociology has not yet made the kind of contribution to the discipline as a whole as, for example, Indian history has.¹⁹ There is space, therefore, for Indian sociology to come into its own as an autonomous discipline in the intellectual field in India. Until it does so, it remains a limited sociology dominated by, and dependent on, other disciplines and other fields in terms of both its substantive content as well as in its method.

'FIELD' OF SOCIOLOGY

The most significant and unexplored aspect of sociology in India is the 'field' itself—considering the importance of the individual sociologist in establishing and developing particular departments, in attracting students, in contributing to the discipline, in constructing an image of both the discipline and its future potential, in effect, as an effective instrument for the making of sociology in India. Who are these individuals and what are they made of? What positions do they occupy? How do the different forms of capital they thus come to acquire affect the nature of the relations amongst themselves? What constitutes power in the field and how is it bestowed on the individual sociologist or on a particular institution? How does sociology as a discipline in India define relations in the field and contrarily, how do these relations play a role in constructing different kinds of sociologies in India? These are only a few of the important questions to answer which we need rich and detailed material on individual sociologists and their trajectories.²⁰ A more complete understanding of the 'field' of sociology in India can therefore be attempted when we have this material. This paper seeks only to lay the grounds for establishing the presence of the 'field' of sociology in India in the most general terms.

To begin with, the field in India is perhaps currently defined by the most important institutions within the university field where the discipline is practised. These are those that are bestowed with power in terms of the capital,²¹ of the individual sociologists located in them as well as of the research output of the university department concerned and its national and/or international renown. Students at these departments are also assessed and they are viewed either as contributing to or reducing the academic and scientific capital the institution may acquire or already possess. These institutions are the repositories of power in the field of sociology in India and sociologists associated with them contribute both to the trends in sociology as well as to the further accumulation of capital thereby reproducing the already existing capital. This is done through several different avenues. At the

public level, for example, the limits of what is considered thinkable or knowable in sociology is determined by such university departments through the medium of syllabus construction and reconstruction. At another level, sociologists reproduce their 'academic power' through mainly two avenues: their writings and their students. Thus, publishing in a professional journal or with a prestigious publisher in India or abroad leads to the acquisition of a certain capital and intellectual renown. Recent trends indicate that if one publishes in more popular journals such as *The Illustrated Weekly of India* or national dailies, for example, *The Times of India*, one reaches out to a wider audience and thereby acquires greater renown in both academic and non-academic circles.²¹ This is further accentuated if one comments on political affairs, current events, or environmental issues and other currently popular affairs. At the same time, one is reproducing the capital one has acquired through the institution to which one is affiliated. This is evident in one's writings through the opinions expressed or the underlying ideological position, and quite simply, in the status one has acquired by virtue of association with a particular university department or institution.

Reproduction of the sociologist's academic capital through students is a more ingenious affair and probably not very different from what is the practice in other societies. The main point is to involve students in one's current area of interest as well as research. It certainly helps if the sociologist has a good reputation *vis à vis* other students and in the international academic market. The latter is useful, from the student's point of view, for acquiring a coveted place in a university abroad. Apart from gaining students to work in more or less one's own research area, the sociologist also acquires student loyalty, a much prized form of capital, which is not easily available to all sociologists but constitutes a special bond between a particular teacher and student. As Bourdieu puts it most succinctly, the teacher or research supervisor "is the chosen one rather than the chooser, and the value of his pupils, who, although they are not exactly his disciples, nonetheless grant him a form of intellectual recognition, helps to create his value—as he helps to create theirs" [1988: 94]. The student then is the perfect avenue through whom academic capital can be reproduced. Once a student is associated with a particular teacher for purposes of research, the teacher has considerable power over the student's academic life as well as later placement in an appropriate position in the university or an affiliated institution. This is one form of 'academic power' the sociologist exercises especially if s/he holds a university position.²²

Academic power is also exercised by sociologists in relation to one another. This is primarily a result of the social and intellectual status attached to a particular sociological approach or area of research over others. Thus, sociologists who adhere

to a currently popular theoretical and methodological approach are somehow endowed with greater power. This power is really 'symbolic power' of a kind, i.e., symbolic of an intellectually superior way of thinking and analysis. And it is 'misrecognised' as such which gives it the reality and legitimacy it need not necessarily possess in actual fact although it is perceived as doing so.²³ Be that as it may, this power endows the individual with a certain intellectual authority, 'scientific credibility' as Bourdieu would put it, and thereby superiority, in the field. By virtue of this authority, the individual acquires a greater student following and is therefore able to in fact reproduce his or her academic capital at a faster pace.

Relations *vis à vis* colleagues however need not necessarily be as cordial; they may not readily accept or recognise the individual's intellectual position nor the capital associated with it. Intellectual differences apart, there is no doubt that a strong sense of personal competition, that often overshadows intellectual judgement, prevails in the academic field. Thus a particular sociologist's work may be derided on grounds of subscribing to popular approaches or simply of being *avant garde* and not adequately related to the Indian social reality. Another sociologist's work could be condemned for its lack of theoretical sophistication and an undue reliance on material data. Such criticisms, and others of their kind, only reflect the intellectual breadth, rather, lack of it, of the critics and also help explain the nature of the field of sociology in India which is dominated by a lack of understanding and, therefore, appreciation of another view, as if there could be a single sociological gaze rooted in a harmonious space and perfect time.

In the ultimate analysis, the one who is 'successful' is the one who is able to carve out an independent niche and establish his or her somewhat superior position in the field notwithstanding the derogatory or tongue-in-cheek comments of others. Such an individual then 'commands respect' at both the local and international levels.

Apart from academic power, relations in the field are also defined by one's position or lack of it, in the field of 'administrative power' and more importantly, in the closely linked field of 'bureaucratic power' within the political field. Administrative power is associated with membership of various committees or bodies that control, for example, syllabus construction, examinations, faculty appointments, and so on. This power is bestowed on an individual for only a period of three years (at least in Delhi University) when the seniormost professor (by rotation) assumes headship of the department. Of all the areas in which power can be exercised, faculty appointments is probably the most crucial as other department members have some role to play in perhaps every other area except this. It is indeed a rare occasion when a head is truly concerned about the genuine requirements of the department concerned and the merits of the candidates. It is here

then that the exercise of administrative power reflects the true nature of relations in the field. A candidate would usually be selected on the basis of his or her ideological leanings and research interests depending on how closely these tie in with those of the head and the faction of other agents s/he may represent. There is also the tendency for each department to reproduce its collective academic capital by appointing its own students to faculty positions thus ensuring a certain continuity, and thereby stability, in its academic production and reproduction.

There are however certain constraints that accompany administrative power, most notably, a loss in the enhancement of one's academic capital due to the pressure of time occupied by administrative work. Hence, administrative power that goes with a certain position in the field has a somewhat dubious distinction: it is both sought after, by younger agents in the field, and rejected, by older practitioners of the discipline who may have earlier had the privilege of occupying positions entailing administrative power.

Administrative power is also bestowed on the sociologist who is a member or chairperson of a high-powered University Committee or government research organisation such as the Indian Council of Social Science Research. The latter, in particular, empowers the individual to focus national attention on particular research problems over others, determine the allocation of research projects and grants, and through the exercise of such power enhance his or her capital of political power. Such an individual thus possesses not only academic capital and intellectual renown that perhaps was instrumental in bestowing administrative power on him or her, but also a position of prestige in the wider political and bureaucratic arena. This position enables the incumbent to establish relations with persons in positions of political power and thereby use their patronage for the development of the discipline and also for the further enhancement of his or her own capital.

Notwithstanding the benefits, both personal and for the discipline, accruing from such power, the academic and intellectual life of the sociologist survives or thrives, depending on which way one chooses to look at the problem, on academic power combined with 'scientific prestige' and also 'scientific power'. Distinctions and awards like the Asia Society medal or the Ghurye award confer an element of 'scientific prestige' on the recipient as do translations of publications into other national and international languages. Invitations to deliver keynote addresses at international conferences are another indicator of scientific prestige. Similarly, 'scientific power' is linked to the individual's 'academic power' and implies the ability to acquire projects from indigenous sources such as the Indian Council of Social Science Research, and from international bodies such as the Ford Foundation or the International Development Research Council. While such projects may indeed enhance the scientific prestige of the sociologist, this is

not necessarily the view of the academic community at large who may in fact consider this yet another 'racket' and means of acquiring a grant and positions for one's students and cronies.

Clearly, sociologists associated with the 'elite' centres where sociology is practised would be the most likely to hold and exercise these different forms of power. The field of sociology in India then is defined, shaped, and determined largely by these elite centres where in fact most of the academic production and reproduction is taking place. Other centres and sociologists remain more or less outside what is therefore considered 'mainstream' sociology in India. This constitutes the first major division in the field: between the 'elite' and other centres of sociology as well as between the sociologists practising within them. The second division, as we have seen, occurs on the basis of one's ideological position, and more importantly, on the kind of sociology one practises. It follows that this creates a further division in the student community who choose a particular teacher and thereby a research problem, thus identifying themselves with the kind of sociology that is practised by their mentor. Finally, there is a division between those sociologists who are viewed as only possessing academic capital and intellectual renown and are not particularly interested in the trappings of administrative or scientific power and those who revel in the power that accrues from administrative positions and international networks in addition to their already existing academic capital. The latter tend to be viewed as 'racketeers' and 'operators' engaged more in the furtherance of their personal careers and particular projects rather than a devotion to the development of the discipline as a whole. The struggle then is to somehow have an unsullied reputation and yet partake of the fruits of 'racketeering', as it were.

There is no doubt that we can identify and establish the presence of the 'field' of sociology in India characterised as it is by various divisions and struggles for positions. There is scope yet, however, to provide a detailed analysis of the field in terms of the individuals, the institutions, and the manifold relations that constitute the field.

Notes

- 1 There is no doubt that the theoretical perspective on which this paper is based is informed largely by the work of Pierre Bourdieu. I am indebted to him for the many insights he has both explicitly and implicitly provided. However, Bourdieu is in no way responsible for the interpretations and analyses contained in this paper.
- 2 See Thapan [1986] and Thapan [1988a].
- 3 Bourdieu suggests that "the sociologist who chooses to study his own world in its nearest and most familiar aspects should not, as the ethnologist would, domesticate the exotic, but ... exoticise the domestic, through a break with his initial relation of intimacy with modes of life and thought which

remain opaque to him because they are too familiar" [1988: xi].

- 4 There is also the view of sociology as a 'profession'. I do not however find this a particularly useful concept for analysis here.
- 5 I am using the term 'capital' in relation to the 'field' as it is used by Bourdieu: "The forces that are active in the field ... are those which define the specific capital. A capital does not exist and function but in relation to a field: it confers power over the field, over the materialised or embodied instruments of production or reproduction whose distribution constitutes the very structure of the field, and over the regularities and the rules which define the ordinary functioning of the field, and thereby over the profits engendered in this field" [1989b: 30]. For an analysis of the different forms of capital in relation to the intellectual field in France, see Bourdieu [1988: 73-127].
- 6 Position-takings refer to the "structured system of practices and expressions of agents" [Bourdieu 1989b: 32] within the field.
- 7 It is not however possible to cover the ground adequately in a single paper and a larger work on the theme is under preparation.
- 8 Jain has also pointed out that the distinction between the two disciplines "at the level of theory and method is extremely tenuous" [1985: 1]. In an early paper, Srinivas [1952a] recommends the 'union' of social anthropology and sociology under the heading of "comparative sociology" [1952a: 36].
- 9 This is not to deny the existence of a milieu or tradition that facilitated interest in social and cultural problems. Dube [1977] has commented on this aspect by emphasising the existence of various texts that recorded social customs and cultural mores in ancient India.
- 10 Kopf [1969] describes the development of Calcutta in the early nineteenth century as a city where the 'intellectual awakening of the Calcutta intelligentsia' was taking place, a condition necessary for the 'transformation of a traditional society' [see Kopf 1969: 178 ff].
- 11 For a review of Macaulay's imperialist views on the role of a European education in the 'civilisation' of the natives, see Kopf [1969: 236 ff].
- 12 See Srinivas and Panini [1973] for a more exhaustive review of the development of sociology as a discipline in India. See also Saberwal [1983].
- 13 However, among the social sciences, sociology was given a lower rating than other disciplines due to the somewhat amorphous nature of the discipline and its dependence on western, most notably British and later American, conceptions of what constituted the nature and method of sociology. Srinivas and Panini [1973] also make a similar point in their discussion of the development of sociology in India.
- 14 See Thapan [1988b] for a more detailed critique of this approach and its repercussions for Indian sociology.
- 15 See Srinivas and Panini [1973] and Joshi [1986] for more details on Mukherjee's contribution to the development of Indian sociology. I am not discussing any details regarding specific contributions by different sociologists in this paper.
- 16 This journal was started by Ghurye, who also founded its parent-body, the Indian Sociological Society, in 1952.
- 17 This is evident, for example, in the kinds of options that may be offered by a par-

ticular department at the Masters' level and the courses and options available at the M Phil level.

- 18 Beteille has been a notable exception among Indian sociologists who studied a village in Tanjore district in Tamil Nadu and learnt a language (Tamil) other than his native tongue for purposes of conducting field work. See Beteille [1965].
- 19 A major contribution of modern Indian history has been the Subaltern Studies [see Ranajit Guha 1982-87].
- 20 The author is in the process of collecting such data through interviews, biographies, autobiographical material, obituaries and other sources.
- 21 Capital here refers to all forms of capital that influence the field, such as, social origins, educational capital, 'academic' capital, 'scientific prestige' and 'intellectual renown', among other forms.
- 22 'Academic power' here refers to an individual's position on a particular faculty or in a department primarily in terms of seniority. It also implies the possession of a certain 'academic capital', by virtue of which this power is bestowed on him or her, in terms of publications, pedagogic communication, participation in national and international seminars and conferences and so on. Both the spoken and the written word are therefore important in the constitution of an individual's academic capital.
- 23 This is true of not only sociologists but other agents in the intellectual field who are increasingly publishing their views in popular journals, a recent illustration being an individual not only of intellectual renown but also currently holding the highest position in the field of university power, viz, the vice-chancellor of Delhi University, writing in *The Times of India* on some of the theoretical connotations of his position in the university [see Baxi 1990].
- 24 Bourdieu argues that "the exercise of academic power presupposes the aptitude and the propensity ... to exploit the opportunities offered by the field", i.e. the 'capacity' to have students, to help place them and keep them in a position of dependency and thus ensure what Bourdieu refers to as 'the basis of a durable power' [1988:88]. This implies "the art of manipulating other people's career rhythm, their curriculum vitae, to accelerate or defer achievements as different as success in competitive examinations, obtaining the doctorate, publishing articles or books, appointment to university posts, etc" [Bourdieu 1988: 88].
- 25 Following Bourdieu, symbolic power is "the power to constitute the given by stating it, to create appearances and belief" and "is only effective if it is recognised as legitimate (that is to say, if it is not recognised as arbitrary)" [Bourdieu 1977:17].

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FORM II-A

[See Rule 4A(1)]

Form of general notice to be given to the members of the public before making an application to the Central Government under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969.

NOTICE

It is hereby notified for the information of the public that Usha Martin Industries Limited proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969, for approval to the establishment of a new undertaking/unit/division. Brief particulars of the proposal are as under:

- | 1. Name and address of the applicant | USHA MARTIN INDUSTRIES LIMITED
14, Princep Street, Calcutta - 700 072. | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|--------------------|------------------------|--|---------|--|-------|---|-------|--|----------------|--------------------------------------|--|--|--------|------------------------------|------------|--|--------|--|--|--|---|--|--------------|--|--------|
| 2. Capital structure of the applicant organisation | <table border="0"> <thead> <tr> <th>Authorised Capital</th> <th>Amount (Rs in lacs)</th> </tr> </thead> <tbody> <tr> <td>1,44,00,000 Equity Shares of Rs. 10 each</td> <td>1440.00</td> </tr> <tr> <td>20,000 9.5% Cumulative Redeemable 'B' Preference Shares of Rs 100 each</td> <td>20.00</td> </tr> <tr> <td>40,000 11% Cumulative Redeemable 'C' Preference Shares of Rs 100 each</td> <td>40.00</td> </tr> <tr> <td></td> <td><u>1500.00</u></td> </tr> <tr> <td>Issued, subscribed & paid-up capital</td> <td></td> </tr> <tr> <td>85,10,200 Equity Shares of Rs. 10 each</td> <td>851.02</td> </tr> <tr> <td>Less: Allotment money unpaid</td> <td><u>.09</u></td> </tr> <tr> <td></td> <td>850.93</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td></td> <td>40,000 11% Cumulative Redeemable 'C' Preference Shares of Rs.100 each</td> </tr> <tr> <td></td> <td><u>40.00</u></td> </tr> <tr> <td></td> <td>890.93</td> </tr> </tbody> </table> | Authorised Capital | Amount (Rs in lacs) | 1,44,00,000 Equity Shares of Rs. 10 each | 1440.00 | 20,000 9.5% Cumulative Redeemable 'B' Preference Shares of Rs 100 each | 20.00 | 40,000 11% Cumulative Redeemable 'C' Preference Shares of Rs 100 each | 40.00 | | <u>1500.00</u> | Issued, subscribed & paid-up capital | | 85,10,200 Equity Shares of Rs. 10 each | 851.02 | Less: Allotment money unpaid | <u>.09</u> | | 850.93 | | | | 40,000 11% Cumulative Redeemable 'C' Preference Shares of Rs.100 each | | <u>40.00</u> | | 890.93 |
| Authorised Capital | Amount (Rs in lacs) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1,44,00,000 Equity Shares of Rs. 10 each | 1440.00 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 20,000 9.5% Cumulative Redeemable 'B' Preference Shares of Rs 100 each | 20.00 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 40,000 11% Cumulative Redeemable 'C' Preference Shares of Rs 100 each | 40.00 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>1500.00</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Issued, subscribed & paid-up capital | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 85,10,200 Equity Shares of Rs. 10 each | 851.02 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less: Allotment money unpaid | <u>.09</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 850.93 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 40,000 11% Cumulative Redeemable 'C' Preference Shares of Rs.100 each | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>40.00</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 890.93 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Management structure of the applicant organisation indicating the names of the Directors, including the Managing/Wholtime Directors and Manager, if any | <p>The Company is managed by a Board of Directors comprising of the following</p> <ol style="list-style-type: none"> 1) Mr B. K. Jhawar, (Chairman & Managing Director) 2) Mr Brij K. Jhawar (Vice Chairman & Jr. Managing Director) 3) Mr B. P. Ray 4) Mr P. R. Deshpande 5) Mr R. K. Choudhury 6) Mr V. C. Vaidya 7) Dr R. Banerjee 8) Mr Prashant Jhawar 9) Mr Akhtar Alam (Nominee of PICUP) 10) Mr N. D. Shah (Nominee of ICICI) 11) Mr. B. L. Kinger (Nominee of LIC) 12) Mr S. K. Kumra (Executive Director) 13) Mr B. P. Tekriwal (Executive Director & Secretary) 14) Mr B. S. Jaiswal (Executive Director) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division | The proposed undertaking will be a new unit of the Company | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5. Location of the new undertaking/unit/division | Paradip, Cuttack in the State of Orissa | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6. Capital structure of the proposed undertaking | Same as in item (2) above | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7. In case the proposal relates to the production, storage, supply, distribution, marketing or control of any goods/articles, indicate: | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (i) Name of goods/articles | Steel Bars | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (ii) Proposed licensed capacity | 4.50,000 MT | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (iii) Estimated annual turnover | Rs. 34510 lacs (on full capacity) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8. In case the proposal relates to the provision of any service, state the volume of activity in terms of usual measures such as value, income, turnover, etc | Not applicable | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9. Cost of the project | Rs. 200 crores | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10. Scheme of finance, indicating the amounts to be raised from each source | Internal generation, issue of Shares & Debentures and borrowings in accordance with Government guidelines and as approved by Financial Institutions and Government Authorities. | | | | | | | | | | | | | | | | | | | | | | | | | | |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhawan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein.

For USHA MARTIN INDUSTRIES LIMITED

Calcutta

P. JHAWAR
DIRECTOR

Dated, 30th April, 1991

Structure of Indian Economy As Seen from CSO's Input-Output Tables

V V Divatia

This article seeks to present the basic framework of the input-output tables in the Central Statistical Organisation's Input-Output Transaction Tables for the Indian economy, examine some aspects of the framework as also the data and make some suggestions with a view to improving the utility of this very powerful tool for analysing the structure of the economy.

CENTRAL STATISTICAL ORGANISATION (CSO) has brought out *Input-Output Transaction Tables 1983-84*, (IOTT), for the Indian economy, the publication itself being dated 1990, and the preface, September 1990. The publication is in continuation of the previous such issues for earlier years. IOTT, 1968-69 was published in 1978; for 1973-74 in 1981, and for 1978-79 in 1989. The 1968-69 IOTT was prepared jointly with the Planning Commission but thereafter singly by the CSO. The 1990 issue carries three chapters, four appendices and seven matrices and all taken together, the data given in the publication is extremely useful for the study of the structure of the Indian economy for the stated years and changes in the structural parameters over the span of 15 years although the data are not available in the form of a continuous time series. It would indeed be too much to expect such a series and secondly at least over a short span of time period the structural parameters are not expected to change much. The introductory chapter explains the basic approach adopted for issues such as the scheme for sectoral classification, valuation of transactions, balancing, etc. Chapter 2 explains the methodology followed in estimating and allocating the sectoral inputs and outputs as also the method followed for the generation of various components of final demand and indirect taxes. Chapter 3 carries a brief analysis of the IOTT, 1983-84 along with comparisons with the IOTT results for the stated previous years. We shall refer to the various relevant appendices and matrices in the course of our discussion of the IOTT, 1983-84. It may be mentioned however that the mathematical treatment for the construction of the IOTT is a useful addition to the previous publication for IOTT, 1978-79.

The IOTT is based on 115-sector classification both for industries and their characteristic products, called commodities. For the publication, however, the number of sectors is reduced to 60 through consolidation of sector data. In the series of seven matrices, matrix 1, the Absorption matrix, and matrix 2, the Make matrix, are the basic ones. Others are derived from these two. The first one is a commodity \times industry matrix, commodities being recorded along the rows and the industries and final uses down the columns. Structurally, entries along a given row represent inputs into different industries and final uses and down the column, entries represent the material consumption of com-

modities. When inputs are aggregated for a given industry, we get the total material consumption in the row 61. Since all these inputs are valued at producer's cost, indirect taxes paid on these inputs are aggregated in row 62 so that along with material inputs at producer prices we have the figure at purchase price which no doubt the industries pay for their inputs. They also pay for trade and transport charges over and above indirect taxes but these, after segregation, are shown as service inputs against the relevant commodity rows. The last row, No 64, gives the total outputs of the 60 industries and their aggregate total and the aggregates of final use components. The components of final use are: (1) private final consumption expenditure (PFCE), (2) government final consumption expenditure (GFCE), (3) gross fixed capital formation (GFCF), (4) change in stocks (CIS), (5) exports (EXP) and (6) imports as a deduct entry. We shall dwell on this last component, imports, at some length later on. The last column yields total output of each of the 60 commodity sectors and below that the grand totals of commodity outputs, total indirect taxes, and total GVA. Since each industry sector may produce more than its main commodity, it is not necessary that the same industry and commodity sector totals tally. The Make matrix (matrix 2), on the other hand, is an output related industry \times commodity matrix, in which a row (i.e., industry) shows commodity outputs of its corresponding industry. Thus, for instance, cotton textiles industry (row 16) gives figures of commodities produced by it as one reads them along this row. Read down the column, we get figures for a given commodity produced by different industries. Matrix 3 is nothing but input-output matrix of coefficients expressed in terms of proportions of each element or cell of the inner 61×61 matrix to the total column (i.e., total gross output). It is derived from matrix 1. The total of all the coefficients for each industry (i.e., column) is taken in row 61 and this gives the proportion of all inputs at producer's price to the corresponding gross output for each column. What remains then is the balance in the shape of the sum of proportions of indirect taxes and GVA. These residuals are not given in matrix 3. Matrix 4 and 5 are based on the Make matrix. No 4 is called the Product matrix which shows coefficients in terms of proportions of elemental output to the total output of its respective industry. Thus for a given in-

dustry sector, these figures show the proportions in which different commodities are produced by this industry. Hence the name Product Mix matrix. No 5 matrix on the other hand presents figures in terms of proportions of elemental cell figures to their respective commodity sector output, indicating how a commodity's output is made up from different industries. This matrix is designated as the Market Share matrix. Matrix 6 is a commodity \times commodity matrix derived through the use of matrix algebra from the foregoing other matrices. This one is similar to the Absorption matrix in its structure except that instead of a commodity \times industry matrix we have a commodity \times commodity matrix. The last one provides us with the Leontief inverse matrix for the commodity \times commodity matrix.

This somewhat elaborate introduction seems necessary in order to make the write-up to follow more meaningful. We may also have to further explain certain features of the IOTT as we go along. The data sources, the methodology adopted to construct the two basic matrices, and the matrix algebra used in setting up associated matrices have all been explained succinctly in the Report on IOTT, 1983-84 in chapters 1 and 2, and Appendices I and II. Appendix III describes commodity/industry specifications for the 115 sectors and Appendix IV explains the aggregations to evolve the 60-sector classification. It is not possible to reproduce all the above matrices here, but prototype matrices for condensed classification by primary, secondary, etc. sectors are inserted instead. Matrices in A series are worked out from the Absorption matrix and the proportions of elements to total output of commodities and to total industry sectors—primary, secondary, etc. Matrices in B series are based on modified matrix A. The C series matrices are for Make matrix on similar lines.

ANALYSES AND COMMENTS

Chapter 3 of the IOTT, 1983-84 gives a brief analysis of the input-output transactions. Comparative figures for earlier years 1968-69, 1973-74, and 1978-79 are also given in the condensed Tables 3.1—3.6. It has been noted that the sector classification of 1978-79 is slightly different from that of 1973-74 but that for 1978-79 and 1983-84 it is exactly the same. The slight difference is due to the fact that 'aircraft' is now included in sector 44, miscellaneous manufacturing,

whereas earlier it was in sector 43, other transport equipment. Further, it has been claimed that the coverage of the economy in the IOTTs is consistent with the National Accounts Statistics (NAS). Hence both sets of aggregates should be comparable. Before going into the details of the inter-industry relationships and final expenditure patterns, let us examine the comparability of the IOTT and NAS figures. We first note the following macro relationship:

Total Resources

1 Gross value at market price + 2 Imports

Final expenditure

3 PCFE + 4 GFCE

5 GFCF + 6 CIS

7 Exports

Or briefly stated, total resources equal total expenditure, both at market price. For 1983-84, figures in Rs crore are as follows according to both sources:

| | IOTT | NAS 1990 |
|-----------|----------|----------|
| GVA at fc | 1,85,815 | 1,85,991 |
| Ind Tax | 20,866 | 20,866 |
| Imports | 17,675 | 17,675 |
| Total | 2,24,356 | 2,24,532 |
| PCFE | 1,45,999 | 1,46,084 |
| GFCE | 21,141 | 21,141 |
| GFCF | 38,320 | 39,991 |
| CIS | 5,857 | 6,083 |
| EXP | 13,139 | 13,139 |
| Total | 2,24,356 | 2,26,438 |

While official figures such as indirect taxes, imports, and exports completely tally, those for GVA, PCFE, and GFCE, match at Rs '000 crore level, and the capital formation components GFCF and CIS show some higher differences. However, even in the NAS, 1990 (Statement 7, pp 22-23), Gross Capital Formation figure differs from the sum total of GFCF and CIS by Rs 3,117 crore. Hence some differences between the figures of IOTT and NAS may be expected to some extent even when 'complete consistency' is claimed. The differences appear to be much more glaring for 1978-79 IOTT as can be seen from the following aggregates:

| | IOTT | NAS 1989 |
|-----------|--------|----------|
| DGP at fc | 88,873 | 93,880 |
| PFCE | 70,399 | 75,242 |
| GFCE | 9,526 | 9,722 |
| GFCF | 17,098 | 18,876 |
| CIS | 2,693 | 4,342 |
| Ind tax | 14,297 | 10,310 |

Since IOTT, 1978-79 was published in 1989, it may be presumed that figures therein are based on the revised concepts, methodology and sources and since 'manual balancing' is done to balance the IOTT entries for ultimate internal consistency, it must have also received CSO's attention for achieving consistency vis-a-vis NAS figures. In any case, some reasonable measure of consistency is desirable between the main ag-

gregates of both the sources.

Chapter 3 of the IOTT, 1983-84 gives comparative figures in its Tables 3.1, 3.2, 3.4 and 3.6 for all the four years for which IOTTs are constructed. Presumably, however, for 1968-69 and 1973-74, IOTTs are not based on the figures of the revised series and to that extent, comparisons may be affected, particularly because the latest revisions are quite substantial in certain directions, certain sectors and for certain aggregates. This has been recognised by the CSO itself. Limitations arising out of these various considerations may therefore be kept in view while dwelling on the temporal changes.

The main advantages of having IOTTs are three-fold. One, they provide a framework for studying interrelationships among industries as well as their distributional patterns and levels as between the inputs and final demand components. Secondly, they afford us a powerful apparatus for at least short term projections, given certain constancy conditions. Thirdly, they also enable us to visualise in quantity or value terms the effects of making changes in one of the figures on others in the IOTT. Apart from providing the figures as a framework, the IOTT Report does not give any examples of various other exercises which need to be carried out to throw light on the other two

aspects of the utility of the IOTTs. Nor does one see much concrete evidence of such exercises having been carried out for planning and other purposes, at least in recent years. It would indeed add to our knowledge if such exercises are carried out and results published or if they are being already carried out, make them available for wider dissemination.

Analysis presented in Chapter 3 is through highly summarised versions of the main matrices. Tables 3.1 and 3.2 summarise the transactions for two sectors—commodities and services. The former comprises primary and the secondary sectors and the latter, the tertiary sector. In passing one may point out that IOTT Report (p 15) categorically states that 'the tertiary sector includes construction, electricity, gas, water supply'. There is no way in which one can consider these activities as part of the tertiary sector. It is therefore a relief to find that in the tables, these activities are in fact included in the secondary sector, in the above tables, in the commodities sector.

Table 3.1 for 1983-84 shows that commodities utilise 40.3 per cent of its own commodity output for intermediate consumption and that this percentage increased from 33.6 in 1968-69 to 34.5 in 1973-74 and 39 in 1978-79 indicating an increasing trend. It is

TABLE A1 ABSORPTION MATRIX

| Commodity/Industry | (Rs crore) | | | | | | | |
|-------------------------------|------------|--------|-------|-------|------|----------------|----------------|-----------------|
| | P | S | IR | OTH | PAD | Total I Use | Total I use | Total Output |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 Primary (P) | 16792 | 23468 | 2382 | 168 | | 42810 | 57913 | 100723 |
| 2 Secondary (S) | 8081 | 51603 | 8663 | 4932 | | 73279 | 74170 | 147449 |
| 3 Trans, Commu and trade (TR) | 3416 | 15789 | 7195 | 1243 | | 27643 | 29000 | 56643 |
| 4 Other services (OTH) | 786 | 5896 | 4048 | 1415 | | 12145 | 28101 | 40246 |
| 5 Pub adm and del (PAD) | | | | | | 0 | 9238 | 9238 |
| 6 Total input | 29075 | 96756 | 22288 | 7758 | - | 155877 | 198422 | 354299 |
| 7 Net indirect taxes | 775 | 10903 | 1834 | 645 | | 12607 | 8259 | 20866 |
| 8 Gross value added (GVA) | 72552 | 44548 | 32794 | 26683 | 9238 | 185815 | - | 185815 |
| 9 Total output | 100852 | 152207 | 56916 | 35086 | 9238 | 354299 | 206681 | |

Note: Corresponds to Table 3.3 of IOTT Report

TABLE A2 ABSORPTION MATRIX
(Per Cent to Row Totals)

| Commodity/Industry | (Per Cent to Row Totals) | | | | | | | |
|-------------------------------|--------------------------|-------|-------|-------|------|----------------|----------------|-----------------|
| | P | S | IR | OTH | PAD | Total I Use | Total I use | Total Output |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 Primary (P) | 16.67 | 23.30 | 2.36 | 0.17 | 0.00 | 42.50 | 57.50 | 100.00 |
| 2 Secondary (S) | 5.48 | 35.00 | 5.88 | 3.34 | 0.00 | 49.70 | 50.30 | 100.00 |
| 3 Trans, Commu and trade (TR) | 6.03 | 27.87 | 12.70 | 2.19 | 0.00 | 48.80 | 51.20 | 100.00 |
| 4 Other services (OTH) | 1.95 | 14.65 | 10.06 | 3.52 | 0.00 | 30.18 | 69.82 | 100.00 |
| 5 Pub adm and del (PAD) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 100.00 | 100.00 |
| 6 Total input | 8.21 | 27.31 | 6.29 | 2.11 | 0.00 | 44.00 | 56.00 | 100.00 |
| 7 Net indirect taxes | 3.71 | 52.25 | 8.79 | 3.09 | 0.00 | 60.42 | 39.58 | 100.00 |
| 8 Gross value added (GVA) | 19.05 | 21.97 | 17.65 | 14.36 | 4.97 | 100.00 | 0.00 | 100.00 |
| 9 Total output | 28.47 | 42.96 | 16.06 | 9.90 | 2.61 | 100.00 | 58.34 | |

Note: Corresponds to Table 3.1 of IOTT Report with sectors changed

trend mainly because of the compactness of the sector. Part of the reason could be change in the output in favour of the secondary sector *within* the commodities sector, which naturally consumes proportionately more material inputs than the primary sector. Reference to Table 3.5 in fact brings out this change to some extent. Thus for 1983-84 the primary sector used up 16.7 per cent of its own output and 8 per cent from the secondary sector as material inputs, i.e., 24.7 per cent of the commodity sector, whereas secondary sector used 15.4 per cent of its own output from the primary sector and 33.9 per cent from its own sector; i.e., 49.3 per cent of its output as inputs into the commodity production. And although the percentages of values of inputs flowing from the commodity sector to the primary and the secondary sectors have not increased over the years, the overall relative shift in the output in favour of secondary sector makes for the observed increasing trend seen in Table 3.1. Table 3.4 also shows that while 39.2 per cent of the total primary sector commodity output used as intermediate inputs (IUSE) flows into the primary sector industries and as much as 54.8 per cent into the secondary sector, only 11 per cent of the total secondary sector commodities is used up as inputs go into the primary sector industries and as much as 70.4 per cent into its own industry sector. All this combined probably makes up for a rising trend observed in Table 3.1. A

second feature of figures in Table 3.1 is that the percentage for service sector inputs into commodity sectors is also substantial, being 24.4 per cent for 1983-84 as compared to only 13.1 per cent of total service sector output. This is understandable since production processes depend a great deal more on trade, transport, communication and other services including finance, insurance, etc.

It is obvious that percentages of input flows will vary with the level and type of sector classifications adopted according to the purposes in view. However, the overall percentage of all inputs as intermediate consumption—whatever the sectoring—to the aggregate of all industry sectors must of necessity remain the same. This percentage was 44 for 1983-84, and has also shown a steadily increasing tendency over the previous IOTT years, from 36.8 per cent in 1968-69. The same figures therefore appear in Tables 3.2, and 3.5. Correspondingly, the share of final uses has shown a decline to 56 per cent from 63.2 in 1968-69. Item 4 on indirect taxes brings out their increased share of 48.5 per cent from 37.2 in 1968-69 and a declining share in both the services sector and final uses (1983-84 showing some rise). GVA has also tended to decline in relative terms as against increasing share of services sector industries. Table 3.2 yields more or less the same pattern when the figures are considered in terms of inputs as percentages of each sector. As for indirect taxes on the inputs, commodity industry sector takes up

9 per cent of the total output of that sector and indicates increased proportion as compared to first two years of the IOTTs. For the service industries, the percentages are much less at 2.4 per cent for 1983-84 and 3.6 per cent for 1968-69. Final uses account for 3.7 to 4 per cent of their aggregate value. GVA as percentage of the respective outputs has declined for both the sectors. Unless the declines noticed in Tables 3.2 and 3.5 and those observed in the previous paragraph are due to structural changes such that they take up higher proportions of their outputs as intermediate consumption more attention would need to be paid to such declines in GVA lest we have an economy operating on more inefficient use of domestic resources. The question why there is such decline in all the sectors—primary, secondary, trade and transport (refer Table 3.5 of IOTT)—other trade sector only showing contrary trend, and why overall, GVA to output ratio has declined from 60.3 to 52.4 per cent seems to need more in-depth analysis.

Matrix 3, as mentioned earlier, gives coefficients of commodity inputs expressed as fractions of the total output of each industry. It is difficult to go through the matrix industry by industry but we may try to bring into focus some basic aspects. In the agriculture and allied industry field (sectors 1 to 7), we notice that the highest fraction for total input (row 6) is in the animal husbandry sector (No 5), its value being 0.508045, meaning over 50 per cent of its value of total output is taken up by inputs. This is largely because feed costs for animals, particularly pigs and poultry, are relatively heavy and make for a high cost industry. At the other end, forestry and logging and fishing (sectors 6 and 7) have the lowest total input coefficients. They are the lowest among all the coefficients. It is interesting to note that in agriculture proper, coefficients for total inputs are higher for food crops (No 1), than for cash crops (No 2), plantation crops (No 3), and other crops, the respective values being 0.305314, 0.22481, 0.139917, and 0.148750. Presumably this is related to the relatively higher ex-farm final prices which crops other than food crops fetch in the market. In the mines and minerals sectors (Nos 8-11), 'crude petroleum, natural gas' (No 9) has the lowest coefficient, indicating high GVA proportion.

TABLE A3: ABSORPTION MATRIX
(Per Cent to Column Totals)

| Commodity/Industry | P | S | TR | OTH | PAD | Total I Use | Total Fuse | Total Output |
|------------------------------|--------|--------|--------|--------|--------|----------------|---------------|-----------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 Primary (P) | 16.65 | 15.42 | 4.19 | 0.48 | 0.00 | 12.08 | 28.02 | 28.43 |
| 2 Secondary(S) | 8.01 | 33.90 | 15.22 | 14.06 | 0.00 | 20.68 | 35.89 | 41.62 |
| 3 Trans, commu and trade(TR) | 3.39 | 10.37 | 12.64 | 3.54 | 0.00 | 7.80 | 14.03 | 15.99 |
| 4 Other services (OTH) | 0.78 | 3.87 | 7.11 | 4.03 | 0.00 | 3.43 | 13.60 | 11.36 |
| 5 Pub admn and def (PAD) | — | — | — | — | — | — | 4.47 | 2.61 |
| 6 Total input | 28.83 | 63.57 | 39.16 | 22.11 | 0.00 | 44.00 | 96.00 | 100.00 |
| 7 Net indirect taxes | 0.77 | 7.16 | 3.22 | 1.84 | 0.00 | 3.56 | 4.00 | 5.89 |
| 8 Gross value added (GVA) | 71.94 | 29.27 | 57.62 | 76.05 | 100.00 | 52.45 | 0.00 | 52.45 |
| 9 Total output | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | |

Note: Corresponds to Table 3.5 of IOTT Report.

TABLE B 1: MODIFIED ABSORPTION MATRIX

| Commodity/Industry | P | S | TR | OTH | PAD | Total I Use | Total Indem | Total Fuse | Less Imports | Total Outputs |
|-------------------------------|--------|--------|-------|-------|------|----------------|----------------|---------------|-----------------|------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1 Primary (P) | 16792 | 23468 | 2382 | 168 | | 42810 | 62978 | 105788 | 5065 | 100723 |
| 2 Secondary(S) | 8081 | 51603 | 8663 | 4932 | | 73279 | 85506 | 158785 | 11336 | 147449 |
| 3 Trans, commu and trade (TR) | 3416 | 15789 | 7195 | 1243 | | 27643 | 29866 | 57509 | 866 | 56643 |
| 4 Other services (OTH) | 786 | 5896 | 4048 | 1415 | | 12145 | 28509 | 40654 | 408 | 40246 |
| 5 Pub administration (PAD) | — | — | — | — | — | 0 | 9238 | 9238 | — | 9238 |
| 6 Total input | 29075 | 96756 | 22288 | 7758 | | 155877 | 216097 | 371974 | 17675 | 354299 |
| 7 Net indirect taxes | —775 | 10903 | 1834 | 645 | | 12607 | 8259 | 20866 | — | 20866 |
| 8 Gross value added (GVA) | 72552 | 44548 | 32794 | 26683 | 9238 | 185815 | | | | |
| 9 Total output | 100852 | 152207 | 56916 | 35086 | 9238 | 354299 | 224356 | 392840 | 17675 | 375165 |

(Rs crore)

NOTICE

It is hereby notified for the information of the public that **MUKAND LTD** proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi under sub section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval to the establishment of a new undertaking/unit/division. Brief particulars of the proposal are as under:

- | | |
|--|--|
| 1. Name and address of the Applicant | MUKAND LTD. Lal Bahadur Shastri Marg Kurla Bombay 400 070 |
| 2. Capital structure of the applicant organisation | Authorised capital Rs. 25.00 crores Paid up capital Rs. 14.73 crores |
| 3. Management structure of the applicant organisation indicating the names of the Directors including Managing/Whole-time Directors and Manager if any | The Board of Directors consists of Viren J. Shah (Chairman & Managing Director) Ramkrishna Bajaj (Vice Chairman) D.S. Mulla J.P. Thacker Rahul Bajaj D.S. Mehta Partap Kewalramani D.K. Lodaya C.S. Dharmadhikari Dr. N.P. Jain Narendra J. Shah Rajesh V. Shah Niraj Bajaj Vinod S. Shah Sukumar V. Shah |
| 4. Indicate whether the proposal relates to establishment of a new undertaking or a new unit/division | Proposal relates to manufacture of new articles by the existing undertaking |
| 5. Location of the new undertaking/unit/division | Zadgaon District Ratnagiri Maharashtra |
| 6. Capital structure of proposed undertaking | Not Applicable |
| 7. In case the proposal relates to the production, storage, supply, marketing or control of any goods/articles, indicate: i) Names of goods/articles ii) Proposed licensed capacity iii) Estimated annual turnover etc. | Hot Rolled Flat Steel Products 250,000 tonnes per annum Rs. 313 crores on full operation |
| 8. In case the proposal relates to the provisions of any service, state the volume of activity in terms of usual measures such as value, income, turnover etc. | Not Applicable |
| 9. Cost of the project | Rs. 350 crores (Approximately) |
| 10. Scheme of finance indicating the amounts to be raised from | The cost of the project will be met by debentures, loans from financial institutions and internal generation. |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this Notice intimating his views on the proposal and indicating the nature of his interest therein.

P.C. CHHAJLANI
SECRETARY

Dated this 6th day of May 1991

Only 10.13 per cent of the total output is accounted for by total inputs. In contrast to both these groups, the processing industries of the secondary sector, like sugar, food processing, etc, right up to jute textiles (sectors 12-18), processing as they do large quantities of basic raw materials like sugarcane, cotton, jute, etc, belonging to the primary sector inevitably show up high total input proportions to total outputs, coefficients ranging from 0.541209 for tobacco to as high as 0.873724 for food processing. Sugar is also high at 0.791440. For the manufacturing industries as such, the average figure is 0.6357 (i.e., 63.57 per cent). Among those which have much higher values than the average may be mentioned petroleum products (0.829849) and coal/tar products (0.906785).

It is interesting to observe that while in the case of petroleum products, 64.48 percentage points out of 82.98 per cent are accounted for by crude, and small percentages by several other commodities, coal/tar products' inputs pattern shows 35.37 percentage points from basic material, viz, coal and lignite, and quite substantial inputs from trade (15.60 per cent) and railway transport services (14.16 per cent). In the services sector, the coefficients are generally low, the only sectors showing higher than 50 per cent total inputs are railway transport services (No 48) and hotels and restaurants (No 53) and medical and health (No 58), respective values being 51.87, 71.46 and 59.07 per cent.

It is a point for note that the IOTT for West Bengal (WB) for 1973-74 published presumably in 1985 (as can be conjectured from the foreword dated January 1985) by the WB Planning Board, analyses the structure in terms of backward and forward linkages worked out through the Chenery and Watanabe (CW) formula. This formula defines backward linkage as "total non-primary input per unit of output for a sector" and forward linkage as the ratio of that part of the i-th sector which is utilised as inputs by other sectors to the total demand for the i-th sector. The WB IOTT Report also mentions Rasmussen definitions for these linkages based on the dispersions of 'linkage inducements'. WB Board has used the CW formula slightly modified to suit its regional purpose and classified the various sectors into four groups: (1) intermediate manufac-

ture, (2) final manufacture, (3) intermediate primary production and (4) final primary production. Whatever limitations WB Report may have otherwise, it has to be said to its credit that it has made an attempt to analyse the inter-industry relationships through recognised indicators. No such analysis is done by CSO in its IOTT Report. It would indeed be useful to work out such linkages calculated for all the IOTT years and study the changes therein. Whether one or the other formula is to be adopted may be considered from the point of view of its appropriateness. WB Report also includes values of other indicators such as wage multiplier and value added multiplier, on which also CSO report appears to be silent.

Before going on to discussion of final uses, a word may be said about the term used in the summarised Tables 3.1 and 3.2. While the main matrices use the term 'commodity' in the SNA sense to include both goods and services, the tables have the restricted meaning of goods only and include outputs of primary and secondary industries outputs. This is likely to cause some avoidable confusion. It may be appropriate to use some other term not only to avoid confusion but also to conform to SNA terminology.

FINAL USES

Now about the final uses. The components are as mentioned earlier: PFCE, GFCE, GFCE, CIS, Exports, and Imports (as a deduct entry). The sum total is defined as final use (FU) which according to paragraph 3.2 of the Report is equivalent to final demand. Both the terms can therefore

be used interchangeably. All these components appear as column vectors in the absorption matrix and commodity x commodity matrix (No 6). These vectors are as is well known exogenous to the inter-industry matrix which provides figures for each commodity sector's use as intermediate consumption or inputs. One result of showing imports as a deduct entry column vector is that even imports used as inputs in economy activity are treated as final demand and hence inputs are overstated and final use is understated. Although imports are about 5 per cent of total domestic output, for certain sectors these are very high, as we shall see in a moment and for these commodity sectors, understatement is rather disturbing. If there was any specific advantage in adopting this non-standard procedure, one would have been happy to accept this departure. On the contrary, knowledge and interpretation of distribution of domestic outputs become almost impossible. There is no way by which one can work out figures for each commodity sector as regards extent of imports used as inputs and of imports in different components of final demand. If we look at matrix 1 of the CSO, we notice some entries under the column of 'total final use' which, to say the least, make strange reading. For instance, for sector 9 (row-wise), 'crude petroleum, natural gas' final use is Rs (-)2,335 crore, whatever it may mean. Other components of final demand add up to Rs 1,206 crore. Intermediate consumption is high at Rs 5,296 crore. Can we say that final use was - 78.9 per cent of the output? Arithmetically, yes; but one is puzzled as to what is the economic content of such a

TABLE B 3: MODIFIED FINAL DEMAND MATRIX
(Per Cent to Column Totals)

| Commodity/Industry | Total Findem 1 | Total Use 2 | Less Imports 3 | Total Output 4 |
|-------------------------------|----------------|-------------|----------------|----------------|
| 1 Primary (P) | 28.07 | 26.93 | 28.66 | 26.85 |
| 2 Secondary (S) | 38.11 | 40.42 | 64.14 | 39.30 |
| 3 Trans. commu and trade (TR) | 13.31 | 14.64 | 4.90 | 15.10 |
| 4 Other services (OTH) | 12.71 | 10.35 | 2.31 | 10.73 |
| 5 Pub admn and del (PAD) | 4.12 | 2.35 | 0.00 | 2.46 |
| 6 Total input | 96.32 | 94.69 | 100.00 | 94.44 |
| 7 Net indirect taxes | 3.68 | 5.31 | | 5.56 |
| 8 Total output | 100.00 | 100.00 | 100.00 | 100.00 |

TABLE B 2: MODIFIED ABSORPTION MATRIX
(Per Cent to Total Use)

| Commodity/Industry | (Rs crore) | | | | | | | | | |
|-------------------------------|------------|-------|-------|-------|-------|----------------|----------------|-------------|----------------|-----------------|
| | P 1 | S 2 | TR 3 | OTH 4 | PAD 5 | Total II Use 6 | Total Findem 7 | Total Use 8 | Less Imports 9 | Total Output 10 |
| 1 Primary (P) | 15.87 | 22.18 | 2.25 | 0.16 | 0.00 | 40.47 | 59.53 | 100.00 | 4.79 | 95.21 |
| 2 Secondary (S) | 5.09 | 32.50 | 5.46 | 3.11 | 0.00 | 46.15 | 53.85 | 100.00 | 7.14 | 92.86 |
| 3 Trans. commu and trade (TR) | 5.94 | 27.45 | 12.51 | 12.16 | 0.00 | 48.07 | 51.93 | 100.00 | 1.51 | 98.49 |
| 4 Other services (OTH) | 1.93 | 14.50 | 9.96 | 3.48 | 0.00 | 29.87 | 70.13 | 100.00 | 1.00 | 99.00 |
| 5 Pub administration (PAD) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 100.00 | 100.00 | 0.00 | 100.00 |
| 6 Total input | 7.82 | 26.01 | 5.99 | 2.09 | 0.00 | 41.91 | 58.09 | 100.00 | 4.75 | 95.25 |
| 7 Net indirect taxes | -3.71 | 52.25 | 8.79 | 3.09 | 0.00 | 60.42 | 39.58 | 100.00 | | 100.00 |
| 8 Gross value added (GVA) | 39.05 | 23.97 | 17.65 | 14.36 | 4.97 | 100.00 | | | | |
| 9 Total output | 25.67 | 38.75 | 14.49 | 8.93 | 2.35 | 90.19 | 57.11 | 100.00 | 4.50 | 95.50 |

figure. If imports were mentioned as a row vector and imports figures were shown under appropriate columns as row vector elements, interpretation would have been clear. Similar appears to be the case for sector 35, 'iron and steel industry and foundries' and sector 36, 'other basic metal industry' which have large imports all of which are shown as final use even when some portions, even large ones, may have been used as inputs into further production. For the same reasons percentages given in Table 3.1 of the CSO Report are not of much use. We have appended Table A.2 similar to CSO's Table 3.1 but with primary, secondary, etc., industries as sectors. Table A.1 appended here gives absolute figures and Table A.3 corresponds to Table 3.5 of CSO. Similar set of Tables B.1, B.2 and B.3 are included by totalling inputs and final expenditures (FEs) defined as the sum of final use element for each row without deducting out imports to obtain total use (TU) and keeping the import vector outside. This slight modification may give a slightly better picture of proportions but it must be understood that these are not related to domestic outputs and we still do not have the much required knowledge of distribution of imports among inputs and final demands.

It may be relevant in this connection to scan through some alternative methods of treating imports in the input-output tables. Earlier tables for some advanced countries such as UK, USA, etc., have their imports shown as row vectors. The condensed ver-

sions of some of these matrices can be seen in R.G.D. Allen's *Mathematical Economics* and Klein's *An Introduction to Econometrics*. Klein has specifically stated that alternative treatments would be feasible for the foreign sector. These are: (1) Deducting imports from exports and including the figures as net exports in final demand. CSO seems to have opted for a similar alternative, although no justification is advanced for adopting the chosen treatment in preference to the others. CSO does however give imports figures explicitly instead of netting them out with exports. (2) Treat imports as competitive with home production and distribute them together with domestic outputs along the rows of each industry producing the corresponding goods at home. (3) Introduce additional sector column for exports and row sector for imports inside the transaction matrix. This would involve subtracting exports from the final demand sector. In the UN's SNA commodities are classified as competitive, meaning such commodities are both domestically produced and imported, and complementary, meaning they are only imported and not indigenously produced. In the SNA's treatment, competitive imports are clubbed with corresponding domestic produce in the matrix and only complementary part is shown in row vector. In case there are more sectors than one for the latter category of commodities more than one row vectors are introduced. For our purpose, we shall talk in terms of a single row vector to cover both the situa-

tions. The important point to note is that imports are treated in row sectors and not as a column vector. SNA does not seem entirely averse to showing all imports in row vector and only domestic produce in the transaction matrix but certain disadvantages of combining competitive and complementary import have been pointed out in the SNA. One could even then think of having both the competitive and complementary components shown separately but outside the transaction matrix to meet the objections set out in the SNA.

One disadvantage of showing total imports as a row vector is that "if the competitive and complementary components of a given commodity group (such as mining industry) were amalgamated, it would follow that a country with any kind of mining industry would be deemed to meet at least part of the demand for all mining products even if some of these products were not in fact produced in the country." This objection may not perhaps hold if both components were shown separately outside the transaction matrix. The second objection is that separating competitive component from the combined figure of domestic and competitive commodity may present difficulties since it is the total supply of inputs that is known. It has been argued later in this article that this may not be so although there is no doubt that some more effort may be necessary. For a developing country like India, it is most important to know the distribution of imports to user industries and for final use, for both the components of imports. The least however that CSO can do is to adopt the SNA recommended treatment of imports. Not to do so would also impair international comparability in terms of technical coefficients. Further, one of the main uses of input-output tables is to make projections. Such projections in the area of import-related topics such as effects of import substitution, changes in the relative importance of import content of import-intensive processes, etc., may not perhaps be possible. Even other exercises may have to be carried out under the assumption of constancy of imports to domestic proportions for all elements of the matrix. Also, Leontief's input coefficients will be overstated since the elements of the transaction matrix are inclusive of imports. The extent of overstatement for individual elements would remain unknown. All considering, it seems a serious departure on the part of the CSO to have shown imports as a column vector (as deduct entry) instead of adopting the normal or SNA recommended practice.

If there is no particular advantage for the adopted procedure, does CSO have any particular difficulty in segregating imports from each element of the matrix and combine them to evolve a row vector? On the face of it, none. The reason is this. Imports are mentioned at cif values and no import duties have been shown in the import vector. Therefore indirect taxes on these must have

TABLE C.1 MAKE MATRIX

| Industry/Commodity | (Rs crore) | | | | | |
|--------------------|------------|--------|---------|----------|----------|------------|
| | P 1 | S 2 | IR 3 | OTH 4 | PAD 5 | Total 6 |
| 1 P | 100570 | 76 | 20 | 156 | — | 100852 |
| 2 S | 153 | 146477 | 603 | 49.4 | — | 152207 |
| 3 TR | — | 896 | 56020 | — | — | 56916 |
| 4 OTH | — | — | — | 35086 | — | 35086 |
| 5 PAD | — | — | — | — | 9238 | 9238 |
| 6 Total | 100723 | 147449 | 56643 | 30246 | 9238 | 354299 |

TABLE C.2 PRODUCT MIX MATRIX

| Industry/Commodity | | | | | | |
|--------------------|--------|--------|---------|----------|----------|------------|
| | P 1 | S 2 | IR 3 | OTH 4 | PAD 5 | Total 6 |
| 1 P | 0.9972 | 0.0008 | 0.0003 | 0.0018 | — | 1.0000 |
| 2 S | 0.0010 | 0.9624 | 0.0040 | 0.0337 | — | 1.0000 |
| 3 TR | — | 0.015 | 0.9843 | — | — | 1.0000 |
| 4 OTH | — | — | — | 1.0000 | — | 1.0000 |
| 5 PAD | — | — | — | — | 1.0000 | 1.0000 |
| 6 Total | 0.2843 | 0.4162 | 0.1599 | 0.1136 | 0.0261 | 1.0000 |

TABLE C.3 MARKET SHARE MATRIX

| Industry/Commodity | | | | | | |
|--------------------|--------|--------|---------|----------|----------|------------|
| | P 1 | S 2 | IR 3 | OTH 4 | PAD 5 | Total 6 |
| 1 P | 0.9985 | 0.0005 | 0.0004 | 0.0046 | — | 0.2847 |
| 2 S | 0.0015 | 0.9914 | 0.0106 | 0.1236 | — | 0.4296 |
| 3 TR | — | 0.0061 | 0.9890 | — | — | 0.1606 |
| 4 OTH | — | — | — | 0.8718 | — | 0.0990 |
| 5 PAD | — | — | — | — | 1.0000 | 0.0261 |
| 6 Total | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |

been included in the corresponding tax row vector. Also, each commodity value in the matrix is valued at producer prices by deducting from the purchase priced values indirect taxes and service charges. The taxes including import duties are aggregated in the row vector. It follows that CSO must have figures of import contents for each element of the matrix. If this is so there should be no difficulty in aggregating these imports or at least the complementary imports into a single vector row. One hopes that CSO will consider at the earliest how best imports can be treated according to normal practice. It may be worthwhile to point out that a large percentage of imports is accounted for by a small number of commodities as can be seen below.

| Sector Imports Value for Each Commodity (Rs Crore) | No of Commodity Sectors | Sector Nos | Amount (Rs Crore) |
|--|-------------------------|--|-------------------|
| ≥ 1,000 | 5 | 9 26, 34 35 | 9,030 (51.09) |
| 500-999 | 6 | 1 13 32 41 44 49 | 4,619 (26.13) |
| 100-499 | 15 | 4 5 11, 17 22, 23 28 29 30 33 36 37 39 43 59 | 3,476 (19.67) |
| < 100 | 34 | Others | 550 (3.11) |
| Total | 60 | | 17,675 (100.00) |

Proper allocations of imports of the two highest groups to industries and final demands would take care of accuracy for 77.22 per cent or over three fourths of the imports in the row vector.

Here again it may be mentioned that the WB matrix referred to earlier does follow the standard procedure in regard to imports although it defines competitive and complementary imports somewhat differently.

MAKE MATRIX

While the Absorption matrix relates to inputs and final uses of commodities and is a commodity \times industry matrix, the Make matrix relates to outputs of commodities by industries and is an industry \times commodity matrix. Read along the row we obtain figures of different commodities produced by the given industry. Taking food crops (sector 1) row, notice that output in row 1, column 1 (or 1-1 for short), is Rs 34,870 crore. Balance of the total food crops industry output (of Rs 40,588 crore) is accounted for by some other commodities. It means that this same industry produces 85.91 per cent of its output as food crops and 14.09 per cent as some other commodities. Along the column we notice the

same figure in cell (1,1) and the total commodity output is Rs 34,926 crore so that of the total commodity sector 1 produce, 99.84 per cent comes from food crops industry sector and only a paltry 0.06 per cent from other industries. Proportions in which a particular industry produces various commodities, as in the former case, are coefficients of the product matrix and proportions in which various industries produce a particular commodity are coefficients of the market share matrix. In both the cases the diagonal coefficients have highly predominant values reaching 1 in several cases for which such commodities are produced in their own industry sector and these industries do not produce any other commodities except for their own respective sectors.

In the product mix matrix, 22 out of the 60 industries have unit diagonal coefficient, 26 have coefficient values between 0.9 and less than 1, and the lowest diagonal value is for textile products (0.644171). Over one third of output of this industry is accounted for by 'other services' (No 59). Miscellaneous manufacturing industry (No 44) produces a number of commodities and although off-diagonal coefficients are low they are distributed over 29 commodities other than its own characteristic product. Construction, electricity, and all services except 'railway transport services' depict unit coefficients. Generally speaking, primary industries and services sectors show high diagonal coefficients. It is in the manufacturing sectors that wider spread of off diagonal coefficients are to be found.

The market share matrix (matrix 5 of IOTT) should be titled industry \times commodity and not commodity \times industry one because of the manner in which the results are presented. Percentages therein are taken to column figures which in effect are commodity output. With this correction, it is seen that 18 commodities have unit values as diagonal coefficients. Six primary sectors, construction and 11 services sectors all have unit values in diagonal. Only trade and 'other services' in the tertiary sector have less than 1 value in the diagonal cells. This is understandable since contribution to these sectors comes out of several industries. It is the manufacturing sectors which show a more varied pattern. Railway transport equipment (No 42) shows only 0.505090 as diagonal coefficient but unlike in the case of 'other services' this commodity sector's remaining output comes from only two industries 'other transport equipment' (No 43) and 'railway transport services' (No 48). It has to be added that no such problems relating to imports as encountered in studying the Absorption matrix exist in the case of Make matrix and the related product and market share matrices. For ready reference, C series matrices for condensed sectors are appended to this article.

Commodity \times commodity matrix, matrix

NOTICE

It is hereby notified for the information of the Public, that Reliance Petrochemicals Limited propose to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act 1969 for approval to the establishment of a new undertaking/unit/division. Brief particulars of the proposal are as under:

1. Name and address of the applicant: Reliance Petrochemicals Limited, RPL House, 15 Walchand Hirachand Marg, Ballard Estate, Bombay 400 038.

2. Capital Structure of the Applicant Organisation: Authorized Capital: Rs 1,000 Million. Issued & Subscribed: Rs 72.50 Million.

3. Management structure of the Applicant Organisation indicating the names of the Directors including the Managing Director, Joint Directors & Manager: (a) Reliance Petrochemicals Limited, a body corporate managed by the Board of Directors consisting of: (a) Shri Dhurubha H. Ambani, Chairman & Managing Director; (b) Shri Mukesh D. Ambani, Director; (c) Shri Anil D. Ambani, Director; (d) Dr R. Rajagopalan, Director; (e) Mr. Ali S. Daryal, Director; (f) Mr. K. K. Patel, Director; (g) Mr. C. Chandrasekhar, Director; (h) Shri Yogendra P. Trivedi, Director.

4. Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division: New Unit.

5. Location of the new undertaking/division/unit: Hazira, Taluka Chhota, District Surat, Gujarat State.

6. Capital structure of Applicant Organisation: The proposed undertaking will be a unit of the applicant organisation and therefore will not have a separate capital structure.

7. If the case the proposal relates to the production of a new product, supply distribution, market, or control of any goods, article or service, Name of the goods/articles: Ethylene oxide. Proposed Total capacity: 10,000 TPA. Estimated annual turnover: Rs 150 Million.

8. In case the proposal relates to the provision of any service, state the volume of activity in terms of financial measure such as sales income or turnover: Not applicable.

9. Cost of the project: Not Applicable.

10. Scheme of Finance indicating the amounts to be raised from each source: Not Applicable.

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhawan, New Delhi, within 14 days from the date of publication of this notice. It shall be the duty of the proposer to attend the material of his interest therein.

FOR PUBLICATION: RELIANCE PETROCHEMICALS LIMITED

F. M. Rao

Deputy Company Secretary

Date: 08.05.1991

Registered Office:

Village, Mora, Post, Bhatla

Surat, Hazira Road, District, Surat

(Gujarat) Pin 391 111

is similar to the Absorption matrix, the only difference is that it shows inputs used up in producing commodities (instead of outputs of industry sectors), plus in meeting the final demands figures for which are the same as in the Absorption matrix. The same problems with which the Absorption matrix is beset and which have already been discussed at length exist in this case also. This matrix is derived with the help of matrix algebra given in Appendix II. Matrix 7 gives Leontief inverse coefficients for matrix 6 (commodity x commodity). Their use is mainly in carrying out various exercises for which input output matrices are set up.

CONCLUDING REMARKS

In the end, it may be useful to stress the following points in order to make India's official input output matrices a useful analytical tool for studying the structure of the economy and for projection exercises. First, the timeliness needs to be improved very considerably. Projection exercises are carried out on the basis of certain constancy assumptions of structural pattern in industry technology or commodity technology. The assumptions are workable only for short period projections and when economic structure is changing rapidly as should be the case for developing countries, it is important that IOTs are updated with as little time-lag as possible and in any case no more than two or three years. With improvements in the timeliness of data collection and in data processing capabilities this should not be now difficult. It is sad to note that the 1983-84 IOT was published in late 1990 or early 1991, a lapse of at least over six years. 1978-79 IOT was published after 10 years in 1989 and for previous reports delays have been for 8 to 10 years.

Secondly, serious thought should be given to the existing limitations of the Absorption matrix discussed above. It appears at least to this writer, that without rectifying the shortcomings, large part of the utility of input-output analysis would be lost even if timeliness is improved.

Thirdly, it would enhance the usefulness if the CSO carries out more in-depth analysis of the structure and also include some projection exercises relating to plan target settings, comparisons of actual achievements with figures emerging out of the application of most recent IOI under the usual constancy conditions, and so on. If these cannot be published in the report separate papers could be published. Perhaps such work is being done but then it should also see wider dissemination.

The purpose of this write up is to present the basic framework of the input output tables in the official IOI, study some aspects of the framework as also the data, comment on the contents of the report and make some suggestions purely from the point of view of furthering the utility of this highly powerful tool of analysis of the structure of the Indian economy.

NOTICE

It is hereby notified for the information of the public that UNION CARBIDE INDIA LIMITED proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (4) of Section 23 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval to take over the whole or part of the new undertaking. Brief particulars of the proposal are as under:

1. Name and address of the applicant: Union Carbide India Limited
1 Middleton Street, Calcutta - 700 071
2. Name and address of the undertaking the whole or part of which is proposed to be taken over and the manner of take over i.e. acquisition of shares, acquisition of control or management whether by the acquisition of the ownership of the undertaking or under any mortgage, lease or licence or under any agreement or other arrangement: Triton Building Accessories Private Ltd (Proposed to be converted into a Public Limited Company - Triton Building Accessories Ltd)
302, Regal Chambers
Nariman Point
Bombay - 400 091
By subscribing 4 lakh (40%) Equity Shares of Rs. 10 each for cash at par.
3. Management structure of the applicant: The Company managed by the Chairman & Managing Director assisted by a Deputy Managing Director and three Whole time Directors subject to the superintendence and direction of the Board of Directors. Name of Directors are given below:
Mr. V.P. Gokhale - Chairman & Managing Director
Mr. K.M. Nayak - Deputy Managing Director
Mr. C.P. Lal - Whole time Director
Mr. Jyoti Bose - Whole time Director
Mr. U.K. Bhat - Whole time Director
Dr. Parag Anand
Mr. K. Datta
Mr. G.M. Kelkar
Mr. N.N. Lohar
Mr. B. K. Mittal
Mr. K. Narasimhan
Mr. C. S. Patil
Mr. P. L. Wint
Mr. K. A. Joshi - Alternate to Mr. P. L. Wright
4. Capital structure of the applicant: Authorized capital - Rs. 40,00,00,000 lakhs
Paid up capital - Rs. 39,58,33 lakhs
5. By the undertaking proposed to be taken over: Authorized capital - 40,00,00,000 Equity Shares of Rs. 10 each - Rs. 40 lakhs
Proposed to be increased to 40 lakh Equity Shares of Rs. 10 each i.e. Rs. 400 lakhs
6. Line of business of the undertaking which will or is likely to emerge as a result of the proposed take over: Triton Building Accessories Pvt. Ltd. is an existing company authorised to carry on the business of manufacture and deal in prefabricated building materials and components.
7. Consideration for the take over: Rs. 40 lakh for acquiring 40,00,00,000 (40%) Equity Shares of Rs. 10 each for cash at par.
8. Scheme of finance indicating the source(s) of finance for the proposed take over: Internal sources.

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhawan, New Delhi within 4 days from the date of publication of this notice intimating his views on the proposal and indicating the nature of his interest therein.

UNION CARBIDE INDIA LIMITED

A. BASU
Secretary

Dated this 6th day of May 1991

Gender Ideology in Bengal

Meera Velayudhan

EVEN as one appreciates Tanika Sarkar's search for 'standards for a new womanhood' (*EPW*, February 2) the attempt is riddled with problems as her very premise is faulty. Firstly, it lacks a certain historical perspective as evident in the tendency to generalise a single (middle class?) woman's culture and sphere. Secondly, by dismissing struggles as 'pure' practice, devoid of any underlying approach or analysis, the article reflects a persisting problem, the need to bridge the gap between women's studies and the women's movement.

Sarkar begins her article by suggesting that a 'genuine or ideal Left culture' can emerge in isolation and that the mandate received by the Left Front acts as a kind of barrier to the emergence of this ideal. For Sarkar, the 'development of the autonomous alternatives' cannot base itself on existing cultural traditions. Even 'the aspirations of the Renaissance fathers' that Sarkar discusses were rooted in prevailing cultural traditions. However, not only is Sarkar unconcerned with the social basis of cultural traditions and their historical context, she does not consider struggles as products, leave alone as determinants of culture.

This, we feel, arises from Sarkar's method of analysis in which the unit is the individual and the area of intervention, the ideological. Women's roles in Bengal, 'domestic, non-domestic', in the pre-colonial and post-colonial period have not changed nor do they appear to be changing. For Sarkar, a static, middle class, urban ideal is the problem and this had to be overcome. Post-independence struggles or even the struggles against authoritarianism and semi-feudal terror of the 70s, of which women, not only of the CPI(M) but of the entire Left and other democratic sections were the victims, the militant participation of women in struggles in particular, appear to hold no significance in the development of a new womanhood. The article, in fact, indicates an obsession with images rather than a serious attempt at analysis. The examples are many. We will mention a few.

Firstly, we are provided with a glimpse of prominent traditions for looking at womanhood in modern Bengal—writings of Bankim, Tagore; paintings of Jamini Roy; films of Ghatak, Ray, Mrinal Sen; works of Ramakrishna; novels of Shirshendu Mukhopadhyay and Sanjib Chattopadhyay, their celebration of the 'sacred mother', 'dangerous mother', 'non-mother', etc. These traditions apparently do not have any historical context. In this vast panorama of images, we do not find a word on the social basis of these images, whether they have changed or are changing, whether they are the same for women of all social classes.

In fact, the underlying middle class bias can be seen in the manner in which Sarkar views some of the issues. A simple example is Sarkar's comment on Mrinal Sen's film that 'the son's tragedy is that he cannot find a job, the daughter's tragedy is that she has found one.'

True, it is a tragedy for the son to be without work while for the daughter, having found a job it marks the beginning of one more long struggle and not the beginning of another tragedy. Here, it may not be out of place to cite a discussion on the film during a festival of films on women in Delhi in 1983. Reacting to the endless discussion on the dual role of women, a working class woman activist present said, "This talk of dual roles seems to get nowhere. Look, I faced similar problems. But I had to work, I was determined to work. So, I faced everything that came my way." In her assertion, one can already see the emergence of a new womanhood.

The undermining of or lack of interest in and concern with the struggles of women permeates Sarkar's search for the 'affirmative feminine figure'. Sarkar's discomfort with recording the real world participation of women in struggles/history leads her to marginalise the importance of struggles of tribal or peasant women and fault the concern of certain authors and readers with giving the struggles their due visibility in history and literature, as attributing non-conventional roles to only 'exotic and distant figures, not entirely real to the largely middle class authors or readers'. While reaching out for self-fulfilment or self-expression is not an unimportant issue, it is indeed poor theory to dismiss the militant and revolutionary roles of women 'as essentially a giving and nurturing role'. Women have, in fact, transcended many social barriers, transformed themselves and their society while participating in these struggles as active seekers for a new identity.

Middle class women may as well be exotic to the tribal and peasant women. It is indeed these different women and their struggles that constitute the quest for a new womanhood. The perception that tribal and peasant women are exotic seems to colour Sarkar's choice of issues. Therefore, the mass-scale rape and violence against 173 tribal women in recent months in Tripura for their association with AIDWA, the Left Front and the report of the fact finding committee of several women's organisations, covered extensively in *Peoples' Democracy* and some newspapers, are of no significance. The ongoing militant struggles of tribal women in Tripura are not exotic or distant to the Left movement, to the movement for democratic rights and women's rights in particular. What does self-fulfilment and self-expression, the concern of Sarkar, signify in the context of such struggles? The problem is one of placing issues in a historical context and the approach one adopts in analysing those issues. It is precisely this methodological error that leads to the omission of the issue of land reforms and land titles, women's participation in panchayats, their role in defining women's identity, in a discussion on women in Bengal and gender ideology.

A similar bias can be seen in Sarkar's con-

cern for 'non-domestic/non-party' roles of women. Women's political participation in organisations which are not women-specific ('the Party') are looked down upon and one can see an underlying, simplified assumption that 'non-domestic' roles will emerge in isolation from the democratic movement in general. Instead of analysing this crucial link, what we get are a few comments on what Sarkar imagines and considers as determinants of Left activity, i.e., the slogans, the red bordered saree, and not the least, Gupta's statement. This is not to say that the statement itself can be defended. It cannot be.

Be it the struggle against the Muslim Women's Bill, against sati, dowry, rape and other kinds of violence against women, the debate within and among women's groups and organisations and even some political parties did involve an attempt to discern the entire set of cultural values of the people. The point, however, for the democratic movement and the women's movement in particular, was to note the essential and secondary, the positive and negative, the progressive and reactionary and build up on the strengths. This is not to ignore the limits of struggle. Even as women are united by a new identity within an organisation they are still part of the contradictions of society. However, it is in these struggles that the process of overcoming these contradictions emerge. This is by no means simple and does involve continuous ideological intervention. It is also through struggles that women realise their crucial role, acquire a new knowledge about their immediate and future activity, increase their awareness of the responsibility for the direction of their lives—all of which are crucial to the emergence of a new womanhood. Studies on struggles of women workers provide some insight.

Women workers, such as those involved in petty production, say in the coir industry, in the forefront of working class struggles, are able to develop an identity as workers, as women workers, as members of an exploited class, as citizens, despite the structural characteristics of their work—isolated, home-based, conducive to the ideology of domesticity. The link with the general working class movement and the democratic movement has played a crucial role in the development of this identity. Yet, the development of a new perspective on women's social role among coir workers has a limit and these are structural and cannot be confined to the ideological alone. Therefore, without an insight into the dynamics of struggles, locating them in a historical context, statements such as Gupta's cannot be singled out as the ideology nor AIDWA dismissed as an extended family.

Today, in the face of rising communalism and attacks on even the existing rights of women, it is all the more important for the women's movement to build up wider links and alliances and not isolate itself. The struggles against the Muslim Women's Bill and sati are striking examples. We are sure that Sarkar does not intend to undermine this link. Any attempt to do so can only close up avenues for advancing the debate on women's issues, in which, defining

standards for a new womanhood are important

A comment on some of the terms Sarkar has used. Even as she is critical of the use of the term 'anti social' she inadvertently ends up

using the same term while mentioning the bandhs in Calcutta. Also, talk of 'Left Calcutta', 'party mouthpiece', etc. remind one of the days of the cold war. Cannot we, at least, avoid this?

Durability and Time-Frame of Industrial Retrogression

Partha Ray

IN their paper 'Where Is the Industrial Retardation?' (EPW, September 29 1990), S Chakrabarti and A Rudra (C R) have questioned the consensus about the industrial deceleration since mid sixties. They have arrived at the conclusion that the phenomenon of industrial retardation seems to have disappeared over the time span of 1961 to 1985. In this context, we feel that CR's neglect of the decade of the 1950s and selection of quantities of a few commodities as the relevant dependent variables of their growth rate equations are chiefly responsible for their novel findings.

Let us at the very outset make two methodological points (regarding their data base) clear, viz (a) C R did not think it 'either necessary or very reliable' to construct any index of industrial production and (b) they have instead taken the physical output of a selected few industries. It is from this evidence of a few industries that they have negated the phenomenon of industrial retardation. However, such a view suffers from a fallacy of composition. What is true for the part may not be true for the whole. The allegation gains momentum in view of the fact that CR's selected list of industries (excepting cloth a major item in CR's list of industries showing a decelerating trend) account for only 20.9 per cent of the total weightage assigned to items included in the index of manufacturing and 16.8 per cent of the same in the index of industrial production with base 1980-81 (for details see Appendix). This is not to mean that the index of industrial production is the only meaningful scale to gauge industrial growth (or its absence). However, the lack of any aggregative measure seriously delimits the generality of CR's statistical results.

Moreover if one sees the data on industrial production carefully (index or otherwise) one gets two distinct breaks viz

Period I 1950-51 to 1964-65

Period II 1965-66 to 1979-80

Period III 1980-81 to present date

The first period is characterised by relative growth, the second period by stagnation followed by the third period of further growth. C R's treatment of the whole period from 1961-62 to 1985-86 as one ironed out all fluctuations, the examination of which would have given a better insight into the problem. On the other hand had C R considered the whole period 1950-51 to 1985-86 they would have got still a declining trend for many of the commodities. While they have accepted that 'it is perfectly possible that the trend in the fifties was a sharper industrial growth than during the 24 year period following 1961' in view of the vigour with which they have pursued their results such acceptance is in the nature of lip service.

To exemplify the above point the following evidence may be considered. We have taken GDP on account of industrial activity (in a rather broad sense, viz, covering mining and

quarrying manufacturing electricity generation and water supply and construction) and manufacturing (Y_{ind} and Y_m respectively) at 1980-81 prices and tried to find out the possibility of a structural break in the Y_{ind} and Y_m series. We fitted an equation of the following form

$$\ln(x) = a + bD + ct + eDt,$$

where $x = Y_{ind}$ or Y_m and D is a dummy

variable which takes the value zero for the period 1950-51 to 1964-65, but unity for the period 1965-66 to 1987-88.

Our results are as follows

$$\ln(Y_{ind}) = 8.7254 + 0.2392D + (420.09) (6.07) \\ 0.0655t - 0.0184Dt \\ (28.68) (7.13)$$

$$R^2 = 0.99, DW = 0.5729$$

$$\ln(Y_m) = 8.3813 + 0.1509D + (396.76) (3.77) \\ 0.0651t - 0.0156Dt \\ (28.01) (5.95)$$

$$R^2 = 0.99, DW = 0.6750$$

in view of the fact that in both cases the coefficients of Dt are both negative and significant the hypothesis of a structural break in industrial income is confirmed.

We have the same feeling about the trends of gross fixed capital formation (GFCF). In other words C R neglect the whole of the 1950s and arrive at trends that the earlier authors could not find. But C R's comparison between the rates of growth of GFCF (and its sectoral decompositions) found by a number of economists (given in Table 4 of C R paper) and the same found by them is unacceptable because the time frame for their study was entirely different.

However slow down of gross fixed capital formation is not the only factor responsible for industrial deceleration since the mid sixties. For expository convenience we can cite at least the following oft-referred factors viz (a) income distribution and the demand factor (b) slow down of the agricultural sector (c) slackening of real investment and (d) the industrial policy regime encompassing both domestic and trade policy measures. Out of the list Ahluwalia (1985) has categorically rejected the hypothesis of worsening income distribution over time and slow growth of the agricultural sector as factors inhibiting industrial growth in India. In fact the turnaround of industrial production put forward by C R in statistical terms has already been dogmatised by Ahluwalia (1988). She has observed that the pick up in investment in the infrastructure sectors can be associated with a pick up in the rate of fixed capital formation in the public sector. She has also argued that the recent liberalisations have led to a considerable dilution of the earlier industrial policy regime (e.g., as shown by the turnaround in the numbers of letters of intent since the late seventies). Moreover, the pick up of industrial growth

during the eighties has been shown by a number of economists, e.g., Kelkar and Kumar (1990), Nagraj (1990) and Rangarajan (1990). It is, therefore, hardly surprising that CR have arrived at the conclusion of an industrial acceleration for the period 1961-1985. CR's comment that 'the Cheshire cat seems to have evaporated without leaving behind its famous grin' therefore loses much of its punch.

Finally industrial stagnation (or its lack) is not necessarily a question of quantity, it is a question of composition and quality too. C R's 'simple' statistical findings undermine that—and that is the main lacunae in their whole story.

[This note contains the personal views of the author.]

APPENDIX: WEIGHTING PATTERN OF A FEW SELECTED ITEMS IN 1980-81 IIP

| Item | Weight |
|--|---------|
| Group A | |
| 1 Phosphatic fertiliser | 6 679 |
| 2 Finished steel | 42 933 |
| 3 Pig iron (saleable) | 2 061 |
| 4 Power driven pumps | 3 012 |
| 5 Detergent (including soap) | 6 706 |
| 6 Electric fans | 2 488 |
| 7 Domestic refrigerators | 1 452 |
| 8 Passenger car | 1 402 |
| 9 Sugar | 17 590 |
| Total | 84 327 |
| Group B | |
| 10 Nitrogenous fertiliser | 15 227 |
| 11 Petroleum products | 15 192 |
| 12 Aluminium | 3 364 |
| 13 Sulphuric acid | 4 045 |
| 14 Electric motors | 12 870 |
| Total | 50 700 |
| Group C | |
| 15 Commercial vehicle (buses and trucks) | 3 699 |
| 16 Cement | 15 982 |
| Total | 19 682 |
| Grand Total | 154 709 |

Notes: (1) Items shown in Groups A, B and C are industries which have shown constant decelerating and accelerating trends in C R's paper.

(2) Group B does not include cloth.

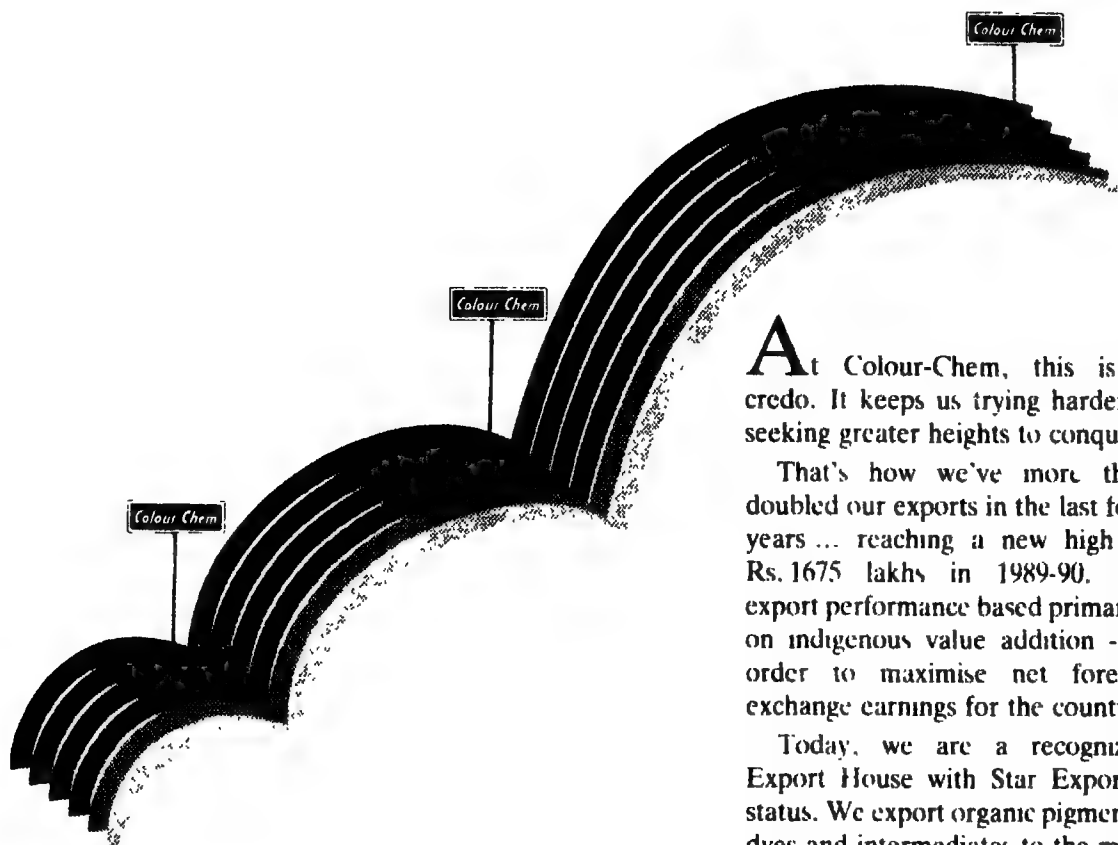
(3) Total weight for manufacturing items in the 1980-81 index is 771 07.

Source: Data taken from RBI Bulletin February 1988.

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Commodity Markets: Wrong Strategies

The collapse of primary commodity prices, which has severely affected many developing countries, can be partly explained by sluggish demand, but this does not seem a complete explanation. An examination of the evidence supporting the hypothesis that supply factors have been partly responsible

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Irrelevance of City Planning

The story of Bombay's second Development Plan offers some clues to the continuing irrelevance of India's urban planners and the product they offer. Some of these clues relate to the process that development plans follow before they acquire legal force, others concern the content of the plans our planners prepare

1289

Price of Editorial Activism

The Press Council's two reports on press coverage of the so called 'kar seva' in Ayodhya in October-November last year have sharply criticised the biased reporting in some newspapers and drawn attention to the issue of 'editorial activism'

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Ethnic Tensions

The expression of national and ethnic identities has begun to dominate the political process in Pakistan in a form unknown to the country in the past. An attempt to identify and explain the reasons for the extreme polarisation between Sindhis and Urdu speaking mohajirs

1295

If the contagion of the political upheavals caused by centrifugal forces now convulsing the Soviet Union and Yugoslavia should spread to India, the results would be far worse since the divergence between heartland and borderland and the communal and caste tensions are so much more acute here

1271

Sidelined

The trends in commercial banks' deposits and credit to business and industry in 1990-91 showed the impact of growing financial disintermediation in the economy

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Tinkering

The changes proposed in the Maharashtra government's bill to amend the universities acts in the State deal with matters of detail rather than of substance

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Fading Anti-Imperialism

During the last half a century changes in the structure of power and the course of international relations have occurred in which the masterly understanding of the strengths and weaknesses of imperialism that the leaders of the great national liberation struggles brought to battle fields and negotiating tables has receded into the background

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Established Patterns

The choice of candidates by both the principal contenders in the coming Lok Sabha elections in Andhra Pradesh the Congress(I) and the JDP, reflects the pattern of dominance of different castes in the three regions of the State Rayalaseema Andhra and Telengana

1257

Disputed Symbol

A recent national seminar in Guwahati on Sri Sankaradeva saw a desperate attempt by the Pan Indian cultural establishment to 'Indianise' Sankaradeva, a figure considered by the Assamese people as the quintessential symbol of Assamese nationality

1261

Paying for Liberalisation

There is a reluctance to acknowledge the nexus between the government's embracing, wholesale, the ideology of economic liberalisation in the 1980s and the restrictions the Reserve Bank has now had to clamp on imports of all kinds, including of books, which have outraged so many

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Academic Fraud

I WAS most surprised to see the review article on the book *Economics of Perestroika* by A Vyas and A V Vernikov (Ajanta International, Delhi, 1991) which appeared under my name in the *EPW* of April 6. This review article was not written by me and I have not even read the book. When I enquired from the editor of *EPW* he sent me a xerox copy of the covering letter with the article in my name. The signature in that covering letter is not mine and there is no doubt that this is a straight piece of forgery. I am writing this letter because such cases of academic dishonesty and forgery should not go uncontested and unpunished.

AMIT BHADURI

Calcutta

[Our sincere apologies to Professor Amit Bhaduri and our readers for having been taken in by a piece of self-serving forgery—Ed]

Economic Priorities

WITH the elections due next week, it is critical that we sharply define our economic priorities.

The most vital issue confronting the Indian economy is curbing population growth. With a total population of 850 million, which is increasing by about 20 million per annum, our gains in development are being seriously eroded. No government since independence has tackled this problem on a war-footing. During the emergency, arbitrary coercion was used to enforce family planning, contributing to the downfall of the government. Since then, family

planning has become a taboo and politicians are mortally frightened to even talk about it. Controlling our burgeoning population should be a key priority.

The second vital problem confronting our economy is the alleviation of poverty, in the rural and urban areas. Almost 35-40 per cent of the population lives below the poverty line. They live in sub-human conditions in the villages and in slums. Politicians juggle with statistics and poverty lines every year to show how the number of the poor has declined. The fact is that poverty is increasing in the urban and rural areas and close to half the country subsists below internationally accepted nourishment levels.

The third key problem confronting us is mounting unemployment. Even reliable statistics about the total numbers of unemployed are not available. Unemployment among the young breeds bitterness, anger and violence. Self-seeking local politicians exploit these negative feelings to fuel communalism and caste-wars. Alleviating unemployment will necessitate increased investments and production to employ the young. Investments have to be freed from the shackles of licensing and 'permissions'. Anyone who puts up a factory increases production and generates employment. Persons/corporations financing new businesses/expansions from internally accrued funds should be exempted from licence or clearance.

The fourth problem facing us is the ever-worsening balance of payments position. We have to launch a major export drive to earn foreign exchange. It is time we stopped depending on remittances to correct the BOP position. We need to export value-added,

processed and manufactured products to boost foreign exchange earnings. Japan and Korea have shown how even small countries can have exports of sophisticated products like computers, electronics, cars, calculators, etc. We must emulate their example.

The fifth key issue which we need to address is our tardy progress in technology, electronics, computerisation and communications. Even countries like Indonesia and Thailand are leap-frogging in technology and electronics. We have no clear technology policy or mission. We do pay lip-service to these concepts, but are decades behind even Third World countries.

We are unable to focus on specific priorities essentially due to the poor quality of leaders we have had after Nehru and Shastri. Lack of adequate vision and perspective among the leaders has resulted in stunted economic growth.

RAJENDRA K ANEJA

Bombay

For Baliapal!

FOR BALIAPAL, a comprehensive update and information booklet on the situation in Baliapal has just been published. Local people there have for the past four-five years struggled successfully against a National (missile) Test Range to be located here. A number of very good articles and booklets have appeared on Baliapal in the recent past, as has also a film, but mostly in specialist journals or circles. This booklet conceived initially as a complement to the film, *Voices from Baliapal* by Vasudha Joshi and Ranjan Palit, is being published to bring together some of the more interesting material—reprints of earlier articles, a note by the filmmakers, songs by local leaders, interviews, newscippings since 1985, access information, and a reprint of a very informative government document. The purpose is not only to disseminate information but also to encourage direct solidarity with the historic struggle of people who are asking for real development and peace, not destruction and annihilation in the name of development—a question that all states across the world must answer. The booklet is also published in solidarity with the equally momentous rally against destructive development that took place in Harsud, Madhya Pradesh, on September 28, 1989, in which the people of Baliapal and countless other such crisis points from all over the country participated.

The book is priced at Rs 40 each (for a single copy order) and Rs 25 each for multiple copies. Please write to the address below for further information.

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Different Script

WHATEVER its outcome, the election to the tenth Lok Sabha has already seen some significant departures from the script handed down from past elections. This is all the more noteworthy since, in many ways, the political developments beginning with the Congress Party's defeat in the 1989 election bear quite a close resemblance to the events of 1977-79 which saw the short-lived Janata Party government and the triumphant return to power of the Congress after a gap of a mere two years. This time round too the collapse of the National Front government and the splintering of the anti-Congress electoral alliance of 1989 should have made for a relatively easy passage for the Congress in next week's election. But that is not how things seem to have worked out.

The basic difference this time has been that, despite the political instability, the Congress, try as it might, has failed to set the political agenda for the election. Unlike in 1979, this election is not being fought primarily over the Congress's claims of saving the country from political turmoil and providing a stable government. The election has instead been dominated, over large parts of the country at any rate, by two other overarching issues: the BJP's appeal to the religious and communal sentiments of the Hindus—specifically over the building of the Ram temple in Ayodhya as well as more generally over the alleged pampering of the minorities, the alleged demotion of Hindus to the status of second class citizens etc., and, second, the Janata Dal's proclaimed commitment to the cause of social justice, more particularly for the backward castes. From all accounts, the impact of these issues on the electorate, in the northern and western parts of the country especially, has been profound enough to largely offset the consequences of the split of the anti-Congress vote which should otherwise have enabled the Congress to sweep the poll in the northern States, as it had done in 1979 in similar circumstances, and win a comfortable majority in the new Lok Sabha despite the inevitable loss of some ground in the four southern States as compared to its superlative performance there in 1989.

When the BJP had won 86 Lok Sabha seats in the 1989 election, that was attributed largely to the anti-Congress electoral alliance with the National Front. But this time, fighting the election on its own—of course, with the full support of the storm troopers of the RSS, the VHP and the Bajrang Dal—reports indicate that the party has extended its grassroot support beyond the (largely urban) trading communities to make serious dents into the Congress hold over the upper castes and even the Janata Dal's support among the Jats. The BJP challenge has evidently become so palpable that the Congress is holding up the threat of a BJP victory to try to win back the Muslim votes it had lost in 1989. As for the Janata Dal, while the appeal of V P Singh's campaign for social justice has been undeniable, largely for reasons which have to do with the internal organisation of the party, the electoral impact of the issues raised by it is expected to be most effective in Bihar and UP. In these two States, and

to varying degrees elsewhere, the Janata Dal has appropriated the backward caste and scheduled caste support bases of the Congress.

While the apparent growth of BJP influence has been linked to the mobilisation over the Ram Janmabhoomi issue and last year's 'rath yatra' of L K Advani, the rapidity with which this has occurred has been possible only because of the existence of a hospitable environment, the creation of which has not been the work of the BJP alone. The other parties have contributed to it through acts of commission and omission. Most culpable, of course, is the Congress with its thinly veiled appeals, as in the 1984 election after Indira Gandhi's assassination, to Hindu chauvinism in the name of nationalism or its more blatant attempts to take the wind out of the BJP's sails by opening the Babri mosque for worship by Hindus in 1986 and permitting the foundation laying ceremony for the Ram temple in Ayodhya on the eve of the 1989 elections. The Congress must also take the blame for sowing the seeds of the secessionist movements in Punjab and Kashmir, which have since come in handy for the BJP in stoking Hindu fears and insecurities. The elite-oriented economic and social policies of Congress governments at the Centre in the eighties, leading to widening inequalities, worsening unemployment and rising prices, have produced a general sense of alienation, frustration and disillusionment which now the BJP is aggressively offering to cure through 'Ramrajya'. The other parties, including the Left parties, have by and large failed to mobilise the people against the Congress's socio-economic policies and programmes and to present a perspective on issues such as Punjab and Kashmir significantly different from that of the Congress. If the outcome of next week's election does indeed show a notable rise in the mass appeal of the BJP, the responsibility for that will thus have to be widely shared.

So close to the election, it is but natural that there should be a general feeling that its outcome will be all-important and decisive, calling for the preparation of contingency plans and justifying possible changes, of course. The impression of the significantly enhanced influence of the BJP has led to unsolicited advice being directed to the Left parties beseeching them to abandon their opposition to the Congress in the interest of thwarting the BJP. However, fortunately or unfortunately, none of the possible outcomes of the election is likely to warrant overly alarmist or euphoric reactions. Just as the conditions which have made possible the growth of the BJP's influence have been created by a wide range of political forces and socio-economic developments over a period of time, similarly arresting it is unlikely to be achieved by knee-jerk responses. The anti-communal cause will certainly not be served by rushing into the Congress's arms and lending support to its perverse economic policies, its authoritarianism, its drive for political and administrative centralisation or its aggressive national chauvinist attitude towards expressions of ethnic and regional disaffection.

BUDGET DEFICIT Cutting Corners

WHILE the proposal to disinvest up to 20 per cent of government equity in selected public sector units was widely interpreted as a first step towards the privatisation of public enterprises, quite a few observers were quick to note that it was "essentially an accountancy game" to reduce the fiscal deficit and bring it as close as possible to the target of 6.5 per cent committed in the government's negotiations with the IMF. In fact, fear was expressed in some quarters, and not without justification, that this measure might as well pre-empt 'institutional funds' so as to provide 'budgetary support' and might therefore 'affect both stock market prices and investment by the financial institutions and mutual funds in new projects and share issues'. Now that it has been disclosed that contributions to the various approved mutual fund schemes during 1990-91 have fallen far short of the level they were expected to reach, it is possible that the financial institutions will have to be depended upon to a much greater extent than was originally expected if the target of Rs 2,500 crore set in the Centre's interim budget for the disinvestment of government equity in public sector units in 1991-92 is to be achieved. So the fear of diversion of funds in support of the budget may prove to be quite well founded.

However, even if the mutual funds and financial institutions were to be in a position to raise substantial additional funds to finance the proposed disinvestment, the point about the manner of accounting of the receipts is far more important than a matter of mere accountancy. What is proposed is that the proceeds of disinvestment are to be deemed as being in the nature of budgetary receipts that will go to reduce the fiscal deficit. Not that the concept of fiscal deficit is a particularly meaningful one, certainly not insofar as macro-economic analysis goes. But it is important to note that these receipts are not regarded as capital receipts. The underlying assumption apparently is that these receipts are in the nature of revenue account receipts—or very close to being so. But are they?

According to the budget speech the proposed disinvestment is to be "in favour of mutual funds and financial or investment institutions in the public sector". As far as mutual funds are concerned their source of funds is deposits made under section 80 CCB of the Income Tax Act. Now, these deposits are practically in every sense, similar to deposits under the National Savings Scheme covered by a like provision viz, 80 CCA, of the same act, but these latter deposits are shown as capital receipts in the Central budget. How come, then, that deposits made with mutual funds and canalised to the govern-

ment in purchase of government equity in public sector units become revenue receipts or very close to them? As regards purchase of equity by other financial institutions whose source of funding is largely borrowing of various types, to consider these funds as other than such when they reach the budget is even more arguable.

Of course there are strong analytical grounds to distinguish budgetary receipts in the form of small savings from market borrowings. In fact, for the calculation of the so-called 'fiscal deficit', as christened by the IMF, small saving receipts of the government should not have been clubbed with other forms of government borrowing, certainly not with credit to government from the Reserve Bank. But, evidently not rationality but Fund dictums now define these concepts and lay down the rules. Or will the finance minister in the new government be able to take a more independent line?

FLECTIONS

Toothless Law

THE setting aside by the Bombay high court of the elections of two Shiv Sena MLAs and one Shiv Sena MP from Bombay and a BJP MLA from Aurangabad on grounds of corrupt practices under Section 123(3) and (3A) of the Representation of the People Act (RPA) serves paradoxically to emphasise the ineffectiveness of these provisions. Section 123(3) deals with seeking votes on the ground of religion and Section 123(3A) with promoting enmity between people.

For one thing, these provisions come into operation only when a notification of election is made. Consequently the same activities which these provisions delegitimise may be practised with impunity until the act itself becomes operative. This raises a problem that is peculiar to the processes of ideological mobilisation whose effects are not contained within limited time frames. Ideological conditioning is often self-regenerative and its reproduction continuous and a law intervening only at a particular stage cannot presume to arrest its momentum. In this respect the law is inadequate since it obviously proceeds from assumptions which disregard sentiments cultivated before the notification of elections. Consequently communal acts by the BJP like the 'rath yatra' went unnoticed by the law.

The futility of the act and hence any judgment based on it proceeds also from its inability to recognise an organic link between non-political communal organisations and the candidates for whom they canvass support. The concerned law in fact is such that the separability of corrupt practices from the candidate is established with ease. Thus the BJP can

press into service organised hordes of sadhus and sadhvis in a well-orchestrated campaign involving corrupt practices. The Imam of Jama Masjid can issue a 'fatwa' on the political preference that Muslims should exercise. The link between the communal appeal and the political end is clear but the law is unable to comprehend it as such.

The futility of the law as it stands is underlined by its operation in the past. In 1975 the supreme court had upheld a Bombay high court ruling setting aside the election of a Muslim League candidate Ziauddin Burhanuddin Bukhari who defeated Shaikat Currimbhoy Chagla in the Kumbharwada constituency in 1972. Justices M H Beg, A Alagiriswami and N L Untwalia were of the view that the winner had elicited votes through communal appeals. The futility of that ruling is only confirmed by the fact that 15 years on the courts have had to set aside the election of four legislators. That more were not set aside has less to do with proper conduct of political parties and more to do with the absence of petitions against them.

POLL VIOLENCE

High Stakes

THE recent hullabaloo over the law and order situation in Bihar is a little comical, to say the least. This is not to say that there is no law and order problem in the State. There certainly is, since according to a newspaper report, after the poll campaign got going, 10 lives had been lost up to May 9 in 22 major incidents connected with the electoral contests. The point is, is there anything abnormal in these figures? Can any power on earth ensure totally 'incident-free' polls in Bihar today? Since the obvious answer to both these questions is an emphatic 'no', the flutter in New Delhi dovescots over the situation in Bihar has to be regarded as stage-managed over reactions with an eye to gaining some tactical advantages on the part of the Congress(I) and the BJP vis-à-vis the Janata Dal government in Bihar. Things being as they are, if, and to the extent, the Election Commission directly or indirectly lends its stamp to boost the obviously manipulative outcry, it will certainly not add to its credibility as an impartial overseer of the national polls.

All this is not to exonerate the Bihar government. The fact is that the government and the party behind it are involved in the north Indian practice of winning elections by 'bandookbaji' as much as any other party—that is, neither more, nor less. Reams have been written and reels have been shot to expose this culture in the newspapers, TV and so on. Indeed, while shouting the loudest about the Bihar situation, the BJP itself has moved one step ahead in the same game in the

neighbouring Uttar Pradesh, where going beyond faceless, anonymous gun-toters, it has brought in notorious ex dacoits. It has directly fielded against the Samajwadi Janata Party chief minister Mulayam Singh, the former dacoit leader, Tehsildar Singh, son of the late dacoit chief Man Singh. According to press reports, a number of other figures from the ravines of the UP MP region have joined the fray on different sides.

Newspapers are replete these days with reports about the flourishing arms-bazaar in Bihar. Violence of this new style in this State had started over two decades ago with the offensives of the landowning classes against the rising resistance of the scheduled castes and scheduled tribes against the former's 'zooloomshahi' over the latter. Both the 'zooloom' and the violence backing it still continue, but pass largely unnoticed by the establishment, press and politicians. Since political and social culture has a tendency to be pervasive, violence which was earlier reserved for the landowners' defence of their power *vis a vis* the underdogs has now become the modality of their sharing of power among themselves. From the weapon of inter-class war, guns have today become the instruments of intra class conflicts.

What can the Election Commission do under these circumstances about controlling violence in the elections unless and until the chief players are agreeable to changing the real rules of the power game? The elaborate and ornate codes of conduct decreed by the commission are really irrelevant to the real contest for power when the stakes are too high for the players to be bound down by any pledge to be non violent.

FUND BANK MEETING Pointless Exercise

THE half yearly Bank Fund meeting this spring was particularly disheartening for the Third World. The developed countries showed little concern for the issues and matters that exercised the less developed member countries of these organisations. Indeed there were indications of not just weariness with Third World protestations but of actual hostility to their concerns. The question which cannot long be swept under the carpet is whether such frequent meetings and at such a senior level, namely, of finance ministers, serve much purpose.

After all, given the clout that the developed member countries of these organisations enjoy and the approach they have advocated to the payments and other problems of the less developed countries, namely, of case by case resolution, particularly in the context of the debt overhang, meetings of a general nature tend to lose their usefulness. As a consequence,

little headway could be made on the question of a fresh SDR allocation, something that the less developed countries have cried themselves hoarse about, with the support of even some developed countries, especially France. But the Anglo US opposition has been hard to crack.

Interestingly, at the meetings just concluded, not only were the less developed countries lectured to about the virtues of opening up their economies further, but they were urged to do so without any promise of payments support. These countries were also sermonised about the need to contain military spending. Barber Conable, the outgoing World Bank president, was quite assertive in this regard. "We reserve the right to talk to countries about military spending. It is a legitimate concern."

Of course excessive military spending should be a matter of concern and not just to the organisations which are in the business of lending to the less developed countries. But is this something new? Excessive military spending by less developed countries has often in the past been underwritten by the developed countries, individually as well as collectively, and organisations like the Bank and Fund have knowingly overlooked it. In fact it would be possible to sort out most, if not all, of intra Third World disputes fairly fast if only the developed countries were to accept a self denying ordinance against all military assistance and arms export to the less developed countries. Instead, if pressure is put only on the latter to reallocate their budgetary expenditures, the result may be nothing more than mere window dressing with no real cuts in military spending unconscionably high though such spending is today in the Third World.

RELIGIOUS BELIEFS More Important than Lives?

CERTAIN allegedly derogatory remarks made by a well known journalist against Shivaji in the course of some discussion as reported in a New Delhi fortnightly has roused the Shiv Sena controlled Bombay Municipal Corporation to a murderous frenzy, with one corporator swearing to despatch Singh to the hospital if he dared to land in Bombay. Even though the BJP Shiv Sena combine has not yet come to power at the Centre (which is their dream), everyone seems to be overawed by their threats.

What is involved in the entire unseemly controversy is something more important than some careless utterances of a journalist. Such utterances would have been ignored in a normal environment. But during the last few years, the social environment has been sought to be vitiated

by establishment independent fundamentalism that is determined to thwart all attempts at scientific inquiry and revaluation of past history through such inquiry. Any unearthing of historical evidence that may disprove myths about gods and prophets, heroes and leaders who are worshipped by their respective religious followers is immediately condemned by these fanatics as acts 'causing insult to religious beliefs'. To the long list of sacred cows like Rama, Sita, Mohamad are now added figures from recent history like Shivaji, Rana Pratap, who are sought to be protected from historical revaluation and reasonable criticism. Maybe, in another few years' time the list will include Advani, Vajpayee, Bal Thackeray, the Shahi Imam and the numerous godmen and charlatans who are worshipped by their respective followers. Nothing can be said against them, since it may cause 'insult to the religious beliefs' of their followers.

The catch all phrase 'insult to religious beliefs' can quite often be used to discourage any scientific inquiry into the origins of religious beliefs which may be proved to be obscurantist, irrelevant or even anti humanist. Should historians, who have to distinguish between facts and myths while studying social history, stop their research at a point where their findings may 'insult the religious beliefs' of certain communities? That such pressure can be brought upon scholars was evident from the Gujarat government's prosecution of three research scholars in 1988 for their paper which challenged the beliefs prevalent among the Swaminarayan sect by suggesting that the deity it worshipped was not a god, but could have been a human being.

Like the Gujarat government in 1988, the BJP Shiv Sena critics today in order to bolster their right to immunise their religious and historical heroes against any scientific analysis, are trying to fall back on the ill worded provisions of a colonial legislation. Section 295-A of the Indian Penal Code of 1860 (which still operates) provides punishment for one who "by words either spoken or written insults or attempts to insult the religion or the religious beliefs of that class (i.e., any class of citizens of India)". It was under this section that the Gujarat government pro-

Notice to Readers

The Annual Number is under print and will be posted to readers as soon as it is ready. Because of the Annual there were no weekly issues on March 16 and 23, 1991, which subscribers are requested to please note.

May 11, 1991

It is obvious that the section needs to be amended in the light of the constitutional obligation (under Part IV A of Fundamental Duties) to "develop the scientific temper, humanism and the spirit of inquiry and reform". In pursuance of this duty, one may have to question the validity of many religious beliefs and practices. Such questioning or attempts at objective appraisals of historical figures (belonging to any religious community) should not be surely equated with communal discrimination against and aggressive attacks on members of that religious community. The existing laws provide enough scope for punishment for such acts. Curiously enough, both the politicians and the administrators are vociferous more against cases of 'insult to religious beliefs' than against killings of members of one religious community by another. Beliefs, however irrelevant and obscurantist they may be, are apparently more important than human lives.

SMALL SAVINGS

Accounting Games

IN the context of the proposal to set up the Bharat Bachat Bank, it is worthwhile recalling the observations made by the finance minister while presenting the interim budget. The so-called fiscal deficit, he said, had tended to get enlarged because of the buoyancy in collections under small savings schemes which had to be shared with the States in the form of additional loans. To quote from the budget speech: "The increase in the fiscal deficit is, to some extent, beyond the control of the government due to the autonomous buoyancy in small savings collections, as a result of which the provision for loans to State governments has gone up by Rs 2,270 crore in the revised estimates. Were it not for this factor, the fiscal deficit, now estimated at 8.59 per cent of GDP, would have been 8.14 per cent of GDP."

This, to say the least, is very strange logic. If small savings were buoyant, the benefit goes to both the Centre and the States and not just to the States. So how come that the fact of having to give additional funds to the States creates a larger deficit? In this particular case, if the States' share is estimated to have gone up by Rs 2,270 crore the Centre's share too would go up by at least Rs 760 crore. The problem evidently lies with the way the fiscal deficit is defined wherein the outgo to the States in the form of their share of small savings collections is shown but not the gross collections.

A partial solution of the problem is sought by the proposed establishment of the Bharat Bachat Bank and the transfer to it of the National Saving Scheme. It is only a partial solution because still a

major part of the small savings collections will pass through the government budget. Why did not the finance minister consider transferring all small savings to the proposed Bharat Bachat Bank? With one stroke of pen, the so-called fiscal deficit could have been reduced by a further Rs 4,500 crore in 1991-92. As a proportion of GDP, the deficit would have been brought down to less than 6 per cent. One cannot put it beyond the subalterns in the finance ministry that they are holding this in reserve in their bag of tricks for the forthcoming regular budget.

However, whatever accounting games the finance ministry may have up its sleeves in order to satisfy the requirement of the IMF, the States have to be on their guard. Thus, while the interim budget makes a reduced provision for transfers to the States on account of loans against small savings collections, there is no indication at all of the share they would receive of the collections under the National Saving Scheme to be transferred to the Bharat Bachat Bank. A number of State finance ministers are known to have already voiced their concern on this score, publicly and in interactions with the Planning Commission as well as the finance ministry. But the outcome is not yet clear. Perhaps this is a fit subject for the States to raise at the meeting of the National Development Council when it is convened after the finalisation of the new Central government.

SOVIET UNION

Serving Notice?

WHAT message is Mikhail Gorbachev trying to send? And who does he have principally in mind? At the joint press conferences with French president Francois Mitterrand, Gorbachev is reported to have said: "We should all proceed with the premise that the Soviet Union does exist; that it will continue to exist; that it is a powerful State and it will continue that way."

Gorbachev acknowledged that the Soviet Union is passing through a crisis, that his perestroika is caught "in extremely adverse weather, in a storm", while "the instruments are out of order and the crew is not as united as it should be". But, he asserted, "we must pass through it".

It is known that Gorbachev is facing deep, serious domestic problems, both political and economic. At the same time, he has lately met with some measure of success in the resolution of some of these problems. At the political level, he was able to carry along with him nine out of the 15 republics. These nine republics account for over 90 per cent of the Soviet population. At the economic level, the withdrawal of the two-month old strike by miners, though achieved only after a major concession, is still a matter of relief.

It is on the international plane that the Soviet Union possibly finds itself outmanoeuvred and by none other than the US, the country it has been going out of the way to befriend. Over disarmament, nuclear as well as non-nuclear, Soviet Union has given way on issues much, much beyond US expectations. On Eastern Europe, again, the Soviet withdrawal has caught its adversaries totally by surprise, in regard to both its scale and speed. And in the Gulf, Soviet acquiescence practically in every action of the US was so total that not only the Arab world but the whole of the Third World possibly was driven to the conclusion that the Soviet Union had forsaken its role as one of the two superpowers, whatever its compulsions, and that therefore the world would hereafter have to contend with a uni-polar international setting.

Is Gorbachev now suggesting that the Soviet Union is not for forsaking its superpower role? Or is his assertion that Soviet Union is still a powerful state meant only to remind the US and its allies, including Japan, that they have defaulted on the promises and understandings, admittedly informal, on the basis of which Gorbachev had made the various concessions on different fronts? It is not totally irrelevant in this context that Gorbachev's recent visit to Japan, the first in history by a Soviet president, proved to be totally unrewarding, that the Soviet application for Bank-Fund membership has been rejected outright, that the Soviet request for Western credits has been turned down by the Joint Fund-Bank-OECD Study Group which has only recommended technical aid to switch to a free enterprise economy. Large-scale aid, the group says, has to be withheld until and unless the "Soviet Union is prepared to abandon socialism totally and move over to a free market system, not in gradual steps but in a total reversal". Evidently, Gorbachev is serving notice that he is being pushed beyond the point of tolerance.

SRI LANKA

Mirror Images

A Correspondent writes:

A RECENT visit to Colombo brought home to this correspondent the politics of the grotesque that Sri Lanka shares with India. The staple of daily conversation and newspaper reports centres around the same topics—'terrorism', 'encounter deaths', 'disappearances' and 'bomb explosions'—and when these become too boring, the staple shifts to such speculative subjects as 'negotiations' and 'elections'. The names of the places are interchangeable. It would make little difference if one replaces Amritsar with Jaffna, or Vauninia with Raramula or Tamiliana

with Sikhs, or Sinhalese with Hindus. The gruesome happenings at the ground level and the political manoeuvres at the top level follow the same pattern.

The ding-dong battle goes on in the north and the east, with Sri Lankan forces bombing Tamil villages and killing civilians and the LTTE raining mortars on military camps and naval bases. The people of Jaffna are victims of carpet bombings by the Sri Lankan air force and of an economic strangulation imposed by Colombo which refuses entry of groceries and essential commodities into the villages. The LTTE fleeing the army offensive often descends on the bordering Sinhalese villages in the east, and hacks innocent and unarmed Sinhalese, who in retaliation kill their Tamil neighbours. Communal relations in the east with its traditional ethnic mix are in jeopardy as evident from the massacre of 22 villagers at Niyadella on April 21, followed by a reprisal at Moneragala four days later. The LTTE claims that it is in control of the northern tip of the island spreading from Jaffna on the top to Mannar in the west and Mullaitivu in the east and that the war has entered the final phase. Reports reaching Colombo from Jaffna suggest that the LTTE operates from the jungles and takes over the villages in the night. But unlike a politically committed people's army (which emerged during the liberation wars in China and Vietnam), the LTTE still remains primarily a militarist outfit motivated by purely chauvinistic passions and centred around the charismatic personality of Prabhakaran. Its intolerance of other Tamil militants and the brutalised proclivities of its ranks have been directed against Tamil citizens in the north also. This comes out clearly in a meticulously documented report prepared by the Tamil intellectuals of the north brought together under the organisation called the University Teachers for Human Rights. The report describes vividly the plight of the average Tamil, caught in the crossfire between the trigger-happy Sri Lankan army and the marauding Tigers. But at the same time, one should understand the psychology of the entrapped Tamil citizen in the north. As one observer graphically put it: "Everytime he looks up at the skies watching in fear the Sri Lankan air force bombers hovering over his village, he draws courage from the knowledge that the Tigers are somewhere around to wreak vengeance on the bombers in retaliation against the carpet bombing." For him, the LTTE fighters are 'our boys'—the term used by the Tamils of the north (the same term, curiously enough, in current use among Punjab's Sikh citizens to describe the Khalistani militants). There seems to be a general

feeling of dependence reinforced by helplessness—both in Jaffna and the Punjab villages (which this correspondent visited some time ago)—among the common people who deep down may often be repelled by the repugnant behaviour of 'our boys', or even be harassed by them, but would prefer them to what they perceive as the occupation forces of Colombo in Jaffna, and of New Delhi in Punjab and Kashmir. In the absence of a liberation movement led by socialist and democratic forces, with a concrete programme inviting popular participation in a socio-economic change, the people of Jaffna, Kashmir and Punjab are left at the mercy of either chauvinistic forces or religious fundamentalists who at gun-point command their loyalty to objectives which are meant to ensure the ascendancy of petty elites—the Tamil Tigers, the obscurantist clergy in Kashmir and Punjab in alliance with gun-toting local gangsters masquerading as 'liberation fighters'. The popular aspiration for liberation gets lost in the ruthless military adventure indulged in by the unscrupulous, fanatic forces which have taken over the territory of both ideological discourse and operative programme.

Meanwhile, in Sri Lanka, both the government and the LTTE are making bids for mediation, dictated of course by their respective calculations. It is this which brings out the phoney nature of the bloody war in all its ugliness. On the one side, president Premadasa is seeking a negotiated settlement in the north with the non-LTTE Tamil militant groups like the PLOTE (which incidentally is fighting the LTTE in alliance with the Sri Lankan armed forces). With the LTTE gaining military advantage, these groups are keen on preventing the LTTE from coming to power in the north and the east. Premadasa, while ready to accept the mediation of some third force like Australia or the SAARC in possible negotiations with the LTTE, is averse to any Indian intervention. On the other side, the LTTE which only some time ago was locked in a fierce confrontation with the IPKF, is now seeking India's help again. Kasi Anandan, an LTTE leader recently in Madras described the previous confrontation between his organisation and the IPKF as "an unfortunate chapter" which should be "totally forgotten by both sides", adding "we want to be on the side of India and we also want India to be on our side". Tamil leaders both in Sri Lanka and Tamil Nadu are keen that India should revive its role in Sri Lanka. Whoever comes to occupy the seat of power in New Delhi after the coming elections will be under pressure to reanimate a policy that was allowed to slumber during the last two years.

TWENTY YEARS AGO

EPW, May 15, 1971

One of the first major acts of the new Central government returned to power with an unassailable majority in parliament, has been to revive its powers of detention without trial. This, incidentally, was not one of the items of the Congress Party's 10-point programme. The Maintenance of Internal Security Ordinance issued on May 7 gives the government powers of arbitrary detention identical with those it enjoyed under the Preventive Detention Act, which it had allowed to lapse last year to buy the support of the leftist parties. As under the Preventive Detention Act, the ordinance empowers the Central and State governments to arrest any citizen and hold him without trial for as long as a year. The only formality required to be fulfilled is a review by a government-appointed advisory board. Even after the expiry of a year, there is nothing to prevent the government from re-arresting the person—and so on indefinitely, if necessary.

Why has the government been in such a hurry to arm itself with these powers? Leaders of some opposition parties have expressed the fear that the powers would be used against the government's political opponents. But which political opponents? Surely, not those in the organised political parties which were so completely routed in the elections that it is ridiculous to imagine that the government would be in such haste to assume extraordinary powers against them? No, it is not a threat from these parties that the government is providing against—not primarily at any rate. Evidently, the example of the armed insurrection by the Janata Vimukthi Peramuna against the Bandaranaike government in Ceylon (in suppressing which our armed forces have played a good neighbourly role) has not been lost on the government of India. It seems determined not to repeat the mistake of the Ceylon government in underestimating the threat posed by the JVP. But what is significant is that, for all the brave talk of removing poverty and achieving social justice, the government appears to be proceeding on the assumption that the discontent among certain sections of the people, which already expresses itself in armed violence in some parts of the country, will progressively get aggravated. Nor can it be honestly maintained that this assumption is invalid, judging by such indications as one has of the government's intentions and capabilities in the direction of achieving a reasonable rate of economic growth and equitable distribution of the fruits of growth.

STATISTICS

| Index Numbers of Wholesale Prices (1981 82 - 100) | | Weight | Latest Week 13 4 91 | Variation (per cent) | | | | | |
|--|-------|--------|---------------------------|-----------------------|----------------------|---------------------------|---------------|-------------|-------------|
| | | | | Over Last Month | Over Last Year | Over March 31, 1991 | In 90 91 * | In 89 90 | In 88-89 |
| All Commodities | 171.4 | 192.0 | 0.6 | 11.1 | 0.4 | 10.2 | 7.5 | 8.2 | 5.8 |
| Primary Articles | 166.9 | 197.5 | 0.5 | 16.2 | 0.8 | 13.1 | 4.9 | 11.3 | 9.1 |
| Food Articles | 177.3 | 211.8 | — | 16.5 | 0.2 | 11.9 | 9.9 | 9.0 | 10.2 |
| Non food Articles | 176.4 | 215.2 | 1.7 | 20.7 | 1.3 | 16.9 | 1.7 | 21.6 | 11.3 |
| Fuel, Power, Light and Lubricants | 164.9 | 188.6 | 0.7 | 13.8 | — | 11.9 | 5.5 | 3.5 | 6.7 |
| Manufactured Products | 174.7 | 189.6 | 0.7 | 7.8 | 0.5 | 11.9 | 9.4 | 7.2 | 3.7 |

| Cost of Living Index | | Base | Latest Month | Over Last Month | Over Last Year | Variation (per cent) | | | | |
|----------------------------|--------------------|------|------------------|-----------------|----------------|----------------------|------------|------------|----------|----------|
| | | | | | | Over March 1990 | In 1989 90 | In 1988 89 | In 87 88 | In 86 87 |
| Industrial Workers | 1982 | 100 | 202 ¹ | 1.5 | 16.1 | 14.1 | 6.5 | 9.1 | 9.2 | 8.7 |
| Urban Non Manual Employees | 1984 85 | 100 | 165 ¹ | 0.6 | 13.0 | 12.2 | 6.9 | 6.3 | 9.0 | 7.9 |
| Agricultural Labourers | July 60 to June 61 | 100 | 828 ¹ | 0.5 | 10.0 | 12.5 | 3.2 | 11.4 | 9.9 | 4.7 |

| Money and Banking | | Latest Week (05 4 91) | Variation (per cent in brackets) | | | | | | |
|---|----------|-----------------------------|----------------------------------|----------------------|--------------------------|------------------|------------------|------------------|------------------|
| | | | Over Last Month | Over Last Year | Over March 23 1991 | In 90 91 | In 89 90 | In 88 89 | In 87 88 |
| Money Supply (M ₁) | Rs crore | 2 70 668 | 8,672 (3.3) | 34,977 (14.8) | 6,714 (2.5) | 34,300 (14.9) | 28,571 (18.1) | 22,027 (15.7) | 22,295 (18.8) |
| Net Bank Credit to Government Sector | Rs crore | 1 43 379 | 3,779 | 23,697 | 5,090 | 21,778 | 12,715 | 12,811 | 12,776 |
| Bank Credit to Commercial Sector | Rs crore | 1 72 292 | 5,117 | 18 198 | 2 335 | 19 552 | 20,571 | 12 389 | 11,294 |
| Net Foreign Exch Assets of Banking Sector | Rs crore | 7 977 | 409 | 1 428 | 40 | 1,429 | 637 | 682 | 1 314 |
| Deposits of Scheduled Commercial Banks | Rs crore | 1 98 069 | 9,423 (5.0) | 26 627 (15.5) | 7,420 (3.9) | 24 230 (14.5) | 22,041 (18.7) | 15,321 (14.9) | 17 320 (20.3) |
| Foreign Exchange Assets | Rs crore | 3 784 | -583 (13.4) | 1 886 (66.7) | 214 (5.4) | 1,710 (30.0) | 830 (11.6) | 508 (6.6) | 604 (8.6) |

| Index Numbers of Industrial Production (1980 81 = 100) | | Weights | Latest Month (Oct 90) | Averages for | | Variation (per cent) | | | | |
|--|-------|---------|-----------------------------|--------------|---------|----------------------|---------------|---------------|---------------|---------------|
| | | | | 1990 91 | 1989 90 | In 1989 90 | In 1988 89 | In 1987 88 | In 1986 87 | In 1985 86 |
| General Index | 100.0 | 196.2 | 200.0 | 180.5 | 4.3 | 8.7 | 7.3 | 9.1 | 8.7 | |
| Mining and Quarrying | 11.5 | 196.0 | 204.3 | 197.8 | 5.9 | 9 | 3.8 | 6.2 | 4.2 | |
| Manufacturing | 77.1 | 191.7 | 195.1 | 173.2 | 8.3 | 8.7 | 7.9 | 9.3 | 9.7 | |
| Electricity | 11.4 | 227.1 | 228.5 | 212.9 | 10.7 | 9.5 | 7 | 10.3 | 8.5 | |
| Basic Industries | 39.4 | NA | NA | NA | NA | 9.9 | 9.6 | 9.2 | 6.8 | |
| Capital Goods Industries | 16.4 | NA | NA | NA | NA | 7.4 | 15.9 | 18.2 | 10.6 | |
| Intermediate Goods Industries | 20.5 | NA | NA | NA | NA | 11.5 | 4.8 | 4.4 | 7.5 | |
| Consumer Goods Industries | 23.6 | NA | NA | NA | NA | 6.0 | 6.5 | 7.1 | 12.5 | |
| Durable Goods | 2.6 | NA | NA | NA | NA | 22.1 | 7.8 | 18.9 | 18.7 | |
| Non Durable Goods | 21.0 | NA | NA | NA | NA | 2.4 | 6.2 | 4.9 | 11.5 | |

| Foreign Trade | Unit | Latest | Cumulative for* | | | | | | |
|------------------|----------|-------------------|-----------------|---------|-------------------|-------------------|------------------|------------------|------------------|
| | | Month (Jan 91) | 1990 91 | 1989 91 | 1989 90 | 1988 89 | 1987 88 | 1986 87 | 1985 86 |
| Exports | Rs crore | 3,024 | 26,236 | 22,104 | 27,681 (36.3) | 20 302 (29.0) | 15,741 (26.2) | 12,452 (14.3) | 10,895 (7.2) |
| Imports | Rs crore | 4,131 | 35,890 | 28,955 | 35,412 (+25.6) | 28,194 (+23.9) | 22 399 (11.2) | 20,096 (2.2) | 19,658 (14.7) |
| Balance of Trade | Rs crore | 1 107 | 9,666 | 6 851 | 7 731 | 7892 | 6 658 | 7 644 | 8 763 |

| Employment Exchange Statistics | Unit | Latest | Cumulative for* | | | | | | |
|--|----------|-----------------|-----------------|----------|----------|----------|----------|----------|----------|
| | | Month Aug 90 | 1990 | 1989 | 1989 | 1988 | 1987 | 1986 | 1985 |
| Number of Applicants on Live Register as at end of Period | Thousand | 34,286 | 34,286 | 32,127 | 30,736 | 30,050 | 30,247 | 30,131 | 26,270 |
| Number of Registrations | Thousand | 607 | 4,518 | 4,534 | 6,576 | 5,963 | 5,465 | 5,535 | 5,822 |
| Number of Vacancies Notified | Thousand | 45 | 340 | 424 | 600 | 543 | 621 | 623 | 675 |
| Number of Placements | Thousand | 18 | 186 | 195 | 289 | 329 | 360 | 351 | 390 |
| Income | Unit | 1989-90 | 1988-89 | 1987-88 | 1986-87 | 1985-86 | 1984-85 | 1983-84 | 1982-83 |
| Gross Domestic Product (current prices) | Rs crore | 3,92,524 | 3,49,105 | 2,94,408 | 2,60,442 | 2,34,159 | 2,07,869 | 1,85,991 | 1,58,851 |
| Gross Domestic Product (1980-81 prices) | Rs crore | 1,95,237 | 1,85,543 | 1,70,716 | 1,63,924 | 1,57,348 | 1,49,966 | 1,44,310 | 1,33,469 |
| Per Capita Income (1980-81 prices) | Rupees | 2,142 | 2,078 | 1,910 | 1,881 | 1,852 | 1,804 | 1,780 | 1,682 |

* For current year upto latest month for which data are available and for corresponding period of last year

** Excluding gold and SDRs + Upto latest month for which data are available NA Not available

+ + Provisional data @ Quick estimates

Notes (1) Superscript numeral denotes month to which figure relates, e.g., superscript¹ indicates that the figure is for January and so on
(2) Figures in brackets denote percentage variation over previous period

Calcutta Diary

AM

Few are prepared to acknowledge the nexus between the nation's embracing, wholesale, the ideology of economic liberalism in the roaring nineteen-eighties and the restrictions the Reserve Bank has now had to clamp on imports of all kinds, including of books, which have outraged so many.

A LETTER from Mrinalini Sarabhai to newspaper editors, full of, as they say, anger and anguish. The Reserve Bank of India has, in her view, done an outrageous thing by clamping the kind of restrictions it has clamped on the import of books. Books are synonymous with enlightenment. They hint of joy and pleasures which lift existence on to a superior plane. Life will not be worth living in case import of copies of the latest Gabriel Marquez or of the latest issue of *Granta* becomes impossible because of the preconditions imposed by the country's central bank. Leave out literature, what about the crucial areas of mathematical speculation and technology; till as long as the Reserve Bank fiat continues, our new generation will be deprived of the opportunity to be acquainted, on an instant basis, with developments in, for instance, molecular biology and computer science. The Reserve Bank's decision, Mrinalini Sarabhai does not have the least doubt, is a cruel blow against civilisation.

And yet few, very few, including Mrinalini Sarabhai herself, will be prepared to acknowledge the nexus between the nation's embracing, wholesale, the ideology of economic liberalism and its current inability to buy books freely from overseas. Had our policy formulators, kibitzed at one end by the domestic industrial and trade lobby and at the other by foreign credit-giving institutions, not gone on the wild, wild import spree in the roaring nineteen-eighties, there would have been today no exchange crunch and no external debt trap; books would have therefore continued to come in. But those who mattered, influenced as much by Margaret Thatcher as by perestroika, preferred to go on a liberal binge. The outcome is the present immiserisation and the symbiosis between India and the begging bowl. We can now afford to indulge in neither Marquez nor Otcenasek, nor Kundera or Havel. Also consider the irony of it. Since there are going to be no books to read, time will be free, time to decide on the organic link between misguided economic policy and booklessness. Or, shall we say, between sin and culpability? The recently interred Graham Greene would perhaps have expressed it in yet another form, as the dialectics of

sin and atonement.

We have stumbled on a familiar facet of human civilisation. Take into account, for instance, the unending *ex post* commiseration, in the month since Greene's death, with the moral dilemma he had lived with. Is not much of this compounding a huge hypocrisy? It is safe, safe beyond measure; Greene is dead and gone, he is incapable of causing any further social embarrassment, the incongruities and contradictions in human behaviour will no longer be tauntingly commented upon. The cynic and the believer, after all, chose to co-colonise Graham Greene's soul: a man is born to sin, there are, he seemed always to be saying, no ways of escape, the social factor, such as lealty to wife, husband, mistress, paramour, child, friend, comrade, is fraught with insignificance, attachment cannot but lead to abandonment, passion is betrayal. The deception one is fated to commit is nonetheless a self-contained exorcism; it is betrayal, therefore it is perdition, however it is, simultaneously, atonement as well, death is life, life is death.

Greene wore no blinkers, he perceived social repression for what it was and is, a casualty of causality. The sardonic eye ever remained the sardonic eye, whether while detailing the genuflections of our man in Havana, or travelling with the formidable aunt, or befriending the ambivalent central American generals. He freely mixed facts with fiction, for he had in the meantime caught on to the essence of the matter, are not long-winding facts stranger than fiction, for example, imperialism is dead, long live imperialism, colonialism is defunct, colonialism is what provides the clue to the principal goings-on in the dark nooks and recesses of the world? The United Nations Economic and Social Council, the United Nations Conference on Trade and Development, agencies and affiliates of the World Bank acclimatise themselves into spending pots and pots of money to commission global economic assistance models; the ostensive purpose is to provide succour to so-called Third World countries. They could have saved themselves the bother. For years on end, despite the elegant models and the equally elegant speeches backing them up at international forums, the Third World

has in the net been exporting capital to the rich Western countries. Whether you choose to ignore the particular context or not, it is once more a vindication of Greene: the more you concern yourself with the agony of atonement—or pretend to do so—the greater is the accumulation of sin, the atonement itself assumes the form of sin. Back and forth, back and forth, it is the same old frightening tale, from *Brighton Rock* onwards, but you hardly dare to call it stale. The deadly allure of the confessional box, and yet, the irrelevance of it. Father, I have sinned. But the Father himself has sinned, he is a sinner, a co-victim, or, have it your way, a co-conspirator. So who will grant absolution to whom? Each one is a burnt-out case, including the doctor dispensing treatment and assurance. Faithfulness is the most fragile of human relationships, loyalty is decent, trust is treachery, and yet, as that other convert to Roman Catholicism loved to put it, in our beginning is our end, each time we return to faith, knowing full well that, between faith and the absence of it, the chasm simply does not exist, the loser takes all, because, definitions be damned, the loser is the victor, nothing is more vacuous than drawing a line between triumph and defeat, there can be, after all, no avoidance of the final fate, one seeks escape in order to ensure entrapment; that is, once more, the social factor at work.

In spite of the doggedness of faith, it is therefore the eternal hour of the cynic. The determinism in canonical prescriptions is a dead-end; they are by no stretch even brave statements of nihilism, they are much too enervated for that. The other determinism, what socialist doctrines glorify and deify, has a similar message to transmit; such doctrines too both attract and repel. That at least was Greene's judgment. The dialectical analysis of the historical reality in Marxism, Greene would grant, is impeccable, the pain and sufferings inflicted on peoples are, invariably, the handiwork of other peoples, or of institutions manned by peoples. Sometimes the *deus ex machina* of oppression is the church itself, as in Haiti; cross over to Nicaragua though, the church dons the mantle of the liberator, the sin shades off into atonement. So why desert a dilemma one knows so well for the dogma of a parallel moral principle, which states explicitly that man the individual can be liberated only by the creativity of man the collective? It may be logically highly satisfying, shuffling affiliations is still a bit like shuffling heresies. Besides, what is a heresy? Between affiliation and heresy the shadow does not fall, in a given context, religion itself, contradicting as it does the tenets of one, is heresy, or, turn the premise round, heresy itself is religion. The moral

fabric is amoral, for the amorality liberates lost souls. That claim, it will be immediately said, is an unpardonable exaggeration. Could there actually be any liberation for lost souls, would not they gravitate toward other lost souls alone? Or would they not contaminate the hitherto innocent ones, rendering them into apparitions without the least hope of redemption. Greene, will you not please agree, shades off into Dostoyevsky.

The sublime is banal and the ludicrous treads the same path as is preferred by the holiest of the holy. It is no tongue in cheek beseeching of coincidence, Graham Greene's epistemology of non redemption and Mrinalini Sarabhai's lament over what the Reserve Bank has done to our world of books have common coordinates. An individual as much as a nation are accountable for their decisions and non decisions, dare to defy the causal connection between deeds and their consequences, you will get even more messily entangled in the moral net. The social set Mrinalini Sarabhai belongs to had for long years bayed and bayed for liberalisation. The government they owned, the government which belonged to them could not be more ingratiating, it granted them all their demands. The result is the current mess, culminating in the desperate hurry to clamp restrictions on the availment of the Open General Licence. Mrinalini Sarabhai felt impelled to write to the newspapers, she should however have really addressed herself to her clansmen, the bourgeoisie in Bombay and Ahmedabad. Some of the latter breed continue to talk tough, or at least feign to do so, they are not willing to give up, they pin their faith on the International Monetary Fund. Father, we have not sinned, it is always the others to blame, the counter point of the social factor does not worry them yet. That too is however fate, which is in fact historicity. Revolutions, it is assumed by the entrenched ones, always happen in the neighbour's territory, their own domain is bound to escape the contamination, and for reasons either aforesaid or following. The revolution, when it comes, nonetheless brushes aside the King Canutes, it rushes headlong and catches the dogma mongers napping. The International Monetary Fund route will bring much unhappiness, and, who knows, perhaps not just to the poor, there is no knowing how much hurt would be caused by whom and to whom in the final rounds, the social factor is the social factor. Those determined to play pranks with history cannot however be easily dissuaded. That is late. That is however also dialectical materialism. Greene was aware that he had no full and satisfactory answer to the query why he shied away from communism. It was conceivably lethargy of a sort, but there was also that

overhang of fidelity to one's beliefs, which defies logic. Alternatively, could it be that ultimate fatalism has taken over since, between perdition and absolution, there is so little to choose, why cross over? Greene did not repudiate communism, he

merely decided to be where he was. It was not choice, but non-choice. That ambivalence was his philosophy. Mrinalini Sarabhai should rather re-read the old Graham Greenes than write to the newspapers.

COMPANIES

Reduced Profit Margin

Kumaran Pola

ELECTRONICS CORPORATION OF INDIA's net sales increased by 26 per cent to reach Rs 248.05 crore during the year ended March 31, 1991. Although the corporation could achieve moderate growth rates of 12 per cent in operating profits and 8 per cent in net profits, there was a setback to the overall return on investment. The main factor responsible was a deterioration in the net profit margin on sales from 1.54 per cent in 1988-89 to 1.33 per cent in the latest year. But for the improvement in the assets utilisation ratio from 0.65:1 to 0.69:1, the return on investment would have worked out still

lower. The return on owners' equity too was lower at 4.85 per cent compared to 4.94 per cent in the preceding year.

There were receipts from the government of India towards equity capital of Rs 3 crore and unsecured short term and long term loans from the government Rs 3 crore in 1989-90. The debt/equity ratio rose from 1.51:1 to 1.87:1. Despite the tilt towards debt in the capital structure the interest coverage ratio improved from 1.35 times to 1.40 times. Short term liquidity showed improvement as reflected in a higher current ratio of 1.73 as against 1.65 in the preceding year.

The Week's Companies

(Rs in lakh)

| Financial Indicators | Electronics Corp | | Dredging Corp | | Bharat Heavy Plate | |
|--|------------------|---------------|---------------|---------------|--------------------|---------------|
| | 1989 March | 1990 March | 1989 March | 1990 March | 1989 March | 1990 March |
| Income expenses profit | | | | | | |
| 1 Net sales minus income | 19 703 | 24 805 | 1 803 | 5 915 | 13 285 | 13 779 |
| 2 Other income | 451 | 481 | 474 | 650 | 528 | 488 |
| 3 Raw material cost | 10 688 | 12 309 | 0 | 0 | 8 104 | 9 721 |
| 4 Employee cost | 4 159 | 5 115 | 781 | 948 | 1 777 | 2 149 |
| 5 Depreciation | 860 | 1 174 | 620 | 664 | 237 | 255 |
| 6 Other expenses adjustments | 3 213 | 5 313 | 2 897 | 2 890 | 2 893 | 1 264 |
| Operating profit (1+2)-(3 to 6) | 1 234 | 1 376 | 984 | 7 063 | 807 | 878 |
| 8 Interest | 916 | 984 | 168 | 148 | 543 | 628 |
| 9 Taxation | 14 | 63 | 77 | 980 | 46 | 66 |
| 10 Net profit (8-9) | 304 | 329 | 589 | 935 | 218 | 184 |
| 11 Dividends | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital loans assets | | | | | | |
| 12 Share capital | 19.2 | 1 222 | 2 800 | 2 800 | 2 580 | 2 722 |
| 13 Reserves and surplus | 2 726 | 2 555 | 5 683 | 6 618 | 1 197 | 1 381 |
| 14 Current liabilities and provisions | 14 322 | 16 392 | 2 037 | 5 047 | 6 697 | 12 388 |
| 15 Short term borrowings | 2 511 | 4 604 | 419 | 483 | 4 058 | 4 244 |
| 16 Long term borrowings | 6 711 | 8 099 | 1 891 | 3 842 | 1 095 | 1 011 |
| 17 Gross fixed assets | 8 198 | 10 474 | 10 564 | 15 134 | 4 952 | 5 237 |
| 18 Accumulated depreciation | 3 725 | 4 830 | 5 730 | 6 371 | 2 494 | 2 745 |
| 19 Inventories | 12 811 | 14 791 | 614 | 553 | 5 321 | 7 969 |
| 20 Receivable | 6 388 | 9 443 | 961 | 794 | 4 113 | 7 056 |
| 21 Current assets | 24 622 | 28 389 | 7 338 | 9 400 | 13 114 | 19 154 |
| 22 Investments other assets | 246 | 1 837 | 658 | 627 | 55 | 101 |
| 23 Total assets liabilities (12 to 16) or (17-18)-(21+22) | 30 352 | 35 870 | 12 830 | 18 790 | 15 627 | 21 746 |
| Key financial ratios | | | | | | |
| 24 Turnover ratio (1/23) | 0.65 | 0.69 | 0.37 | 0.31 | 0.85 | 0.63 |
| 25 Return on sales (10/1)×100 (%) | 1.54 | 1.33 | 12.26 | 15.81 | 1.64 | 1.14 |
| 26 Return on investment (%) (10/23)×100 or (24×25)% | 1.00 | 0.9 | 4.39 | 4.98 | 1.40 | 0.85 |
| 27 Return on equity (%) (10/(12+13))×100 or (23/(1+13))×26 | 4.94 | 4.85 | 6.94 | 9.93 | 5.77 | 4.48 |
| 28 Book value per share (Rs) | 1 567 | 1 605 | 3 029 | 3 363 | 1 523 | 1,590 |
| 29 Current market price (Rs) | — | — | — | — | — | — |
| 30 Price earnings ratio | — | — | — | — | — | — |

Not applicable Not quoted
Rs in crore A & A Man & C Mehra

however, this was achieved through inventory accumulation and withholding the collection of sundry debts.

There was a funds-flow of Rs 67.86 crore during the year. The funds were raised through increases in share capital of Rs 3 crore, reserves and surpluses through transfers to reserves from profits Rs 3.29 crore, current liabilities and provisions on account of additions to sundry creditors Rs 14.70 crore, short-term borrowings Rs 20.33 crore and long-term borrowings Rs 13.86 crore. Decreases in cash and bank balances Rs 11.11 crore and miscellaneous current assets Rs 1.57 crore also represented sources of funds during the year. The corporation utilised the funds to increase various assets; fixed assets by Rs 11.71 crore mainly in the form of plant and machinery in the process of installation, inventories of raw materials and stores and spares by Rs 19.80 crore, receivables by a huge Rs 30.55 crore and intangible assets in the form of capitalised expenditure Rs 5.81 crore.

DREDGING CORPORATION OF INDIA

Higher Profit

DREDGING CORPORATION OF INDIA, with a 23 per cent growth in main income, was able to increase operating profits by 110 per cent and net profits by 58 per cent during the year ended March 31, 1990. Sales/main income reached an all-time high of Rs 137.79 crore during the year. Operating and net profits amounted to Rs 20.63 crore and 9.35 crore respectively. The improvement in the expenses to main incomes ratio from 3.89:1 in 1988-89 to 0.76:1 in 1989-90 was the main factor which buoyed up profits.

According to the directors of the corporation, the substantial growth in turnover was achieved mainly on account of better performance of dredgers, greater availability of work particularly for cutter suction dredges, fewer drydockings and less downtime of the crafts. To augment the existing capacity and to meet the future requirements of the country, orders were placed with a Dutch yard for the construction of two shallow draft trailer suction dredgers each of 4,500 cubic metre hopper capacity. There are plans to acquire sophisticated survey crafts with electronic depth recording and position finding equipment to facilitate effective dredging control. The corporation entered into a five-year collaboration with a leading Dutch dredging company. Accordingly, the corporation would get a very high power cutter suction dredger with rock dredging capacity. The Dutch company will collaborate in the dredging

work in the Hooghly river.

The overall return on investment of the corporation improved from 4.59 per cent in 1988-89 to 4.98 per cent in the latest year. This was achieved despite worsening of the assets utilisation ratio from 0.37:1 to 0.31:1 as the net profit margin on the main income advanced from an already impressive rate of 12.26 per cent in 1988-89 to 15.81 per cent in 1989-90. Simultaneously, the corporation earned for its shareholders a higher return on owners' equity at 9.93 per cent in 1989-90 compared to 6.94 per cent in the preceding year.

With the induction of long-term debt in the form of deferred payment liabilities, the capital structure showed a debt/equity ratio of 0.46:1 as against 0.27:1 in the preceding year, which was still far below the norm of 1:1 fixed by the Bureau of Public Enterprises. However, in view of the large operating profits earned during the year, the interest coverage ratio more than doubled to 13.93 times in 1989-90 from 5.53 times in the preceding year. The current ratio slipped from 3.60 in 1988-89 to 1.86 in 1989-90 reflecting some pressure on the working capital position. As against moderate increases in various items of current assets, there was a substantial increase in the sundry creditors.

The balance-sheet changes of the corporation indicated a funds-flow of Rs 62.19 crore. The pattern of funds mobilisation was as follows: increases in reserves and surpluses Rs 9.35 crore, current liabilities and provisions Rs 30.10 crore, short-term borrowings Rs 0.64 crore and long-term borrowings Rs 19.51 crore. Decreases in inventories by Rs 0.61 crore, receivables by Rs 1.67 crore and investments by Rs 0.31 crore also constituted sources of funds during the year. The funds were utilised to invest Rs 39.29 crore in fixed assets in the form of dredgers and to increase cash and bank balances by Rs 14.12 crore and miscellaneous current assets by Rs 8.78 crore.

BHARAT HEAVY PLATE AND VESSELS

Large Steel Plant Orders

BHARAT HEAVY PLATE AND VESSELS recorded a 4 per cent increase in net sales to Rs 137.79 crore during the year ended March 31, 1990, despite the uneven flow of orders during the preceding year. However, due to spurt in costs (raw material cost by 20 per cent, employees cost by 21 per cent, depreciation by 10 per cent, interest cost by 16 per cent and tax provision by 43 per cent) net

IN THE CAPITAL MARKET

Weldflux Engineering

WELDFLUX ENGINEERING (WEL), a Hyderabad-based company promoted by technocrat entrepreneur S Vijay Bhaskar under technical collaboration of Commercysoudure of France, is putting up a 100 per cent export-oriented hi-tech project at Hyderabad to manufacture submerged arc-welding fluxes (welding consumables) used for high-pressure welding as per international specifications. The project will be set up at a capital cost of Rs 7.5 crore which will be part financed through a proposed equity issue of 24 lakh equity shares of Rs 10 each at par aggregating to Rs 2.4 crore. The collaborators, Commercysoudure, is the largest suppliers of welding products in France. They have entered into an agreement with Weldflux Engineering for export/buy-back of 80 per cent of the production. The project enjoys various tax benefits, including eligibility as '00 per cent EOU, and is likely to yield substantially higher EPS and capital appreciation benefits. The company is planning to enter the capital market soon.

Bombay Paints

BOMBAY PAINTS is raising Rs 75 lakh by issue of 7.5 lakh equity shares of Rs 10 each at par to its shareholders on a rights basis in the ratio of one share for every share held. The issue opens on May 16 and will close on June 15. Bombay Paints is engaged in formulating and manufacturing a range of highly sophisticated paints. In the marine paints division, it has the collaboration of Hempels' Marine Paints of Denmark which also hold part of the company's equity. The company has a full-fledged R and D centre which is one of the first units in the paint industry to be recognised by the government of India. The company is planning an expansion project for the manufacture of powder coatings and coil coatings with know-how imported from its foreign collaborators. During the 11 months from April 1, 1990 to February 28, 1991, the company had a turnover of Rs 27.56 crore and estimated gross profit of Rs 36.75 lakh and, after providing for depreciation and taxation, estimated net profit of Rs 14.25 lakh. The company has an uninterrupted dividend record for the last 25 years and for the year ended March 31, 1990 declared a dividend of Rs 1.40 per share.

profits declined by 16 per cent to Rs 1.84 crore from Rs 2.18 crore during 1988-89.

Although many constraints were faced by the company due to the uneven flow of orders in the previous year, the company could achieve a record value of production amounting to Rs 151.52 crore compared to Rs 136.01 crore in the previous year. The order book registered a record inflow of Rs 276 crore during the year consequent on securing major orders for tonnage air and separation plants valued at Rs 170 crore from the steel plants of SAIL and TISCO. The order book position as at the end of March 1990 stood at Rs 337 crore as against Rs 207 crore at the beginning of the year. The overall return on investment received a setback during the year and worked out at 0.85 per cent as against 1.40 per cent during the preceding year. This resulted from a slow down in the assets utilisation as shown by a lower turnover ratio of 0.63 in 1989-90 compared to 0.85 in the preceding year combined with a conspicuous fall in the net profit margin on sales from 1.64 per cent in 1988-89 to 1.34 per cent in the latest year. The rate of return on owners' equity too showed a decline from 1.40 per cent to 0.85 per cent.

During the year, the company paid Rs 2.18 crore to the government towards repayment of term loans. Through the addition of Rs 1.42 crore received from the government towards equity and transfer of profits to reserves, the company could strengthen its equity base and bring down the debt-equity ratio from 1.36:1 in 1988-89 to 1.28:1 in the latest year. The current ratio worked out lower reflecting the tightening of the working capital position. There was a disproportionate increase in current liabilities and provisions mainly on account of advances received from the customers. Of the funds invested in current assets, a large portion was locked up in inventories and receivables.

The funds-flow during the year amounted to Rs 69.17 crore. Increases of Rs 1.42 crore in share capital which was received from the government towards equity capital, reserves and surpluses Rs 1.84 crore, current liabilities and provisions Rs 56.91 crore and short term borrowings Rs 1.86 crore were the sources of funds during the year. A decrease to the tune of Rs 7.14 crore in miscellaneous current assets too was a source of funds. The company utilised the funds to reduce long-term borrowings by Rs 0.84 crore. The balance funds were used to increase net fixed assets by Rs 0.34 crore, inventories by Rs 26.48 crore, receivables by Rs 29.43 crore, cash and bank balances by Rs 11.63 crore and intangible assets in the form of deferred revenue expenditure by Rs 0.46 crore.

PSI DATA SYSTEMS

Higher Stake for Bull

PSI DATA SYSTEMS, the Indian affiliate of Bull SA of France, has registered a sales turnover of Rs 22.77 crore for the year ended March 31, 1991. Of this, the revenue out of software exports has constituted Rs 9 crore. Viewed against a disappointing year for the computer industry in general this performance can be considered satisfactory, despite an operating loss of Rs 54 lakh. Tata Electric has acquired 10.47 per cent equity stake in PSI Data Systems. Moreover, Bull has decided to increase its stake in the Indian outfit from 26 per cent to 40 per cent. As a result, the equity capital of the company will go up from Rs 6.5 crore to Rs 27 crore. According to Mark Jennings, managing director of the company, the participation of Tata Electric in the equity is purely a financial one. Moreover, the company has business dealings with two other Tata companies, Nelco and Tata Consultancy Services. Because of the increased presence of the Bull group in the company, its name will be changed to PSI Bull India. The company is fully integrated within the Bull group. In the meantime, the Rs 14.6 crore state-of-the-art manufacturing facility at Peenya in Bangalore to

manufacture DPS 7000 series mainframes has commenced production.

IGGI RESORTS

Growing Network

IGGI RESORTS INTERNATIONAL, a property time-share (PTS) company, was started in 1988 by A Ignasius, and NRI from the US. The first attempt by IGGI Resorts proved a great success at Vailankanni where 10 cottages have been constructed and sold as PTS Weeks and Short Breaks. Three other locations were then identified, Kodaikanal, Ooty and Mahabalipuram and the company has future plans for Yercaud and Mercara. In Kodaikanal 20 cottages are being constructed on a 0.87 acre plot of land. 50 per cent of the construction will be ready before this year end. In Ooty IGGI will come out with more than 100 cottages. The first phase of the Ooty project is expected to be completed by the summer of 1992 and immediately IGGI will go to places like Yercaud and Mercara while continuing the second phase of the Ooty project. In the meanwhile, arrangements are being made at locations like Shimla, Goa, Lonavala, etc, for tie-ups in order to have exchange facilities for the benefit of customers.

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ANDHRA PRADESH

Recurring Patterns

M Shatrugna

The choice of candidates by both the Congress(I) and the TDP, the two principal contestants in the coming elections, reflects the pattern of dominance of different castes in the three regions of the State—Rayalaseema, Andhra and Telengana.

TOBACCO tycoons, liquor barons, civil contractors and of course film stars from the upper castes, especially from the Reddy and Kamma groups, have received the major share of Lok Sabha tickets in Andhra Pradesh this time. As usual the trend was set by the ruling Congress(I) when it gave powers to the party's parliamentary board to nominate the candidates. Though chief minister Janardan Reddy had his own share of nominees, most of the candidates who had direct access to the high command got the tickets.

Andhra Pradesh with 42 Lok Sabha seats has eight reserved seats—6 for the SCs and 2 for the STs. For the 34 general seats, the Congress(I) is fielding Reddys (13), Kammas (5), BCs (5), Rajus (4) and Christian (1), the rest being from the forward castes. The caste composition of the candidates of the National Front (of which the TDP is the major partner) is more or less the same with 11 Reddys, 8 Kammas, 7 BCs, 2 Rajus and one Muslim, the rest being forward caste people.

The Reddy community dominates the Rayalaseema districts of Chittoor, Cuddapah, Anantapur and Kurnool. This rain-starved area is supposed to be one of the most volatile regions in the State with the Reddy community dominating the political and economic scene. Though it has produced prominent Congressmen like Neelam Sanjeeva Reddy, Damodaram Sanjiviah and Kotla Vijayabhaskara Reddy, the region has remained economically backward. For the seven general category seats in this area, the Congress(I) and the TDP have each fielded 6 Reddys and 1 BC. The other constituents of the National Front have no representation in this region.

In the politically more articulate Andhra region, for the 15 general seats, the Congress(I) is fielding 5 Kammas, 4 Rajus, 2 Reddys, 2 BCs, 1 Brahmin and 1 Christian. The TDP has fielded 6 Kammas, 2 BCs, 2 Rajus, 1 Kshatriya, 1 Reddy and 1 Muslim. This region will witness fiercely-fought electoral battles between the Congress(I) and the TDP. The Con-

gress(I) has fielded business tycoons like Kavuri Sambasiva Rao (Machilipatnam), Rayapati Sambasiva Rao (Bapatla) and Madduri Subbarami Reddy (Ongole) as well as film stars Krishnam Raju (Narasapur), Ghattamaneni Krishna (Eluru) and Jamuna Ramana Rao (Rajahmundry). T Subbarami Reddy whose rags-to-riches rise is a legend in recent Andhra history is being fielded from Anakapalli where the party managed to win with a 9-vote majority in the last Lok Sabha poll. While Uma Gajapathi Raju, the estranged wife of P Ananda Gajapati Raju and a friend of the Gandhi household, is being nominated once again from Visakhapatnam, Ananda Gajapathi Raju who lost from Bobbili in 1989 has been nominated once again from the same constituency. While the coastal region has the nonagenarian N G Ranga contesting once again from Guntur (much against the opposition of the local Congress rank and file), Kasu Venkata Krishna Reddy, a nephew of Kasu Brahmananda Reddy, former chief minister, has been renominated from the prestigious Narasaraopet constituency. In fielding candidates with such diverse backgrounds, the Congress(I) has evidently decided against taking any chances in its clash with NTR against the background of the rapidly changing national political scenario. As for the TDP, barring the elder son-in-law of NTR, D Venkateswara Rao, who is contesting from Bapatla, most of the candidates are either relatively new to politics or 'non-glamorous' individuals from humble backgrounds. With the exception of industrialist Bolla Bulli Ramatah (Eluru) who was elected in 1984 but lost in the last Lok Sabha poll, the rest of the candidates in the region will have to depend on NTR for votes. In this region the two ST constituencies, Bhadrachalam and Parvatipuram, have been allotted to the Front partners, CPI and Congress(S), respectively.

In the Telengana region, which by and large has been supporting TDP and the other constituents of the National Front,

the TDP is contesting 7 of the 12 general seats, the rest being allotted to the NF partners—CPI(I), CPI(M) (2) and Janata Dal (2). For these seats, the Reddys have got the lion's share of five nominations from the Congress(I) and seven from the NF. For the rest, the Congress(I) has fielded 2 BCs, 2 forward caste persons and a Muslim. The NF has selected 2 BCs, 2 forward caste persons and a Kamma. In this region also the Congress(I) has fielded veterans with decades' of political experience like J Chokka Rao (Karimnagar), R Surender Reddy (Warangal), M Baga Reddy (Medak), Chakilam Srinivasa Rao (Nalgonda), G Venkataswamy (Peddapalli) and the up-coming liquor tycoon T Bala Goud (Nizamabad). The TDP once again has settled for 'non-glamorous' candidates whose electoral prospects solely depend on NTR and anti-Congressism. While the CPI(M) has once again nominated the ageing communist Bhim Reddy Narasimha Reddy from Miryalguda, the CPI has nominated the veteran communist Dharma Bhiksham for Nalgonda. From the urban Secunderabad constituency the Janata Dal has fielded K Pratap Reddy, advocate and civil libertarian. In the Hyderabad constituency the TDP has fielded P Indra Reddy, ruling TDP MLA and a one-time radical student leader who was interned during the Emergency, to fight the Majlis supremo Sultan Salahuddin Owaisi, a member of the dissolved Lok Sabha. The TDP, which took a scrupulously secular position in the old city politics during its entire seven-year rule in the State, is challenging Owaisi on the issue of secularism. In contrast, the Congress(I) which had a major share in the communal politics of the old city, especially in the December 1990 riots, failed to nominate a candidate until the last day of filing of nominations as it was finding it difficult to select a 'secular Congressman', preferably a Muslim. Incidentally, this constituency will also see a major communal divide between the Hindus and Muslims as the BJP sitting MLA, Baddam Bal Reddy, is contesting against Owaisi on the issue of 'Hindutva'. Though the TDP entry will have a sobering effect on the electorate, the Owaisi-Bal Reddy battle will further alienate the Muslims from the majority community.

The 'third force' represented by the BJP is contesting 36 seats. Though it has only five MLAs in the present assembly and could win only one seat in the 1984 Lok Sabha poll (when it was in alliance with the TDP) it is likely to adversely affect the prospects of the National Front, especially

the TDP, in a number of constituencies this time.

While big money and muscle power will play a major role in the Andhra region, the gun will rule the roost in the Rayala seena region. The portents are seen in the Cuddapah constituency where the Congress(I) muskman Y S Raja Sekhar Reddy (a former minister who was involved in a shooting case in the State secretariat premises when he was holding the education portfolio) is contesting. The polling date was initially postponed from May 20 to 26 as the Election Commission thought that the constituency was 'super sensitive' and hence needed special attention. It

was later reverted to the original schedule after the TDP had protested against the change of dates.

The Telengana region will have a new set of problems in the election boycott call given by the Peoples' War Group of Naxalites. Unlike in the last poll, the PWG has declared that this time it would "implement the boycott call 'seriously'". The boycott call presumably will lead to serious law and order problems, especially in the districts of Khammam, Warangal, Kareemnagar, Nizamabad and Adilabad where the PWG has a strong base and where the other (CP(M)) groups are contesting the elections.

the college managements. By holding 'elections' from among a body of largely nominated members, not only is the purpose of public accountability not served but, instead, the university bodies have become victims of petty politicking and horse trading of a very non academic nature. It has given rise to a whole new breed of educational manipulators, 'mister fix-its' who have come to dominate the working of universities.

Surprisingly, even with the drawbacks of the present set up so glaringly obvious, there have been no concerted effort by the parties most affected to rectify the situation. With a couple of exceptions, most of the student unions and teachers' organisations have shown no interest in addressing themselves to this problem and proposing feasible solutions. In the circumstances, it was perhaps inevitable that the initiative for reform would pass to the government. The government of Maharashtra has recently prepared a comprehensive bill to amend the universities acts and it may be presented to the state assembly in the forthcoming monsoon session or whenever it is considered politically expedient by the party in power.

From the available information, it is clear that the modifications proposed under the government bill are going to be of detail rather than of substance. The major difficulties that beset the universities administration today, as mentioned above, are the diffused nature of responsibilities and authority, an (often) artificial division of a problem into its academic and non academic parts, a reluctance to carry out meaningful reforms in the examination system, and so on. None of these difficulties are likely to be solved by having only 20 members on the academic council instead of the present 50 or more or by increasing the number of government nominees in the executive council or by a mild tinkering with the examination system. Yet from available information, the proposed bill does not go much further than this.

It is undoubtedly true that universities and colleges are suffering from rapidly declining standards of both academic activities and scholarship as well as routine administration. For a proper nurturing of the first, it is important that the second aspect of the functioning of a university be also well looked after. Modifications in the universities acts have to be judged only from the limited point of view of how they would help in toning up the university administration which, in turn, will help in improving the academic standards of the university. Even from this limited point of view, the proposed new bill of the government of Maharashtra is unlikely to achieve much.

Tinkering with Higher Education

J V Deshpande

The modifications proposed in the Maharashtra government's bill to amend the universities acts in the State deal with matters of detail rather than of substance and will therefore, achieve little even in terms of toning up the administration of the universities, not to talk of raising academic standards and performance.

AMONG educationists as well as people at large, there are no two opinions about the rapidly declining standards of higher education in India. All are agreed that in the past couple of generations the quality of teaching and research and of scholarship among the academics has declined precipitately in most of the colleges and universities and that this decline shows no signs of being halted.

In fact, the situation may be said to have taken a turn for the worse. Of late, universities in the country have shown themselves to be increasingly incapable of coping with even routine administrative chores. It has become commonplace to see a university taking six months or more to complete an examination and declare its results or two years or more to fill a faculty vacancy. Even if one overlooks the reports of serious malpractices which are regularly reported from most of the institutions of higher education, it has to be accepted that the situation in colleges and universities is dismal indeed.

While there is unanimity about the all round decline in the working of the colleges and universities, this is not the case when it comes to diagnosing the causes of such decline. A rapidly increasing student body, combined with a significant reduction in per capita outlay on higher education by government in the past few years, also a mushroom growth of universities and colleges and their staffing by inadequately qualified and poorly motivated faculty are some of the reasons often cited for the present unhappy state of affairs. Many persons also attribute it

to the new 10+2+3 pattern of education which was put into effect in the country in the mid seventies.

In the mid seventies again, the government of Maharashtra modified the structures of the different universities in the State. By enacting an essentially uniform act, it homogenised the workings of all the non agricultural universities in the State. Ironically, instead of toning up the administration of the universities, their performance since then has noticeably worsened.

The act under which universities in Maharashtra have been functioning for the past 15 years abounds in several unpleasant features—ranging from the mode of selecting the vice chancellor to a faultily designed division of power and responsibility among the various organs of the university system. Not content with directly putting its own nominees on the various decision making bodies of universities, the state government also keeps with itself the final authority in respect of many vital issues, be they the fixation of the salary of a newly appointed teacher or the granting of affiliation to an ill equipped new college sponsored by influential parties.

As institutions sustained by public funds, it is appropriate that colleges and universities should be accountable to the public. Ostensibly, this is achieved by having a sprinkling of elected individuals on some of the university bodies. In practice, however, the electors in most cases are mainly nominated by the government or

Impact of Disintermediation

The trends in both deposits of commercial banks and credit to the commercial sector in 1990-91 showed the impact of growing financial disintermediation in the economy.

THE expansion in supply of money (M_1) decelerated both in absolute amount and in percentage terms in the fiscal 1990-91, to Rs 12,136 crore or 14.9 per cent from Rs 14,814 crore or 22.2 per cent in 1989-90. All the three components of M_1 —currency, demand deposits and other deposits with Reserve Bank of India—shared in the expansion. The contribution of currency at 55.3 per cent is almost the same as that in 1989-90. However, the absolute increase in currency during the year at Rs 6,714 crore was much lower than the increase of Rs 8,231 crore in 1989-90 perhaps due to significant widening of the balance of payments deficit. The rise in demand deposits by Rs 4,040 crore or 11.9 per cent during the review period was also sizably lower than that of Rs 6,217 crore or 22.4 per cent in 1989-90. Other deposits with Reserve Bank on the other hand recorded a significant rise (which may be reflective of India's bilateral trade expansion) and contributed to the money supply expansion during the year to the extent of 12.4 per cent. In spite of an accretion to time deposits of Rs 22,164 crore or 15 per cent which pushed their share in M_1 to 64.6 per cent as compared with 60.6 per cent in 1989-90, expansion in M_1 at Rs 34,300 crore or 14.9 per cent was lower in 1990-91 (Table 1). This growth was the smallest recorded in the last nine years (Table 2).

Net bank credit to government expanded by Rs 21,778 crore or 18.7 per cent in 1990-91 as compared to a lower expansion of Rs 19,552 crore or 13 per cent in 1989-90. The Reserve Bank of India and the commercial banks extended loans in the proportion of 62.4 per cent and 37.6 per cent in 1990-91 as against 66.4 per cent and 33.6 per cent in 1989-90. The increase in the Reserve Bank's accommodation to the Central government of Rs 13,594 crore as compared to Rs 13,031 crore in 1989-90 was a record.

The order of growth in bank credit to the commercial sector, on the other hand, at Rs 19,552 crore works lower by Rs 3,631 crore than in 1989-90. Even this order of advances is due to the continued buoyancy in demand for funds for food procurement operations. The decline in the rate

of growth of non-food credit was in part due to poor industrial sector performance and in part due to writing off of agriculture and other loans. The increase of Rs 1,429 crore in the net foreign exchange assets of the banking sector was mainly on account of the appreciation in the value of gold held by the Reserve Bank following its revaluation at the international market price effective from October 17, 1990, which also had a corresponding effect on Reserve Bank of India's net non-monetary liabilities which bulged by Rs 7,960 crore or 43.7 per cent during the year.

The operations of scheduled commercial

banks in 1990-91 was characterised by a subdued expansion in both bank deposits and credit and an appreciable increase in the banks' investment. Accretion to bank deposits in 1990-91 at Rs 23,754 crore was lower by Rs 2,601 crore than the rise of Rs 26,355 crore in 1989-90. The ratio of demand and time deposits incrementally worked out to 6.1 per cent and 93.9 per cent, respectively, as compared to 20.9 per cent and 79.8 per cent in 1989-90 (Table 1). The rate of growth at 13.7 per cent is the lowest recorded since bank nationalisation in 1969 (Table 3). This growth might have been even smaller but for the smart jump of Rs 6,080 crore in deposits during the last week of the fiscal year (between March 22 and March 29). However, during the major earlier part of the year the addition to deposits was more or less even, averaging about Rs 2,000 crore per mensem. This trend seems to be the direct result of the increasing number of options that are available in short and long term for deploying funds profitably—such as certificates of deposits (CDs) for short

TABLE 1. TRENDS IN MONEY SUPPLY

| | (Rs crore) | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 1990-91 | 1989-90 | 1988-89 | 1987-88 | 1986-87 |
| Components of M_1 | | | | | |
| Currency | 6714 (14.4) | 8231 (21.4) | 4765 (11.2) | 5065 (17.7) | 3417 (13.6) |
| Demand deposit | 4040 (11.9) | 6217 (22.4) | 3875 (16.2) | 1615 (7.3) | 4060 (22.3) |
| Other deposit with RBI | 1382 (14.9) | 366 (22.2) | 165 (15.2) | 55 (12.9) | 101 (17.4) |
| M_1 | 12136 (14.9) | 14814 (22.2) | 8805 (15.2) | 6625 (12.9) | 7578 (17.4) |
| Time deposits | 22164 (15.0) | 2755 (18.1) | 20620 (19.1) | 15402 (17.2) | 14717 (19.7) |
| M_2 | 34300 (14.9) | 3569 (19.0) | 29425 (18.1) | 22077 (15.7) | 22295 (18.8) |
| Sources of Change in M_1 | | | | | |
| Net bank credit to government sector | 21778 (18.7) | 19631 (20.3) | 1271 (15.2) | 12811 (18.0) | 12776 (21.8) |
| Reserve Bank of India | 13594 (18.6) | 13031 (21.7) | 7225 (13.7) | 7025 (15.3) | 6867 (17.7) |
| Other banks | 8184 (18.8) | 6600 (17.9) | 5486 (17.7) | 5786 (72.7) | 5909 (30.1) |
| Bank credit to commercial sector | 19552 (13.0) | 23183 (18.2) | 21687 (20.1) | 12389 (13.3) | 11294 (13.8) |
| Reserve Bank of India | 305 (5.9) | 757 (5.7) | 1144 (30.1) | 977 (11.0) | 363 (11.8) |
| Other banks | 19247 (13.3) | 22926 (18.8) | 20543 (20.2) | 12012 (13.4) | 10931 (13.9) |
| Net foreign exchange assets of banking sector | 1429 (21.7) | 85 (1.3) | 980 (17.7) | 735 (15.4) | 1314 (37.8) |
| Net non-monetary liabilities of banking sector | 8486 (18.7) | 5410 (13.5) | 6108 (18.0) | 4096 (13.7) | 3341 (12.6) |
| Reserve Bank of India | 7960 (43.7) | 1930 (31.8) | 2415 (17.4) | 1019 (7.9) | 2183 (20.4) |
| Other banks | 526 (19.4) | 3480 (14.7) | 3693 (18.5) | 4077 (18.2) | 1158 (7.3) |

Note: Figures in brackets are percentage variations over the preceding year.

TABLE 2: GROWTH OF MONEY STOCK AND SOURCES OF CHANGE

| Year | M ₃ (Rs Crore) | Contribution to Growth of M ₃ (Per Cent) | | | | |
|---------|------------------------------|---|---|-----------------------------------|-------------------------|-------------------------------------|
| | | Net Bank Credit to Government Sector | Bank Credit to Commercial Sector | Net Foreign Exchange Assets | Currency Liabilities | Net Non- Monetary Liabilities |
| 1980-81 | 8,557 (18.3) | 64.3 (28.6) | 65.5 (18.3) | 9.2 (-14.3) | 0.3 (4.6) | 20.9 (19.6) |
| 1981-82 | 7,068 (12.8) | 76.5 (21.9) | 94.5 (18.4) | -28.0 (-42.4) | 0.5 (6.1) | 43.5 (28.2) |
| 1982-83 | 10,442 (16.7) | 44.1 (15.3) | 79.0 (19.2) | -8.2 (-31.9) | 0.2 (3.8) | 15.1 (11.3) |
| 1983-84 | 13,031 (17.9) | 44.2 (16.6) | 67.8 (17.3) | -1.4 (-10.0) | 0.3 (5.6) | 10.9 (9.1) |
| 1984-85 | 16,058 (18.7) | 52.6 (20.8) | 67.3 (18.0) | 10.2 (99.2) | 0.4 (7.9) | 30.4 (28.8) |
| 1985-86 | 16,381 (16.1) | 58.4 (19.6) | 67.5 (15.6) | 1.2 (5.9) | 1.0 (26.8) | 28.1 (12.6) |
| 1986-87 | 22,295 (18.8) | 57.3 (21.8) | 50.7 (13.8) | 5.9 (31.8) | 1.1 (26.8) | 15.0 (12.6) |
| 1987-88 | 22,027 (15.7) | 58.2 (18.0) | 56.2 (13.3) | 3.3 (15.4) | 0.9 (15.8) | 18.6 (13.7) |
| 1988-89 | 29,425 (18.1) | 43.4 (15.2) | 73.7 (20.5) | 3.3 (17.7) | 0.3 (6.9) | 20.7 (18.0) |
| 1989-90 | 37,569 (19.6) | 52.3 (20.3) | 61.7 (18.2) | 0.2 (1.3) | 0.2 (5.4) | 14.4 (13.5) |
| 1990-91 | 34,300 (14.9) | 63.5 (18.7) | 57.0 (13.0) | 4.1 (21.7) | 0.1 (1.7) | 24.7 (18.7) |

Note. Figures in brackets are percentage variations over the previous year.

TABLE 4: OPERATIONS OF SCHEDULED COMMERCIAL BANKS

| | (Rs crore) | | | | |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| | 1990-91 | 1989-90 | 1988-89 | 1987-88 | 1986-87 |
| Aggregate deposits | 23,754 (13.7) | 26,355 (17.9) | 29,115 (24.7) | 15,321 (14.9) | 17,320 (20.3) |
| Demand deposits | 1,459 (4.4) | 5,516 (19.8) | 7,674 (37.9) | 1,020 (5.3) | 3,615 (23.2) |
| Time deposits | 22,295 (15.9) | 20,839 (14.9) | 21,441 (21.9) | 14,302 (17.1) | 13,705 (19.6) |
| Bank credit | 12,788 (12.1) | 16,080 (18.0) | 18,834 (26.7) | 7,228 (11.4) | 7,240 (12.9) |
| Food credit | 2,702 (144.7) | 1,070 (140.3) | 1,413 (64.5) | 2,914 (-57.1) | 431 (-7.8) |
| Non food credit | 10,086 (9.7) | 14,990 (16.9) | 20,247 (29.6) | 10,142 (17.4) | 7,671 (15.2) |
| Investment | 11,016 (17.1) | 8,894 (16.0) | 9,186 (19.8) | 7,922 (20.5) | 8,028 (26.3) |
| Balances with RBI | 7,050 (26.7) | 4,522 (20.6) | 4,256 (24.1) | 3,275 (22.8) | 3,328 (30.1) |
| Cash in hand | 72 (4.1) | 58 (3.4) | 396 (30.3) | 132 (11.2) | 47 (4.2) |
| Credit-deposit ratio | | | | | |
| Aggregate | 59.9 | 60.8 | 60.7 | 59.8 | 61.6 |
| Incremental | 53.8 | 61.0 | 73.6 | 47.2 | 41.8 |
| Non-food credit deposit ratio | | | | | |
| Aggregate | 57.6 | 59.7 | 60.2 | 57.9 | 56.7 |
| Incremental | 42.5 | 56.9 | 69.5 | 66.2 | 44.3 |
| Investment-deposit ratio | 38.3 | 37.2 | 37.8 | 39.4 | 37.6 |
| Cash-deposit ratio | 17.9 | 16.2 | 16.0 | 16.1 | 15.1 |
| Borrowing from RBI | 4,131 (102.3) | -182 (-4.3) | 2,467 (140.7) | 460 (35.6) | 339 (35.5) |

Notes: (1) Cash-deposit ratio is defined as the ratio of cash in hand and balance with RBI to aggregate deposits.

(2) Figures in brackets are percentage variations over the previous year.

TABLE 3: TREND GROWTH OF SCHEDULED COMMERCIAL BANKS' DEPOSITS AND CREDIT (Per cent)

| Year | Scheduled Commercial Banks Deposits | Credit |
|---------|--|--------|
| 1969-70 | 15.9 | 16.9 |
| 1970-71 | 17.5 | 18.0 |
| 1971-72 | 20.3 | 12.4 |
| 1972-73 | 21.6 | 16.2 |
| 1973-74 | 17.3 | 21.0 |
| 1974-75 | 16.6 | 18.4 |
| 1975-76 | 19.7 | 24.1 |
| 1976-77 | 24.1 | 21.1 |
| 1977-78 | 26.4 | 13.4 |
| 1978-79 | 21.6 | 19.1 |
| 1979-80 | 17.6 | 21.0 |
| 1980-81 | 19.6 | 17.8 |
| 1981-82 | 15.1 | 17.0 |
| 1982-83 | 17.4 | 19.6 |
| 1983-84 | 18.0 | 16.3 |
| 1984-85 | 19.2 | 18.5 |
| 1985-86 | 18.2 | 14.5 |
| 1986-87 | 20.3 | 12.9 |
| 1987-88 | 14.9 | 11.4 |
| 1988-89 | 24.7 | 26.7 |
| 1989-90 | 17.9 | 18.0 |
| 1990-91 | 13.7 | 12.1 |

term and the mutual fund schemes of various financial institutions. As a sequel to this lower expansion in deposits the Reserve Bank had to come to the rescue of banks to the tune of Rs 4,131 crore during the year.

The falling trend in bank deposits together with RBI's directive to banks to keep the incremental non-food credit deposit ratio at 60 per cent forced the latter to keep a strict vigil on their lending portfolio during the year. However, the growing disintermediation with companies accessing the market directly as well as improved internal accruals also led to a decrease in the demand for credit by the corporate sector during the year. Hence the expansion of bank credit was very much subdued at Rs 12,788 crore as against Rs 16,080 crore in 1989-90. However, there was a sharp rise in food procurement credit by—Rs 2,702 crore against Rs 1,090 crore in 1989-90.

The deliberate slow down of credit creation resulted in higher investment by banks during the year. Addition to banks' investment in government securities at Rs 11,016 crore or 17.1 per cent in 1990-91 was higher than Rs 8,894 crore or 16 per cent in the previous year.

The non-food credit expansion of Rs 10,086 crore or 9.7 per cent was meagre as compared to Rs 14,990 crore or 16.9 per cent of last year. The resultant incremental non-food credit-deposit ratio was only 42.5 per cent in 1990-91 (compared to 56 per cent last year) and was below the norm of 60 per cent fixed by the Reserve Bank.

Appropriating Sri Sankaradeva

Kamarupce

Why this desperate attempt by the pan-Indian cultural establishment to 'Indianise' Sri Sankaradeva, a figure considered by the Assamese people as the quintessential symbol of Assamese nationality?

THE recent 'National Seminar' on Sri Sankaradeva (circa 1449-1568), the great religious reformer of Assam viewed as a consolidator of the Assamese as a people giving a distinct identity to the language and culture of the people inhabiting the Brahmaputra valley and some areas beyond to the west, presently in northern Bangladesh and West Bengal, organised jointly by the Sahitya Akademi and the Forum for Sankaradeva Studies at the Rabindra Bhavan in Guwahati (January 29-31) has had, perhaps inescapably, also an implicit political content. The very holding of such a 'National Seminar' on the life and work of one who for long has been relegated to an obscure footnote (if at all) in the intellectual history of the country as written by most pan-Indian scholars (with a few honourable exceptions) at a time when voices are being heard seeking to distance 'Asom' from 'India' to the extent of pressing for a 'Sovereign Asom' is surely significant.

The burden of the scholarly papers read during the seminar and the various polemical interventions was that Sri Sankaradeva, who is quite rightly viewed by the Assamese speaking people of the Brahmaputra valley (henceforth referred to as the Assamese people) as the person who gave them their very identity as a people, who used the Assamese language creatively and consolidated its idiom, was actually a pan-Indian figure who never thought of himself as 'Assamese', but only as an 'Indian', or more precisely, as a 'Bharatavasi'.

Such attempts at appropriation of a figure considered by the Assamese people as the quintessential symbol of Assamese nationality by the pan-Indian cultural establishments have come in the context of the assertion of an exclusivist Assamese nationalism seeking sovereignty for the 'people of Asom' (in which category is included not merely the Assamese people but several other strands of people inhabiting the region). The most notable exponent of this line of thinking is the self-confessedly revolutionary and secessionist outfit, the United Liberation Front of Asom (ULFA). For, for several decades, indeed centuries, the significance of Sri

Sankaradeva as the theoretician and proponent of the reformed form of Hinduism in Assam, thus weakening the stranglehold of priestcraft on caste Hindu Assamese society and assisting in the consolidation of the Assamese as a people, transcending to the extent possible the old caste barriers (though still within prescribed limits), corresponding to similar reformist movements within the Hindu fold around the same period (14-16 centuries) in several other parts of the country, has hardly been recognised. Indeed, even the name of Sri Sankaradeva is little known outside specialist circles among whom his achievement marked merely a marginal footnote as it were in the evolution and consolidation of the reformist Bhakti movement in most parts of the country. Even now it is not uncommon for persons from outside the region to claim acquaintance with Sri Sankaradeva, solemnly maintaining that actually contrary to what people in Assam think he actually belonged to Kerala and not to Assam.

Given such perceptions outside the State it was a pleasant surprise that one of the highest symbols of pan-Indian intellectual establishments, the Sahitya Akademi, should join hands with a decidedly humbler cultural outfit in the State, the Forum for Sankaradeva Studies (whose formation and modest attempts to propagate Sankaradeva's ideas is only one of the many signs of the deep and abiding commitment of the most Assamese of concepts and affirmations to seek a pan-Indian identity) and hold the 'National Seminar'. Scholars were drawn from several parts of the country, including distant Kerala, every one of whom was rather self-consciously adulatory about Sankaradeva's work. Considering the virtual absence of translations of Sankaradeva's works—the first and only translation of Sankaradeva's *Kirtana Ghosha* by Sri Chandrakanta Mahanta, a truly voluntary labour of love and devotion with no support from any pan-Indian establishment, was published only a few months ago and has received no notice even within the State—one wonders how the scholars many of whom could not be

presumed to be familiar with the language of the corpus (or even with Brajavali Bhasha, the language that is now being claimed in some circles to have been actually the language of Sankaradeva, another attempt at appropriation into which one need not go here) could have been so eloquent about the truly 'Indian' dimensions of his life and work.

It is true that Sri Sankaradeva did not view himself as especially 'Assamese'. There is no reference in his works to 'Assam' or any of its derivatives—concepts that were to acquire currency and political meaning long after Sankaradeva. He himself is known to have celebrated in several passages his commitment to Bharatavarsha. Virtually every speaker during the seminar referred with great satisfaction to the well-known passage about him by his disciple Madhavadeva where Sankaradeva is described as acknowledging with thankfulness his Indian identity.

Dhanya dhanva kalilal

Dhanya naratanu bhal

Dhanva dhanya bharata banish

though one of the interlocutors was naughty enough to wonder whether Sankaradeva had been aware of any other entity apart from Bharata to thus invest such staunch admiration for Bharata with some discriminating flavour.

But the question remains: Why this desperate attempt to appropriate Sankaradeva since in Assam itself there has been no move to view him in exclusivist terms? On the contrary, almost everything written by Assamese scholars on Sankaradeva emphasises the pan-Indian character of his personality and the pan-Indian significance of his work, though tinged with some regret that these aspects of his personality and work have not received due recognition outside the region. The fact that Sankaradeva travelled in many parts of India outside the Ahom kingdom and the Koch kingdom, both of which he straddled and was influenced by and in turn influenced the philosophical thought of other figures of the Bhakti movement does not in the least take away the essentially Assamese character of his life and work. After all he welded together what may be called the Hindu Assamese personality liberating it from the clutches of priestcraft, under

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lining the possibility of direct communion with god (in his case Vishnu and his manifestations) and preached what has come to be known as *ekasara dharma*, the religion of surrender to one god. All these elements have gone into the making of the distinct and identifiable Assamese personality, one of the many strands that have gone to the making of the Indian personality of which it is a part and with which it has been co-existing in a relation of creative harmony and tension for centuries.

Like other nationalities of India that is Bharat, the Assamese nationality too has a clear and distinct personality with a basis in language, a world view and a view of man and his relation with his god which are all unique to Assam. The most obvious way of paying tribute to his son of Assam, even if it was being done by the pan-Indian cultural establishments, would have been to acknowledge that even while being truly pan-Indian, he was also quintessentially Assamese.

But the urge to Indianise even persons who do not require any such cosmetic treatment is apparently not confined only to the practitioners of Hindutva. For the burden of many of the papers read during the seminar, and even more so of the summings up at various sessions, appeared to be oppressively bent upon on driving home the point that Sankaradev was a pan-Indian figure, which he undoubtedly was, almost to the exclusion of the Assamese roots from which his Indian sensibility received its nourishment and ideological inspiration.

Such near-bullying kind of attempts to appropriate even the most explicit and powerful symbols of vibrant and living regional cultures into a superimposed Indian identity from above, are not likely to advance the Indian cause one bit. Indeed there was a feeling among many who patiently sat through the three-day seminar that after taking away the natural resources of the region (tea, petroleum, timber and the like) and exploiting them for the enrichment of India, the Indian establishment has now bent upon taking away and making its own the very soul of Assam, seeking to divest the people of their pride and the very 'reason for their existence'.

Such appropriation is not only not necessary, but is also not desirable even from the requirements of affirming the State's and the people's enduring and indissoluble links with India. The fact is that such a pan-Indian personality is emerging even in Assam, albeit gradually, not because, but despite such efforts. However, such intellectual aggressiveness and arrogance may retard, not advance, the process.

TAMILNADU PETROPRODUCTS LIMITED

No. 6, Nungambakkam High Road, Madras - 600 034

NOTICE

It is hereby notified for the information of the public that TAMILNADU PETROPRODUCTS LIMITED proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval to the establishment of a new unit. Brief particulars of the proposal are as under:

1. Name and address of the applicant
TAMILNADU PETROPRODUCTS LIMITED
6, Nungambakkam High Road, Madras - 600 034
2. Capital structure of the applicant organisation
Authorized Capital: 10 00 00 000 Equity Shares of Rs. 10/- each
1. Subscribed and Paid up Capital: Rs. 48 75 00 000/-
3. Management structure of the applicant Organisation indicating the names of Director, including the Managing/Whole time Directors and Manager, if any.
The Managing Director is in charge of the day to day management of the Company under the superintendence, control and guidance of the Board of Directors.
Board of Directors:
The Hon. P. V. Narayana Murthy IAS, Chairman
The Hon. A. C. Murthy IAS, Vice Chairman
The Hon. K. V. Srinivasan IAS, Managing Director
The Hon. A. C. Lakshminarayana IAS
The Hon. B. D. Dadasaheb
The Hon. M. Srinivasan
The Hon. A. M. Ravi Varan IAS
The Hon. K. Chandrasekhar IAS
The Hon. M. B. Prasad
The Hon. K. V. Ramaswami
The Hon. V. L. Shah
The Hon. C. S. Lakshminarayana
The Hon. P. R. Sundaravachellu
4. Indicate whether the proposals relate to the establishment of a new undertaking or to a new unit/division.
It is a new undertaking.
The place of the new undertaking is Nambakkam, Thiruvallur District, Tamil Nadu.
5. Capital structure of the proposed undertaking.
Not Applicable.
Indicate the proposal relates to the production, storage, supply, distribution, marketing or control of any goods, article, or service.
Production:
(1) Name of goods, article: ETHYL CHLOROHYDRIN
(2) Proposed licensed capacity: 10 000 MTA
(3) Estimated annual turnover: Rs. 65 Crores
6. Indicate the proposal relates to the provisions of any service, state the volume of activity in terms of usual measures such as value, income, turnover, etc.
Not Applicable.
7. Cost of the project: Rs. 55.24 Crores
10. Schemes of finance indicating the amounts to be raised from each source:
Internal Generation: Rs. 11.05 Crores
Debt Finance/Term Loan: Rs. 44.19 Crores
Rs. 55.24 Crores

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein.

For TAMILNADU PETROPRODUCTS LIMITED

Place: Madras - 600 034
Date: 6th May 1991

M. B. GANESH
SECRETARY

Press on Ayodhya 'Kar Seva'

Aaghar Ali Engineer

The Press Council of India's two reports on the press coverage of the events in Ayodhya on October 30 and November 2 in some newspapers are harshly critical of such biased journalism. Laterally, they also draw attention to the issue of 'editorial activism'.

THE 'kar seva' on October 30 and November 2, 1990 attracted nation-wide attention. The language media, specially the Hindi press showed almost religious zeal in reporting the event. The Press Council of India taking note of the extraordinary biases which crept into the reporting of the event set up a five-member committee to hear complaints and prepare a report. This committee produced two sets of reports: a majority report and a minority report. The majority report was produced by N K Trikha, N R Chandran and Satish Khurana whereas the minority report was signed by K Vikram Rao and P Raman. It must be said that both the reports agree on the essentials but there is difference of emphasis. The minority report is harsher on its judgment on reporting in the Hindi press whereas the majority report has been harsher on the government of UP for its curbs on the press. The minority report while not approving of these curbs by the government also tries to understand extraordinary situation under which they were applied.

Based on these reports the Press Council passed a resolution in its meeting held at Thiruvananthapuram (Kerala) on January 21-22, 1991 censuring four Hindi dailies *Aaj*, *Dainik Jagran*, *Swatantra Chetna* and *Swatantra Bharat*. The Council felt that these papers had shown "gross irresponsibility and impropriety, offending the canons of journalistic ethics, in covering the events relating to the mandir-masjid issue on and around October 30, 1990". The Press Council also expressed "concern over the authorities taking recourse to punitive and preventive action in excess of the demands of the situation". The Council also "deplored the action of the authorities of government of UP in invoking provisions of non-existent press (Objectionable Matters) Act, 1951, and misapplying provisions of the Press and Registration of Books Act, 1867, in suppressing freedom of the press".

In fact the complaints about misbehaviour of the press had been received from various States but the Press Council limited the inquiry to two States, UP and Bihar, "as they constituted the main theatres of action in the matter". In its first round the committee held public hearings at Agra on November 21, 1990,

at Lucknow on November 22-23, 1990, at Varanasi on November 24, 1990 and at Faizabad on November 25, 1990. It also separately heard the UP chief minister, the chief secretary, the home secretary and the information secretary at Lucknow on November 26, 1990. The members also visited Ayodhya on November 25, 1990 and went round the various spots related to the incidents of October 30, 1990, and November 2, 1990 including the disputed shrine, 'shilanyas' site, Maniram Chavni and the Saryu bridge. In the second round the committee held public meetings at Ranchi on December 3-4, 1990 and Patna on December 6, 1990, where it also heard the chief minister, the chief secretary and other top officials of Bihar.

The UP chief minister Mulayam Singh Yadav named three Hindi dailies, *Aaj*, *Dainik Jagran* and *Swatantra Bharat* for inciting communal passions and the Bihar chief minister complained against the solitary paper, *Aaj* for its slanted reporting. The director of information and public relations, UP, however, named an additional paper *Swatantra Chetna* of Gorakhpur and Lucknow.

The majority report points out that *Aaj*, Kanpur, gave very provocative headlines about the events on November 2, 1990 in its issue of November 3, 1990. *Aaj* headline read *Nihatte Ram Bhakton ko Gher kar Ghanton Firing—200 Maray. Kartik ke San parv Per Khoon Se Nahayee Ayodhya, Jalianwala Bagh Kaund Beuna Pada* (Hours of Firing on Unarmed Worshipers of Ram After Rounding Them Up—200 die, Ayodhya Bathed in Blood on Kartik-day Bath, Jalianwala Bagh episode becomes petty against this). This paper's edition of October 24, 1990 carried an item under the headline, 'Mirzapur Jail Mein Ram Bhakton Ko Ghodey Kee Leed Khilayee Jaa Rahi Hey' (The worshippers of Ram are being fed horse dung in Mirzapur Jail).

The Agra edition published an evening bulletin with the headlines, '*Ayodhya Mein Firing, Sankado Hatahat, Sarkar Dwara, Mrityak Sankhya Panch Batayee*' (i.e., Firing in Ayodhya, Hundreds Injured, Denial by Government, Gives out Figure of Dead as Five). The Lucknow edition of November 2, 1990, carried a headline,

'*Sau Se Adhik Lashen Saryu mein Fainkee Gayen*' (More Than 100 Dead Bodies Thrown into River Saryu). The same edition announced in the same issue that armed 'kar sevaks' would now be pressed into the movement. A special report carrying a list of missing persons, released by the VHP, was published with the headlines, '*Yadi Balidan Nahin Huye, To Kahan Gaye Ye 307 Kar Sevaks*' (If There Were no Sacrifices Then Where Did These 307 Kar Sevaks Go?) in its issue of November 1, 1990. The paper's Bareilly edition carried headlines, much more objectionable, which ran '*Hathiaron Se Lais Ho Kar Hi Ayodhya Ayeen*', '*VP Mulayam Ko Kutton Se Nuchwayen*', '*Advani Mughaltay Mein Na Na Rahen Ki Musalman Kamzor Ya Buzdil Hein*' (Come to Ayodhya Only After Being Armed, VP Should Have Mulayam Torn by Dogs, Advani Should Have no Illusion that Muslims are Either Weak or (owards) *Dainik Jagran* also published some such items in its Bareilly edition.

The Council's report says that the Ranchi edition of the *Aaj* dated October 26, carried a screaming headline '*Ayodhya Mein Ram Mandir Toda Gaya*' (Ram Temple Broken in Ayodhya). The report also points out that the news under this headline did not mention this fact. It only said that the canopy standing over the 'shilanyas' site had been damaged and an idol in the pit had been removed. The Patna edition of the paper reported that the VHP general secretary Ashok Singhal was hit by bullet on October 30 and carried a poem which called the then prime minister a progeny of Jai Chand and likened him to Ravan.

It is also interesting to note that different editions of the same paper ran widely varying accounts of the same event. For example different editions of *Aaj* gave different figures of casualties in their different editions from different places: Varanasi: 100 dead; Ranchi: 400-500 dead and injured; Agra: 100 killed; Kanpur: 200 killed; Bareilly: 500 killed.

Commenting on this the resolution of the Press Council says that "Spreading panic and confusion in an already tense and polarised situation was dangerous to a fault in adding fuel to the fire".

According to the Press Council report the *Dainik Jagran*, Lucknow, published in its special bulletin in the afternoon of November 2, that "one hundred 'kar sevaks' had died on the spot in indiscriminate police firing on Ram Bhaktas". The figure was reduced to 32 in the regular morning edition of November 3. On November 18, it carried an item set in double column with the heading '*Shri Ram Kranti Brigade Agle*'.

Indian Institute of Advanced Study

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Madh Tak Mulayam Ke Haath Pair Kaat Daig? (Shri Ram Kranti Brigade Will Cut off Hands and Feet of Mulayam by Next Month). Worse, the item was based on an anonymous letter which also said that a thousand police and army personnel who are Ram 'bhaktas' were leaving their jobs and would support the brigade's activities. The same paper, in its issue of November 15, wrote in a report spread over four columns that the chief minister Mulayam Singh was very angry that not enough bullets were fired on the unarmed 'Ram bhakt kar sevaks' at Ayodhya during the past few days. A sub-heading said that the police was not in favour of firing at the unarmed 'kar sevaks'.

This paper also published from its Faizabad bureau a report across all eight columns which said '*Har Gaon Ko Ayodhya Maan Kar Sangarsh Karen*' (Consider Every Village Ayodhya and Fight). It also published in headlines, '*Ram Mandir Ke Live Das Lakh Ka Dasta Ladakoo Banega*' (Ten Lakh Strong Militant Force Shall be Raised for Ram Temple).

Swatantra Bharat, Lucknow, reported the incident of November 2 with these headlines: "Nihatte Kar Sevakon ko Bhoon Dala 100 Lak Ke Marne Kee Aashanka 25 Tashen Baramad Hazaron Ghayal" (Unarmed 'kar Sevaks' Massacred, Up to One Hundred Killed, 25 Bodies Found, Thousands Wounded). In the story, the paper reported that anywhere between 50 and 100 people were feared dead. It also gave other figures from different sources: the State's home secretary—14, news agencies—15, BBC correspondent who had returned from the spot—between 30 and 50.

The Council report comments: "Though the paper was fair in giving figures from several sources including the official, it gravely erred or thought it affordable to be callous in putting the figure of one hundred in bold headlines. In order to avoid sensationalism particularly when the atmosphere is emotionally surcharged, it is always advisable to say 'at least 50 killed' instead of saying 'up to 100 killed'."

Swatantra Chetna of Gorakhpur went even further. It had originally published a figure of 15 dead on November 2 in a special bulletin that afternoon, but at the last moment '1' was inserted by hand to make it 115. The item remained credited to the news agency 'Univarta' even after this change. This was not only irresponsible but also unethical. This paper also carried a news item under the heading '*Gorakh Nath Mandir ke Gate Par Kabza, Sadhuon Mein Dahshat, Mandir Ke Pramukh Dwar Par Virodhi Jhanda Phharye Gaye*' (Gate of Gorakh Nath

Temple Seized, Terror Among Devotees, Opponents' Flags Unfurled at Main Gate).

This news was contradicted by the temple sources. The Council report commenting on this news item says, "It may be noted that this shrine is headed by Mahant Avaidya Nath, MP, who is the chairman of the Ram Janmabhoomi Mukti Yagna Samiti. Therefore, such a news had a very serious implication from the communal and political point of view. It should not have been published without confirmation at least from the temple authorities. But no such care seems to have been taken by the paper."

Besides these papers there were some other papers whose role was also not beyond reproach. These papers whom either authorities or some members of the public criticised were *tridini* (Varanasi), *Janavatta* (Varanasi), *Awaz-e-Mulk* (Varanasi), *Amul Ujala* and *Tanzen* (Patna).

After taking stock of the role of these papers the report goes on to recommend "that the Council may express deep displeasure and serious concern at the above mentioned role of a section of the press in two States, particularly of the multi edition papers of UP which command widespread circulation, thereby influencing the opinion of a large section of people in the State. They may be reprimanded for this. The Council may also issue an appeal to all newspapers and newsmen to strictly and faithfully adhere to and carry on the noble traditions of the Indian press to maintain the highest standards of free, fair and objective journalism particularly during the periods of national crisis and communal and social strife."

The sub-committee report, however, also acknowledges the positive role played by these papers condemned above. These papers informed the people of the developing situation and also forewarned the authorities about what was in the offing. *Aaj*, for example, was first to report that the canopy at the shilanyas site had been surreptitiously removed thereby hurting the feeling of and causing unrest among the protagonists of the movement. *Dainik Jagran* and other papers reported the movement towards Ayodhya of a large number of 'kar sevaks' when the State government had declaredly choked all means of transport and blocked all passages to them and alerted the authorities about the possible trouble on November 2 by reporting an interview with Ashok Singhal.

MINORITY REPORT

The minority report is even more critical of the role of these dailies. It goes

on to say that "nationalists seem to have totally failed to maintain their integrity as responsible media persons. They obliterated the borderline between their personal affiliations and the right to know of the society as a whole. Representatives of several social and cultural organisations in the course of their evidence pointed out that the editors of some dailies had deliberately tried to paint the picture that every Indian is a Hindu, and every Hindu a 'Rambhakt'. They even preferred the word 'Rambhakt' to 'kar sevaks'."

The report also draws our attention to what it calls 'editorial activism' where the editors behaved as if they were part of the Ram Janmabhoomi campaign. Some of them even helped 'kar sevaks' to find their way to Ayodhya by letting them use press passes. The report also points out that "an editor was alleged to have used his press facilities to smuggle in Ashok Singhal (the editor, however, denied it). Some cited the case of an editor of Lucknow Hindi daily coming out of Ayodhya complex on October 30 shouting ecstatically 'kar seva has begun'. One senior editor was allegedly directing the 'kar sevaks'."

Not only this, some editors participated in the VHP rallies and made provocative speeches. Some editors were even arrested for making inflammatory speeches at the VHP rallies. Some correspondents were alleged to have acted as the VHP messengers. The minority report then comments: "We do not want to pass a judgment on these charges. But even if there is an iota of truth in these allegations, it calls for serious concern for all."

In view of all this one has to seriously debate the possibilities and limitations of the role of print media. Freedom of the press is absolutely essential for functioning of a political democracy but then this freedom is also likely to be misused by the print media in times of crisis, especially if the crisis pertains to the religious faith of newsmen—either editors or reporters. What limitations of the media are in such a crisis situation can be seen from the Press Council report.

Can the freedom of the press then be absolute and untrammelled? Looking at what happened during the Ayodhya crisis one can hardly say yes to this question. One may not deliberately violate press freedom but emotional involvement in a crisis situation can certainly blind a person to the other side of the truth. It is a fact that on Ram Janmabhoomi question the feelings of a large section of Hindus in the north were running very high and some mediapersons did belong to this section. In fact they did identify themselves with 'Rambhaktas' and 'kar sevaks'. Perhaps they could not help writing what

them. Perhaps their genuine feeling was that the authorities were not permitting the Hindus to fulfil their religious duties. They perceived the authorities as highly repressive.

Each religious group has not only its own interests but its own perceptions of social realities. These perceptions do get reflected in reporting also. But this one-sided perception of the truth, however genuine for the perceiver, may be seriously objected to by the other groups and thus may lead to conflict and tension. So as long as truth or perception of it is relative, freedom of the press will also remain relative and not absolute.

EXCESSIVE CURBS

The Press Council sub-committee not only looked into violations of norms of reporting by the newspapers but also went into allegations of excesses committed by the authorities in putting curbs on newspapers and newsmen. The report has come down heavily on the authorities too. According to the sub-committee report the complaints and allegations against the authorities were of two types. One, the government creating obstacles in the coverage of events; its officers not being available or not being communicative and curfew passes being denied or not being honoured by the police and deliberate disinformation being spread to the authorities. Two, pre-censorship being imposed, newspapers being prevented from being published, printed copies seized or not allowed to be transported or distributed, journalists being arrested, newspaper hawkers being beaten up and maltreated.

Most of the newsmen complained to the committee about access to the news sources being blocked by the authorities. On the crucial days of October 30 and November 2, newsmen were prevented from reaching spots of action. Whatever was published regarding the incidents of these days was the result of their enterprise which they undertook at great personal risk. The report makes the following observation in this context. "We have already made an observation about the utter failure of newspapers in exercising discretion and restraint in presenting facts and figures in respect of the happenings of October 30 and November 2 at Ayodhya. This failure cannot be condoned. But it also needs to be examined as to what extent the authorities were responsible for this and whether they made any conscious effort required of them on such grave occasions to inform the press and the people voluntarily, quickly and adequately, and in time to catch editions."

the basis of evidence that no proper arrangements were made by the authorities in that direction and not even a press camp was set up by them in Faizabad. The result of all this was that rumours had a field day in the absence of any official briefing. No government officer was available to the press at Ayodhya at the time of these happenings to say what exactly happened. The authorities either kept quiet or adopted a totally negative attitude towards the press. They did not allow the press persons to see the extent of damage to the shrine. Even the press conference scheduled at 4 pm on that day by the commissioner of Faizabad was cancelled without notice.

The authorities also, seized copies of newspapers. The special bulletins of Lucknow papers were quickly seized and the home department asked district magistrates all over the State to see that such news did not reach people but no clear instructions or guidelines were given to them as to how this was to be done. The Press Council report feels that "Some of the methods resorted to by several district administration were not adopted even during the Emergency when Fundamental Rights had been suspended and censorship clamped by a specific notification."

Both in UP and Bihar police officers went to newspaper offices in the evening on November 2 and the night of November 2-3, 1990 and asked journalists on duty to show them the negatives and the plates of the matter being prepared for publication. If journalists refused to oblige plates were seized and even destroyed. Bundles of mofussil editions which were already printed were either not allowed to leave or were seized inside or outside newspaper offices by crude application of force. At Allahabad, the police forcibly stopped printing of the paper in a press. A similar complaint was made at Varanasi.

However, the minority report takes a somewhat lenient view of the action by authorities. According to this report an attempt was made to "verify this point over and again at all sittings. District officials at all places took the stand that they never tried to interfere with the free functioning of the newspapers or to terrorise the staff. But most of them admitted that the local police had gone to some newspaper offices to find out what was being put out for the next day. After careful examination, we have come to the conclusion that on the crucial night measures were not intended to terrorise the staff into submission or as a punitive measure but to find out what was being printed. The *Jagran* representative at Agra said that when they told the police that

printed, they left."

The minority report has taken slightly different view about the administration creating obstacles for newsmen. It goes on to say: "After hearing from all sides, we cannot support the contention that the authorities had deliberately tried to deny opportunities to the press to cover the Ayodhya incidents or created hurdles in the way of the normal functioning of the correspondents. . . . But there have been some hurdles in their movement, partly due to the unusual atmosphere of confrontation and partly due to the lapses on the part of authorities" (emphasis in the original).

Clearly neither the press nor the authorities can be completely exonerated. There is no doubt that it was an extraordinary situation but it was also an extraordinary challenge to both for the authorities and for the press. If the press has to guard its freedom, it also has to act with a great sense of responsibility. Whatever the religious feelings of editors and reporters, the reporting should have been objective and restrained.

It should, however, also be admitted that another section of the national press did behave with restraint and sense of responsibility. Among them are not only English papers but also Hindi papers like *Navbharat Times*. This should be appreciated. That agencies like the Press Council are trying to maintain the highest standards of journalism and upbraid those guilty of violations of these norms is also commendable.

Sikh Moral Tradition; Ethical Perceptions of the Sikhs in the Late Nineteenth and Early Twentieth Century

Nripinder Singh

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Gulf War and Anti-Imperialism in West Asia

T V Sathyamurthy

If the victory of the Iranian revolution over the regime of the Shah represented a climacteric moment in anti-imperialist and Islamic nationalist politics in West Asia, the emergence in 1990 of Saddam Hussein as a self-appointed leader of Arab nationalism was an anti-climax in the history of contemporary Arab nationalism and its struggle against imperialism.

THE first war of the post-cold war era ended within 100 hours of the unleashing by America and its allies of the ground offensive against Iraq for the recovery of Kuwait. The 39 days preceding the entry of the allied troops witnessed a systematic attempt on the part of the Americans and their allies to destroy from the air the military installations and ammunition factories, security and intelligence apparatus, transport and communications network, civilian power generation plants and waterworks, and the infrastructure of the state consisting of government offices, especially in Baghdad and Basra. The much vaunted pinpoint target accuracy of the 75,000 or so sorties dispatched to accomplish these aims, endlessly touted by the Western media advertising hi-tech warfare as though it were yet another electronic accessory for the living room, did not prevent the destruction of a conservatively estimated 80,000 civilian lives with many more thousands being injured and incapacitated.

The cascade of propaganda ceaselessly pouring out of the media—television, radio and newspapers—on the allied offensive in the Persian Gulf under the leadership of the United States has deliberately and systematically ignored the fundamental and profoundly significant characteristics of the Gulf War. These are quite simply:

NORTH-SOUTH WAR

(1) It is the first war after the world war in which the major powers of the world (with the exception of the Soviet Union), including the only superpower in name and in fact and the two oldest colonial powers, have joined hands to confront and humiliate a single third world country. In the words of a Labour MP in the British parliament, who recently resigned as a Whip rather than support the war, "This is the first North-South war." As a gloss on this, we may briefly note that both the Korean War and the wars of national liberation in Indo-China were East-West wars involving the two superpowers direct-

ly supporting opposite sides until one of them became a protagonist. They were wars in which political ideology (with its economic consequences) played a large role even though the North-South, i.e., the racial, dimension was by no means entirely absent.

Whilst the cold war and the superpower aspects of the Korean conflict provided its initial momentum, its latter phase (marked by China's involvement after America ignored the Yalu River warning) as well as the wars of liberation in Indo-China in their entirety, were fuelled by the major contradiction of the world between the forces of imperialism and the forces of national liberation (i.e., imperialism's implacable foe in the form of the mass of the people living under its domination throughout the world). During the period 1950-75, this major contradiction, to a far greater extent than the major contradiction between the superpowers and their allies which gave rise to the cold war, inflicted physical losses (a total of nearly 1,60,000 American soldiers lost their lives in the Korean and Indo-China wars) on the US.

With an indefinite moratorium declared on the cold war in 1988, we have entered a new era of world politics in which US imperialism believes it can inflict severe punishment on anti-imperialist forces in the third world. As long as the intensification of the major contradiction between the forces of anti-imperialism (whether they manifest themselves as national liberation or as popular movements) and imperialism is characterised by an asymmetry in the strengths of the two sides—the military strength of the one based on superiority of weapons of destruction and the political strength of the other based on mass popular opposition to imperialism—US imperialism and its allies would continue to place their faith in their might and on the support of indigenous elements in control of state power in third world countries with which they can forge close links. Thus the punishment being meted out to Iraq now

is not that due to an ideological adversary but rather to a former client, until only a few years ago lavishly supplied and provided by its imperialist patron, who has now turned renegade. We shall return to this theme later.

DEEPER US DESIGN

(2) The war in the Persian Gulf has galvanised an overwhelming majority of the West Asian peoples, and the Arab peoples in particular, both within and outside the countries belonging to the anti-Iraq coalition. Their mounting revulsion and anger against the physical presence of Western powers and their military forces in the Persian Gulf is obvious despite the fact that the attention given to it in the Western media has been exiguous, to say the least. In other words, the decision of US imperialism and its allies to use Kuwait as a pretext to station well over half a million troops in the Persian Gulf area, with unparalleled fire power, has simply stoked the fires of Arab nationalism and intensified the sparks of anti-imperialism that fly from them.

At the same time, the forces of national liberation represented by the Palestinian people have been left to fend for themselves in the face of the intense repression of the occupying power of Israel, which has made no secret of its regional role as the Zionist foil for the forces of imperialism, armed to the teeth and dangerously aggressive in character. Even after its future security, sovereignty and legality as a nation state have been long guaranteed in the region as well as in the comity of nations, Israel continues to justify its belligerent stance in West Asia by consistently refusing to acknowledge the PLO's change of stance over Israel's future and the former's willingness to separate it from the Palestine question in the interest of carving out a separate state for the Palestinian Arabs.

The Persian Gulf war, therefore, has an underlying thrust that far exceeds its immediate *raison d'être* of liberating Kuwait from Iraq's army of invasion and occupation, or even America's medium-term pre-occupation with safeguarding its own role in the sphere of oil imperialism. It is a complicated manoeuvre, underlined by the enormous lengths to which the allied powers have gone to keep Israel, with the latter's enthusiastic and ungrudging co-operation, out of the mainstream of the war itself—in order to establish a system of power relations in West Asia in which the proverbial monkey (in this case, American imperialism) would be able to exercise control by fulfilling its self-appointed role of doling out justice and equity between the conflicting claims of

ally calls (in this case, Arab states dependent on American imperialism but at odds with one another) in the region. This is an integral part of the 'new world order' recently outlined by president Bush and secretary Baker.

Such a disposition of forces, temporarily threatened by Iraq's challenge to imperialism under the leadership of president Saddam Hussein, would ensure that Israel's pre-eminent position as a military power in the region would be permanently safeguarded. The long-term aim of this war thus relates to the aim pursued by US imperialism and its allies of creating a state of affairs in which the forces of Arab nationalism in general and Palestinian nationalism in particular could be contained by the military and political arrangements that would perpetuate the hraldom in the region of regimes (led by an assortment of feudal-monarchical, comprador and petit-bourgeois forces) dependent on the United States for their increasingly precarious survival in power.

RACIALIST DIMENSION

(3) In the Persian Gulf war, the political and strategic ambitions of Western imperialism have joined forces with a blatantly racist contempt manifested by the Bush administration in particular and the Western powers in general towards the peoples of the region (or for that matter the peoples of any of the regions of the third world who would stand up to imperialism). The Western powers in general and the US in particular have made extensive use of their technological superiority in mass communications in order to launch a propaganda offensive and a psychological onslaught against the Arab peoples—especially for home consumption in the West—with the aim of howing popular movements in the third world in a poor light. The extent to which imperialist arrogance on the one hand, and contempt for those opposed to imperialism on the other, has been internalised in Western societies and has become deeply etched on the psyche of ordinary people during the last two decades or so is evident from the cultural assumptions and subtle distortions in which media representations abound.

To cite only one example from the Western media portrayal of the Persian Gulf War, Iraqi communiques statements and speeches were invariably translated from Arabic into English with the aim of stressing and highlighting apparent exaggerations and absurdities. Such tendentious translation leaves the task of correction to a few conscientious individuals who are given brief appearances in which inaccuracies may to some extent be moved. But, even so, the rectifications

thus introduced are made to appear like glosses on the distortions originally purveyed by the television newscaster of the correspondent somewhere in West Asia. It is also worth noting, in a slightly different context, that the attitude of the Western governments and media towards changes occurring in the Soviet Union has been marked by a mixture of self-congratulatory gloating over the Soviet Union's past mistakes and a feeling of satisfaction at the thought of the uphill task facing the country in such a deep crisis.

At least two other strands of racism in the allied stand and its reporting in the media deserve to be noted. The American president and senior officials of his administration constantly reiterate the distinction between the Iraqi people and president Saddam Hussein, their leader, emphasising that their quarrel is with the latter. This is disingenuous in the extreme. The personalisation of a conflict of such great proportions is an insult to the intelligence of the entire Arab population for the simple reason that Arab nationalism is a well established political phenomenon of enduring significance and cannot be easily circumscribed. The issue of Saddam Hussein's defiance of American imperialism is a vastly subsidiary matter to the anti-imperialist thrust of Arab nationalism, and its strong antipathy towards rulers and governments in the region whose political sympathies lie with the United States. By the same token, the Arab people's willingness to use any leader in the region who happens to have the courage to defy American imperialism is not in contradiction with their disapproval of that regime's domestic policy of repression and tyranny (for which Saddam Hussein's regime has been notorious for nearly 15 years, mostly with the tacit approval of the United States). The humiliation and defeat of Saddam Hussein in 1991 will thus be seen by large numbers of Arab peoples as yet another blow administered by the imperialists to the cause of Arab nationalism, and not as a lesson taught a recalcitrant anti-hero. The exaggeration in the Western media and official pronouncements of the 'Saddam' factor is tantamount to propagating a scarcely concealed excoiation of Arab political aspirations.

The second strand of racism in the allied stand is directly related to the Israeli government's policy towards the Palestinian people in the occupied territory during this war. It is a clear confirmation, if confirmation were needed, of Zionism's racial contempt for the mass of the Arab people. Draconian curfew regulations were enforced and Palestinian Arabs were compelled to live in refugee camp conditions

in their own land under an occupation regime. Yet there was not even a murmur of criticism of Israel from the allied powers or from the Western news media. One might well ask: What future can the Palestinian Arabs expect in president Bush's 'new international order'? Racial contempt for the Arabs is further underlined in media references to the allies, often differentiating between major (i.e. white ones—American, British and French) and 'other' (i.e. Arab) allies, clearly reflecting the nexus between imperial power and its appendages in the region.

ANTI-IMPERIALISM IN WEST ASIA

It is against this background that we are compelled to view the dynamics of the present phase of the conflict in the region. During the last 40 years, anti-imperialist nationalism in West Asia has experienced at least three major moments of critical transition, until the Iraqi leader appeared on the international stage, transformed from his original incarnation as client if not stooge of US imperialism (especially from the time the American president was director of CIA until well into the Iran-Iraq war, in the latter part of 80s) into his new *avatar* as anti-imperialist leader of Islamic revivalism, Arab nationalism and Palestine liberation. It is essential that this sudden and, it should be said, counterfeit attempt on Saddam Hussein's part of appropriate the limelight in hindsight as Arab nationalist leader should be properly understood in order to appreciate the true magnitude and scale of the reverse that Arab nationalism is about to suffer at the hands of US imperialism and its allies.

Persia, under Mossadegh, was the first country in West Asia to appreciate the economic consequences of imperialism and the political factor linking economic dependence and liberation from imperialism. His intelligent and far-reaching attempt to reflect this understanding, initially in a minimal as opposed to a token manner, by passing legislation to bring Persia's (and West Asia's) oil resources under national control, provided the occasion for the first major intervention after the world war by American imperialism in West Asia against a modernising socially conscious nationalist regime with a conscious urge towards independence. The removal of the Mossadegh government served as a prelude to the restoration of the monarchy under which Iran reverted to a privileged pro-American, but nevertheless client, status in international relations. The Shah's regime directed domestic tyranny and repression especially against populist, nationalist and left-wing elements.

The second great moment appeared in the form of Nasser's concrete effort to cut

Egypt loose for the first time from the shackles of imperialism by nationalising the Suez Canal. Nasser was reviled by the French, British and Israeli governments for daring to assert his independence, and here again the long-term economic consequences of his move were viewed as far more threatening than its short-term strategic and political significance. The language used to attack Nasser in the European media in 1956 was more or less identical with that used to denounce Saddam Hussein in 1990-91. The crucial difference between the 1956 and the 1990 crises lay in the disposition of the American government. In 1956 the United States government was not on the side of the Anglo-French-Israeli coalition; in 1990-91, the United States has been the leader of a vast anti-Iraq coalition.

Nasser's policy of recovering the Suez Canal was imbedded in a clear understanding of the nature of imperialism and the military odds that it represented. It was also motivated by a determination to achieve the limited goal of recovering Egyptian territory and a canal system which was situated within it. In other words, Nasser was not embarking on an international adventure by flouting international legal practices and customs which the imperialist powers were well placed to thwart. Nasser's main trump card was his popularity in Egypt as a nationalist leader and as a leader of Arab nationalism outside Egypt in West Asia as a whole.

In the event, Nasser was able to turn military defeat at the hands of the Anglo-French invading forces into political victory. He had the active support of the non-aligned world as well as the Soviet bloc. In the West the United States stood aloof from the actual conflict, whilst evolving a new policy of imperialism in the region to take the place of the old. No wonder then that the relations between Egypt and the United States became increasingly hostile *after* the resolution of the Suez Crisis. In the short run at least Egypt came out of the Suez Crisis as a successful champion of Arab nationalism thus transforming it from an incipient force into a political reality in the region. In the Suez conflict, Nasser was not isolated whereas his enemies were. The strength derived from genuine popularity and the support of political forces outside can hardly be exaggerated in evaluating Egypt's international role under Nasser in moulding a new phase of Arab nationalism.

The third great moment in the contemporary resurgence of Islamic nationalism was provided by the religious opposition to which the Shah's government gave rise. Unlike the post-Farouk Egyptian version

of Arab nationalism and the Persian version of economic nationalism that had preceded it under Mossadegh's government, the anti-Shah movement under Ayatollah Khomeini's leadership was rooted in Islamic religious solidarity in general and Shi'ite solidarity in particular. Its main enemy was American imperialism as reflected in Iranian politics under the Shah's leadership. It pitted nationalism inspired by religion against secularism and economic and political dependence on imperialism.

The hallmark of this new brand of opposition to American hegemony in West Asia was the popular following (indeed mass following) that it evoked and the combining together (if only on a temporary basis) of the entire spectrum of opposition including the 'Mujahedin' elements to American penetration of Iran with the Shah as one of imperialism's powerful cat's paws in the region. It is worth pointing out that by virtue of the international framework within which it gathered momentum and the internal mass support that it did command over a period of nearly 10 years leading up to the overthrow of the Shah, the opposition led by Ayatollah Khomeini was marked by a clear understanding of the nature of imperialism in general and America's hegemonic role as the major imperialist power of the world in particular, and of the *political* weapon that would have to be forged in order to wage a protracted struggle against it.

The Iran-Iraq war, entirely provoked in the first instance by Iraq, could not have come at a worse time for Iran. The United States and its allies were prepared to refurbish Iraq's military force in order to enable it to prosecute its war against Iran, while turning a blind eye to its repression and tyranny against its own people and its policy of genocide towards the Iraqi Kurds. The support extended by the United States to Iraq, especially during the Reagan presidency, was an important factor in the intensification of Iran's internal economic crisis. At the same time, despite the religious excesses of the Imamate, the Iranian people as a whole went through the eight years of war with an understanding of the role played by US imperialism in West Asia and of the role of Iraq, its opportunistic client in the region, the clarity of which remained undimmed despite the enormous privations to which Iran had become subject.

The demise of Ayatollah Khomeini, followed by the emergence of a new tendency in Iranian politics in favour of working out a regime of co-existence with American imperialism, coincided with the declaration of a moratorium on the war with Iraq. At the time the cold war ended,

Iran's internal politics revolved around adjustments between those who essentially favoured a continuation of the trend set by the late Ayatollah Khomeini on the one hand, and on the other a new breed of politicians which favoured a compromise with the United States. The interesting feature of contemporary Iranian politics lies in the fact that both these elements share more or less the same understanding of the nature and role of American imperialism whilst favouring different pragmatic steps to deal with it at the current juncture.

SADDAM HUSSEIN: THE ANTI-CLIMAX

If the victory of the Iranian Revolution over the regime of the Shah represented a climactic moment in the unfolding of anti-imperialist and Islamic nationalist politics in West Asia, the emergence in 1990 of Saddam Hussein as a self-appointed leader of Arab nationalism has acquired the markings of an anti-climax in the history of contemporary Arab nationalism and its anti-imperialist credentials. Quite apart from the fact that he was, in the first instance, US imperialism's choice for the leadership of Iraq and for the projection of its interests in West Asia (where, in the 80s, the United States regarded president Assad, the Syrian leader, as the main impediment in the region), Saddam Hussein's role has been distinguished by three main characteristics. First, his understanding of politics is almost entirely in terms of the brute force of state power which he has never hesitated to use (as indeed is the case even at the present time in Basra against the Shi'ites and against the Kurds in the north immediately after his defeat at the hands of the allied forces) in order to suppress any kind of internal opposition or bully the weaker powers in the region. Second, in stark contrast to the leaders of the Iranian revolution (and the Ayatollah in particular), Saddam Hussein has no understanding whatsoever of the dynamic features of American imperialism and the role that it has assigned itself in the region. Third, his animal cunning and shrewdness are unequally matched by his intelligence and ability to devise an anti-imperialist strategy consisting of a political programme of strengthening mass commitment to Arab nationalist ideology combined with a cautious rearguard action by way of opposition to the technologically immensely superior armed forces of the West.

A complete failure to grasp the nature of imperialism as a global force affecting West Asia combined with foolish military extravagances in the region to highlight Iraq's expansionism, led Saddam Hussein

an unnecessary and debilitating conflict, especially from the perspective of the forces of anti-imperialism. With Iran and Iraq locked in a futile war, the Palestinian liberation movement suffered a series of setbacks, and Israel and Syria continued to contribute to an intensification of the destabilised condition of Lebanon.

Again, Saddam Hussein's invasion of Kuwait was motivated by megalomania rather than a carefully conceived strategy of recovering the integrity of the Iraqi nation by substituting its present coloniality defined boundaries with historically sound ones (i.e. including the '19th province') through popular struggles against the feudal rulers of Kuwait supported by US imperialism and its allies. If Saddam Hussein was unaware of the aid and comfort his adventure against Iran gave the forces of imperialism in West Asia, he demonstrated a monumental ignorance of the enormous political and military cost of provoking imperialist countries by launching a campaign of annexation against Kuwait. The price of this adventure, for which Saddam Hussein bears the sole responsibility, has been not only Iraq's humiliation, further exacerbated by its leader's temporary survival in power, but also a setting back of the agenda of popular mobilisation against imperialism and national liberation with due consequences for the Palestinian people.

For their part, the imperialist powers have succeeded in repudiating the forces that they had encouraged until August last year. This feat on their part bears a remarkable resemblance to Margaret Thatcher's legdemain at the time of the Malvinas/Falklands crisis. As soon as Galtieri's armed forces occupied the Malvinas/Falkland islands, Margaret Thatcher experienced a revelation which brought home to her with blinding clarity the odious fascist and anti-democratic nature of a regime which had presided over the liquidation of civilian politics and had contrived the 'disappearance' of thousands of Argentinians over a previous period of several years! A policy of 'not going wobbly' was justified on the ground not only that Britain was restoring its rights to its colonial possession but also that Galtieri's defeat would provide Argentina with an opportunity to change from fascism to democratic rule.

FUTURE ANTI-IMPERIALIST STRATEGY

The disingenuousness of this kind of reasoning lies in imperialism's readiness to sustain numerous anti-democratic regimes (including Galtieri's own until 1982) until a minor transgression by one of them is punished by bringing the wrath of democracy down on it in the form of

imperialism. At the present moment, Iraq happens to be the state which imperialist countries had equipped with the military power needed to suppress democratic dissent and to embark on an eight-year war against a big neighbouring state. Iraq's leader, who has used every trick in the book to concentrate power in his hands, foolishly believed that it could expand into Kuwait, one of imperialism's remote 'allotments' in West Asia, in a nationalist adventure.

Saddam Hussein's invasion of Kuwait thus becomes yet another moment of blinding clarity for US imperialism when it is suddenly discovered that Saddam Hussein is an inhuman Hitler-like dictator. The fact that he had enjoyed American support for nearly two decades is consigned to some kind of a disinformation limbo of US imperialism's propaganda machine. The dilution of the 'Soviet' factor (with the ending of the cold war in 1988) in Iraq's political alignments merely served to highlight Saddam Hussein's military and political vulnerability and

Union has been shaken down to its roots by the realisation that on the battlefield, its former cold war adversaries had proved themselves to be immensely superior in calibre.

During the last half a century, changes in the structure of power and the course of international relations have occurred in which the masterly understanding of the strengths and weaknesses of imperialism that the leaders of the great struggles for national liberation (in China, Indo-China and in other parts of the third world) brought to battlefields and negotiation tables would appear to have receded into the background, whilst the major contradiction between the forces of imperialism and the forces of national liberation, i.e. between the states of the first world with the acquiescence of the Soviet Union and East European states on the one hand, and on the other, the peoples of the third world continues unabated. The fashioning of a strategy for dealing effectively with imperialism is the great project that faces the anti-imperialist forces of the world today.

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This volume will be of considerable interest to policy makers, health and energy specialists, sociologists, environmental scientists, and above all, those concerned with rural development.

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Heartland and Borderland

S R Sen

If the contagion of the political upheavals caused by centripetal forces now convulsing the Soviet Union and Yugoslavia should spread to India, the results would be far worse since the divergence between the heartland and borderland and communal and caste tensions are so much more acute in India.

SEVERAL thoughtful experts have recently given a warning that the kind of political upheaval which is currently destabilising two unions comparable to India, viz, USSR and Yugoslavia, may spread to the Indian Union also unless timely and adequate preventive and remedial measures are taken here. Such upheavals are often contagious. Past examples are the spread of republicanism after the French Revolution, the demand for self-determination after the demise of the Habsburg empire, communism after the defeat of Hitler and militantism after the rise of IRA and PLO.

If such contagion spreads to India, it may be even worse than in USSR and Yugoslavia. One reason is that the divergence between the heartland and borderland and communal and caste tensions are much greater in India than in these other two unions.

CENTRIPETAL FORCES

Throughout history, conflict between the heartland and borderland has created serious problems for many federations and unions. Where language, race and religious composition of the people in the heartland and borderland has been markedly different, fissiparous forces have been usually stronger. Where the diversity of the population could be effectively reduced through 'melting pot' measures like development of transport, communication, markets, geographical division of labour, industry, urban habitats, cross migration, cultural and educational exchanges, etc, these tensions have tended to get reduced as in, say, the US or Brazil. But even these countries had to face civil war at one or the other stage of their history. Where, however, linguistic, racial and religious groups have tended to remain concentrated in different regions of the union as in USSR, Yugoslavia and India, inherent fissiparous forces, strengthened by a combination of communal with regional identity and 'sons of the soil' slogan, tended to explode in various ways, after different time-lags, especially if main reliance was put on state power to enforce nationalism and unity as in USSR. In-

terestingly, this trend has been markedly less in a country like Switzerland which has also comparable characteristics but has successfully evolved a constitutional system that promoted co-operative government, sharing of power, mutual accommodation and tolerance.

Among all these countries, the problems resulting from the relative size of the Union and the constituent units and heterogeneity of the population are more comparable for USSR and India. Having less of a command economy, India has perhaps some advantage in regard to possible adjustment through the market. But as against this advantage, there is a special feature which tends to make the problem potentially more difficult for India as compared to USSR.

The three major States, Uttar Pradesh, Bihar and Madhya Pradesh, which comprise the heartland of India, have more

human-power but less money-power than most of the borderland States of the country. But the situation is different in USSR. The Russian Republic, which is the heartland of USSR comparable to Uttar Pradesh in India, dominates all the borderland republics in both human-power and money-power. Yet, in spite of seven decades of intensive planned effort for national integration and command economy for strengthening the hold of the union authorities, several borderland republics of USSR, with much less human-power and money-power than the heartland republic, are now striving for greater autonomy and even secession.

It is, of course, a fact that the complaints of the border States of India against the domination of Delhi, although serious, have yet to reach the explosive proportion of those of the border republics of USSR against the domination of Moscow. The moot question, however, is how long it will remain so. Recent outbursts against the domination of Delhi and the heartland by even elderly and mellowed political leaders of borderland States like Orissa, Tamil Nadu, Kerala, Karnataka, Maharashtra and West Bengal, not to speak of the young militant hotheads of Punjab, Kashmir and Assam, can no longer be ignored. Another cause for concern is that militantism is on the increase more in some of the richer

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poorer heartland States and secession is easier for the former than the latter. Giving more powers to the police and the army is no long-term solution. After all, the members of these forces are susceptible to the influence of their civilian friends. The solution has to be political and constitutional.

The hard fact is that the militancy of a richer minority can sometimes be a more potent force than the voting power of a poorer majority, when it comes to the question of capturing power through extra-constitutional means. Except for the last hundred years, it is the aggressive minorities who have ruled more often than the passive majorities. Democracy or rule by majority vote has worked successfully in countries where a spirit of compromise and reluctance to push the standpoint of the majority alone to the so-called logical end has generally prevailed. This is a lesson which our populist politicians who seek to capture power by exciting the passions of their respective vote-banks to such an extent that they cannot later make any significant compromise, if needed, would do well to ponder over. 'Every action produces an opposite reaction' is no less true of the political world than the physical world, except that while in the physical world it is equal, in the political world it may be sometimes more than that.

MODERATING ACTION-REACTION SYNDROME

It is a matter of concern that the action-reaction syndrome is in operation both between heartland and borderland and within the heartland. As between the heartland and borderland, over-centralisation of power in Delhi has tended to affect very adversely national unity. Growing resentment among the younger people in the borderland is ominous. Within the heartland, the chain of events which pitted first the OBC vote-bank against the Kulak vote-bank and later the Hindutva vote-bank against the OBC vote-bank has recently weakened very much national integrity. One false step has led to another false step and national unity and integrity are much weaker today than they were four decades back when our Constitution came into force.

The urgent need today is for a revival of the spirit of compromise, readiness to understand the opponent's basic concerns and allay them not merely by words but also deeds and make fair-play the guiding principle for all parties and persons holding positions of authority and power. Justice must not only be done but also seen to be done is not a mere moral principle but also a sound practical political principle.

FORM IIA [(See rule 4A(1))]

NOTICE

It is hereby notified for the information of the public that SUNDARAM FINANCE LIMITED proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of section 22 of the Monopolies and Restrictive Trade Practices Act, 1969, for approval to the establishment of a new undertaking to render Financial Services. Brief particulars of the proposal are as under:

- | | |
|---|--|
| 1. Name and address of the applicant | Sundaram Finance Limited 21 Parullos Road, Madras 2 |
| 2. Capital structure of the applicant organisation | Authorised Capital : Rs. 25 cr. Subscribed & Paid-up Capital : Rs. 12 cr. |
| 3. Management structure of the applicant organisation indicating the names of the directors, including managing/wholtime directors and manager, if any | The company is managed by the Managing/Joint Managing Directors under the supervision and control of the Board of Directors. <u>Board of Directors</u> Sri T S Santhanam, Chairman " S Viji, Vice-Chairman " N F S Raghavachari " R K Seshadri " S Narayanan " S Rani " S Padmanabhan " T Ramabhadran, Managing Director " G K Raman, Joint Managing Director " S Raghavan, Joint Managing Director |
| 4. Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division | New undertaking in the name of Sundaram Finance Services Limited |
| 5. Location of the new undertaking | Headquarters Madras |
| 6. Capital structure of the proposed undertaking | Authorised Capital Rs. 10 cr Subscribed & Paid-up Capital Rs. 2 cr (proposed) |
| 7. In case the proposal relates to production, storage, supply, distribution, marketing or control of any goods/articles, indicate (i) Names of goods/articles (ii) Proposed licensed capacity (iii) Estimated annual turnover | Not Applicable |
| 8. In case the proposal relates to the provision of any service, state the volume of activity in terms of usual measures such as value, income, turnover etc. | As per anticipated projections, the annual gross income is estimated at Rs. 212 lakhs in the 1st year and proposed to be increased to Rs. 420 lakhs in the 5th year. |
| 9. Cost of the project | Rs. 8.00 cr |
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Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein.

Dated this 9th day of May, 1991

For SUNDARAM FINANCE LIMITED
S VENKATESAN
SECRETARY

The three measures recommended in two earlier articles, 'Electoral System: Urgency of Basic Reforms' (*EPW*, February 2) and 'Reforming Our System of Government' (*EPW*, March 2), viz, (i) implementation of the recommendations of the Commission on Centre-State Relations, (ii) Amendment of the Representation of People's Act, especially adoption of a system of interdependent joint electorate, and (iii) amendment of Articles 74, 75 and 164 of the Constitution for facilitating a co-operative system of government are undoubtedly essential. But that would not be enough.

UNDUE DISPARITY IN SIZE OF STATES

There is an urgent need to look carefully also at the problems created by the great disparity in the size of our States.

At the time of independence, India had nine big provinces and over 500 princely states, most of which were very small. As a result of the efforts first of Sardar Patel and later by the States Reorganisation Commission, the number was reduced to 16 States, most of which were of broadly comparable size, except Uttar Pradesh which had about 60 per cent larger population than Bihar, the next in size. There was a proposal to divide Uttar Pradesh into two States but that was not acceptable to the leaders of the State. Subsequently, as a result of various political pressures, nine other States were created, most of which were very small.

Today, in the heartland of the country, Uttar Pradesh has a population of 139 million, Bihar 86 million and Madhya Pradesh 66 million. Among the borderland States, having access to the sea, Maharashtra has a population of 79 million, West Bengal 68 million, Andhra Pradesh 66 million, Tami Nadu 56 million, Karnataka 45 million, Gujarat 42 million, Orissa 32 million and Kerala 29 million. These eight maritime States contribute over 80 per cent of the Union government's revenues, a substantial part of which is spent in the other 17 States. Other important borderland States are Rajasthan, having a population of 44 million, Assam 22 million, Punjab, 20 million, Jammu and Kashmir-8 million, and Himachal Pradesh 5 million. Seven of the smallest States having less than 2 million population each are Manipur 1.8 million, Meghalaya 1.8 million, Nagaland 1.2 million, Goa 1.2 million, Arunachal 0.9 million, Mizoram 0.7 million and Sikkim 0.4 million.

DISPARITY IN POWER BETWEEN STATES AND DISTRICTS

Many of the districts in the bigger States have populations exceeding 2 million. Cities like Bombay, Calcutta and Madras each has a population exceeding

10 million. But all of them have very much less power than the smaller States. They are resentful that although they have much higher level of population, development, income and education than the smaller States, they are so deprived.

The Commission on Centre-State Relations has observed that the importance of developing adequate sub-State level political institutions cannot be overemphasised. It is only by providing an opportunity to the people that they can be trained to shoulder responsibilities in a system of self-government... For a variety of reasons... these institutions have been allowed to stagnate. Election to these bodies have not been regularly held and often they remain superseded for long periods... Since... there is a general tendency towards greater centralisation of powers, there is special need in a country like India for a conscious and purposive effort to counter it all the time. There is considerable truth in the saying that undue centralisation leads to blood pressure at the Centre and anaemia at the periphery. The inevitable result is morbidity and inefficiency. Indeed, centralisation does not solve but aggravates the problems of the people.

It is obvious that these two kinds of gross disparities, (i) in size as between the big and small States and (ii) in power as between small States and larger districts and cities, cannot be continued much longer in future without creating very serious strains and stresses in our polity. With the high rate of growth of population during the last four decades, the population of States, districts and cities have all more than doubled.

So far as the larger States and cities are concerned, diseconomies of size are increasingly outweighing the economies of size every year. They are bursting at the seams and facing continuously worsening social problems. Whatever corrective action is taken in the usual bureaucratic way is always too little and too late. No effective remedy of this can be ensured without drastic political action, at least once every 15 or 20 years, for devolving greater power to successive lower levels of government, and readjusting the size of States and districts and reorganising or dispersing urban habitats.

SOME REMEDIAL MEASURES

The Commission on Centre-State Relations had recommended in 1987 amendment of Article 5 of the Constitution to enable greater devolution of powers to the local governments. But some State governments were reluctant to devolve power and opposed this, although they were themselves pressing the Union government to devolve more powers to States.

In 1989 the Congress(I) government submitted two bills to parliament to amend Article 5 and devolve more powers to the Panchayati Raj institutions and

powers of the State governments. These bills were passed duly by the Lok Sabha but failed by a very small margin to get the requisite two-thirds majority in the Rajya Sabha.

Early in 1990 the National Front government proposed revised bills for the same purpose but without diluting the powers of the State governments. But neither it nor the Janata Dal(S) government that followed gave sufficient priority to the matter and the bills lapsed with the dissolution of Lok Sabha in March.

But early action in this direction is very urgent in view of the growing discontent within the States. It is hoped that the next government will give high priority to the matter after the ensuing general election.

Recently, the Bharatiya Janata Party has put forward a very bold proposal that the number of States should be increased from the present 25 to 100, each State containing no more than 4 or 5 districts. This is a proposal that deserves earnest consideration of all parties and can be passed relatively easily by a simple majority of votes in the Lok Sabha and Rajya Sabha under Article 3 of the Constitution. If enacted, it will by one stroke solve problems arising from the great disparity between the sizes of States and from heartland versus borderland tensions and meet effectively demands for new States like Bodoland, Gorkhaland, Jharkhand, Uttarakhand, Ladakh, Jammu, Bastar, Vidarbha, Telangana, etc. It will help diffuse growing militancy in different regions and reduce the diseconomies and inefficiency caused by unduly large size. There will no doubt be some additional cost but that can be kept within reasonable limits by providing for common governors, high courts, public service commissions, accountant generals, armed police, etc, for groups of States and limiting the size of State Councils of Ministers by amending Article 164 of the Constitution as suggested in the article 'Reforming Our System of Government' referred to earlier. New problems of co-ordination, if any, can be sorted out by strengthening the present zonal councils. Any objection on the ground that it will go against the principle of 'one language, one State' can be met by the argument that such a basis has never been accepted by our Constitution and languages like Hindi and Bengali comprise more than one State each even today.

It is hoped that soon after the general election, early action will be taken in parliament to enact all these measures, which are really complementary and by no means alternative to one another. That will be the best safeguard for protecting the Indian Union against the possible contagion of the political upheaval of the type that is today ruining USSR and Yugoslavia.

Crisis in Theory

M Shugenne

Environmental Issues in Agricultural Development edited by H Ramachandran; Concept Publishing Company, New Delhi; pp 176, Rs 160 (hardcover).

THIS book is a thoughtful guide to many of the problems intrinsic to the current model of capital-driven, crisis-ridden, agricultural production. The most salient observation on the crisis is offered by M V Nadkarni, an economist, in the second chapter of the book: No economic model has yet to express the complex interconnections, local-global, upstream-downstream, class-divided, state-supported. It's not just a crisis of polluted and depleted air, water, soil, and souls; it's an epistemological crisis, a crisis of knowing. Books which struggle to theorise the new ecological phenomena tend to engage in one of two very different discourses, asking two very different questions. Either what would the market price of pesticides be if one incorporated the full range of social and ecological costs which occur in its production and use, in the factories and the fields? Or, what would the political price be if one incorporated the people's right to know and participate in the calculation of such costs?

The second scenario is the wall which activists face today (in Narmada, Bhopal, Tehri, etc), yet it is most conspicuously absent from this book's debates. The first scenario is discussed fruitfully, so let's start there. Implicit in the first question is that the people should bear 'total' costs at the time of purchase or exchange. Perhaps society would become more prudent and far-sighted in the use of its productive inputs, such as pesticides and water, if it had to pay, upfront, for all the downstream, long-term costly effects.

The authors collectively ask, consciously or otherwise: How do we manage the current crisis in agricultural development? The editor has gathered together studies which attest to devastating pollution and depletion, contradictory economic growth and increasing poverty. (Absent from this overlapping list of social malaise is 'social unrest'.) The texts scan the Indian map of large-scale irrigation schemes—from Andhra Pradesh's Krishna Delta to Karnataka's Krishnaraja Sagar. Over time, all cases are experiencing trouble, simply described as depleted soils and lower yields. "In a commercialised setting", the summary introduction asks, "how do we encourage resource use practices that involve lower personal and immediate return than the cost involved, though social and/or long-term costs may be higher?" (p 35)". This question reverberates through most of the authors' arguments; it is based on a 'rational

actor' scenario where if only 'the farmer' knew the consequences of his/her actions, he/she would stop overwatering, overfertilising, and in essence, stop externalising the private costs of production. But isn't it 'irrational' to assume that either the small indebted farmer or the agro-capitalist could/would stop exploiting, because it was unsustainable?

Traditional political economy has much to say about the systemic traps of capitalist agriculture, but practically nothing about two very real dimensions of India's agricultural development: struggles over the environment and public space. This book attempts to integrate the first without the second; thus, it fails to speak to the concrete situation the rural majority faces—an eroding natural resource base and an eroding knowledge and power base. The most revealing facet of the latest cycle of mega irrigation and dam projects is the complete lack of information at the grassroots. Nobody knows what is coming or what is going. For example, MP tribal farmers were not told their land would become a Narmada dam reservoir until years after the plans were formalised; while Gujarati dry-land farmers publicly insist they will receive Narmada water, original studies show this to be mathematically impossible. To brand activists as 'anti-dam' or 'anti-development' is wrong; if at all, they should be branded 'anti-theft'. In Madhya Pradesh, Amazonia, and San Francisco, social movements are taking to the roads to protest all moves by the state to strip local and regional communities of their control and management, of local resources—their labour, their natural resources, their power and knowledge. In trying to theorise the interconnections between economy and ecology, we fail unless we also theorise the concomitant struggle over local control.¹

Nadkarni's chapter, 'Agricultural Development and Ecology—An Economist's View' offers a provocative, albeit partial, three-pronged framework to analyse agricultural problems that stretch over disciplinary boundaries of economics, ecology, and sociology: negative externality, sustainability, equity. As Nadkarni presents it, negative externality in agriculture is not as easily measured as in industry; if the pulp mill smokestack overpollutes, the state can measure and regulate its outflow at the stack. In agriculture, however, it is difficult to know which farmers are polluting the water supplies with

pesticides and which labourers are being slowly poisoned. "A direct consequence of this is that, pesticides being cheaper than their social cost, there is no stimulus to reduce their use and adopt a safer technology" (p 24).

From externality, he moves to sustainability: "Even if a paper and pulp mill satisfactorily controls pollution, the depletion of forest resources that it causes would still continue" (p 26). This concept incorporates the interests of future generations, by adding to the model various costs of regeneration. Finally, he comes up against the problem of equity: All these problems of erosion, depletion, and contamination impact the poor more so—even the burden of managing the deteriorating commons falls unfairly upon their shoulders.

Yet solutions are found within the confines of 'rational' modelling—dependent upon a scientific measuring system of costs and benefits which creatively incorporate ecological inputs, but ignore the primary problematic of power. What are the rural-urban, local-regional, national-international interactive tensions which help manifest seemingly irrational decisions with both New Delhi financial managers and UP village field managers?

To move beyond the economicist model to understand the ecological crisis in Indian agriculture, it may prove instructive to look more closely at the specific conditions of production which are currently being depleted, polluted, and expropriated. These conditions can be conceptualised in three categories: natural resources, human labour, and the public space in which they interact (uncommodifiable infrastructures and places such as markets and town squares). None of these conditions can be produced by capital—not by factory nor by mill. Instead, they are accessed, shaped, and readied for labour and resource markets by the state. No individual capital is capable of building a dam, rerouting a river, transforming dune desert soils. Similarly, no individual capital is capable of transforming land, forest, and water-managing peasants into a wage-labour (or sharecropping) dependent body.

Only the state is capable of organising resource and labour markets—robust with subsidised land, water, and infrastructural supplies (the resource market) as well as a highly dependent rural poor (the labour market), readied for large-scale capital-driven, capital-dependent agriculture. The Indian state can only do so with the guidance of international finance. The power relations in this global-local entanglement, however, are not completely unidirectional. Crisis emerges for the rural poor as many sell off their land and become labourers (one of many existing scenarios); at the same time, local nature-society relations begin to break down. Now, who is to

manage the forests, woodlots, groundwater supplies? Under what revised conditions of power—if cash-cropping for debt-servicing is the predominant mode of survival for the Indian small farmer?

Spatial configurations are also being degraded—whether it is clogged sewers, contaminated drinking water, or fragmented relations within the household and the village. Rajasthan farmers along Stage II of their \$ 3 billion canal have been settled in 'chaks' named 1Lkd, 5Lkd, and so on, living in isolated 'dhanis', without schools, roads, or health facilities. Where is the village square in which they can sit and discuss common problems?

The degrading of these three local conditions—nature, labour, and public space—can create an underproduction crisis which has a tremendous vertical impact. Having borrowed extensively from international capital to construct these systems, India becomes more dependent upon foreign capital and its power constraints. In turn, international capital and the Indian state combine to require from India's labour and resources more extractive, more intensive, more exploitative productive relations; how else could India expect to produce hard currency? The largest irrigation scheme, the biggest dam project, the most capital-intensive cropping system, will not save India from these pressures; on the contrary. Capitalism is dependent upon healthy conditions of production yet necessarily pollutes/depletes/exploits them. This is the contradiction which creates, before our eyes, local environmental crises.

Hence, the environment becomes a very politicised terrain. The globe as a privatised, commercialised commons, is a new material and symbolic phenomenon for which new theoretical debate is needed. Why does the state not involve communities in open debate about the best use of the river, the pasture land, the soil? Why does the state specifically not engage in public discussion about the local dam, canal, or resource extraction industry before it is designed, financed, and constructed? In spite of 1966 FAO soil surveys warning of a future of high salinity and waterlogging, not a single farmer allotted land along the Rajasthan Canal has been informed (as of 1990). Now, whole villages have been displaced by a spoiled ecosystem in Stage I (Ganganagar district) and a recent government-sponsored study (not available to the public) shows up to 40 per cent of Stage II (Bikaner district) will be destroyed once settlers start their high-water consuming groundnut and wheat cash-cropping. Have any of the farmers who have left their villages to settle along Stage II been forewarned?

Waterlogging is the most prevalent problem found in the book's case studies; this is easy to document. The hard-to-measure factors, involving relations over local resources, are avoided. In fact, it is a fluid tension for which no static economic model can be found. The one factor which most

clearly connects most of India's new social movements is the struggle over control over community resources—yet, it is the most difficult to articulate. This book, like the current social situation, finds itself trapped within these real and epistemological boundaries.

Coming back to the empirical questions this book pursues: Why are dominant forms of pest-management poisonous? Why does irrigation waterlog and over-salinate? Why are common lands and their management traditions eroding? Why is there less drinking water, more waterborne disease cases, lower yields and more debt? These questions can be best answered within a theoretical framework which analyses the loss of local control of natural resources (nature) and village life (social labour) in a regional and international context. There is nothing inherently problematic about a dam, pest control, or organised large-scale farming. The problem lies in the increasing concentration of power over agriculture (and everything else), such that rivers, soils, forests, and those who know and maintain them, become mere, but essential, inputs into state-facilitated capital accumulation. A far more revealing question to ask is: Why is the state borrowing millions to build infrastructures which eventually funnel India's

resources (human and natural) into national capital markets?

Finally, what is the ecological impact? It is at this point where the authors focus their analytical framing; these case studies are significant contributions which reveal the region-by-region specificities of this nationwide crisis. Ultimately though, they approach their cases too far submerged in the muck of 'development' contradictions to be able to collectively articulate a theoretical basis for understanding India's ecological crisis. Studies on the effects of development is what we are left with, a post-development wrap-up of the damage done. Meanwhile, communities and their resources become further fragmented; contractors continue to build; hunger strikers lose their stride.

Note

1 The 'conditions of production' debate is informed, albeit insufficiently, by an ecological Marxist theory as being developed by James O'Connor, University of California at Santa Cruz, and being elaborated internationally in a new journal, *Capitalism, Nature, Socialism: A Journal of Socialist Ecology*. Sliding-scale subscriptions are available through Guilford Press, c/o the Distribution Centre, Blackhorse Road, Herts, SG6 1HN, Great Britain.

'Gender Makes the World Go Round'

Meera Nanda

Bananas, Beaches and Bases: Making Feminist Sense of International Politics by Cynthia Enloe; Pandora Press, London, 1989; pp 200, \$ 11.95.

THE global assembly line, (wo)manned by the new proletariat with "nimble fingers and docile demeanour", has been the mainstay of the new international 'division of labour'. When multinational corporations flee from high wage Western countries to sweat shops in the Third World, gender roles are 'relocated' together with jobs. The same monotonous, dead-end, ill-paid jobs, open to the majority of women workers in the West, end up being performed by their third sisters for even lower wages and fewer benefits.

Bananas, Beaches and Bases goes beyond most feminist commentaries on this subject by examining the gendered nature of the political arrangements between the powers-that-be that ensure capital's global reach. Cynthia Enloe, a pioneer in providing a feminist understanding of the lives of women workers in the global economy, attempts to show in her recent book how the "conduct of international politics has depended on men's control of women".

Separate chapters examine the political pillars supporting the edifice of international economy: 'Diplomatic Wives' lays bare the mechanisms through which conventional ideas about femininity and women's unpaid work—as loyal and self-effacing, companions, care-givers and hostesses—are

manipulated by the state to establish political and commercial links with other states through diplomacy; 'Bases' extends the argument to the enforcement of the world order through military means. 'Nationalism and Masculinity' examines the male biases that afflict the forces aligned against the global capital and destroy their potential for creating a genuinely equal society.

The rest of the book revisits the Third World women toiling in banana plantations, garment industries and the burgeoning 'service sector'—mostly tourism (including sex tourism) and domestic services (nannies and maids) for clients from affluent countries. The focus on the service sector is a useful corrective to the disproportionate attention Third World women workers in formal, industrial sectors like textiles and electronics have received in the past. It brings home the fact that a number of debt-ridden Third World countries, with advice and encouragement from international financial institutions, have begun to use women's very being—their bodies, their emotions, their abilities as care-givers—as a 'natural resource to compete in the international market'.

Enloe asks one basic question of each scenario that she examines: Where are the women? Through interviews, historical anecdote

individual experiences, she leads the reader to the central paradox. Though 'gender makes the world go round', it remains invisible, a part of the 'natural' order of things. The international political and financial system relies on women's labour "as feminised workers, as respectable and loyal wives, as 'civilising influences', as sex objects, as obedient daughters, unpaid farmers". Yet it refuses to acknowledge this reliance. It denies any voice to women's experiences—of war, marriage, trade, prostitution, factory work, domestic chores—in defining its ends and choosing its means.

How can something so central be rendered invisible? Enloe's answer is that 'international is personal'. International finance and politics rely upon private relations between men and women defined by the patriarchal conventions of masculinity and femininity. Only an unquestioned equation of risk taking and enterprise with 'manliness' and docility and acceptance of authority with 'feminine virtues' can make the gender inequalities in international affairs seem 'natural', taken for granted and invisible. Our brave new world needs the cover of age old patriarchy for its survival. From this vantage point, Enloe proceeds to ask 'feminist questions' in order to "make women visible" in the international political and economic order.

Women in most societies, for instance, are assumed to be 'naturally' good at cleaning, washing, cooking and serving without expecting any wages. (Don't they do it all the time at home?) How else can be explained this strange phenomenon that even in countries with rampant male unemployment, an overwhelming majority of chamber maids (75 per cent in the Caribbean, 80 per cent in China, both during the late 1980s) and domestic servants are women? International hotel industry—the new plantation—keeps its costs low simply by defining its lower end jobs as 'women's jobs'. Immigrant women, forced to leave their own children and families behind to find jobs as nannies and servants in rich countries in the West and the Gulf, have become the largest single source of foreign currency for the Philippines and Sri Lanka. Enloe connects the swelling ranks of women in hotels, brothels and affluent households to the politics of external debt that makes earning hard currency the top priority of debtor countries.

Exploitation of conventional notions about women's 'natural' station is not limited to Third World businesses and governments. In a rather unusual look at the wives of diplomats, Enloe reveals that till 1972 when 'diplomatic wives' organised and forced the state department to change its rules, they were officially considered adjuncts to their husbands. They were prohibited from pursuing careers of their own and were expected to work without pay to create a social atmosphere conducive for diplomacy.

Enloe's most striking—and the most

national relations involves the most naked control of colonial and post-colonial Third World women's sexuality. The US government's insistence in the late 1960s that the Philippines government tests for AIDS all women providing sexual services to the US servicemen stationed in that country, bears an unmistakable similarity with the 'Can tonment Act' the British passed a century ago, demanding compulsory genital examination of Indian women around imperial military bases.

Enloe provides a very readable analysis of the gender inequalities that lie at the heart of the modern day world system. Wisely, she prevents the reader from despairing by interspersing her narrative with instances of women uniting locally and globally to challenge their oppression. Her faith that "Nothing is natural" what has been made can be made suffuses the entire book with a very welcome optimism.

Yet, the book is not without serious shortcomings, both in its thematic content and in its style. One major problem is that Enloe never defines what she means by international politics and how it relates to international economy. She moves from politics conceived variously as statesmanship, as imperialism (and its neiness, nationalism), as military might and as immigration policies. Furthermore she looks at the role gender plays in all these forms of politics at levels ranging from sexist assumptions (e.g. women as dependents and care givers), lack of equal opportunity (e.g. in foreign services), state policies that encourage overt sexual coercion (e.g. sex tourism and prostitution) and create a disposable workforce (e.g. in garment industry and agribusiness).

Taken separately, no one can deny the validity of all these political processes and gender inequalities. But a struggle against these injustices requires a more complex

of reality together. Enloe's lack of attention towards theoretical detail leaves the reader with no lasting or deeper understanding about women's struggles but only with moving details and anecdotes.

The book's lack of rigour is reflected in its brand of populist feminism. For too long international affairs have been assumed to be gender neutral. But that does not warrant that gender should now displace all earlier categories of analysis, irrespective of their validity and usefulness. Enloe tends to do exactly that. At one point, she equates 'risk taking' with a 'masculinised conception of banking'. The reader is left wondering what a feminine conception of banking would be.

So concerned is Enloe with supporting her thesis that 'gender makes the world go round' that she does not even acknowledge the classical problems of feminist analysis. For instance, while men call the shots in world affairs, it is important to recognise that masculinity is not exempt from manipulation for the sake of profits and political aims. Having to live up to images of 'warriors' and 'bread winners' places enormous burden on men too. Moreover, Enloe places too much faith in the 'international sisterhood' for winning justice for Third World women. But classes and national differences cut right through the sisterhood. Carla Hill, the US trade representative, and the women at the receiving end of the trade policies she works out, do not have identical interests determined by their shared gender. The book does not deal with these problems with placing gender alone at the centre of international politics and economics.

For all these limitations, any one looking for a readable, popular overview of the state of women in the world affairs will certainly find *Bananas* satisfying.

SAMEEKSHA TRUST BOOKS

Selections of Articles from *Economic and Political Weekly*

General Editor: Ashok Mitra

Poverty and Income Distribution

Edited by

K S Krishnaswamy

While there has been over the years a perceptible increase in per capita income and expenditure and possibly some decline in the incidence of poverty in India what still remains is massive and of a kind that is not remedied quickly or smoothly. Even with radical policies the shifts in income and occupational structures to make a serious dent on it will take more than the rest of this century. In the welter of recent exchanges between the government and the opposition as well as between planners and market advocates on the strategy of growth these issues have been largely obfuscated. It is therefore more than ever necessary today to recognise the magnitude of the problem and the inadequacy of the measures adopted so far to deal with it.

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Export Promotion, Exchange Rates and Commodity Prices

V Bhaskar

The collapse of primary commodity prices in the 1980s has been prolonged and has severely affected many developing countries. While low commodity prices can be partly explained by sluggish demand due to slow growth in the industrialised countries, high interest rates and technological change, this does not seem a complete explanation.

This paper examines the evidence in favour of the hypothesis that supply factors have partly been responsible. Many developing countries have faced severe balance of payments difficulties, in part due to the debt crisis, and have resorted to real exchange rate devaluations in order to boost export earnings. Such devaluations may have boosted export supplies, or prevented downward adjustments in capacity, and therefore put pressure on commodity prices. It also considers the policy implications of this externality, whereby attempts to boost export earnings in one primary producing country adversely affect the prices received by others.

I

Introduction

THIS paper is a study of primary commodity markets, focusing in particular upon the supply side of such markets. The commodity crisis of the 1980s has been prolonged and painful for most developing countries. Primary commodity prices have been at an all time low, and most forecasts indicate that they are likely to continue to be depressed in the medium term. While demand factors have played an important role in keeping prices low, this paper evaluates the hypothesis that low prices are in part due to excessive supply, or at least the failure of suppliers to adjust capacity downwards in the face of a decline in demand. The 1980s have seen a period of acute balance of payments difficulties for many developing countries, in part due to the collapse of commodity prices but also due to other factors such as the debt crisis, and many countries have been forced to undertake real exchange rate devaluations and boost export supplies. From a policy perspective it is important to find out whether such policies have themselves contributed to the commodity and balance of payments crisis by causing over-supply in commodity markets. This paper considers the evidence in favour of such a proposition, and focuses in particular upon the negative externality whereby increases in supply potential in one country have adverse consequences for the prices received by others. Such interdependence between producers can have important implications for policy. This is particularly the case for policy advice offered by international institutions, since they can exert leverage upon a number of developing countries simultaneously. If such externalities are important, a case can be made for such institutions to internalise these considerations in their policy advice.

In this version of this paper we omit some

of the more technical discussion, particularly that relating to econometric issues; the interested reader may refer to Bhaskar (1988) for a more comprehensive discussion of such issues. The paper consists of four sections. In Section II we examine the reasons for the current slump in commodity prices, and assess the evidence in favour of the proposition that debt-service effects are important in explaining the behaviour of prices. On balance, there seems to be some evidence in favour of this hypothesis, although a categorical answer is not possible. In Section III we examine a single commodity, tea, in order to assess the responsiveness of supply to price incentives. This is in order to see whether exchange rate depreciations have had an impact on supply. The evidence in this case does not seem very positive. Supply elasticities are generally low, and it does not seem that excess supply is due to policy-induced supply expansions. The weakness of demand seems more important. In this context, we find that the major source of demand expansion is from the developing countries, since the income elasticity of demand for tea is somewhat greater at lower levels of income. This implies that the current debt crisis and balance of payments difficulties of many developing countries may be affecting tea producers in a somewhat different way, by keeping demand depressed. Since this shape of the income elasticity schedule may also apply to other primary products, this factor may have relevance for other commodities as well. In Section IV we take up the problem of excess supply from a different angle. If real exchange rate developments have created problems of excess supply generally in commodity markets, it must be the case that they must be important in the major commodity producers. We consider the largest commodity exporters, i.e. the indebted Latin American countries and the South-East Asian producers, and ex-

amine their real exchange rate movements. We find evidence for real depreciations among these countries, particularly among the most important producers. Trends in real exchange rates also indicate a tendency to depreciation of late among those countries which have not done so earlier. This suggests that excess supply in commodity markets may persist into the future, since such depreciations make downward supply adjustments less likely. In the final section we examine the policy implications of such interdependence among commodity producers. Since international agencies such as the IMF or the World Bank deal simultaneously with many developing countries, we suggest that such considerations should be internalised in the policy discussions, if policies are to be appropriate for the countries taken as a whole.

II

Commodity Prices in 1980s: A Possible Explanation

The terms of trade of primary commodities have been a central issue for developing countries. Concern has focused both upon the secular tendency of the terms of trade *vis-a-vis* manufactures, and upon the short run variability in primary commodity prices, with the UNCTAD proposals for primary commodity price stabilisation being aimed at solving the latter problem.¹ The issue of the terms of trade was sharply posed by Prebisch (1962) and Singer (1950), with the argument that there was a secular tendency for the terms of trade of primary products to deteriorate, due to their low income elasticity of demand. This tendency could also be accentuated by monopoly power in product and labour markets in the developed countries. These arguments and the ensuing controversy, as well as the

by Sapsford (1980), and more recently by Sapsford (1985) and Sarkar (1986). The events of the 1970s, with the rise in oil and commodity prices and concern about the exhaustibility of resources and the consequent "limits to growth" seemed to banish these concerns. However, the events of the 1980s have brought these questions back into focus, and sharply indeed. A new acute phase in the decline of real commodity prices began with the international recession of 1980-82 when output fell in the OECD countries, and the price index of 33 primary commodities (excluding energy) relative to the price of manufactured imports fell by 32 per cent. More importantly, this decline was not reversed by the economic recovery which ensued in 1983. Although OECD output growth has been 3.2 per cent per annum in the years 1982-86, the customary link between developed country growth² and commodity prices seemed to have snapped. Real commodity prices in 1985 were below their 1982 level and were in fact at their lowest since the World War. Low commodity prices have been extremely favourable for most industrialised countries—not only have they ensured improved terms of trade and higher real income, they have also played a crucial role in bringing about the decline of inflation in OECD countries to the lowest level in 20 years (see Beckerman and Jenkinson, 1986). However, the problems for developing countries who are dependent upon these exports have multiplied.

The nature of trends in commodity prices may be discerned from charts 1-5. These charts show the movement (up to 1987) of an index of commodity prices in real terms, and are derived by deflating the commodity price in dollars by the index of industrial country export unit values in dollars. Chart 1 shows the development of the index of 33 commodities (excluding energy); the sharp decline in 1980 is followed by a minor recovery in 1983, but this soon collapses. Chart 2 shows the behaviour of the index of food; here the collapse of the mid-1980s is even more pronounced. A similar feature can be noticed in Chart 3, for beverages. The trend in raw materials is somewhat better, with a hint of a recovery in prices in the recent past (see Chart 4). The index of metals (Chart 5) also shows a substantial decline though there has been a partial improvement in prices of late. It must be pointed out that the recent recovery in commodity prices has been extremely limited—real prices in December 1987 were still 20 per cent below their average level of 1980-84, and the latest (1988) IMF World Economic Outlook forecasts that future prices are likely to stabilise the levels of early 1988.

Before proceeding to a discussion of the econometrics of commodity prices, it might be useful to outline the major developments in the international economy in the 1980s which impinge upon commodity markets. The early years of the decade were marked by a severe recession in the industrialised coun-

tries, monetary policies which were aimed at reducing inflation. Between 1979 and 1982, output in the industrialised countries grew at less than 1 per cent per year, as compared to 4 per cent in the period 1976-79. The effect of slow growth on commodity markets was compounded by high interest rates—short-term rates were up to 7 per cent greater than inflation in the early 1980s, and real rates have remained extremely high since, at about 4 per cent. This may be contrasted with the negative real rates which characterised most of the 1970s. These high interest rates, which were an important inducement to reduce commodity stocks, were mainly due to the pursuit of a restrictive monetary policy by the United States in conjunction with a huge fiscal deficit. These policies also resulted in a huge appreciation of the US dollar, which rose by almost 60 per cent between the end of 1980 and early 1985. Subsequently this appreciation has been reversed, although the budget and current account deficit of the United States persists, putting pressure on interest rates world-wide. Since much of developing country debt was dollar denominated, the rise of the dollar and interest rates resulted in a big increase in the debt burden of borrowers, causing the crisis of 1981-82. Since then, the indebted countries have been forced to implement austerity policies to reduce their imports and augment exports in order to service their debt. One way of earning more foreign exchange has been through real exchange rate devaluations—the latest (1988) IMF World Economic Outlook documents that real exchange rates in the developing world today are substantially depreciated in relation to the past. Since the balance of payments difficulties of the developing world are far from over, these policies seem set to continue in the near future.

A central question in understanding commodity markets is an explanation for the collapse of commodity prices in the 1980s, and for the failure of prices to recover even when output growth improved in the OECD countries. The favoured method for analysing the determinants of commodity prices remains econometric, and it is on econometrically estimated commodity price equations that we focus upon in this section. A key fact regarding such econometric equations is that most estimated equations have turned out to be unstable in the 1980s, predicting real commodity prices substantially higher than actually materialised. This has been reflected in the fact that most price forecasts emanating from international institutions such as the OECD, the World Bank or the IMF have consistently overshot actual performance. Indeed, a recent study by Warr (1988) finds that the World Bank's commodity price projections are not statistically efficient and overpredict prices for a number of commodities.³ This appears to be related to the effect of exchange rate fluctuations upon real commodity prices. With the rise of the dollar in the first half of the decade,

initially, while this is not in itself surprising, since a rise in dollar value may be expected to raise commodity prices in terms of say German marks while reducing it in dollar terms, without any major effect upon the index in terms of a weighted average of industrial country export prices, the surprising thing is the magnitude of the negative effect. Dornbusch (1985) found the elasticity of the dollar commodity price with respect to the dollar value to be -1.5 , while Beenstock (1987) finds an elasticity of -1.4 . This implies that a rise in dollar values reduces real commodity prices not merely for the United States, but also for other OECD countries. It may be noted that these estimates allow for OECD output and interest rate effects, i.e., they measure the response of commodity prices to dollar appreciation over and above any decline which is attributable to the rise in interest rates or output deflation in this period. These findings show that the steep rise in the value of the dollar has had a negative impact upon developing countries, not only by raising the real value of dollar denominated debt, but also by squeezing the terms of trade of primary products. This empirical result showing that dollar commodity prices react to an increase in the dollar value with an elasticity greater than unity, is contrary to the predictions of theory. The relation between exchange rates and commodity prices was set forward by Ridler and Yandle (1972) and developed further by Gilbert (1987), and this theoretical analysis predicts that the elasticity of the dollar price of commodities with respect to the value of the dollar should lie below unity, and probably around $0.6-0.8$. An explanation of why commodity prices over-reacted to the appreciation of the dollar seems important in explaining the low level of real commodity prices in the 1980s.

The hypothesis offered by Dornbusch (1985) to explain this link between dollar appreciation and commodity values lies in terms of the supply side. Dornbusch argues that many developing countries may have responded to the dollar appreciation by depreciating their currency in real terms, i.e., by devaluing *vis-a-vis* the dollar more than other industrial countries. Consequently, the dollar appreciation may have induced large real exchange rate devaluations in developing countries, resulting in an expansion of export supplies, causing downward pressure on commodity prices. Many developing countries were forced to resort to real devaluations due to the increased real burden of dollar denominated debt, as well as the balance of payments difficulties induced by the world recession. The hypothesis is that with the rise of the dollar and the rise in world interest rates, many developing countries faced a sharp rise in debt repayments, and were forced to expand export supplies in order to boost export earnings. This rise in export supplies was responsible for the fall in commodity prices.

This question has been taken up more

systematically by Gilbert (1987) and Chang (1987). Gilbert (1987) estimates an equation for the dollar commodity price, using quarterly data from 1965 to 1986. This equation is estimated for the World Bank 33 commodity index (excluding energy), as well as the three main sub-indices—food, agricultural non-food and metals and mineral.⁴ Our focus is on the relation between exchange rates and commodity prices, and one important modification that Gilbert introduces is to use a more appropriate index of the dollar exchange rate than the IMF MERM index. The MERM index is based on a weighted average of exchange rates, with weights based upon the importance of countries to US trade, which is clearly unsuitable when one is concerned with the effects on commodity prices. Instead, an index of dollar value based upon OECD gross domestic weights is used, which is clearly more appropriate. The explanatory variables include those normally used such as OECD output growth, interest rates and the value of the dollar. In addition to test the hypothesis that debt service requirements have contributed to low commodity prices, the logarithm of the debt service commodity price index ratio is also used. This reflects the idea that with a higher debt service burden relative to export earnings, countries increase commodity exports with a consequent negative effect upon commodity prices.

The empirical results provide some support for the hypothesis that debt induced supply shifts have been important in the decline in commodity prices. The first finding is the distinction between the compensated and uncompensated elasticities of the commodity price with respect to the dollar exchange rate. The compensated elasticity allows for the real debt effect and therefore is an estimate of the effect of a change in dollar value keeping the debt service ratio constant, whereas the uncompensated elasticity considers the total effect. Gilbert finds that the compensated elasticity lies in the range [0.6, 0.8] for the aggregate index in line with the Ridler and Yandle theoretical results. The evidence for debt effects is particularly strong in foods, resulting in an uncompensated elasticity of [0.9, 1.1] while the compensated elasticity is 0.76. The evidence for debt related effects is somewhat less clear-cut for agricultural non foods and weak for metals and minerals where the difference between compensated and uncompensated elasticities is not very large. On the basis of these results there seems to be some evidence that debt-induced supply shifts are partially responsible for depressed commodity prices, particularly since they seem to be the only coherent explanation for the large negative effects of dollar appreciation upon commodity prices.⁵

While Gilbert's conclusions have been questioned by Chang (1987), it seems to us that his arguments are not very persuasive. The alternative equations estimated by Chang, which purport to show the irrele-

vance of debt related effects, seem improperly specified and fit worse than Gilbert's.⁶

To summarise, there seems to be some evidence in favour of the hypothesis that the increased burden of debt faced by many primary producing countries has been partially responsible for weak commodity prices in the 1980s. While the evidence is not conclusive, there does not seem to be any other convincing explanation for the behaviour of commodity prices. In addition, such an explanation can also enable us to make sense of the extremely large effects of the dollar appreciation. Of course, such a hypothesis cannot be adequately tested at the aggregate level. What is needed is a more detailed investigation of individual commodity markets in order to see whether the balance of payments requirements of primary producers have resulted in efforts to boost export supplies by exchange rate devaluations and other means. The effects of these measures upon actual supplies and commodity prices also merit further investigation. A study of inter country differentials in export performance can also shed light on this question.

III

Devaluation, Producer Incentives and Export Supply: An Analysis of the International Tea Market

In this section we take up a single commodity market in order to consider in more detail the questions raised in the previous section. In particular, we consider the question of devaluation and producer price incentives in order to see whether such policies may have led to over supply and downward pressure upon prices. The choice of tea was dictated by several considerations. We have already seen that the over supply and debt related effects were most clearly indicated in the index of foods, suggesting that further analysis be focused on a commodity belonging to this category. Tea is one of UNCTAD's list of 16 core commodities with 85 per cent of world exports being made by developing countries.⁷ Exports are highly concentrated upon four countries (India, Sri Lanka, China and Kenya) accounting for two thirds of world exports. The high concentration of exports makes the interdependence between commodity producers particularly relevant from a policy perspective, since the fewness of numbers makes an explicit allowance for such interdependence easier. In addition, three of the above four countries belong to the Commonwealth and are also the main producers of black tea.

Long term trends in the tea market have been adverse for producers. The product exhibits a very low income elasticity of demand at high levels of income, so that demand from developed countries has been stagnant. In addition, consumer tastes have been switching away towards coffee and synthetic substitutes in the main export markets such as the United Kingdom. As a result

industrial market economies imports fell by 0.6 per cent per annum in the years 1971-1984. Both because of population growth and a possible higher income elasticity at lower levels of income, developing country imports of tea grew at 4.7 per cent per annum over the same period, enabling the exporters to increase supplies at 2.4 per cent per annum. Excess supply has also been mitigated by the growth of demand in some of the main producing countries, such as India, where the domestic market has become increasingly important. Traditionally, India and Sri Lanka, and to a lesser extent Indonesia held a monopoly of the black tea market, supplying almost 90 per cent of world exports at the end of the war. Their market share has been eroded by the rise of the newer producers in Africa, in particular Kenya, and to a lesser extent, Malawi, Tanzania and Mozambique. The importance of tea to the balance of payments of these countries is also obvious from Table 2. Sri Lanka, Kenya and Malawi are strongly dependent upon tea export earnings, with almost a third of revenue being earned by the single crop in the case of Sri Lanka.

Chart 6 shows the developments in the international tea price in real terms since 1959. Once again we deflate the tea price in dollars by an index of industrial country export values in dollars to get a measure of the real price. The picture is clearly one of long term decline in the terms of trade of tea *vis-a-vis* industrial commodities. The index of the real

TABLE 1 SHARES OF MAJOR EXPORTERS IN WORLD TEA EXPORTS (Per cent)

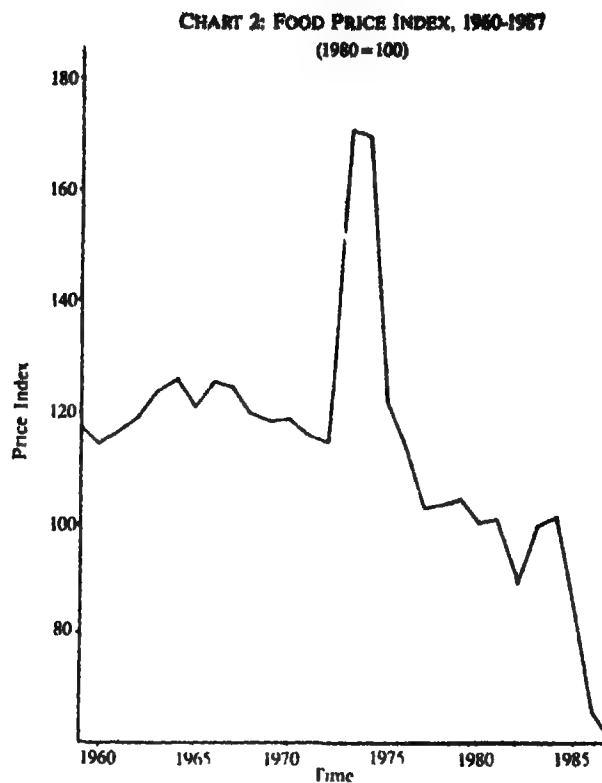
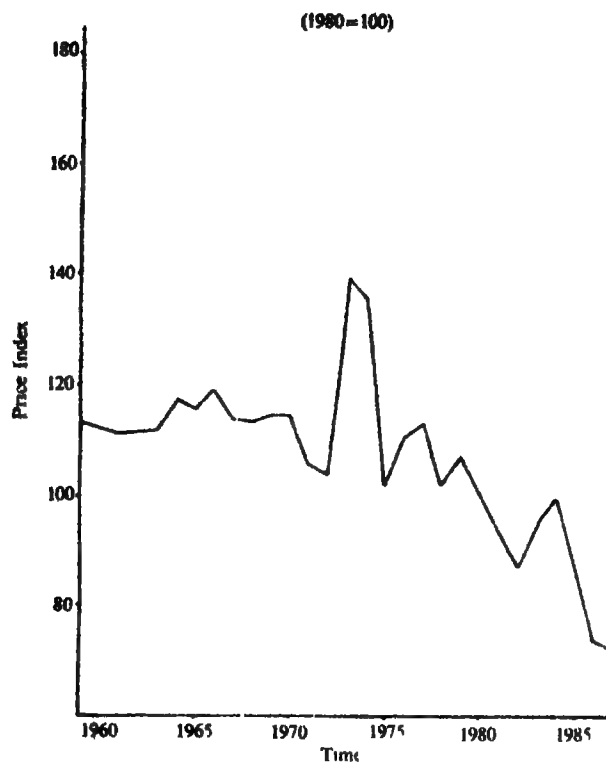
| Region/Country | Average Share (1981-83) |
|----------------------|-------------------------|
| Asia | 66.4 |
| Bangladesh | 2.4 |
| China | 12.8 |
| India | 26.6 |
| Sri Lanka | 18.2 |
| Africa | 15.0 |
| Kenya | 8.9 |
| Malawi | 2.3 |
| Mozambique | 0.9 |
| Tanzania | 1.1 |
| Developing Countries | 84.6 |

Source: United Nations

TABLE 2 SHARE OF TEA IN TOTAL EXPORTS OF MAJOR PRODUCERS (Per cent)

| Producers | Average Share (1981-83) |
|------------|-------------------------|
| Bangladesh | 6.4 |
| China | 1.1 |
| India | 5.6 |
| Sri Lanka | 31.3 |
| Kenya | 15.6 |
| Malawi | 16.9 |
| Mozambique | 7.9 |
| Tanzania | 4.3 |

Source: United Nations



Source: All charts are based on IMF data
CHART 3 PRICE INDEX OF BEVERAGES 1960-1987
(1980=100)

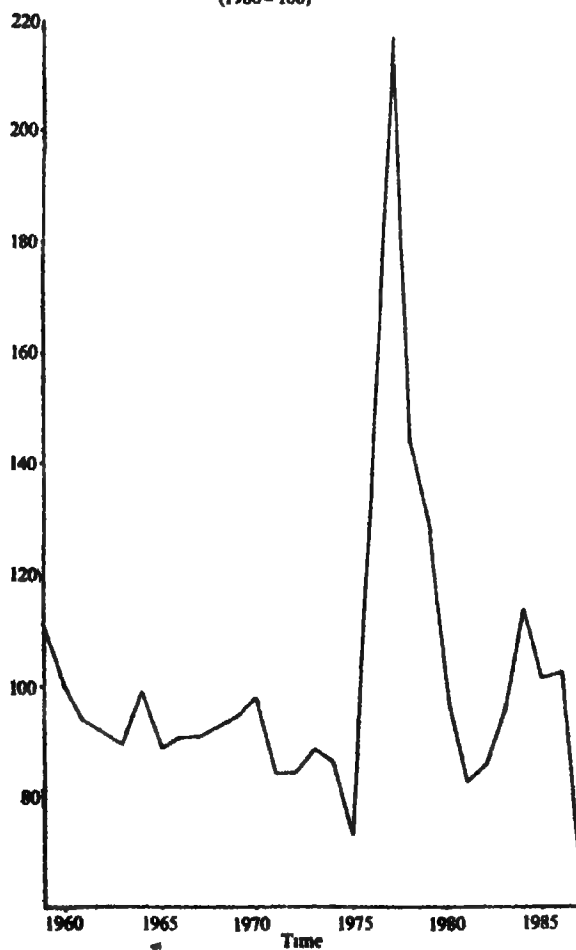
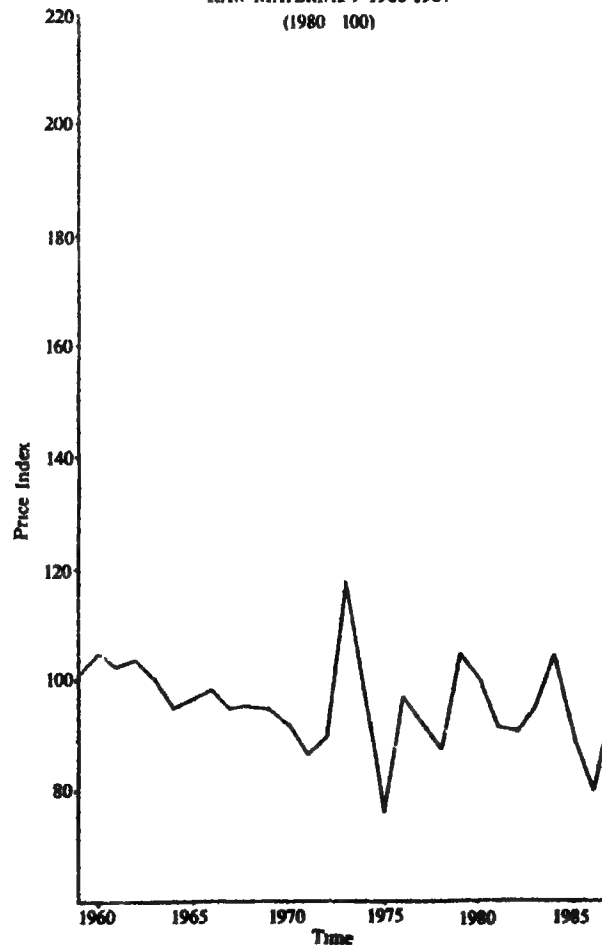


CHART 4 PRICE INDEX OF AGRICULTURAL
RAW MATERIALS 1960-1987
(1980=100)



price of tea in 1987 was less than a third of its level in 1959. One aspect needs comment: the sharp rise in prices in 1984. This was due to the imposition of export curbs by the Indian government in order to moderate domestic tea prices. It is striking that this episode was so ephemeral, with the price of tea falling below its 1982 level by 1986, and continuing to decline in 1987.

The methodology of our study needs to be explained first. The question we ask is to what extent have devaluation and export promotion policies been responsible for an increase in export supply in the main exporting countries, thereby putting downward pressure upon tea prices? In the first instance, we examine the policy environment in the main black tea producing countries,⁸ and detail the nature in which incentives in the export sector have been altered by government policy. Subsequently, we examine the effect of these changes in incentives upon export supplies. We estimate export supply functions for the main black tea producers, in order to see the nature of the relevant supply elasticities. Finally these results, together with information regarding demand developments are assessed in order to arrive at some tentative conclusions as to the validity of the hypothesis under question.

EXCHANGE RATES AND EXPORT INCENTIVES IN SELECTED COUNTRIES

Economic theory tells us that the supply of tea from the producers in any country depends upon the real price of tea received by producers. This real price is simply the tea price paid in domestic currency to producers, deflated by an index of input price, as well as prices in other sectors of the economy. For simplicity we can take the consumer price index as the relevant deflator.⁹ In the absence of any taxes or subsidies to producers, the real producer price is simply the product of the real international tea price and the real exchange rate. Consequently, the percentage variation in the real producer price can be decomposed into the percentage change in the real international price of tea and the percentage change in the real exchange rate. Variations in the real price of tea have already been considered in the introduction to this section. There has been some controversy about the appropriate measure of the real exchange rate (see for instance Wickham, 1987). For our purpose, since we are concerned with the profitability of exporting a primary commodity, the simplest measure seems the most appropriate as well. The real exchange rate is defined as the product of the annual average exchange rate in dollars (the price of one dollar in terms of domestic currency) and the price index of industrial country exports in dollars deflated by the domestic consumer price index. Variations in this real exchange rate index depend upon nominal exchange rate changes as well as relative rates of inflation.

Chart 7 shows Kenya's real exchange rate over this period. It is clear that Kenya has had a trend towards a real exchange rate devaluation since the late 1970s. Exchange rate policy has favoured the tradable sectors, and in the case of tea, has partially alleviated the costs to producers of the decline in the terms of trade.

Chart 8 shows Sri Lanka's real exchange rate. In Sri Lanka's case, there was a tendency towards a real exchange rate appreciation in the early 1980s, but this has been reversed recently.

Chart 9 shows that India's real exchange rate, which also had a tendency towards appreciation until 1982, has depreciated subsequently.

Apart from real exchange rate variations and changes in the real tea price on international markets, the extent of producer subsidies/export taxes can also clearly vary. Data on this are difficult to get, and it is not clear how one can allow for this. In the case of Kenya however we have been able to get the actual producer price, which when deflated is clearly the relevant variable.

Finally, the extent of import protection is clearly important. Several countries have embarked upon policies of import liberalisation in the recent period. Such policies reduce incentives for import substitution, and increase the effective rates of return in export industries. Kenya has embarked upon such a policy in the 1980s, while Sri Lanka has undertaken a substantial degree of import liberalisation since 1977. India has also done some import liberalisation, however, this has not been on the same scale as the other two countries.

Charts 10-12 show the behaviour of tea export volumes in the three countries. Export volume shows strong growth in the Kenyan case, but is stagnant with some tendency to decline, in both Sri Lanka and India.

The econometric estimation of export supply functions poses major problems. In the first instance, gestation lag between planting and production is long in the tea industry, typically being about six years. This implies that productive capacity in any year depends upon decisions taken six years ago, on the basis of expectations about future prices prevailing at that time. This in turn must involve expectations as regards the development of international prices, and about exchange rate policy, domestic inflation, as well as a whole host of other incentives such as producer taxes/subsidies. Ideally, one should model these expectations perhaps by a recursive autoregression. In practice it proves almost impossible to estimate such an equation due to the limited number of observations, and major structural changes.¹⁰ The entire period since the 1950s has been one of a structural shift in the international tea market. Kenya, the new producer, has rapidly increased its market share, while India and Sri Lanka, the established producers, have remained stagnant

in terms of export quantities. Econometric estimation would have to take into account these complex factors, and these problems are more fully discussed in Bhaskar (1988). In this paper we merely report our findings.

Kenya

The econometric estimation was most successful in the case of Kenya. For all estimations conducted in periods after 1968, the real producer price of tea was an important determinant of export supplies, and the price elasticity of supply was approximately 0.5. In other words, a 1 per cent increase in the producer price induced a 1.5 per cent increase in export volume of tea. However, the years before 1968 seem to indicate the lack of a clear price response. One explanation may be that the years 1960-68 include the final years of colonial rule and the first years of independent Kenya. The political uncertainties during this period, particularly among expatriates, could well be responsible for this phenomenon.

As we discussed earlier, incentives for export production may not be completely captured by the real producer price of tea alone. Another important factor may be the incentives for import substitution, import liberalisation may increase the incentives for export sales by shifting resources away from import substitution industries. To allow for this possibility we constructed an index of the rate of import duty, this turned out to have a negative effect on export supply, although the coefficient was not significant at the 5 per cent level (the *t*-statistic was 1.6).

Sri Lanka

The Sri Lankan tea industry has performed relatively poorly since the war. The index of export volume has remained stagnant, it was 102 in 1960, 100 in 1980, and 113 in 1986. Exports in the 1980s have remained well below their peak of 123 in 1965. Sri Lanka has lost market share as well, from 26 per cent of world exports in 1949-51 to 18.2 per cent in 1981-83. However, tea continues to play an important part in the Sri Lankan economy and exports, providing 31.3 per cent of export revenue in 1981-83.

The results on export supply responsiveness were less clear-cut than in the case of Kenya. The estimated equations gave more or less similar results regardless of the sample period. In all cases the coefficient on prices had the expected sign, but was not significantly greater than zero at the 5 per cent level of significance. The point estimate of the elasticity of supply was also lower at approximately 0.1. This is clearly a fairly low elasticity. The performance of the equation was much poorer than in the case of Kenya and the presence of a negative time trend brings out the relative stagnation of the Sri Lankan tea industry, with a tendency of output to decline. The responsiveness of supply to prices also seems fairly low. The lack of price responsiveness may also be a reflection of the structural changes brought about in

CHART 5 PRICE INDEX OF METALS 1960-1987
(1980 = 100)

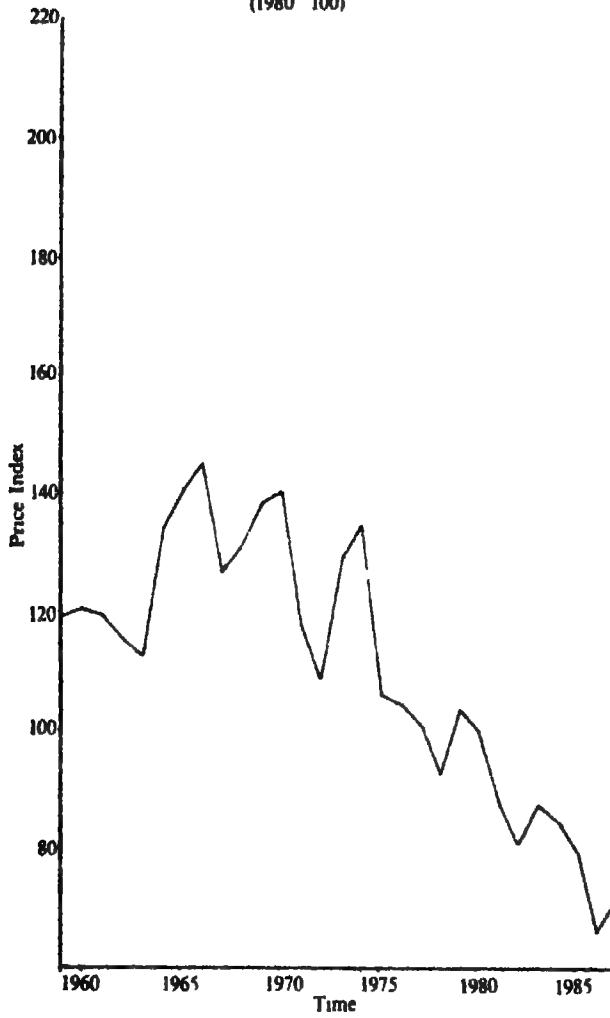


CHART 6 INTERNATIONAL PRICE OF TEA, 1960-1987
(1980 = 100)

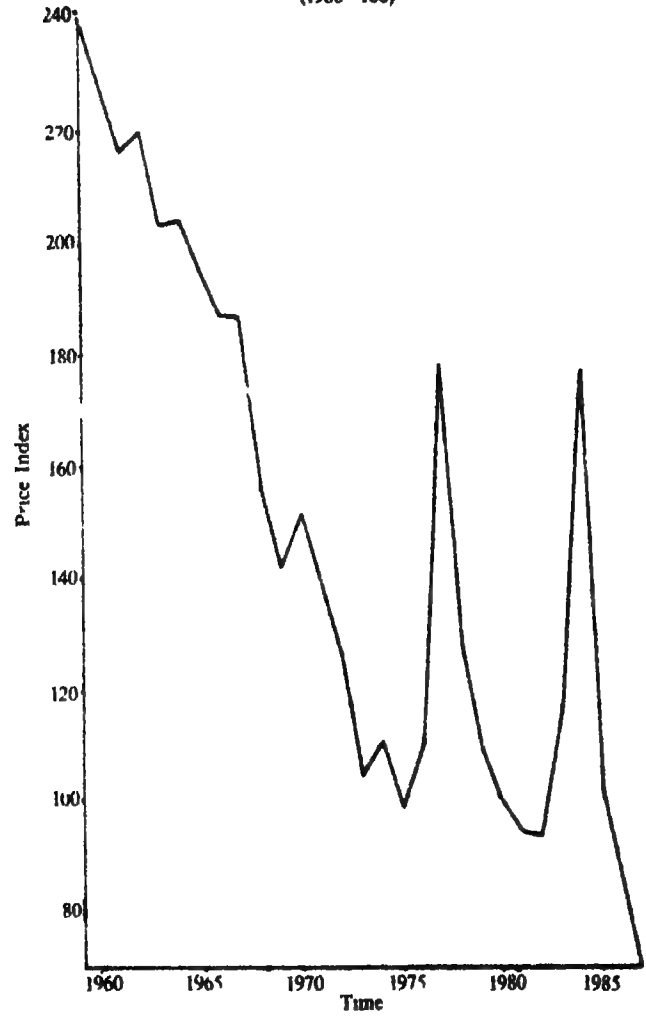


CHART 7 REAL EXCHANGE RATE OF KENYA 1960-1987
(1980 = 100)

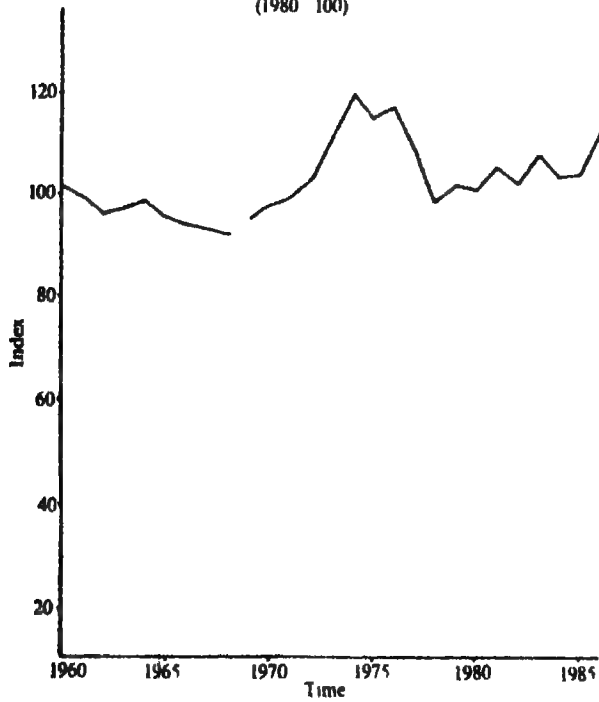
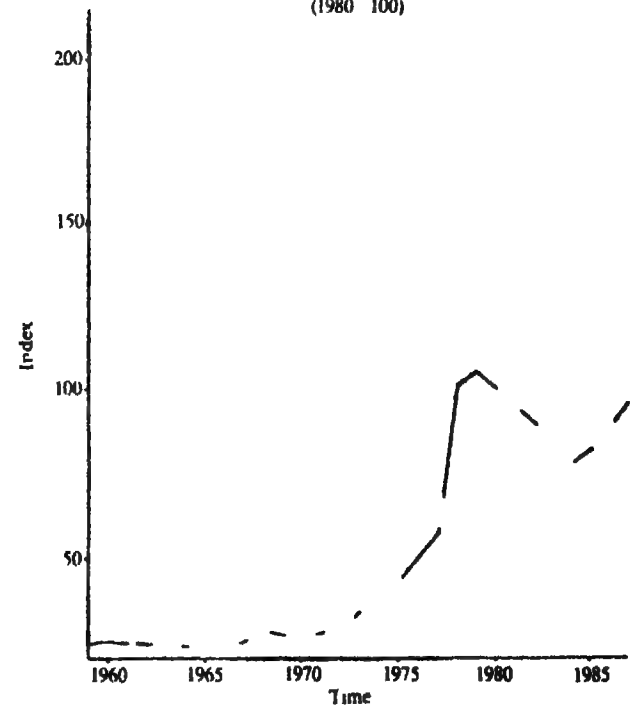


CHART 8 REAL EXCHANGE RATE OF SRI LANKA 1960-1987
(1980 = 100)



the industry in the early 1970s. The government carried out a land reform and many estates were nationalised, and began operating as public enterprises. These publicly owned companies were less concerned with profit maximisation than with other goals such as employment maintenance and ensuring foreign exchange earnings. Such a motivation would make downward adjustment of supply less likely should the price of tea fall in the international market - since tea provides almost a third of Sri Lankan foreign exchange earnings this would have serious effect on the balance of payments. In such a situation the government would be more interested in boosting exports to earn foreign exchange even if prices were unprofitable. Such factors could make for low supply elasticities in the industry.

India

India has long been the major player in the international tea market. While its share of the international tea market has declined from 49 per cent in 1949-51 to 26.6 per cent in 1981-83, it still remains the largest producer and exporter. A major difference as compared to the other countries in our study is that India is also an important consumer of tea. The domestic market has grown rapidly and domestic absorption has been an important reason limiting the over supply in the tea market. The importance of domestic consumer interests was brought home sharply by the events of 1984 when the Indian government curtailed tea exports in order to moderate domestic prices thereby sending international prices skyrocketing, albeit for a very brief period. Further the Indian exports are considerably more diversified than either Kenya or Sri Lanka with tea contributing only 6.6 per cent of export earnings in 1981-83.

Estimation of an export supply function proved most troublesome in the Indian case. Despite trying a number of specifications, we were unable to find a satisfactory equation. In most estimations the coefficient on the producer price turned out to be negative. Nor is this explainable on theoretical grounds. The plantation sector consists mainly of profit maximising firms, and peasant production or the state sector are not relevant.

We are now in a position to summarise the results of our study of the international tea market. The elasticity of supply does not seem to be very high in the international tea market. This seems to be the case particularly for the two largest producers, India and Sri Lanka. In the case of Kenya there is more evidence of supply responsiveness. Consequently, there does not seem to be very strong evidence in favour of the hypothesis that exchange rate policies have encouraged oversupply in the international tea market. Perhaps one might be able to argue that in the absence of exchange rate devaluations, the collapse of tea prices in the 1980s might have brought about supply adjustments in

the main producing countries, with some reduction in capacity. An evaluation of this hypothesis would however have to consider alternative policy scenarios in individual countries, something which is beyond the scope of this study.

Our study also suggests that demand factors may have played an important role in the tea market, in a way which is not often noted. It is clear that the main increase in the demand for tea in recent years has been from the developing countries. Whereas demand in the industrial countries has declined, consumption in the developing world has grown at 4.7 per cent per annum. This is also consistent with the low income elasticity of demand for tea at high levels of income, with demand being more responsive to income when income is low. One of the factors behind the slow growth of demand in the 1980s is therefore likely to be the stagnation in living standards, with absolute decline in some instances in the developing world. Due to the debt crisis and the fall in price of other commodities, incomes have been squeezed thus squeezing demand.

IV

Trends in Real Exchange Rates among Major Commodity Producers

Rather than follow up our study of the tea industry with another commodity study, we pursue a different tack in this section. We consider the behaviour of real exchange rates in countries which are important commodity producers. We take up those countries which produce an important share of the total value of commodities traded on the international market, and consider whether exchange rate policies have been such as to give rise to a tendency towards over supply in these countries. More specifically, we base our choice of countries upon their shares in the total trade of the World Bank's 33 commodities. We exclude those countries which are mainly oil producers. The sample of countries chosen consists of Argentina, Brazil, Colombia, Malaysia, Indonesia and Thailand. Two other countries, Chile and (to a lesser extent) Philippines, are also important commodity producers. However, a study of the evolution of their real exchange rates has already been conducted by Wickham (1987), and we can draw upon his results to extend our discussion. Table 3 shows the share of these countries in total commodity trade: those countries which are significant oil exporters are marked with an asterisk.

To give an idea of the importance of these countries, we can consider their market shares of individual commodity exports. Argentina has 8.7 per cent of the maize market, 5.9 per cent of the groundnut market, over 5 per cent of the markets for wool, beef and wheat, and 61 per cent of the market for linseed oil. Brazil has 20 per cent of the coffee market, 12 per cent of the cocoa market, 25 per cent of the market for

iron ore, 13.5 per cent of bauxite, 13 per cent of manganese, 32 per cent of sisal, 10 per cent of tobacco, and 6 per cent of sugar. Indonesia has 25 per cent of the rubber market and 13 per cent of tin. Malaysia has 70 per cent of palm oil, 47 per cent of rubber and 29 per cent of tin. Thailand has 22 per cent of rice, 15 per cent of rubber and 13 per cent of tin. Philippines has 27 per cent of copra, Chile has 22 per cent of copper and 25 per cent of fishmeal, and Colombia has 16 per cent of the coffee market.¹¹

Since these countries are the most important players in international commodity markets, supply conditions in aggregate are likely to be dominated by their internal economic developments. Charts 13-18 show our calculations for real exchange rates in these countries between 1978 and 1987. The three Latin American countries have undergone substantial real exchange rate devaluations in this period. The trend has not been uniform, as one might expect given the high inflation rates which have characterised these economies, but the overall movement of the real exchange has been upward. The magnitude of real devaluations has been particularly great in Argentina and Colombia. Turning to South East Asia, Indonesia has undertaken a major devaluation. The experience of both Malaysia and Thailand has been rather different. Both these countries experienced real appreciations in the early eighties but this has been reversed by depreciations since. Their exchange rates do not show any significant trend over the entire period as a whole. In addition, Wickham's analysis (1987) shows that Chile and Philippines have appreciated in real terms in the recent period.

In terms of the importance of countries in the commodity markets, it therefore seems that exchange rate depreciations have been significant. In our sample, three important countries (Argentina, Brazil and Indonesia) have had big devaluations, and so has Colombia. It is difficult to argue conclusively, on the basis of this evidence, that such policies have been primarily responsible for over supply in commodity markets. However, it is clear that such exchange rate changes aggravate the disequilibrium in commodity markets, by preventing supply

TABLE 3. SHARES OF SELECTED COUNTRIES IN TOTAL COMMODITY EXPORTS OF THE WORLD (Per cent)

| Country | Average Share (1981-83) |
|-------------|-------------------------|
| Argentina | 0.8 |
| Brazil | 1.5 |
| Chile | 0.6 |
| Colombia | 0.5 |
| Indonesia* | 3.4 |
| Malaysia* | 2.2 |
| Philippines | 0.5 |
| Thailand | 0.7 |

* Significant oil exporters
Source: United Nations

CHART 9 REAL EXCHANGE RATE OF INDIA 1960-1987
(1980=100)

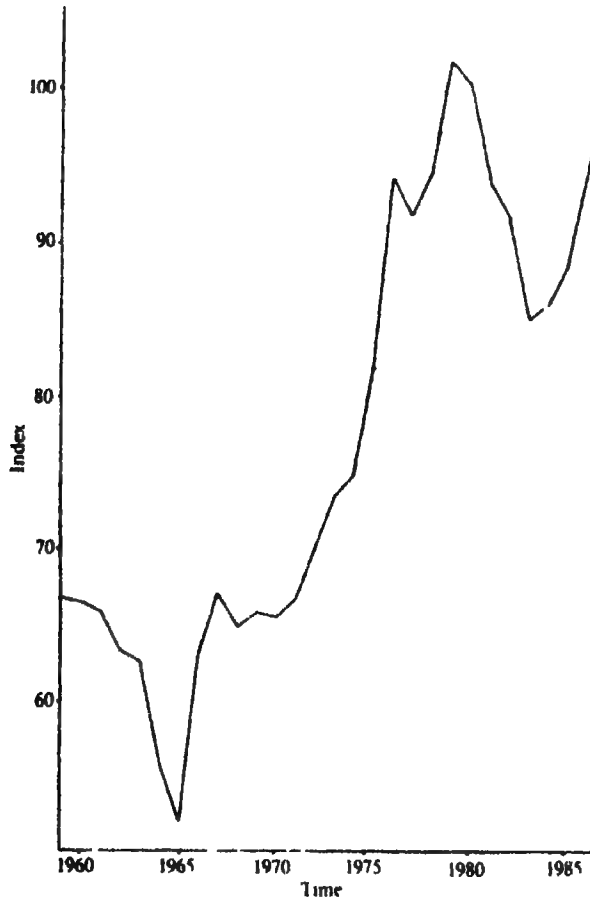


CHART 10 QUANTITY OF TEA EXPORTS KENYA 1960-1987
(1980=100)

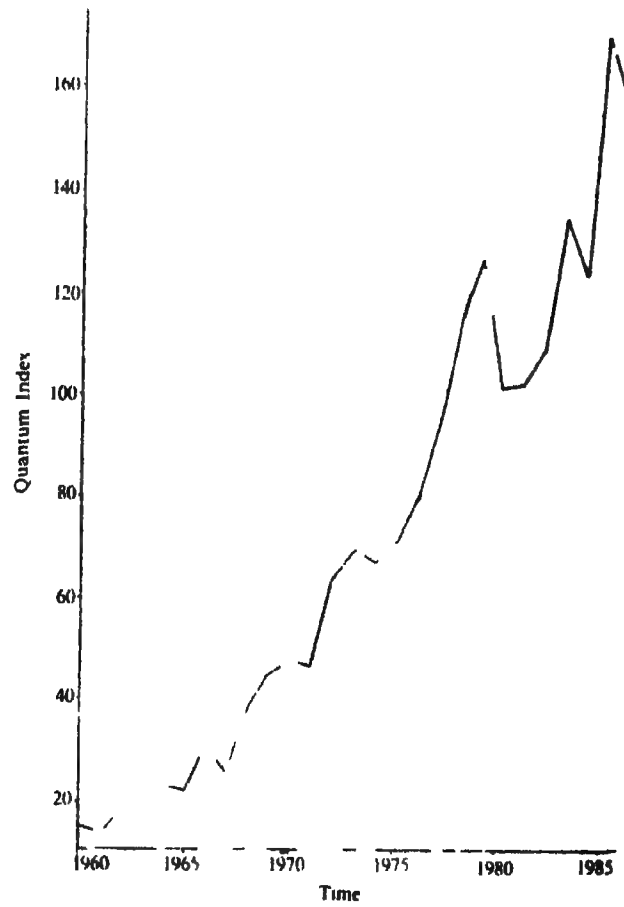


CHART 11 QUANTITY OF TEA EXPORTS SRI LANKA 1960-1987
(1980=100)

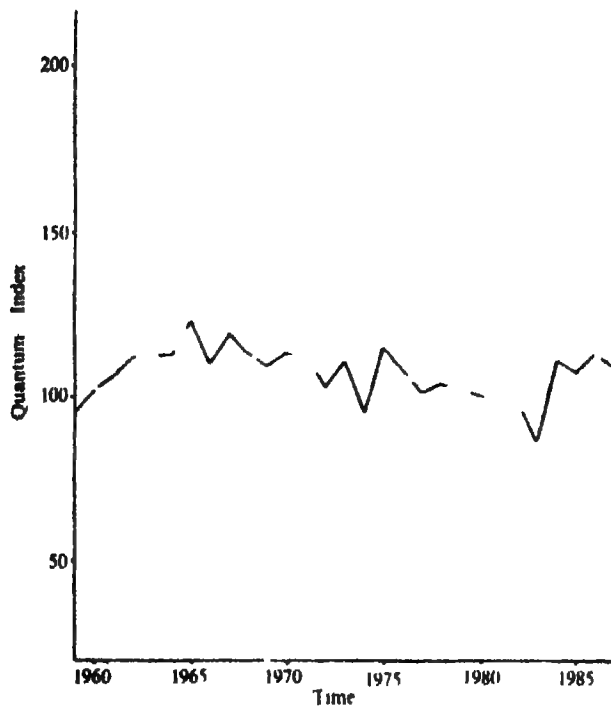


CHART 12 QUANTITY OF TEA EXPORTS INDIA 1960-1987
(1980=100)

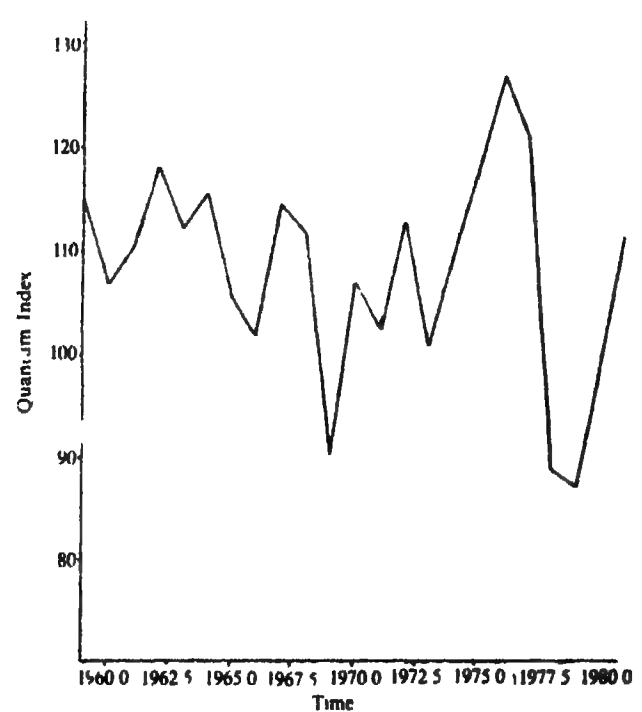


CHART 13 REAL EXCHANGE RATE OF ARGENTINA, 1978-1987
(1980 = 100)

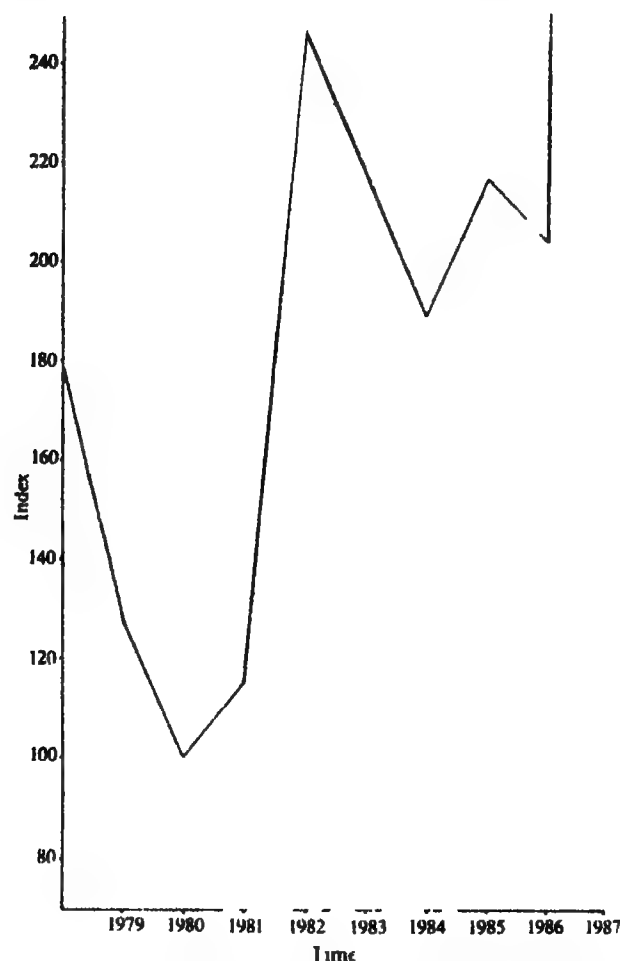
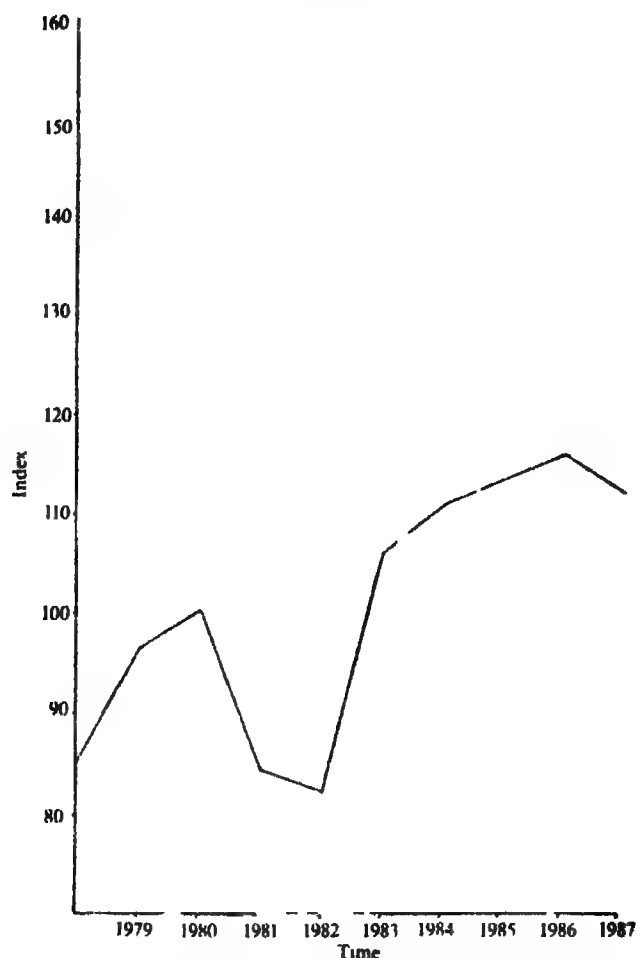


CHART 14 REAL EXCHANGE RATE OF BRAZIL, 1978-1987
(1980 = 100)



reductions. The recent weakness of commodity prices can perhaps be explained in such terms. With many countries facing a continuing debt burden and balance of payments difficulties, and adopting policies to at least retain if not increase export shares, adjustments in supply will be further delayed.

In addition, there is another factor making for excess supply. Metals and minerals are often produced by para-statal organisations, whose objectives are closely linked to those of national governments. Even in the absence of exchange rate depreciations, such firms can pursue goals such as maximising export revenue without a concern only about profits. Anecdotal evidence exists for such behaviour, for example, in the case of Chilean copper exports.¹²

V

Interdependence, International Institutions and Economic Policy

Commodity markets can, in some respects be characterised as a situation of "competition among the few". Although the individual producers of a commodity like tea may be atomistic, with no market power, the

countries concerned often have a large share of the market. Since the incentives affecting the individual producer are determined at the level of the government, economic policy clearly must take into account the 'largeness' of the country concerned. This in itself is well established and uncontroversial. Traditional trade theory argues for the need for an optimum export tax in the case where the country is a major supplier on the world market, and where the export product is produced competitively (see, for example, Corden, 1974 for a discussion). However, not much attention has been focused upon the problem of interdependence, when producers are few, and where each's policy exerts a powerful influence upon the other's export earnings.¹³ In this section we propose to take into account some implications of this interdependence, and to consider their implications for exchange rate and export policy.

Consider now an individual country deciding to provide the optimum level of export incentives from its point of view. The higher the level of export incentives for the primary product, the larger its supply, and hence lower the international price. From the individual country's point of view, the op-

timum outcome is such that it balances the cost to itself of a lower price against the benefit of additional sales. It need not take into account the effect of this lower price upon other producers. In other words, if each country chooses the export incentives according to its own interest, the resulting outcome is strictly inferior for all exporting countries concerned. If countries could co-operate, and provide lower incentives to their primary producers, they could all do better.

While this argument is perfectly true, it may well be objected that the countries concerned will not co-operate, since such co-operation is fundamentally unstable. Each country will be moved by its own self-interest to break any co-operative agreement by expanding incentives for its own exporters. This argument however fails to take account of the fact that countries have typically not provided high levels of incentives for their primary producers. International institutions such as the IMF or the World Bank have shown us that many countries often follow policies which are not designed to encourage export production, and have argued that a reversal of such policies is necessary for an improvement in their economic performance. This suggests that political pressure

CHART 15 REAL EXCHANGE RATE OF COLOMBIA 1978-1987
(1980=100)

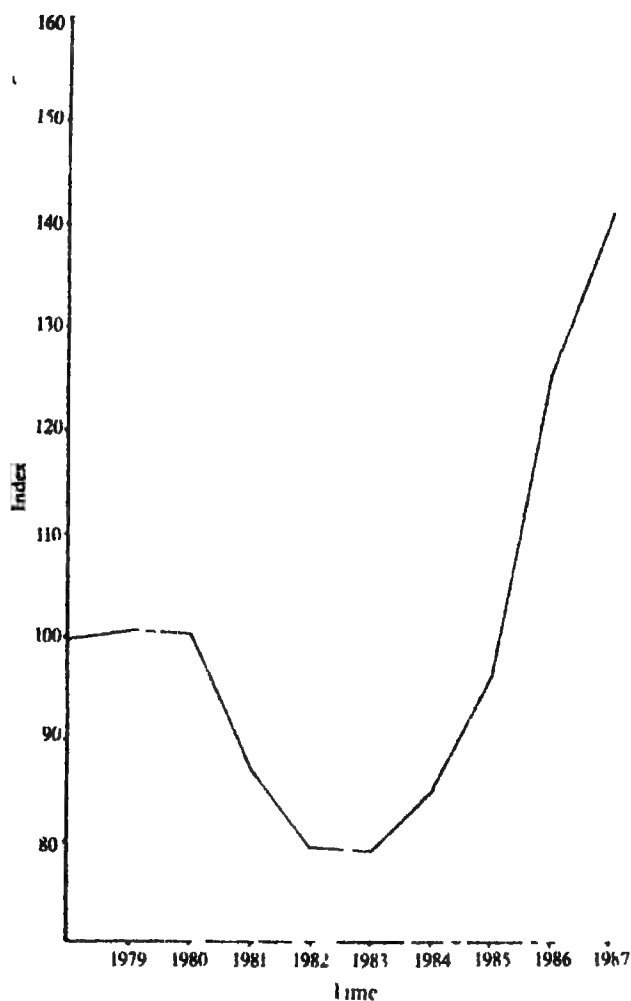


CHART 16 REAL EXCHANGE RATE OF INDONESIA, 1978-1987
(1980=100)

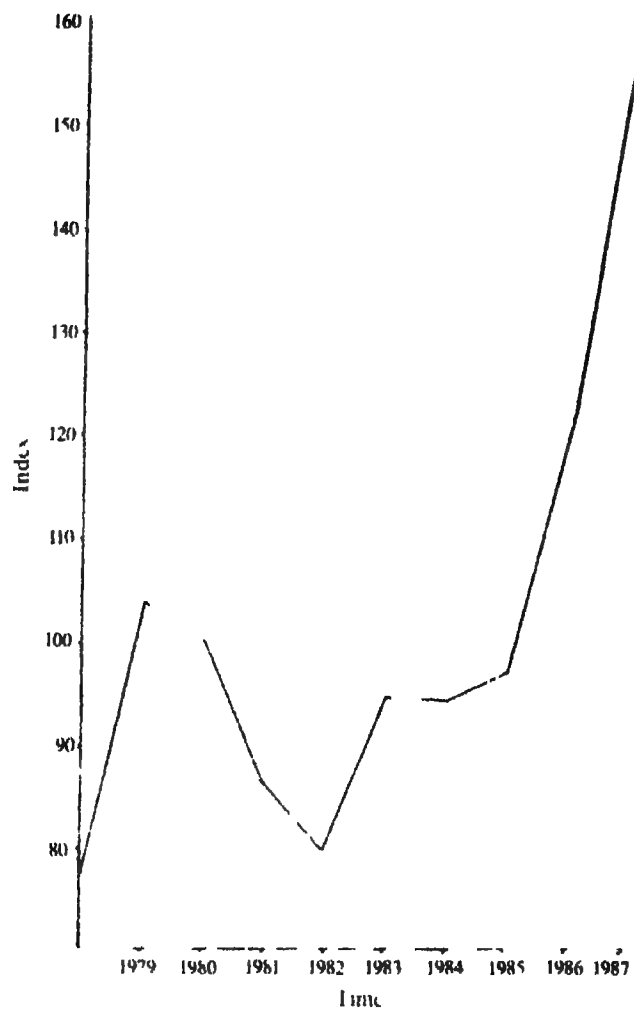


CHART 17 REAL EXCHANGE RATE OF MALAYSIA 1978-1987
(1980=100)



CHART 18 REAL EXCHANGE RATE OF THAILAND 1978-1987
(1980=100)



groups exist, which would make for a lower degree of export orientation. The role of international organisations has often been to exert pressure for an export orientation in economic policy.

The arguments presented here suggest that an international organisation which is concerned about the export performance and balance of payments of a group of countries should take the interdependence between them into account. Even if it be the case that it would be optimal (in welfare terms) for each country to maximise its export earnings, the optimal policy suggested by the organisation should be different. More specifically, the countries concerned can maximise export revenue by each individual country not maximising its own revenue. On the other hand, should each country try to maximise its own export earnings, the net effect would be lower export revenue.

This also suggests that an evaluation of the policy recommendations of international organisations should take into account the effects of these policies upon all the countries which are affected by the policy, rather than merely the specific country to which the policy is addressed. That such a perspective is important is in fact suggested by Camdessus, Managing Director of the Fund, who declared that the objective was "to focus the attention of each country on the consequences of its actions for the others and for the rest of the world, and to help to evaluate the consistency of national policies with objectives for the group as a whole". This also implies that the standards of assessment of Fund stabilisation policies must be different. It is also usual, in discussing policy alternatives, to compare countries who have adopted different policies, and to see which one has done best. This procedure is not very useful, since the country which adopts a policy of export promotion may do better than one which does not. However, both countries may have done better had neither undertaken such policies.

In conclusion, one may suggest that policies in developing countries should be such as they do not aggravate the fundamental over-supply in commodity markets, and enable a downward adjustment of supply potential. These adjustments are difficult in a situation of chronic debt and balance of payments difficulties, when countries are attempting willy-nilly to expand their exports. One alternative would be for such countries to expand manufactured exports without stimulating commodity supplies. For instance, a policy which could achieve such a goal could be a devaluation coupled with a tax upon primary exports. This would permit import substitution and export promotion in manufactures without increasing commodity supplies. Politically however, such taxes may be difficult to impose in conditions where real commodity prices have seen such sharp declines, and where primary producers have seen sharp cuts in living standards. Another alternative could be the promotion of manufactured export and import

substitutes specifically, via tariffs and export subsidies. Although such a policy is equivalent in economic terms to one of taxing primary exports while resorting to a devaluation, it may be politically less difficult to impose. Diversification into manufactured exports may have its own problems (including the possibility that the fallacy of composition operates here as well), but these are likely to be less severe than the outlook in commodity markets unless fundamental supply adjustments take place in the near future.

Notes

[I am grateful to David Bevan, Paul Collier, Bunt Ghosh, Christopher Gilbert and Ganeshan Wignaraja for discussions. My special debt is to Hans Singer for his numerous suggestions and detailed comments on earlier versions of this paper, and to S K Rao for his comments and encouragement. Needless to add, I alone am responsible for the views expressed here and any errors.]

- 1 See Ghosh et al (1987) for an evaluation of commodity price stabilisation.
- 2 See Dornbusch (1985) for a demonstration of the close relation between developed country growth and real commodity prices.
- 3 Singer (1988) argues that since actual prices have clearly fallen short of forecasts, this should constitute grounds for debt relief to borrowers whose debts were incurred on the basis of such forecasts.
- 4 The estimated models are developed from the general to parsimonious strategy suggested by Sargan and Hendry, and have an error-correction representation.
- 5 Of course it is possible that there might be some other explanation for the apparent large effect of the dollar appreciation upon commodity prices. The early 1980s were a turbulent time for the world economy, and other factors may have played a role in the collapse of commodity prices.
- 6 Chang makes a number of criticisms of Gilbert's methodology: firstly, he questions Gilbert's error correction specification and criticises the regression of the change in commodity prices upon (among other things) the level of debt service, and argues that higher level of debt service will result in lower commodity prices rather than falling commodity prices. This criticism is clearly misplaced, since, in the error correction specification, the change in the dependent variable is related to the deviation from the equilibrium relationship between the levels of the dependent and explanatory variables. The equilibrium relationship is clearly specified in levels, so that the change in commodity price will be zero once equilibrium is established between the level of commodity prices and the debt service ratio. Chang conducts an alternative estimation which purports to show that the debt service ratio has no significant effect upon commodity prices. He estimates an equation in levels, which does not include the lagged dependent variable among the regressors. This seems dangerous given the importance of lagged adjustment in export supplies, and not surprisingly he finds evidence of positive serial correlation of the residuals, indicating dynamic misspecification. A second estimation is performed where the first difference of the commodity

price index is regressed upon a distributed lag of first differences of other explanatory variables and upon the level of the debt service ratio. This procedure is misplaced since by differencing one loses valuable information about the long-run solution (see Granger, 1986), and in addition it makes no sense to estimate a relationship between variables of different orders of integration (such as the debt service ratio and the change in commodity prices). In any case, Chang's equations have a higher standard error than those estimated by Gilbert, and often have an elasticity with respect to the dollar exchange rate greater than unity.

- 7 The figure is for 1980 and is taken from the United Nations Yearbook of International Trade Statistics.
- 8 Kenya, India and Sri Lanka are examined in detail. The main country which is excluded is China, and this is because the effects of exchange rate policy will be quite different in a planned economy.
- 9 Note that this may not be strictly correct if there is a divergence between trends in consumer prices and input prices. Maizels (1986) makes this point particularly in the context of wages, if wages rise less than output prices, as is often the case in devaluations, the incentives to export may be greater than suggested by our index of the real exchange rate.
- 10 For other attempts to model export supply see Goldstein and Khan (1978) or Hussain and Thirlwall (1984). Bond (1983) and Adams and Behrman (1982) obtain some recent estimates of supply elasticities in commodity markets.
- 11 All figures are based on an average of 1981-83. Two important commodity exporters in the developing world which are not included here are China and Cuba, since the implications of exchange rate changes are likely to be quite different in economies where market allocation is limited.
- 12 See Gilbert and Perlman (1987) for more evidence on such supply behaviour.
- 13 A few writers have discussed the "fallacy of composition" in the policy of export promotion in primary commodities; see Maizels (1986) or Overseas Development Institute (1988) for instance. This problem has also been discussed in the context of manufacturing exports by developing countries.

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SUNDARAM FINANCE LIMITED

MADRAS 600 002

FORM IVA

(See Rule 4A(1))

NOTICE

It is hereby notified for the information of the public that SUNDARAM FINANCE LIMITED proposes to make an application to Central Government in the Department of Company Affairs, New Delhi, under sub-section (4) of Section 23 of the Monopolies and Restrictive Trade Practices Act, 1969, for approval to the take over of the whole or part of SUNDARAM FINANCE SERVICES LIMITED

Brief particulars of the proposal are as under

- | | |
|---|---|
| (i) Name and address of the applicant | SUNDARAM FINANCE LIMITED (SF) 21 Parullos Road Madras 600 002 |
| (ii) Name and address of the under taking the whole or part of which is proposed to be taken over and the manner of take over, i.e. by acquisition of shares, acquisition of control or management, whether by the acquisition of ownership of the undertaking or under any mortgage lease or licence or under any agreement or other arrangement | SUNDARAM FINANCE SERVICES LIMITED (SFSL) 21 Parullos Road Madras 600 002 Acquisition by SF to the extent of 51% of SFSL's proposed equity of Rs 2 cr |
| (iii) Management structure of the applicant | A public limited company managed by the Managing/Joint Managing Directors under the supervision and control of the Board of Directors |
| (iv) Capital structure of (a) The applicant | SUNDARAM FINANCE LIMITED <u>Authorised Capital</u> 250 lakhs Equity Shares of Rs 10/ each—Rs 25 cr <u>Issued Subscribed & Paid up Capital</u> 1 20 00 000 Equity Shares of Rs 10/ each—Rs 12 cr |
| (b) The undertaking proposed to be taken over | SUNDARAM FINANCE SERVICES LIMITED <u>Authorised Capital</u> 1 00 00 000 Equity Shares of Rs 10/ each—Rs 10 cr <u>Paid up Capital</u> 70 Equity Shares of Rs 10/ each— Rs 700/ being shares taken up by signatories to the Memorandum of Association |
| (v) Line(s) of business of the under taking which will or is likely to emerge as a result of the proposed take over | Financial services—viz corporate finance investment/merchant banking portfolio management/investment counselling stock and share broking, hire purchase leasing factoring, venture capital operation of mutual funds etc |
| (vi) Consideration for the take over | Acquisition—10 20,000 equity shares of Rs 10/ each (including 70 equity shares held by the subscribers to the Memorandum) amounting to Rs 1 02 00,000/ |
| (vii) Scheme of finance indicating the source(s) of finance for the proposed take over | Entirely from own funds |

2 Any person interested in the matter may make a representation to Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, Dr Rajendra Prasad Road New Delhi within 14 days from the date of publication of this Notice intimating his views on the proposal and indicating the nature of his interest therein

Madras
9th May 1991

for SUNDARAM FINANCE LIMITED
S VENKATESAN
SECRETARY

Will Bombay Have a Plan?

Irrelevance of Planners and Their Plans

J B D'Souza

Is Bombay's second Development Plan needed? Is it relevant to Bombay's needs? Would the city be better off with no Development Plan, but only a set of building rules? Does it make sense to adopt a plan for a period of which half has already elapsed?

I

Introduction

LIKE any other large city, Bombay has a myriad problems. From time to time prominent industrialists, officials and politicians pour out laments about the state of the city, each offering his own doleful diagnosis of terminal illness. About four years ago one of them, a former head of a large corporation and later a member of the Planning Commission, gave Bombay only five years more. So now we should be only a year away from mortal decomposition or anarchy.

Contrast this view of Bombay's gallop towards nemesis with the leisurely treatment Bombay's second Development Plan (for 1981-2001) is receiving from the Maharashtra government, which has had the plan under study for the last six years. Indeed, there is little reason to expect that it will receive the government's approval and come into operation by 2001—well before which, we are assured, Bombay will die. Incidentally, the Bombay Municipal Corporation (BMC) began preparation of this plan in January 1977. It sent it to the government for sanction in April 1985. Eight years in gestation and six already in labour—with such a timetable it surely would be prudent to start preparing the 2001-2021 Plan at once. Incidentally, the gestation period in the BMC included publication of the draft for suggestions and close consultation with the Metropolitan Region Development Authority, a creature of the state government.

II

Planning Process

Greater Bombay, capital of Maharashtra, comprises the old (island) city and the suburbs, covering areas of 69 and 369 sq km, respectively. The 1981 census gave the population figures as 3.28 million and 4.96 million respectively, totalling 8.24 million for Greater Bombay. Provisional figures for 1991 add up to 9.9 million. The whole of Greater Bombay is administered by the BMC.

Bombay's Development Plans are drawn up under the Maharashtra Regional and Town Planning Act, which requires plans to be revised at least every ten years. All the authorities concerned find it convenient to overlook this injunction. The first Development Plan, for the period 1964-81, got official sanction in 1964 and still remains in force. The act prescribes that a Development Plan should regulate the use and manner of development of land in the city. It must,

inter alia,

(a) allocate each plot of land for residential, commercial, industrial, agricultural, recreational or other use;

(b) designate areas for public purposes, like markets, schools, hospitals, playgrounds, public utilities and community facilities;

(c) lay down building and development rules, floor area ratios, building heights.

A vital, and probably crippling, omission in the law is its failure to require a thorough assessment of the resources available for execution of the plan. There is only one provision, an inadequate one, that prevents the government from approving a land reservation for a public amenity unless it is sure that the municipal body will be able to afford the acquisition of the land in ten years. Inadequate because there is no way to determine that a particular plot reserved in the plan is beyond the corporation's resource capacity. That kind of judgment could be made only about the whole set of reservations in the plan or a large sub-set of them.

Once the government approves a plan all development and building in the city must conform to it, unless the government later changes the allocation of specific parcels of land. This the law allows if the new exception does not "change the character of the plan". Over the two and a half decades of the first plan's existence and operation, resort to this exceptional power has been frequent and increasing. With land prices soaring, the pressure on the government from individual landowners affected by the first plan's prescriptions has been intense; on most of the many occasions when the government has yielded to it, that has happened for reasons unrelated to the public interest.

Bombay's first plan allocated land all over the city and prescribed rules as the law required. In most senses it was a dismal failure, because hardly any of the several items of development that it envisaged actually materialised. Moreover, the BMC could not find the money to buy more than a tiny fraction of the land the plan had reserved for public amenities (gardens, markets, playgrounds, etc). In fact, the owners of such lands lost interest in protecting them, so that most of them were overrun by squatters. The plan had estimated the cost of its implementation, but had made no serious assessment of the municipality's ability to meet that cost, trusting to vague hopes of outside help, from the State and Union governments.

In 1977 the BMC, which is the Planning Authority under the Town Planning Act, set

about revising the first plan. It was a Planning Cell, manned by civil engineers and architects, chiefly the former, that did the revision. Neither city planners nor geographers, nor economists nor sociologists. At the time when the cell finished its labours the corporation had ceased to exist as a composite elected body. Its functions were performed by a state-appointed Administrator. Aided by a strictly official Planning Committee, the Administrator reviewed the Planning Cell's proposals for the island city as well as the criticisms and suggestions they had evoked from the public. He then sent the part of the plan relating to the island city to the government for approval.

Before the Administrator could deal with the suburbs, elections had returned a whole set of new councillors, who quickly set up their own Planning Group to review the suburban part of the new plan. The corporation was now dominated by a large Shiv Sena majority, while the State had a Congress Party government. The Planning Group's composition reflected this dominance. The group's scrutiny of the suburban plan focused chiefly on individual designations of plots rather than on the important prescriptions in the plan, the policies proposed, the targets adopted, the rules to regulate building, the resource requirements, the municipal resources, and plenty more that a prudent planner for a large city might consider. Its obsession with the reservations gave rise to strong suspicions about its integrity, suspicions that were strengthened by the quality of the recommendations it made to its parent body, the corporation. Land values are very high in Bombay, and pressure to escape an unwelcome reservation correspondingly heavy. Landowners are often eager to reward those who aid such escapes.

Subsequent events suggested that the corporation's Planning Group for the suburbs might have worked out a spoils-sharing system with their councillor colleagues, for the suburban plan, newly manipulated reservations and all, passed through the corporation's hands at breakneck speed. Several wards out of the twelve in the suburbs are said to have received no more than ten minutes' consideration from the general body. And the population target, the policy recommendations, the resource constraints, got no time at all! For a plan to take the city into the 21st century this was speed, indeed.

This plan for both island and suburbs now needed the State government's sanction before it became law, as it were. But rumours of venality had preceded it, and the govern-

was called upon to approve, as also over those that had fallen by the wayside during the councillors' Planning Group's proceedings. Concern within the ruling party in the State government was probably tinged with more than a little envy over what its own members had missed by being in a minority in the BMC.

Nor did anyone at the government or corporation level bother about the two volume report that accompanied the reservation maps and professed to explain them as well as to spell out urban policy for the city's survival. This report was a verbose document of some 600 foolscap pages. It contained an account of Bombay's history, its climate and rainfall, the velocity and direction of wind, the age, sex composition and marital status of its people, and various other features, most of them peripheral in comparison to the economic condition of the population, on which you can find very little. It did make an attempt at a 2001 population forecast, but could not quite choose between a 12 or 14 million low and a 19 million high. So it decided on 9.87 million as a target figure for 2001! It explained this by pleading that the city would not be able to provide for a population level realistically estimated, so 9.87 million would be a sensible target to work on. At the time the report came to the government, Bombay's population was already 9.5 million, and said to be growing by a quarter million yearly. While they were about it the corporation's planning experts - the engineers who spent all those years writing their recommendations - could just as well have chosen a *population target to fit the current level of amenities*, to make life simpler for themselves. If you do not expect to have enough money to feed your infant son when he reaches adolescence, you merely predict that he will stay stunted, you need not then bother about his growing needs.

III

Massaging the Plan

Concern within the Maharashtra government over the councillors' operations on the new plan prompted the appointment of a committee, which it asked me to head, with the task of advising the government on the plan and its building control rules, the resources it would need for its execution and how they could be raised, and anything else germane to the issues involved.

With me on the Advisory Committee were the Chief Planners of the country's Town and Country Planning Organisation and the Bombay Metropolitan Region Development Authority, and a practising architect planner who had worked on a prestigious new town project in the sixties. The government gave us a year to complete our task.

From the start we regarded our task much less as a fishing expedition to uncover and reverse inexplicable or undesirable land reservation decisions than as an opportunity to upgrade the plan that the BMC had sent

features that might more effectively serve the city and the people of Bombay. Our options in this respect were constricted by the provision in the law that forbids 'substantial' modifications of the draft which the government has received from a planning authority without a fresh invitation of public comment, and individual hearing of the new objections. That would have added a further delay of two or three years which, in our innocence, we imagined the city and the government could not afford. So, unlike most other governmental committees in our country which quickly develop aspirations to longevity we were firmly determined to keep within the time limit the government had set. "While a longer work period", we wrote in our report, 'might have produced a better plan, much less time would have been left for execution. Government and the people of Bombay, we believe, are better served by having an appreciable period to implement a plan that is less than perfect than by waiting interminably for an ideal plan that retains only academic value because there is no time to put it into effect'.

Population Forecast

Rejecting both the BMC's absurd population target and the wild forecasts it, planners mentioned only to ignore, we modestly indulged in some crystal gazing on our own bearing in mind the fact that Bombay's growth rate had begun to fall and relating the numbers we could expect in each ward to the area available there and to the movement that had already begun from the congested island city to the suburbs. The figure we adopted for 2001 was 12.5 million.

Plan Objectives

We searched the corporation's 600 page report in vain for the objectives that had informed the plan. In an earlier report entitled "Policy Plan" the planners had listed as the "main objective [sic] of the Development Plan" no less than twenty four items most of them of too little significance to qualify as objectives for such a plan. The improvement in the working of potteries, for instance, or the relocation of tanneries - two of the chosen twenty four - could hardly be goals useful for giving the plan either a focus or a direction.

Although it was too late to fit a set of objectives on to the plan that had come to the government we still believed it useful to identify objectives to guide our own work to explain the plan to the people it was meant to serve, and in choosing among options in implementation. We thought the basic goal should be to promote and sustain growth with social justice in a resource efficient manner. This goal we suggested should be translated into the following operational objectives:

- (a) to facilitate and promote economic growth of the city taking into account its role in the process of national development
- (b) to improve the quality of life, particularly of the poor and deprived citizens of Bombay

such as traffic congestion, over-crowding and pollution, which might occur in the process of economic growth,

- (d) to achieve these objectives in a resource-efficient way, where resources would particularly include urban land, energy, and municipal finances

The BMC planners' light hearted adoption of an impossible population target had left them indifferent to the needs of the city's economy and the imperatives that survive the efforts of planners to contain them. Having seen the dismal failure of attempts at 'decongestion' (horrid word!) and of reliance on floor area and dwelling-unit-density limits to achieve it, we were much less ready to believe in some optimum size for the city. We recognised the harm that cities suffer - and Bombay had suffered - from blind adoption of optimum size concepts, accompanied by a refusal of public authorities to provide services for population levels higher than those arbitrary size limits when growth proved inexorable, services fell to intolerably low levels.

We therefore rejected as impossible and unwise the aim of limiting or reducing Bombay's population that had been an insistent theme of the environmental lobbies in the city. Bombay in our view was a vibrant, thriving hive of activity, a robust source of strength to the national and the state economy. Its per capita net domestic product was nearly thrice as large as that of the rest of Maharashtra. To us the function of the Development Plan was to promote and sustain Bombay's economic growth, and simultaneously to raise the quality of our citizens' lives. The two were closely bound together: it was because people were poor that they lived in squalor and misery, even if the economic level of Bombay's poor might be higher than that of the rural poor. So it was necessary to promote additional employment in the city instead of trying to inhibit it, as the ecology enthusiasts had insisted. Clearly a reversal of the prevalent government policy of discouraging new industry and the expansion of existing industry was called for, with the obvious reservation that environmentally hazardous industry must be excluded. Similarly, commercial activity, trading and office type employment must also be encouraged. This is what we wrote:

The development and indeed the survival, of Bombay should depend not on a superficial vision of this city as an island in itself, isolated from the rest of the State and the country, but as an integral part of the national economic structure, and indeed an instrument of development for Maharashtra and India. A vital part of this larger picture is of course the employment pattern, and its corollary, the migration pattern. People come to Bombay not because they fancy the lights of the big city or because film stars live here, but because of their hopes of finding employment prospects much brighter here than in the rural areas or the small towns. Nor can the same total level of employment be automatically attained by decentralisation,

the quantity of employment an economy generates is not a zero sum, so that activity barred in one place will necessarily grow elsewhere. What blanket bans of the kind the city-savers want can achieve if they are properly enforced is a locational spread at a lower employment level and at a higher cost to the economy. This is because economic activity, whether in industry or trade, depends for its prosperity on facilities available, on communications, on linkages, etc. These do not automatically sprout in officially chosen growth centres, and an activity barred from the city for which its own economic calculus indicates a preference may not be able to survive in an officially promoted growth centre, and may consequently not take place at all. The loss in such a case may not be only that of the individual entrepreneur but that of the economy as a whole.

Notwithstanding the aura of respectability that the curb on employment has acquired in the last two decades, therefore, the committee suggests that the official employment location policy be carefully reviewed. There may be a case for admitting certain activities, particularly those which pose no environmental risks, and for so locating them that they reverse the present commuting pattern (north-south in the mornings and south-north in the evenings).

Realigning the Plan

Our eleven-month effort aimed chiefly at moulding the plan to

- (a) bring more land for housing into the market;
 - (b) persuade private landowners and builders to build houses for people in the low-income groups;
 - (c) ensure that more civic amenities—playgrounds, schools, markets, etc—actually materialise;
 - (d) fit within the resources available;
 - (e) cope with two serious housing problems.
- I shall summarise in the following paragraphs a description of our effort under each of these headings.

Land market. The last twelve years have witnessed an unprecedented rise in land prices. This has been chiefly due to an artificial strangulation of the land market, which has withheld land from prospective house-builders. The principal culprit in this respect has been the monstrous Urban Land (Ceiling and Regulation) Act, which a government eager to establish its proletarian credentials enacted during the notorious Emergency of 1975-77. The act froze land transactions in the cities, and required expropriation of all areas in excess of certain ceiling holdings. For Bombay the ceiling is 500 sq m. Landowners' resistance to the law and growing corruption prevented the government from realising more than a fraction of the land it expected to get from this legislation, but meanwhile housing activity came to a standstill, and land and housing prices consequently sky-rocketed. The law contains a couple of loopholes, and we proposed their vigorous exploitation so as to bring more land on to the market.

Incentives for low-income housing. Bombay's first Development Plan had failed to recognise the economic condition of the

majority of the city's population. In elitist fervour the plan had prescribed built-up area to plot area ratios (called Floor Space Indices, FSI, in Bombay) and maximum densities which took most of the housing built in the city out of the reach of lower middle class and poor people. In the suburbs the density could not exceed 200 units per hectare (10,000 sq m). So to use up the FSI, which was one, tenements had to measure at least 50 sq m (550 sq ft). Construction cost alone for such a tenement would be nearly Rs 1½ lakh, and after adding land cost and developer's profit most of Bombay's lower middle class could not find the smallest such unit affordable. Even on HUDCO's concessional terms, monthly outgoings on a hire-purchase of such a unit would exceed Rs 1,500. Thus the only relief available to low-income groups was promised by the public housing programme, but the size of this programme was altogether negligible in relation to the shortage. Private developers were in any case not interested in building for these groups of people because there was enough demand from upper class people to absorb all their product at prices artificially inflated because of the ceiling law. To counter this disinclination we suggested a housing density of at least 325 units per hectare in several tracts of the city, mostly virgin areas. We proposed a 20 per cent FSI bonus if the density were to reach 450.

Reservations. With the absurd population target the planners had chosen, the set of land reservations for public amenities (schools, playgrounds, hospitals, markets, dispensaries, etc) were bound to fall short of realistic requirements. Nevertheless, the municipal councillors in their wisdom had reduced even these, for reasons that one can easily suspect. Moreover, for these same reasons, the reductions were not evenly spread over the several districts in the city. We tried to reverse most of these reductions.

Experience with reservations during the earlier plan period had not been happy, and this provided an excuse for the reductions the councillors had made. The municipal body had been unable, or unwilling, to spare money from its growing revenues to pay for the acquisition of the lands reserved for amenities, except to a very small extent. Partly to prevent a recurrence of this experience, we supported the concept of Transfer of Development Rights (TDR) that the municipal planners had proposed. Landowners whose plots were reserved would be encouraged to give over their plots free of cost to the municipality, but would retain the development potential, which they could use elsewhere, or even sell. We expected a very substantial response to this scheme.

Resources. The municipal body as well as the planners who prepared the second plan were obsessed with an impression that the BMC was too poor to afford the plan they had prepared. Against a total cost of Rs 3,419 crore at 1984 prices, to be spent by 2001, the planners thought the corporation could find only a pathetic Rs 20 crore each year for their plan.¹ To us, accustomed as we were to the BMC's mendicant tendencies, this poverty obsession was incredible. So we

had a careful study made of the resources available to the corporation. We found that no less than two-thirds of the plan could be financed from the municipal revenues. The gap did not worry us unduly, because of the FSI concession (TDR) I have just described, which would greatly reduce the cost of acquiring the land needed for public amenities.

Building rules and development control. Apart from rewriting the Development Control Rules to make them more useful to architects and developers generally, we introduced a few features into them to promote the objectives of the plan. I have already referred to minimum density prescriptions and to TDR. We proposed a stretch of the TDR concept to help with two other problems. Bombay's housing stock is crumbling rapidly, thanks to our antiquated rent control legislation. The level at which rents are controlled makes regular maintenance and repair impossible. To induce landlords to rebuild decaying houses without throwing their tenants on the streets, we proposed that a landlord of an old building who rebuilt and rehoused his tenants should get a Development Right to that extent, which he would use in exactly the same way as the owner of reserved land. Large pieces of land in the city are also covered by slums, and we recommended that the owners of slum land should be similarly rewarded with Development Rights, if they built to rehouse their slum people.

IV

The Plan in Bumbledom

In August 1987, well within the period we had been given for our work, we proudly presented our report to the government, urging confidently

that government sanction this plan as soon as possible. Any delay will attract a fresh flood of representations from applicants whose cases have already been dealt with. For government the temptation to look at such representations will be strong, but if it yields to that temptation it will have to set up new machinery to deal with them afresh, an iterative process that may end only in 2001. We are confident that, with all its flaws, the plan we submit today will result in a much more livable Bombay 2001 than Bombay 1987 is, particularly for the poor.

The State's chief minister, to whom we handed our report, directed that it be processed in a month. Today, nearly four years later, the plan is still in labour, with only occasional signs of delivery. The ministry has consulted everyone who happened along, including the BMC and some new committees within the government machinery. It is not clear whether the delay is simply the result of official doodling, or if a deliberate ploy to cover activity of another kind. For in April 1989, it suddenly became public that the government had been quietly releasing plots from reservation. The minister admitted to 285 releases. A major uproar ensued. There was a strong suspicion that the government had been indulging in the very same venality that it had so sanc-

councillors had been accused of it three years earlier. The press mentioned a sum of several hundred crore as the total take. An environmental group took the 'dereservation' case to court. Meanwhile, the plan continues its labour pains, although ten years of its life have ebbed.

At the end of February 1991, however, the government published the new building rules which it named Development Control Regulations. They included a number of the innovations that the municipal planners had introduced or we had added. The impossibly low densities of the first plan were raised more or less as we wanted, with minima and not only maxima being prescribed. The FDR concept also survived, despite attack on it in the interim. In misguided zeal that betrayed more confusion than clarity its assailants had identified it with the infamous floating FSI that a former municipal commissioner had illegally allowed many years earlier. Builders had then surrendered the FSI potential of an unbuildable plot in the remote suburbs and secured in return an equivalent FSI in South Bombay. The new FDR system allows a movement of FSI potential only northward in the suburb.

For the first time the new regulations try to draw private initiative into the clearance of slums. They raise the FSI for slum land owners *two and a half times* if they accommodate their slum people in the houses they put up. Since the slum hovels in most of Bombay are ground level structures they barely use up an FSI of one. Is it really necessary to pitch the incentive to private effort so high at FSI (c. 2.5) and more which is what the landowner will have at his disposal after he houses the slum people? It is one thing to earmark special virgin areas for intensive use and high densities; you can then tailor the municipal services to these features. It is quite another to introduce high densities and high FSIs in slum pockets all over the city where the level of services is already frozen and cannot be augmented.

V

Relevance of Urban Planning as Practised

The story of Bombay's second Development Plan offers some clue to the continuing irrelevancy of India's urban planners and the product they offer. Some of these clues relate to the process that development plans follow before they acquire legal force. The others concern the content of the plans our planners prepare.

Procedural Features

Endemic delays. The account I have given above demonstrates first the leasurcliness of the planning process. The 1981-2001 Plan went into preparation four years before the start of the Plan period. Today ten years into that period it still awaits the government's seal of approval. Some of this lapse of time can be ascribed to the requirements of the law. The detailed survey of present land use

FORM I A

[See Rule 4A (1)]

Form of general notice to be given to the members of the public before giving a notice to the Central Government under sub-section (1) of Section 21 of the Monopolies and Restrictive Trade Practices Act, 1969

NOTICE

It is hereby notified for the information of the public that Kesar Enterprises Limited proposes to give to the Central Government in the Department of Company Affairs, New Delhi, a notice under sub-section (1) of Section 21 of the Monopolies and Restrictive Trade Practices Act, 1969 for substantial expansion of their distillery undertaking.

Brief particulars of the proposal are as under:

| | |
|---|--|
| 1. Name and address of the owner of the undertaking | Kesar Enterprises Limited Oriental House, 7 J Tata Road Churchgate Reclamation Bombay, 400 020 |
| 2. Capital structure of the owner (or situation) | Authorised Rs. 770.00 lakhs Issued Subscribed and Paid up Rs. 359.598 lakhs |
| 3. Name of the unit or division to be expanded | Bahar Tehsil Baheri District Bareilly Uttar Pradesh |
| 4. In view of the expansion relating to production, storage, supply, distribution, marketing or control, to be carried out, indicate (a) Name of goods/article (b) Estimated Capacity before expansion (c) Expansion proposed | (a) Industrial Alcohol (b) 1000 Million Litre per day (c) 4211 Million Litres per day Making 940 Million Litres per day after expansion |
| 5. In view of the expansion relating to (a) increase the extent of export (b) in terms of usual prices (c) as value increase (d) turnover, etc. | Not Applicable |
| 6. Cost of the Project | Rs. 10.45 crores |
| 7. Details of finance indicating the amount to be raised from each source | (Rs. in Crores) Internal Accruals 5.45 Loans from Financial Institutions and/or Lease Finance 5.00 Total Rs. in crores 10.45 |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhawan, New Delhi, within 14 days from the date of publication of this Notice intimating his views on the proposal and indicating the nature of his interest therein.

For KESAR ENTERPRISES LIMITED
K. D. SHETH
Secretary

BOMBAY
DATED: 31 May 1991

that the law prescribes takes very long.⁴ So does the planners' painstaking collection of information about the city, much of it of dubious relevance to their task. And then the municipal body at the political level and the State government add their own dilatory processes, to ensure that the final product is obsolescent on the day it gets legal sanction.

Public involvement The second weakness in the planning process as it has generally survived in India is its failure to evoke public participation or even interest. The law requires publication of the city plan before it goes to the government for approval, but seldom is this step more than a formality. For a population so widely uneducated simply announcing in the newspapers that the plan is available for public scrutiny is clearly inadequate. No effort is made to explain its implications to the people it affects at public hearings in each locality. So all that the publication achieves is an arousal of the landowners whose plots are affected by amenity reservations. They are generally the only persons who challenge the respective components of the plan. The vital interest of the general public in the provision of the amenities and therefore in the survival of the reservations finds no expression whatever. In Bombay it took a further depletion of the already inadequate amenity reservations this time without even the formality of publication, to rouse a small public interest group into litigation to save the plan. The localities that would suffer from the deletions remained indifferent to the privations that faced them; they had no means of knowing.

Substantive features

The procedural weaknesses I have listed are serious enough. But in comparison with the substantive weaknesses in our planning they pale into triviality.

Population targets First among the basic defects is the planners' indifference to the economic facts of city life. It is an indifference that takes many forms. Let's look at a few. Despite their experience over many decades, Indian planners cling to their obsession with an optimum size for each city. They shut their eyes firmly to conditions in the rural areas and the comparative attractiveness of the cities to the rural unemployed. So they happily choose impossibly low population targets and scale amenity levels to those targets. When the numbers overtake their targets, as inevitably they will, the city is caught, so to say, with its pants down—a description not altogether metaphorical in our cities with their primitive sanitation arrangements. Meanwhile, of course, the blinkered planners are no longer around to face the consequences of their misguided optimism.

Recent trends in Indian planning have favoured an endeavour to divert migration to large cities by creating growth centres near smaller towns. Some of these have succeeded. Others are dismal failures—in both cases, I suspect, at a higher cost to the economy than a sensible expansion of large city facilities. I have touched on this earlier.

Economic condition of people But besides their 'optimum' obsession, planners also choose to ignore the economic condition of the people they plan for: their income pattern and their desperate search for a livelihood. After the long years that Bombay's planners spent on their research they could tell you all about age pyramids and death rates, sex ratios and the marital status of the people, wind patterns and velocities, humidity and the history of the cotton trade. Very little on the economic condition of the people for whom they were planning. Nothing on employment patterns or on which industries specially suited the city, on the existence or absence of cottage or household industry and the utility of mixed land use. So our city plans seldom cater to the needs of the unorganised sector, which in poor countries offer more employment than the formal sector. Their zoning, their controls, in time and tide, but take little account of reality and therefore tend to be widely violated. Their land use prescriptions in particular favour widely separated ones for residence, as against employment centres, which require needlessly expensive transportation. Cost, were they not so regularly transgressed. This all favours mixed land use, which is also very costly in terms of energy.

Municipal resource Another blind spot in our city planners' efforts is their carelessness about the resources available to pay for the plans they so blithely offer. We have seen how incredibly irresponsible Bombay planners were in this respect. There was hardly a single city plan I saw during my time in the city service that gave an idea of how the money would be found. So planners might as well plan for the moon instead of searching for solutions that fit the actual resource available.

Plan execution Too little thought goes into the problem of plan execution and its commitment to the organisational requirements, so the need to tone up city management. Indian cities have suffered from a distrust at State level of municipal bodies' ability to undertake capital improvements and a consequent readiness to create new development authorities to handle large investment. For State governments such authorities directly under their control have meant opening up patronage, nepotism and downright corruption, because few of these authorities have turned out to be much more than real estate developers. They have offered their creators new opportunities for graft in land disposal. And their output often urbanises the municipal bodies that have to take it over for maintenance, for which these bodies cannot find the resources.

Land banks The urban ceiling law from which Bombay has suffered these last 15 years has actually been the culmination of a series of governmental interventions in the land markets of Indian cities. Many urban administrators and planners have supported a large scale governmental effort to procure land, ostensibly in an attempt to curb speculation in land and what was seen as

excessive escalation in land prices. In the 'fifties Pandit Nehru eagerly promoted this effort in Delhi and about 155 sq km of land were thus frozen for gradual acquisition, development and disposal by the Delhi Development Authority (DDA). Actual development by the DDA went on at a snail's pace, with two consequences, both undesirable. (1) The price of land that escaped the government's dragnet soared to levels undreamt of before. (2) The DDA itself began to realise higher and higher prices for the little land or housing it put on the market. Like the private speculator it revelled in these gains, setting an example that other town authorities all over the country fretted to copy and did copy. With disastrous results so far, as housing was concerned, specially poor people's housing, but often with illicit benefit for the ministers and officials who controlled these land banks. Governments' efforts as colonisers and land developers have seldom benefited the community.

In a practically free economy where speculation in commodities seldom attracts intervention, should speculation in urban land be frowned upon? Is the potential gain to speculators so far out of proportion to the risk involved? And if speculation must be prevented or contained, is it the government that should undertake the task or are other mechanisms available to prevent a construction of supply? A heavy tax on vacant urban land could be one valuable option.

Efficacy in land use The planning of land use in cities poses at least one baffling problem. Poor people generally huddle densely near large employment centres. They need to be there because they cannot afford the cost of long commuting travel. Public housing projects for the poor need to be similarly located. Land near employment centres, on the other hand, tends to be very costly and in allocation of such land to poor people at a subsidised price in a low income housing project or a sites and services project would clearly be inefficient. In any case, such subsidised allottees would soon be bought out and the allottees would move on to adjoining areas to huddle in huddles again. What escape is there from this dilemma?

VI

Concluding Questions

Is Bombay's second Development Plan needed? Is it relevant to Bombay's needs? Would the city be better off with no development plan but only a set of building rules? Does it make sense to adopt a plan for a period of which half has elapsed?

Notes

- 1 A decision by the East Municipal Commissioner shared.
- 2 Unfortunately, the BMC seems to have wasted the data it collected for the second plan's land use survey, as it did with the first plan's too. A valuable basis for continuous planning has been lost.

NOTICE

It is hereby notified for the information of the public that Modern Agencies Limited proposes to make an application to the Central Government in the Department of Company Affairs New Delhi under sub-section (2) of section 22 of the Monopolies and Restrictive Trade Practices Act 1969 for approval to the establishment of a new division. Brief particulars of the proposal are as under: (1) Name and address of the applicant: Modern Agencies Limited Regd Office: Thapar House 25 Brabourne Road Calcutta 700 001 (2) Capital structure of the applicant organisation: Authorised Capital Rs 100 00 000 Issued Capital Rs 48 22 900/- Subscribed & Paid up Capital Rs 48 22 900/- (3) Management structure of the applicant organisation indicating the names of the Directors including Managing Whole time Directors and Managers if any: The Company is managed by the Board of Directors consisting of the following: (i) Shri H C Dass (ii) Shri B N Khanda Lal (iii) Shri S S Lal (iv) Shri M L Khemka (v) Shri D P Arora and (vi) Shri D C Aggarwal (4) Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division: New Division (5) Location of the new undertaking/unit/division: The proposed new undertaking will be a division of Modern Agencies Ltd and will operate from its Registered Office at Thapar House 25 Brabourne Road Calcutta 700 001 and its other Branch Offices all over the Country (6) Capital structure of the proposed undertaking: Since the proposed undertaking shall be a division of the existing company there would be no change in the capital structure of the Company (7) In case the proposal relates to the production storage supply distribution marketing or control of any goods/articles indicate: (a) Names of goods/articles: Not applicable (b) Proposed licensed capacity: Not applicable and (c) Estimated Annual Turnover—Not applicable (8) In case the proposal relates to the provision of any service state the volume of activity in terms of usual measures such as value income turnover etc: The proposal relates to setting up of a New division to provide financial services and to deal in financial matters viz: leasing consumer finance and hire purchase money market operations portfolio management and activities and services which are incidental and related thereto. Initially estimated turnover of the proposed division would be Rs 36 lacs p.a. which would increase in proportion to the funds deployed (9) Cost of the project: Deployment of funds shall be initially of the order of Rs 150 lacs with a progressive increase in due course (10) Scheme of finance: indicating the amounts to be raised from each source: The sources of finance shall be the internal generation deposits and borrowings as possible according to the applicable regulations. Any person interested in the matter may make a representation in quadruplicate to the Secretary Department of Company Affairs Government of India Shastri Bhawan New Delhi within 14 days from the date of publication of this notice intimating his views on the proposal and indicating the nature of his interest therein.

For Modern Agencies Limited
Regd Office
Thapar House (Sd/)
25 Brabourne Road S S Lal
Calcutta - 700 001 (Director)
Dated 14th May 1991

VAM ORGANIC CHEMICALS LTD.

NOTICE

We hereby notify for the information of the public that Vam Organic Chemicals Limited propose to make an application to the Central Government in the Department of Company Affairs New Delhi under Sub Section (2) of section 22 of the Monopolies and Restrictive Trade Practices Act 1969 for the approval to the establishment for a new unit/division. Brief particulars of the proposal are as under:

- 1 Name and Address of the Applicant
Vam Organic Chemicals Ltd
3rd Floor Skyline House
85 Mehru Place NEW DELHI 110 019

| | (Rs in lakh) | |
|--------------------------|--------------|------------|
| | Equity | Preference |
| a) Authorised | 1460 00 | 40 00 |
| b) Issued and Subscribed | 516 42 | 38 50 |
| c) Paid up | 516 26 | 38 50 |

- 2 Management structure of the applicant organisation indicating the names of direct r including managing director/wholtime director and manager if any

The Company is managed by the Board of Directors consisting of

| | |
|--------------------------|-------------------|
| 1 Shri M L Bhartia | Chairman |
| 2 Shri S S Bhartia | Managing Director |
| 3 Shri H S Bhartia | Wholtime Director |
| 4 Shri U S Bhartia | Director |
| 5 Shri A S Bhartia | Director |
| 6 Shri Arbinday Ray | Director |
| 7 Shri PK Khaitan | Director |
| 8 Shri S S Kanoria | Director |
| 9 Shri JB Datarhanji | Director |
| 10 Shri R K Bhargava | Director |
| 11 Shri Sunanda Prasad | Director |
| 12 Shri Lalit Srivastava | Director |

- 4 Indicate whether the proposal relates to establishment of a new undertaking or a new unit/division

A new unit

- 5 Location of the new undertaking unit/division

Gajraula Moradabad Distt UP

- 6 Capital structure of the proposed undertaking

As mentioned in Sr No 2

- 7 In case the proposal relates to the production storage distribution marketing or control of any goods/articles indicate

| | |
|----------------------------------|--|
| (i) Name of goods/article | Maleate Plasticizers like DBM |
| (ii) Estimated licensed capacity | DIBM DIOM etc |
| (iii) Estimated annual turnover | 3000 TPA |
| | Rs 15 Crore at full capacity (For captive consumption) |

- 8 In case the proposal relates to the provision of any service state the volume of activity in terms of annual measures such as value income turnover, etc

Not Applicable

- 9 Cost of project

Rs 3 00 Crore

- 10 Scheme of finance, indicating the amounts to be raised from each source

| | |
|-------------------|----------------|
| Internal Accruals | Rs 1,01,00 000 |
| Borrowings | Rs 1,99,00,000 |

Any person interested in the matter may make a representation in quadruplicate to the Secretary Department of Company Affairs, Government of India, Shastri Bhawan, New Delhi, within 14 days of publication of this notice intimating his views on the proposal and indicating the nature of his interest therein.

For VAM ORGANIC CHEMICALS LIMITED

(Sd/)

(S S Bhartia)

MANAGING DIRECTOR

Dated 10th May 1991

Sindhi vs Mohajir in Pakistan

Contradiction, Conflict, Compromise

S Akbar Zaidi

The province of Sindh in Pakistan has witnessed acute polarisation between ethnic groups since 1947. In the post-independence period the political complexion of Sindh was radically altered by the arrival of Urdu speaking refugees or mohajirs. The conflict between Sindhis and mohajirs has accentuated in recent years. This paper seeks to identify and explain the reasons for the extreme polarisation between the two communities against the backdrop of the state's role.

THE expression of national and ethnic identity has begun to dominate the political process in Pakistan today in a form unknown to the country in the past. Since independence, the economic and political structure in Pakistan has been dominated by the ruling sections of at first, the mohajirs and the Punjabis, and now more recently by the Punjabis alone, who have come to dominate comprehensively. This domination in the last forty years has given rise to movements of separation and/or national expression, the most successful of which culminated in the birth of Bangladesh. Other movements which did not achieve liberation or greater provincial/national autonomy, include the Baluch movements under Ayub and Bhutto, and the various Sindhi movements beginning from the one in 1948 against the separation of Karachi, to the movements against the martial law regime of General Zia ul Haq. The Pakhtuns have also demanded their rights from time to time in the past, but due to the greater economic development of their region (unlike Baluchistan and Sindh) have recently become more integrated into the federal Pakistani structure. Today, while the Sindhis and the Baluch struggle against Punjabi domination at the centre and within their provinces, the Pakhtuns have partially succeeded in establishing economic and political control over their own region, and thus the 'Pakhtun Question' has taken on a form very different from that of the other nationalities. [Babar Ali 1986, Harrison 1987, Zaidi 1989, Zaidi 1990.]

A major reason for the existing polarisation within Pakistan has been the lack of representative institutions and the persistence of military rule determining economic and political development. As the military is overwhelmingly Punjabi and with its rule comprising more than half of Pakistan's years, regional and ethnic imbalances have worsened [Babar Ali 1987b, Ahmed 1988, Zaidi 1989]. With the centre highly centralised and with no channel for redress for the concerns of those who do not share in the power, the result has been an expression for the rights of those national/ethnic groups which have felt excluded. Democracy, on the other hand, of whatever form, and of even a short duration, has indeed made some difference to the people of this country.

Although governments emerging through the democratic process have not been able to challenge or break the power of the other institutions of the state they have still found some room to manoeuvre. This has been most noticeable in the case of the Sindhis who are the only nationality to have had all three elected prime ministers since 1970 from their midsts. The fact that Zia ul Haq was forced to choose an unknown politician whose only asset was that he came from Sindh following the 1985 'elections', goes to show that Sindh, more than the other provinces, has a special place in the polity of Pakistan.

Sindh also has the distinction of being the province where there has been the greatest polarisation between ethnic groups since 1947. The fact that Sindh was inundated by Urdu speaking refugees (the mohajirs of the 1980s) immediately following independence changed the political complexion of this province permanently. In more recent years, the conflict between the two communities has increased manifold and the resulting violence in the name of national rights has taken on barbaric proportions. It is the purpose of this paper to identify and explain the reasons for the extreme polarisation between the Sindhis and the mohajirs today. I begin with a brief history of the rise of mohajir identity, followed by an outline of Sindhi nationalism. I then proceed to explain the role of the state and of the extent of violence in the context of the Sindhi mohajir conflict. Finally I turn to the present political situation in the province.¹

GROWTH OF MOHAJIR IDENTITY

The Urdu speaking refugees² who came to Pakistan following partition settled mainly in the cities of Sindh—Karachi, Hyderabad, Mirpurkhas and Sukkur.³ The important aspect of the settlement of these refugees compared to those from East Punjab, was that the Urdu speaking refugees settled in areas which were completely alien to the homes they left behind in India. Linguistically, culturally, politically, socially, economically, there was no comparison of these refugees with the 'Sindhi hosts'. Sindh was swamped by an alien culture which immediately began to dominate the rest of Sindh as well as the entire country. Some observers have gone much further and have

said that these refugees came with an 'occupier mentality' and treated the indigenous people with contempt [Tahir 1990]. There is little doubt that the refugees began to dominate Sindh in all respects but this certainly is not based on any sort of conspiracy as most Sindhis are wont to emphasise [Ahmed 1984b, Ahmed 1985a, Tahir 1990]. There are very natural and real material reasons which resulted in this domination.

Sindh's economy was mainly agricultural and feudal with some trading centres and market towns with very little industry [M H Khan 1981, Ahmed 1984c, Arif 1990, Tahir 1990]. Sindhi prominent in political life were mainly representatives from the feudal order since the bourgeoisie and petty bourgeoisie class was still in its embryonic form.⁴ The refugees represented a more advanced urban capitalist culture which they had brought with them from the towns and cities of India. Not only did they have a relatively large entrepreneurial class along with an administrative and educated petty bourgeois service class, they also had a large and well trained working class (certainly a world apart from their Sindhi hosts). Since these refugees felt that they were the real creators of Pakistan and that they had made all the sacrifices in creating this country and also because they were more adept at political manoeuvring and had the skills which were necessary to form and run the state machinery, they took over economic and political power in Pakistan [Sayeed 1980, Alavi 1989, Jalal 1990]. Refugee leadership took over the bureaucracy under the guidance of Jinnah and Liaquat, while their entrepreneurs and their working class set to work to build the industry necessary for survival. The creation of Karachi as the capital of Pakistan and its disarticulation from the administrative boundary of Sindh gave further impetus to refugee power, both real and perceived. Thus refugee identity was quickly concretised within the new state and the refugees emerged as the ruling ethnic group within Pakistan.

For the refugees Sindh was always a backward underdeveloped part of the country having nothing to do with the more sophisticated urban culture which they represented. The superior and haughty attitude of the refugees was (and still is) a persistent affront to the Sindhis. Sindh was still caught in poorly developed capitalist rela-

tions with the absence of any bourgeoisie as a class to challenge the refugees for political, economic or cultural power. Indeed, the refugees did represent a more progressive social order but it was one which had been imposed on an alien land rather than an order which had evolved from within.

Refugee industrialists and traders began to dominate the economy of the country, especially after the Korean war and under the economic programme of the Ayub regime. When the bureaucracy became all powerful in the political mayhem that followed the death of Liaquat Ali Khan in 1951, the refugees were still sitting pretty and were much over represented in government compared to their population which was a mere 4 per cent. They began to share control increasingly with the Punjabis, and the main national group which should have had a major share in the services, the Bengalis were consciously excluded. The Baluch and Sindhis most certainly and the Pakhtuns to some extent, were very poorly represented in the institutions of the state due to the dynamics of the development of productive relations. For the most part, Pakistan inherited the most backward areas of united India where capitalist relations were not dominant of course the Punjab and Bengal were exceptions. Thus, in these areas there was a very small literate class (especially in the languages that mattered) few administrative and service personnel and a weak bourgeoisie. The ethnic composition of the institutions of the state was inevitable—it had to consist of the Punjabis and refugees. Moreover, the colonial legacy from the British also helped perpetuate recruitment patterns which favoured both groups. For the refugees who were protected in their enclave in the federal capital Karachi, the Sindhis were never a competing national ethnic group either for political or economic power. For them, the competition came from the Punjab. Following the death of Liaquat Ali Khan, the refugees were left without a leader of the stature of either Jinnah or Liaquat. This was the beginning of the shift in power between ethnic/national groups in Pakistan which continued with greater intensity once the non mohajir military took over in 1958.

The major blow to mohajir supremacy, however, came in the 1960s when it became clear that the effects of the Green Revolution in the Punjab would alter the economic, demographic and political scenario in Pakistan substantially. As capitalism developed deep inroads into the Punjabi economy reorganising social and economic relations of production, the future leaders of this country began to emerge more forcefully, both as an economic entity and as a political force. Not only was the new dynamic entrepreneur born, but as education took hold of those who were leaving rural Punjab and were now migrating to cities, government jobs also became more competitive and scarce. The mohajirs from India who had an edge in the earlier days

were now threatened. Not only was this threat evident in the government sector—at all levels in the hierarchy—but as the Punjabi peasant had been displaced from his land and was mobile, he travelled to the cities of Sindh which had been exclusively mohajir controlled and successfully competed for jobs. Furthermore, in the Ayub Khan era a large number of (mainly Punjabi) civil servants and military officers were made substantial land grants in Sindh which worsened the situation, especially since these new landlords imported labour from the Punjab [Mirza 1986, Tahir 1990, Wright 1991, also see footnote 2]. This was also the period when Pakhtun labour moved to Karachi in a massive exodus from the north. However, there was less of a contradiction between the Pakhtun labourers and the mohajirs since the former did jobs which the latter did not or could not do—unskilled work, construction, transport, etc. Thus the domination of the mohajirs over the state sector and over private enterprise in Sindh and in the rest of Pakistan came to an end, mohajir supremacy and exclusivity was challenged as capitalism developed and as the Punjab which had the most advanced economy took control of the entire country. Sindh was no longer the domain of the mohajirs, the Punjabis began to dominate industry, land, service and also displaced local labour in both the rural and urban areas of the province.

Mohajir lead is have always emphasised the fact that they have voted for parties which have been outside the mainstream or in opposition. In 1964 their leaders supported Jinnah against Ayub Khan, in 1971 when the country was under Bhutto's socialist wave, the mohajirs voted for the Islamic fundamentalist parties of the Jamaat Islami and the Jamiat ul Ulama Pakistan. In 1977 they again voted for the reactionary Pakistan National Alliance against Bhutto and now in 1988 they voted for their own party, clearly the zenith of their consciousness and development. Although mohajir identity *per se* has only become crystallised after the official launching of the Mohajir Qaumi Movement (MQM) in 1986 and by the violent events following that, there have always been the seeds of an exclusivity of identity in this community.

The mohajirs have always supported the fundamentalist Islamic parties which have identified themselves as Pakistani and until the recent formation of their own organisation, have distanced themselves from all parochial groups. One can understand the reasons for this support: they did give up their homeland and needed the concept of Islam and of Pakistan to deal with their new insecurities. They were less concerned about jobs and opportunities in the earlier years and were more comfortable with the concept of the broader Pakistani nation and the structure of the Pakistani state which they dominated suited them. When competition became more difficult and jobs scarce, they had to find a new identity. The Islamic par-

ties were unable to deal with the newly emerging realities and as Punjabis were taking over Pakistan most aggressively, a distinct mohajir consciousness emerged. The election of the first Sindh prime minister brought a large Sindh segment, which has still not emerged from its rural past, into the cities and into the government services. The attempt in 1972 to make Sindh the official language of the province was a statement by this newly emerging bourgeois and petty bourgeois class to assert its identity which had taken many years to concretise. This rise of Sindh nationalism confronted mohajir aspirations and their world view and is probably the first real clash between the two communities. The 1977 election was another occasion where the two groups had different political perceptions with the mohajirs supporting the fundamentalist right wing parties, and the Sindhis the Peoples Party. The 1983 and 1986 Movement for the Restoration of Democracy (MRD) were other examples where the two communities had very different political aspirations. However, the clearest expression of mohajir identity came about after 1986, and more precisely in 1987 when the MQM swept the local body elections.

The composition of the MQM is mainly lower middle class (petty bourgeois, self employed, service workers), the organisation has a very clear hierarchical order within its ranks and order and discipline play a pivotal role in the MQM, the organisation is populist and uses terror and appeases its people interchangeably, most importantly it has given the mohajir community a 'sense of identity unknown to them in the past giving rise to a chauvinism which also requires the identification of some sort of enemy—all attributes which form the core of any fascist organisation'.

There is no question about the fact that the MQM has raised numerous issues related to the genuine problems of its constituency. Unemployment, most of all and a lack of social services are important concerns to not only the mohajirs of Karachi and of Hyderabad but to all the people of Pakistan. The MQM has neither the interest nor a policy perspective about what happens at a national or international level—'we do not support anything which doesn't contain the word mohajir'⁶—and has a very myopic analysis of the problems of its constituency. It is this perception and the lack of comprehension demonstrated by the leaders of the MQM regarding larger issues, which has led the party into a blind alley where desperation now seems to be evident. Since the MQM has failed to improve the conditions of the mohajirs, there has been some disenchantment amongst its constituency. Following their political failure, the only means available for the survival of the MQM is the need to resort to extreme forms of violence in order to terrorise their mohajir constituency into submission. The MQM's armed wing, the Black Tigers, which constitutes a few hundred young men who have

taken an oath to die for their mohajir cause, has played a prominent role in this. The MQM has lived up to its fascist promise.

At this juncture, it is important to digress a little and to deal with the special significance of the city of Karachi in the context of Pakistan and to see how it is located in the MQM's game plan. Karachi plays the dominating role in the economy of the country and although it houses less than 10 per cent of the population, has a third of the country's industrial and financial assets located in it [Zaidi 1989]. The MQM realises this and is thus in a strong bargaining position. The possibility that Karachi be separated from the rest of Sindh has been an issue which has been raised by MQM leaders, and forms a pivotal argument linked to their claim of being Pakistan's fifth nationality. (Some Punjabi intellectuals have also been advocating separation—see Naqi 1990; Mir 1990.)

Karachi has always been a very distinct social, political and cultural entity quite apart from the rest of the country and especially from Sindh.⁷ It was conquered by the British in 1839 before which it was a small town of no real importance, and not before the capture of Hyderabad in 1843 did Sindh come under complete British control. The British made Karachi a cosmopolitan city and developed it independently of Sindh and the city attracted people from all over the empire. The partition of India continued this trend when refugees invaded this city. In 1948 the dislocation of Karachi was formalised by the Pakistani government when it was made the country's new capital. Karachi continued its independent growth and attracted Pakistanis from all the provinces and was never integrated with the province of Sindh which was still dominated by a poorly developed capitalist economy [Haider 1974, Bailie 1975, Khuhro 1978, Spehr et al 1983, Wright 1991].

However, things have been changing over the last few years. Karachi has now become more integrated with Sindh than it has ever been. As capitalism takes hold aggressively in the rural areas, the entire economy is changing at a very fast pace. The market for produce and for consumer goods is expanding thus bringing desolate parts of Sindh much closer and integrating them under the commands of capitalism. There is greater industrialisation of the rural economy which is changing professions, values and social relations. More people are being displaced by machinery than ever before in Sindh, and all happen to be Sindhis. They now head for cities in search of employment and are increasingly making their presence felt in cities which are dominated by mohajirs. Further more, more educated and professional Sindhis are coming into the market in search of jobs and are moving to the most lucrative city of the province, Karachi. Never before have the Sindhis' economic interests in Karachi been of more concern to them. Moreover, with an elected government in the province, with corruption rampant, Sindhis

have acquired a major financial stake in Karachi where they can get property, licences, permits, all at concessionary rates. Thus for the Sindhis, Karachi has become an important source of funds and provides money which is channelled back into the rural economy where it benefits other Sindhis as well.⁸ Also, Karachi today provides as much as 65 per cent of all of Sindh's taxes while it receives much less in return [Ghaus 1988, Zaidi 1988]. The integration of Sindh with Karachi (rather than that of Karachi with Sindh), has meant that MQM's proposal to separate Sindh and to create a mohajir province is now redundant. This new reality once acknowledged, will certainly disturb the mohajirs for they will be unable to give their 'nationalism' any territorial claim. This fact may prove to have some bearing on the tactics of the MQM in the future.

SINDHI NATIONALISM

The rise of Sindhi nationalism⁹ is less dramatic and has taken a longer period to emerge than has mohajir consciousness. Sindh's history is said to go back 5,000 years and this region has always been independent and has its own unique culture. Of course this sense of identity has been made impotent by the social and economic system in the region. National identity expresses itself at higher levels of social and economic development when there is a dominant bourgeois and petty bourgeois section to lead and organise the struggle.¹⁰ Since this class has been weak or non-existent it has not been able to dominate the politics of Sindh in the past and is only now beginning to assert itself somewhat aggressively.

The 'movement' against the separation of Karachi from the rest of Sindh in 1948 could not have succeeded for a mere handful of Sindh feudals and their 'intelligentsia' were no match for the dominant mohajirs and their state. The demand to have Sindh as the language of the province following the successful move by the Bengalis in 1952 to have their language given equal status to Urdu, may have given a great deal of hope to the aspirations of Sindhis, but a very small petty bourgeois class could not have won the right to have its language imposed on those of a stronger community. The anti-one-unit struggle saw the beginnings of the emergence of a clearer, broader Sindhi consciousness something that Bhutto recognised and exploited. Although their attempts failed, this class was only now strong enough to challenge the Urdu speakers and to have Sindh recognised as the official language of the province.

Bhutto certainly played a major role in crystallising Sindhi consciousness and Sindhis were given jobs with access to financial resources and to Islamabad. Money did come into the province, thus giving an impetus to the formation of modern classes. Those on the extremes of the agricultural echelon were free to leave and a bigger

bourgeois and petty bourgeois class emerged. The seeds of a concrete Sindhi consciousness were beginning to take strong root. The death of Bhutto and the treatment by the Punjab and its army—to counter the nationalists who were always labelled as traitors—resulted in a further concretisation of Sindhi consciousness. The 1983 movement was the main outcome of the results of these developments when Sindhi nationalism was at its peak, though still unorganised [Ahmed 1983, Ahmad 1984]. (One of the results of the happenings in Sindh under martial law was the selection of Mohammad Khan Junejo, a Sindhi of no real consequence, as prime minister in 1985. Junejo also appeased the Sindhis and continued to play a role somewhat similar in form to Bhutto's. Today Sindhi nationalism is the dominant political philosophy in the province and is slowly cementing itself further still. The problem still seems to be one of organisation where no single party has emerged as a representative of this consciousness.)

ROLE OF STATE

The nationality question cannot be understood without an appreciation of the role of the state in the Pakistani context. Its overdeveloped nature and its omnipresence determine the economic and political course taken by various ethnic groups in Pakistan.¹¹

The state is the biggest employer in the country and through its institutions has helped determine the path followed by the private sector. From the early days of independence, the state tried to help private enterprise to develop, but these attempts failed and the private sector was not able to evolve into a strong and viable entity. The state then increased its efforts to promote private enterprise not only by providing heavy tariff protection to numerous industries and by giving tax exemptions and various other incentives, but also by setting up industrial projects on its own and then handing them over at concessionary rates to the private sector. Under Ayub Khan the state continued to pamper the industrialists with its protectionist policies and with bonus voucher schemes and significantly helped the private sector prosper. In the agricultural sector too, the state provided infrastructure and machinery to entrepreneurs in order to promote modern farming. Although the private sector in this period began to establish itself and to flourish, the role of the state and of the bureaucracy increased substantially. Licensing, permits, foreign exchange regulations, quotas, etc., were instruments where the state could guide the private sector in the direction it wanted and thus held substantial control over it [Amjad 1982, Ahmed and Amjad 1984, Noman 1988].

In the Bhutto period this control was more direct with the nationalisation policy of the government and with greater controls over

also provided a very useful opportunity to repay those who had brought the government to power and to co-opt those who could have been a potential threat. This was now easier with a larger state sector, where now even banks, insurance companies, schools, hospitals and other sectors were incorporated and added to the domain of the government. Whereas earlier the state sector's scope was limited, it was now in a position to provide employment to the large petty bourgeois and bourgeois section which had recently emerged. The government's potential use of this sector was now enormous.

Despite attempts to denationalise in the Zia period, the state sector's importance grew. The bureaucracy and the military, the only institutions which could have threatened Zia and his coterie, had to be appeased and it was feasible to give them more power and control. Military personnel, both retired and on active duty, were given lucrative assignments in most state enterprises or were made Zia's advisers and ministers or were his ambassadors abroad. Various new schemes devised under the broader rubric of Islam and supported by government money were means to give employment to those who could pay some service to Islam and to the military [Babar Ali 1987b, Zaidi 1988]. The victory of the Peoples Party in Sindh and at the centre resulted in yet another massive inflow of party supporters to some or the other department of the state, while in the Punjab the Islami Jamhoori Ittehad (IJI) repaid its supporters in the provincial ministries. Given the inability of private capital in Pakistan to generate substantial employment (not that this is its responsibility) the state sector continues to absorb the increasing labour force and is a useful and lucrative arena to deliver patronage which all governments have made use of effectively. However, the situation is now reaching saturation point and a crisis is inevitable.

In the interior of Sindh, the presence of the institutions of the state is more marked for there seem to be few alternate sources of employment. Access to this sector is perceived as each individual's birth right (as it is all over the country) and thus the fact that the state is unable to provide jobs at the present stage is not seen as a signal to find other employment but to wait and to find some influential who can have the job done.¹⁷ Apart from a handful of factories in the interior of the province (i.e. excluding the larger cities of Sindh which are mohajir dominated) there does not seem to be much private industry catering to local Sindhis. What is even more interesting is that most industries in Sindh are Punjabi owned and the owners have imported Punjabi manager-technicians and labour which has only aggravated the problem of the Sindhi unemployed.¹⁸ Sindhi capitalists are still mainly agriculturists and are revolutionising production on the land but are slow to move into industry. Thus employment

is in fact aggravated by agriculture which has been displacing labour which has not been absorbed elsewhere. The result is greater unemployment and even more expectations from the state.

Among the Sindhi nationalists many are students, aspiring teachers, doctors, professionals etc. a large part of whom are unemployed. (In the absence of a strong bourgeois class, the Sindhi national question seems to revolve around the employment of the petty bourgeoisie [Zaidi 1989].) Their leadership comes from the feudals, but is now increasingly coming from the middle class (i.e. sections of the bourgeoisie and petty bourgeoisie). Due to the pressure applied by the newly emerging Sindhi petty bourgeois class in the last few years in the interior of Sindh, there has been some change in the composition of the institutions of the state (the police, district administration, departments of government public corporations) and a greater number of locals have been given jobs. Even under Zia's rule when the military protected and promoted Punjabi interests in Sindh, Punjab's government from 1985-88 was forced to give jobs to Sindhis in the province, a move which deflated the sails of the movement for national rights in Sindh. In Karachi since 1987 (when the MQM won the local bodies elections) there has also been a greater induction of mohajirs into institutions under the local government. But as there are many more who are pure to government jobs, the recent intake has only been able to solve a very small part of the unemployment problem.

As the Sindhi petty bourgeois is freed from the land and turns to urban employment, his only expectation for employment is from the state as no alternate channels exist. As the Sindhi bourgeois is not investing in industry in the interior, it will still be a few years before the private sector begins to develop and until that time at least, the state sector will be seen to be the only saviour. Given the limited capacity of the state sector, unemployment has persisted causing discontent and resentment amongst those who have been left out. At present there is a dilemma in all this: that since the government is perceived to be Sindhi (and a very large number of Sindhis have been provided with jobs) there is less resentment directed against it compared to what one would expect against a non-Sindhi one. However, unemployment grows and the inability to provide jobs to all will give rise to sympathy and support for the nationalists. A natural outcome of this, for the time being at least, is that Sindhi nationalists will capitalise and target their anger against the mohajirs and the Punjabis rather than examine the roots of the problem.

DEGREE OF VIOLENCE

One important feature of the events over the last few years is the degree and nature

of the violence. The extremely brutal atrocities carried out by members of the MQM and of the Peoples Party on the other, are not specifically related to the 'struggle' for national rights of either the Sindhis or the mohajirs. These forms of violence exist apart from the struggle for national rights and are an outcome of a suppressed culture and of warped development which has emerged over the last few years and afflicts all sections of society equally [also see H. Ahmed 1990]. In fact, the extent of violence is one major reason why the Sindhi-mohajir conflict has acquired much publicity in the first place and has exaggerated the extent of the real conflict between the two communities.

Violence is endemic in all forms of protest and dispute within Pakistani society. It need not be the Sindhi-mohajir conflict, even democratic forums are permeated with substantial degrees of violence. Whether in national elections, disputes within trade unions or student groups, or sectarian differences, the only means of settling accounts is through violence. A few years ago differences between groups were settled by fights or at worst, knives and brickbats. Now Kalashnikovs help settle scores. Arms and ammunition are available in abundance in varying quantities all over Pakistan and no single political group can hope to demonstrate its power unless it displays and uses its armed strength. Since political parties have access to arms, their student, trade union, and other social organisations which they patronise are also provided with the same. There is so much ammunition in Pakistan today (and especially so in Karachi) that those who do not have an organisation or the means to acquire arms outright can always hire it by the half dozen at rates cheaper than those for car rentals.

Pakistani society has been brutalised over the last decade thanks mainly to military rule. It was not just political suppression which has now resulted in this extreme release of energy in the form of violence, but equally importantly, cultural, academic and social oppression under the military has given vent to violence. To justify their rule the military used Islam as a means to control the people of Pakistan where all forms of healthy expression were suppressed. Music, sport, the arts, culture, all had to subscribe to some medieval Islamic code. At the same time, graft and corruption took deeper root in society where heroin and arm mafias were encouraged and given state protection. There was no channel for complaint or redress and certainly no semblance of participation or accountability of any sort. Might, in the guise of the military uniform, became the sole arbitrator of morality and justice [O. A. Khan 1985, Haque 1985, 1988].

While this suppression in the name of Islam continued, a different sort of parallel development was taking place underneath. The Middle East phenomenon along with the increasing amount of money which was

being made from smuggling (mainly arms and heroin) gave rise to a middle class in the cities which was acquiring different values. This new found consumerism with its access to a wide world via the parallel media presented a different picture to the one being packaged at the official level. In the larger cities especially, it was the development of this new, modern, Michael Jackson and Sridevi video culture, along with its fall-out which was causing a development which was antagonistic to the one being officially propagated. Furthermore, as urbanisation was proceeding at phenomenal rates, old values were being forced to confront a completely new world [A Ali 1987, Hasan 1987b, Hasan 1990]. Once the Middle-East money started running out, the aspiring middle class became more concerned with admissions, jobs, inflation and insecurities. The alienated unemployed youth symbolised this anger and frustration with few avenues to make its voice heard. The result was an internalising of the contradictions which found release in violence. (Amongst political groups it is the MQM which best symbolises this urban phenomenon with its anger, frustrations and violence)¹⁵

Violence begets violence and once started has its own dynamics. That is what is happening in Sindh today. There are extremists on both sides of the ethnic divide and if one examines the anatomy of large scale massacres, we realise that they too have little to do with national rights.¹⁶ It would be foolish to say that there is no Sindhi mohajir problem for there is one. However presently it is based less on the struggle of national rights and more on revenge and on the repercussions of violence. There is hatred, but this too has been artificially created where the media has played a very prominent role in this [Abbas 1990a, 1990b]. Thus the degree of violence (and the resulting hatred) which plays such an important role in the Sindhi mohajir conflict needs to be seen as a part of the degeneration of Pakistani society. Moreover, as I argue, it also becomes a necessary weapon in the hands of some groups whose existence and survival depends on now effectively they can terrorise their own people and their 'enemy' and on how efficiently and quickly they can resort to violence.

ELECTIONS AND THEIR AFTERMATH

The elections of November 1988 announced the dawn of a new era in Pakistan where a democratic process, albeit of the most perverted kind, got underway. Speculation from the very day following General Zia's death to the present, regarding the ambitions and designs of the army, continue. The possibility that the army may abort civilian rule in Pakistan on one of many pretexts, is always very high, but given the persistent compromises of the civilian government with the army, it seems more probable that the democratic experiment may be permitted to continue for some time yet.

For Sindh, the elections quite clearly announced that the province was divided on ethnic and urban/rural lines. The MQM reiterated its claim to being the sole representative of the mohajirs in urban Sindh, while the Pakistan Peoples Party trounced the nationalists and the remnants of the Zia regime convincingly in the Sindhi dominated rural areas.

The defeat of the nationalists in Sindh has been misinterpreted as a rejection of nationalism in favour of federalism, a view which has been propagated mainly by the Punjab and by the establishment. This perception is incorrect. The Sindhi Peoples Party candidates were as nationalist as their opponents. While campaigning, both raised similar slogans and demanded autonomy for Sindh, were against the repatriation of Biharis and were opposed to the construction of the Kalabagh Dam. What went in the favour of the Peoples Party candidates against the nationalists was not only the fact that the Peoples Party in Sindh was sufficiently nationalist, but it was also perceived to be federal enough and in the event of victory at the national level would be in a position to redress some of the grievances faced by Sindh and the Sindhis. The Peoples Party had at least two other advantages which the nationalists did not: the revenge of Bhutto and the fact that the nationalists were thoroughly disorganised and confused about the election issue altogether. Thus at the time of the elections, nationalism was an important political force in Sindh (if not the most important one) but was not then an electoral force. However, as I show, things are changing.

The MQM PPP alliance which offered a real possibility of peace in a province ravaged by violence was short lived. The major responsibility of this break down lies with the Peoples Party and particularly with Benazir Bhutto, whose short-sightedness gave rise to an attitude uncalled for. A more accommodatory stance permitting the MQM, the PPP's main supporter and other groups like the Jamiat Ulema Islam, to share in the semblance of power, could have gone a long way in solidifying Benazir's own sense of governance and would have helped ease the tension in Sindh. However, the treatment meted out to her main allies was indeed distasteful [Babar Ali 1990]. The MQM was forced to leave the alliance but blundered into another one with the IJI and the Combined Opposition Parties (COP). Once the MQM was thrust into the opposition camp, and given the history of violence in Sindh, it was clear that things would take the turn they have.

The MQM was isolated from the political process in the country as well as from its constituency once it ended its accord with the PPP and this isolation continued with its COP accord. The failure of the no confidence vote against Benazir in November 1989 was a major disappointment for the MQM for it had been guaranteed victory. At the same time, the attempt by the

COP to oust Benazir had positive effects on her own party within Sindh. The militant Sindhi lobby in the Peoples Party in the National Assembly was very upset over the alliance between their party and the MQM. They perceived this to be a betrayal of the Sindhi cause and their displeasure was so strong that they had decided to oppose Benazir in the no-confidence vote. Benazir would probably have lost the vote but was saved by the ill timed announcement of the IJI MQM accord. Once it was made public that the Punjabis and the mohajirs had gotten together it was quite clear that no matter how strong their displeasure, the Sindhis would never vote for the ethnic groups which were out to 'annihilate' the Sindhi 'nation'. There was a realignment of ranks and the militants grumbled but withdrew and voted in favour of Benazir. This then resulted in the emergence of a stronger more united Peoples Party in Sindh which also took some wind out of the nationalists' sails as it emerged a more genuine Sindhi party antagonistic to the MQM.

SITUATION TODAY

I have tried to argue in this paper that the Sindhi mohajir conflict is not the primary contradiction in the province, and the conflict, which today revolves around violence, has to a large extent been artificially created for which the MQM is most responsible. The MQM is a fascist organisation for whom violence has become an important vehicle to prolong its control over the mohajirs of Sindh. Certainly the mohajirs, like all other communities in the country face growing economic and social problems. The MQM did have populist electoral support and is the only representative of the mohajirs for it has raised issues which concern this ethnic group. It was able to do so because mohajirs are more concentrated in certain areas (cities and towns) and are thus more easier to organise than other groups, and also because there has been a persistent crisis of identity in this community. The reason why it now requires violence to continue its hold is that the MQM has failed to deliver the goods to its constituency since it was elected for the first time in the local bodies elections of 1987 [Aslam 1988, Hasan 1988a]. After victory in the national elections a new wave of expectations rose but fell away following yet another failure of the elected representatives to achieve anything productive. The leadership of the MQM certainly does not want to lose its hold over the millions of its constituency and so terrifies its people by making use of a false sense of threat. It builds these straw-men (at present the Sindhis, which have been preceded by the Pakhtuns and by the Punjabis) and literally shoots them down. Violence has been the most consistent factor in the politics of the MQM and it is the fear of more violence and thus the need for protection which forces the people to continue their support for this organisation.¹⁷

tic. Controlled violence may be politically feasible and productive but once it gets out of hand, tactics have to be changed. The violence in Sindh at the moment has acquired its own terrifying logic and is now hitting back at the supporters of those who instigate and perpetuate it. Hyderabad has been economically paralysed since September 1988 and the (primarily) mohajir community is feeling the crunch, as it is in the smaller towns of Sindh which are integrated with Hyderabad. Karachi has also suffered due to curfew and violence and although it is difficult to quantify capital flight to the Punjab, there are more than a few cases of this [A Ali 1987, Sheikh 1989].¹⁸ Thus the mohajirs more than any other community in Sindh suffer the violence created by their own party. The result will have to be either compromise or anarchy. The MQM will have to change its image and its political line and deal with the real issues in a more mature manner—the killings of Sindhis is no solution to any of the mohajir problems.

If at all there is a contradiction between the mohajirs and another group, it is with the Punjabis. Since the Sindhis are peripheral to the economy of Sindh, the mohajirs need not really be concerned with the aspiring Sindhi's economic challenge. The Punjabis are another matter. Here there are real issues between the two communities regarding jobs, admissions and economic and political power especially in Sindh, but also in Pakistan as a whole. The fact that the MQM is not dealing with the real threat puts into question its true role in the politics of the country.

The Sindhi nationalists are also misdirected for their struggle should be one jointly with the mohajirs against the Punjabi dominated centre as they are not in a position to achieve anything on their own. The biggest theoretical mistake the Sindhi nationalists are making is that they are anti mohajir. The politically correct and most productive form of Sindhi nationalism is an alliance with the mohajirs against the state and the centre. Certainly, the present conditions do not favour rationality and logic as emotions rule politics. The politics of violence propagated by the insecurities of the MQM benefits Sindhi nationalists who are growing at the expense of the Peoples Party. This has repercussions for government at the central level where a more weakened Peoples Party will be even less able to govern. The Peoples Party is faced with a Catch 22 situation: if it appeases the MQM and tries to find a solution to the present politics of violence, it alienates Sindhi nationalists including those inside its own organisation. If the Peoples Party ignores or confronts the MQM (as it has been doing recently) it may acquire some sympathy from Sindhi nationalists, but it then helps destroy Sindhi economically thus affecting its own constituency. At the moment, however, the short sighted interests of the PPP seem to favour the latter alternative and act as a hurdle in

A major bone of contention between the Sindhis and the MQM is the MQM's demand that it be recognised as the fifth nationality of Pakistan.¹⁹ Since all Sindhi nationalists have pressed for the recognition of national rights and the reallocation of provinces along 'national' lines, the recognition of the mohajirs as a nationality will result in the demand for a mohajir province. The partition of Sindh is not in the interest of Sindhis and for this reason they will oppose it.²⁰ The MQM's *raison d'être* is mohajir nationalism and although there are indications that their leadership may slowly withdraw from the demand of a province or the recognition as the fifth nationality,²¹ the change in emphasis within the MQM will be slow in coming. Until then the present conflict in Sindh will continue unabated.

There are a few, final, persistently nagging questions which need to be addressed which have kept conspiracy theorists preoccupied. If the essential premise of the arguments presented here is that the primary contradiction in Sindh is not between the Sindhis and the mohajirs but between the residents of Sindh against the state and the centre and thus by association, against the Punjab, the questions which then need to be confronted are why indeed, is there such a severe Sindhi mohajir problem in the first place? Are there any forces behind this and is this violence serving their interests? Why is there no Sindhi Punjabi or mohajir Punjabi conflict?

It is very easy to blame two pet targets—the military and the bureaucracy—for the violence in Sindh as many would like to, but quite clearly, since there is no proof of the involvement of either, one cannot directly accuse them. However looking at whatever evidence there is, and at the various trends which have emerged in the process, one can hypothesise and raise further questions which for the moment must remain unanswered.

Despite the fact that over a thousand people have been killed in Sindh in the last few years, not one person has been brought to justice. Those arrested have been immediately released on the orders of influential individuals. This continues to give rise to speculation that the events in Sindh have been orchestrated by some powerful institutions which benefit from violence—essentially the army, the Inter Services Intelligence, and other anti democratic forces.

The army is now in a position to halt the experiment with democracy and there are growing demands from sections of the public for it to take over control directly. The army was the obvious beneficiary of the Zia martial law and the desire to regain direct control by some active senior generals cannot be ruled out. If, indeed, there is a conspiracy against democratic forces and institutions, the involvement of some sections of the military cannot be precluded. Other beneficiaries of the present conflict in Sindh

Peoples Party rule. The ruling sections in the Punjab also benefit from this violence, especially in Karachi, as capital shifts to Chunia and other parts of the Punjab. Although one cannot accuse any of the possible beneficiaries of the violence in Sindh, too many questions persist.²²

CONCLUSIONS

The unpredictability of events in Sindh and the country give rise to many possible scenarios in the future, some inherently contradictory. In Sindh and in Islamabad, the growth and concretisation of the Sindhi bourgeoisie will give rise to a potential strengthening and maturing of the forces of Sindhi nationalism. As Sindh develops economically, and despite the emergence and existence of nationalism, there will be greater integration with the rest of the country. Sindhi nationalism as a separatist trend which is presently steeped in romantic notions having little to do with material reality, will die its natural death. The Sindhi bourgeoisie will realise that it is in its interest to deal with the Punjab and with Karachi and compromise with the exploiting nationalities rather than lead a movement for the independence of Sindh. However, given the present level of the development of productive forces, this strategy will establish the Sindhi bourgeois as subservient to the mohajir and Punjabi capitalist. On the other hand, if the Sindhis want to dominate the interior of Sindh (for they will not be in a position to dominate the cities which are already in mohajir Punjabi control), they will have to make an alliance with the mohajirs to deal with Punjabi domination in the province and at the centre.²³

This first possibility, of more integration with the rest of the country despite a greater emergence of the forces of Sindhi nationalism, is likely only if the PPP stays in power in the province and at the centre. The other possibility, almost opposite to the first, would arise if the present governments were removed by the military or by a non Sindhi opposition. In this case, the bourgeoisification of the Sindhis will slow down resulting in a very distinct probability (with Sindhis already a minority in their province and very weak economically, and given competition from the mohajirs and the Punjabis), that a strong bourgeois class may not emerge like its counterpart in the other nationalities and the Sindhis may well become extinct as a political and economic entity altogether. This will signal the beginning of the end for the Sindhi nation. In this event, the economic development taking place in Sindh will be co-opted by the mohajirs and the Punjabis who would strengthen their hold over the province. This scenario would be possible in the long run, but if this trend were to emerge, one can safely predict the short-run effects out of desperation the Sindhi nationalists will resort to violence and attack mohajirs and Punjabis in the pro-

vince. Indeed, a scenario which does not augur well for the people of Sindh

If the democratic process is permitted to continue, after a few years there is a possibility that extremism in the nationalist movement may give rise to saner politics. In the meantime, however, neither will Sindh be divided nor will mohajirs get any more rights than they already have. The end result will be greater bloodshed over relative non-issues followed eventually by a coalescing of interests by the two communities against the domination of the centre. A lack of political participation and accountability have given rise to the only form of discipline known in Pakistan that of might and suppression packaged in violence. Today all communities are only following the methods prescribed by history. If other norms such as democracy take root, other channels of redress will probably be found. As the Sindhi bourgeoisie asserts itself, the centre will have to share greater power and the Punjab will have to release its hold as it did to accommodate the Pakhtuns. In the long run, greater autonomy, more sharing and more pragmatic and accountable government are the minimum criteria for a solution to the problems in Sindh. In the short run, however, there are no solutions.

Notes

[This is a revised version of a paper presented at the Democracy and Development in South Asia Conference, Tufts University April 20-22, 1990. This paper was revised in this form prior to the dismissal of the Peoples Party government on August 6, 1990. This paper is also to be included in the published Conference Proceedings to be edited by Ayesha Jalal and Sugata Bose. I am very grateful to Zareen F. Naqvi and to Ayesha Jalal for some excellent comments on an earlier draft which have helped improve the quality of the paper appreciably.]

- 1 To keep the paper to a readable length I have purposely simplified issues which have been documented and dealt with elsewhere and here I concentrate on issues which have not been written on in the past. This is also the reason why I have had to refer to numerous periodicals and newspapers for first hand information.
- 2 For differing perspectives on the mohajir question see Ahmed 1988, Arif 1988, Alavi 1989, Hasan 1987a, 1988b, 1989.
- 3 Not all refugees who came to Karachi were Urdu speaking as Memons, Gujaratis, Bohras, Kathiawaris also came. Despite the differences between them and the Urdu speakers, for the purpose of analysis they are all now included in the broader political term mohajir.
- 4 There was an urban bourgeois class in Sindh, but it was mainly Sindhi Hindu which migrated to India at the time of partition. It was the Sindhi Muslim who had still not evolved as a well defined bourgeois class. (I am grateful to Theodore P. Wright for this communication.)
- 5 Punjabi intellectuals have been smitten by the MQM because of its class background and have even called it a progressive party

but have overlooked the fascist tendencies inherent in it.

- 6 Altaf Hussain in an interview in *Herald*, September 1987.
- 7 Here I cannot agree with Farooz Ahmed who laments the fate of Sindhis with respect to Karachi when he says "Sindhis in Karachi were turned into strangers in their own town" [Ahmed 1984b, p. 17]. In this and in other articles [Ahmed 1985b, Ahmed 1988], he argues that Karachi was a Sindhi city, a perspective which finds little support from the facts of history.
- 8 See A. Nasir in *Herald*, March 1990. For charges of corruption against senior Peoples Party officials see *Herald*, June 1990. *The Friday Times*, June 28 July 4, 1990, June 21-27, 1990, A. Amir in *Dawn*, May 14, 1990.
- 9 For more details see Ahmed 1972, 1983, 1985b, Ahmad 1984, Babar Ali 1986, 1987a, Arif 1988, Zaidi 1990. Also, for a particularly brilliant and original analysis of the development of capitalism in Sindh, see Aili 1990.
- 10 A feudal nationalism can also exist, as it has existed in Sindh in the past. But this is, in general, a less organised, less effective nationalism, compared to the more advanced bourgeois nationalism. Nationalism is essentially a concern of the bourgeoisie.
- 11 Also see Alavi 1983, Ahmed 1985a, Hussain 1985, Jalal 1990.
- 12 One of the more serious newspapers quoted the price for a number of government jobs which could be acquired through elected representatives. *Dawn* February 27, 1990.
- 13 I have argued elsewhere that one reason for Punjab's prosperity today is this ability to export its surplus population and keep unemployment low [Zaidi 1989].
- 14 Mahnaz Ispahani writes "Domestic violence in Pakistan has been fired indirectly by Pakistan's role as a base of operations and as a weapons conduit for the Afghan Mujahideen. Along with the arms sent in to Pakistan through pro-Kabul Pakhtun tribesmen by the Afghan regime an estimated 40 per cent of the weapons destined for the war effort have 'leaked' into Pakistan. Pakistani army officers and Mujahideen have been reported to sell weapons on the open market in Pakistan. Drug traffickers, right wing Islamicists, frontier warlords and rural bandits have all gained access to sophisticated arms ranging from Kalashnikovs to rocket launchers and anti-tank missiles. Lawlessness is worst to day in Sindh" [Ispahani 1990, p. 27].
- 15 According to Arif Hasan, one of Pakistan's leading social scientists, the violence caused by urbanisation is going to be replicated in a number of cities in the Punjab as well.
- 16 The Hyderabad massacre of October 1988 is said to have taken place because one faction of a Sindhi nationalist group taunted the other for not being "men enough" regarding the Sindhi "cause". This group went out to prove its credentials by killing 200 mohajirs.
- 17 Even the educated and the professionals amongst the mohajirs justify the tactics of the MQM as they argue that had the MQM no existed mohajirs would have "suffered" more.

18 *India Today* quoted a spokesman for the Chamber of Commerce and Industry who said that "only two of the 63 new textile mills set up in Pakistan have been installed in Sindh in the last year" June 15, 1990, p. 10.

19 See interviews of G. M. Syed, *Herald*, August 1989, Ibrahim Joyo, *Herald*, January 1990, Makhdoom Khaliqurrahman, *The Friday Times*, March 17, 1990.

20 Although Sindhi nationalists recognise Seraiki as the fifth nationality of Pakistan and accept their claim to territory as legitimate, under no conditions are they willing to give up their own lands for the creation of a Seraiki province.

21 Altaf Hussain in a recent interview said that he had never demanded either a mohajir province nor recognition as a nationality (*The Frontier Post* Lahore, March 9, 1990).

22 One of the few blessings of democracy has been a relatively free press resulting in analysis which has not only been critical of the government but at times, also of the army. In the context of the violence in Sindh, the army and the ISI have been alluded to, implicated, and even accused on more than one occasion. *Newsline* and *Herald* in the months of May, June and July 1990, have carried at least one suggestive piece per issue. *Newsline* in its March 1990 issue even identified an active Colonel, who was said to be directly responsible for the violence in Hyderabad. Also, other publications such as the Lahore based *The Friday Times* have also come up with similar theories (see the *TFT* of June 14-20, 1990). In an editorial on its front page, the *TFT* said "There is substance too, in the PPP's

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allegation that the MQM, its genesis in Sindh, was sustained by the ISI under Zia" (TFT, July 12 18, 1990)

- 23 Despite obvious differences, there is an interesting parallel with the Pakhtun issue which may give some possible insight into the nature of events in Sindh. The Pakhtuns too had a militant anti centre anti Punjabi nationalist bourgeois and petty bourgeois class whose representatives had spoken of secession on numerous occasions. Today these classes are the biggest beneficiaries of the bourgeoisification of Pakhtun society and of its integration with the Punjab and with the centre at Islamabad. Now few Pakhtuns talk of secession. National rights are seen as part of the federal structure of Pakistan and the Pakhtuns are interested in extracting a greater share from within the present union [Zaidi 1988 1989]

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Ambedkar and Buddhism

Dharmachari Lokamitra

THE second section of Gopal Guru's note on the 'Hinduisation of Ambedkar in Maharashtra' (*EPW*, February 16) deserves a reply. This section concentrates on attacking Trailokya Bauddha Mahasangha Sahayaka Gana (TBMSG). Guru has based this on Vinay Kamble's articles on TBMSG in the Marathi magazine (now defunct) *Dharmalipi*. It seems he has not read any of the many publications brought out by TBMSG; otherwise one presumes he would have referred to them in his notes. The only conclusion one can reach is that he has not tried to establish the veracity of any of Kamble's points. This is in itself a very improper approach to criticism and leads one to doubt the real intentions behind writing such a report.

The first criticism is concerned with "spiritualising the dalit masses in the State [of Maharashtra]". The word spiritual is admittedly rather confusing although it is often used in TBMSG. Millions of people have converted to Buddhism since 1956 following the example of Ambedkar. He was very concerned that his followers take the Dhamma seriously, otherwise, he said, "people will laugh at this conversion".¹ To this end he wrote *The Buddha and His Dhamma*,² a 'puja' book³ and gave them 22 vows⁴ to follow. The latter besides repudiating the worship of the Hindu gods, include a commitment to the practice of equality, the Buddha's Eight-Fold Path, the Ten Paramitas and the Panchasheel. It was clear that to Ambedkar there could be no Buddhism without the practice of the Dhamma, which if practised systematically, gradually bring about highly positive and creative changes in one's mental states and attitudes, enabling one to take more control over one's own life and to help others more effectively. It is this process that is meant by the word 'spiritual', but as it is used in other religions with completely different goals, it is not a very satisfactory word.

Gopal Guru uses the word 'dalit'. In my experience most Buddhists in Maharashtra do not like to apply this word to themselves, as it refers to them in terms of what they are trying to leave behind, and not in terms of their new-found dignity as human beings insisted upon by Ambedkar and encouraged by their conversion to Buddhism.

TBMSG holds regular Dhamma shibirs, open to all, during which, according to Gopal Guru, "the participants are asked to undergo transcendental meditation to

overcome material as well as mental problems". Transcendental meditation is what the Maharishi Yogi's system is called and consists of mechanically chanting a mantra. TBMSG's system of meditation is quite different. It does not consist of chanting a mantra and going into a trance as Gopal Guru makes out. Meditation in Buddhism is a conscious process and does not involve going into a trance-like state. Two most traditional Buddhist meditation practices are taught in these shibirs, the Mindfulness of Breathing and the Maitri Bhavana, or the cultivation of an attitude of universal loving kindness. These states of mind are basic to Dhamma practice. Ambedkar emphasises the development of these states of mind in *The Buddha and His Dhamma*. On page 87 he talks about the importance of Samma Sattu, or Perfect Mindfulness. On page 265 he develops this further under the heading 'Thoughtfulness and Mindfulness'. As for the question of maitri, attention may be drawn to the section entitled 'Dhamma to be Sad-dhamma Must Promote Maitri' starting on page 210, and also to page 413 where he gives the most famous of the Buddha's teachings on 'maitri'. But these are only to illustrate the point. References to these two states of mind fill the book. Meditation is a tool for the systematic cultivation of these higher positive states of mind, and as such it is central to serious Buddhist practice. It may be possible to develop these elevated and highly positive states of mind without formal meditation practice, but for most people that is extremely difficult and open to rationalisation.

Gopal Guru's next criticism is to accuse TBMSG of stripping off the political content of Ambedkar's philosophy. Ambedkar started a many-faceted movement. TBMSG does not pretend to work in all these areas. It is especially concerned with the area of Buddhist teaching and practice which had been largely neglected since the conversion. An incident told by Nanakchand Rattu, Ambedkar's personal assistant, and verified by others who were present, throws light on Ambedkar's own attitude. Some of his followers were trying to persuade him right until the last minute to postpone the conversion until after the next elections. He was upset with them, saying that they did not understand the importance he attached to Buddhism. Since then, compared to the energy that has gone into politics, very little has gone

into trying to understand and practise the Dhamma.

Gopal Guru is right in maintaining that Ambedkar did try and bring out the social aspect of the Buddha's teaching, which has been somewhat neglected in recent times and for this the Buddhist world is increasingly grateful. Today Buddhism is very popular in the West, and there is a great deal of importance attached to the social implications of the Buddha's teaching. In this sense Ambedkar could be said to be the forerunner of this Western Buddhist movement. At the same time he was quite clear about the basis for social change in Buddhism. In November 1956, at a World Fellowship of Buddhists' Conference in Kathmandu, he made the following statement: "The greatest thing the Buddha has done is to tell the world that it can only be reformed by the reformation of the mind of man, and the mind of the world."⁵ Without individual change, in other words, there can be no social change.

A major part of the work of the TBMSG in India is its social wing, known as Bahujan Hitay. Today 10 hostels (there are plans for many more) in Maharashtra and elsewhere as well as extensive health and educational work in the slums of Pune are being run. All this work is run by local practising Buddhists who are followers of Ambedkar. They see this work as an inextricable part of their Dhamma practice. Meditating on 'maitri' and 'karuna', one cannot close one's eyes to the condition of people all around. To say that TBMSG is making the "dalits quite insensitive to the problems of dalits" is therefore quite untrue. It seems neither Gopal Guru nor Vinay Kamble has any knowledge whatsoever of TBMSG's extensive social work.

I am not quite sure how Gopal Guru can state with such certainty that "not one among the followers of the Sangha protested against the government's decision to delete the 'Rama Krishna Riddles' from Ambedkar's writings". There were lakhs of people protesting. TBMSG runs perhaps a hundred Dhamma classes a week in Maharashtra, to say nothing of special lectures and lecture series. Can he say categorically that this subject was not taken up? The quarterly *Golden Drum*, published by TBMSG in London had a special report on the Riddles affair.⁶

But while protests may help, to enable long-term effects other substantial and constructive work is required. The problem starts with followers of Ambedkar themselves. Ambedkar emphasised that his followers must get rid of their belief in god. The first few of the 22 vows deal

the old gods it presents a problem. One is still effectively a Hindu, and in Hinduism one's place is still right at the bottom. By worshipping the old gods one is thus continuing to wear the old religious shackles with all their psychological effects that have been worn for centuries. More than that, belief in god, being based in superstition, opens one to all manner of exploitation. Ambedkar felt so strongly about this that he said in *The Buddha and His Dhamma*, "belief in god is the most dangerous thing" (p. 178).

But the sad fact is that many Buddhists still worship the old gods, thus unwittingly maintaining the old religious conditioning. In the last 12 years perhaps several thousand people have attended Dhamma shibirs organised by IBMSC, where they both learn meditation and study a Buddhist text or something written by Ambedkar on Buddhism (the atmosphere is far from restrictive as implied in Gopal Guru's note, but is pervaded by a joy and a sense of meaningfulness that few have experienced before). Perhaps the most universal experience for those who have attended such a shibir for the first time is understanding how Ambedkar could say in the 22 vows: "Now I have taken a new life. Buddhism becomes meaningful to them as never before. They begin to understand how through Dhamma practice they can lead much more creative lives than hitherto they had thought possible, and thus develop a confidence in it that many did not have before. Most of them will go home and throw out the pictures and murals of the old gods, having eradicated their psychological dependence on them. Not only that they will pass on what they have learnt to neighbours."

"In this situation, can we dispense with Buddhism? Perhaps not." It seems from this that Gopal Guru really would like to dispense with Buddhism, and that to him it has little of intrinsic value in itself, its only value being as a political tool. He makes this clearer towards the end when he suggests making changes to the most basic Buddhist principles. He wants, first, to change the Trisaren. These are the Buddha, representing the ideal of *human enlightenment* to which Buddhists aspire, the Dhamma, the practices leading to that state, and the Sangha, the fellowship of those likewise practising the Dhamma. These ideals are shared by Buddhists throughout the world and are thus a unifying factor among them. The Trisaren as Buddha, Dhamma and Sangha were basic to Ambedkar's approach to Buddhism. Admittedly, at the time of conversion he was hesitant about taking the Sangha saren because he was extremely dissatisfied with the conduct of the present day

bhikshu sangha (he was dissuaded from this course of action because recognition from the rest of the Buddhist world was very important for him). But that did not mean that he did not appreciate the principle of Sangha; he makes it clear that he did in *The Buddha and the Future of His Religion*. He saw Sangha as providing a model of the ideal society, creating a body of deeply committed Buddhists who could impartially guide others, and creating a society whose members were free to render service to the people. That the present bhikshu Sangha was not living up to these ideals was for him a most perplexing question and he called in no uncertain terms for a new kind of Sangha.

Gopal Guru wants to change these three principles to equality, fraternity and freedom. What he does not seem to realise is that these three principles are implicit in the Dhamma itself, and this was brought out by Ambedkar. Therefore, there is no need to change the Trisaren. Liberty, equality and fraternity are implanted within it.

Not only does Gopal Guru want Buddhism without the Buddha, Dhamma and Sangha, but he wants to separate Panchasheel from his own version of the Trisaren. Panchasheel is the most basic commitment to ethical behaviour and the foundation of social relations in Buddhism. Gopal Guru states that unfortunately the contemporary Buddhist leadership in Maharashtra still argues for the combination of Trisaren and Panchasheel which, in effect, has led to the regression of Buddhist move-

ment in Maharashtra and suspension of Ambedkar's project of converting Hindu Indian into Buddhist Indian. No one who has read even a little of what Ambedkar wrote on Buddhism could possibly go along with this view. Morality was basic to Buddhism according to Ambedkar. One quote from *The Buddha and the Future of His Religion* is enough to show this: "The religion of the Buddha is morality. It is imbedded in religion. Buddhist religion is nothing if not morality. It is true that in Buddhism there is no god. In place of god there is morality. What god is to other religions, morality is to Buddhism."

I am afraid the project Gopal Guru is talking about is not that of Ambedkar but of those who have attempted to usurp Ambedkar's conversion to Buddhism to serve their own political ends. One would have hoped for a little more substance in his arguments.

Notes

1. Bhagwan Das, *Thus Spoke Ambedkar*, Vol. II, Bhumi Patrika Publications, Jullunder, 1969. Conversion speech at Nagpur.
2. Siddhuth Publications, Bombay, 1974.
3. *Buddha Puja Paath*, compiled by Ambedkar, Bombay, 1956.
4. Included in *Buddha Vandana Suttasangrah*, Triloka Grantha Mala, Pune, 1987.
5. *Thus Spoke Ambedkar*, op cit, Vol. II.
6. *Golden Drum*, May/July 1988 [2531], No. 9, Windhorse Publications, 754 Crooksmoor Road, Sheffield, S10 1BH, UK. In *The Maha Bodhi Journal*, Calcutta, 1950.

Central Statistical Organisation

Input-Output Transactions Tables, 1983-84

The publication gives the methodology adopted, sources of data used and analysis of results, along with absorption matrix, make matrix and other associated matrices at 60 sector classification. Copies are available on sale from all authorised agents for sale of government publications.

The print back ups of the publication and detailed IOTT at 115 sector classification for 1978-79 and 1983-84 are available on floppies (5 25) at request from Director General, Central Statistical Organisation, Sardar Patel Bhavan, Sansad Marg, New Delhi - 110 001.

National Accounts Statistics on Floppies

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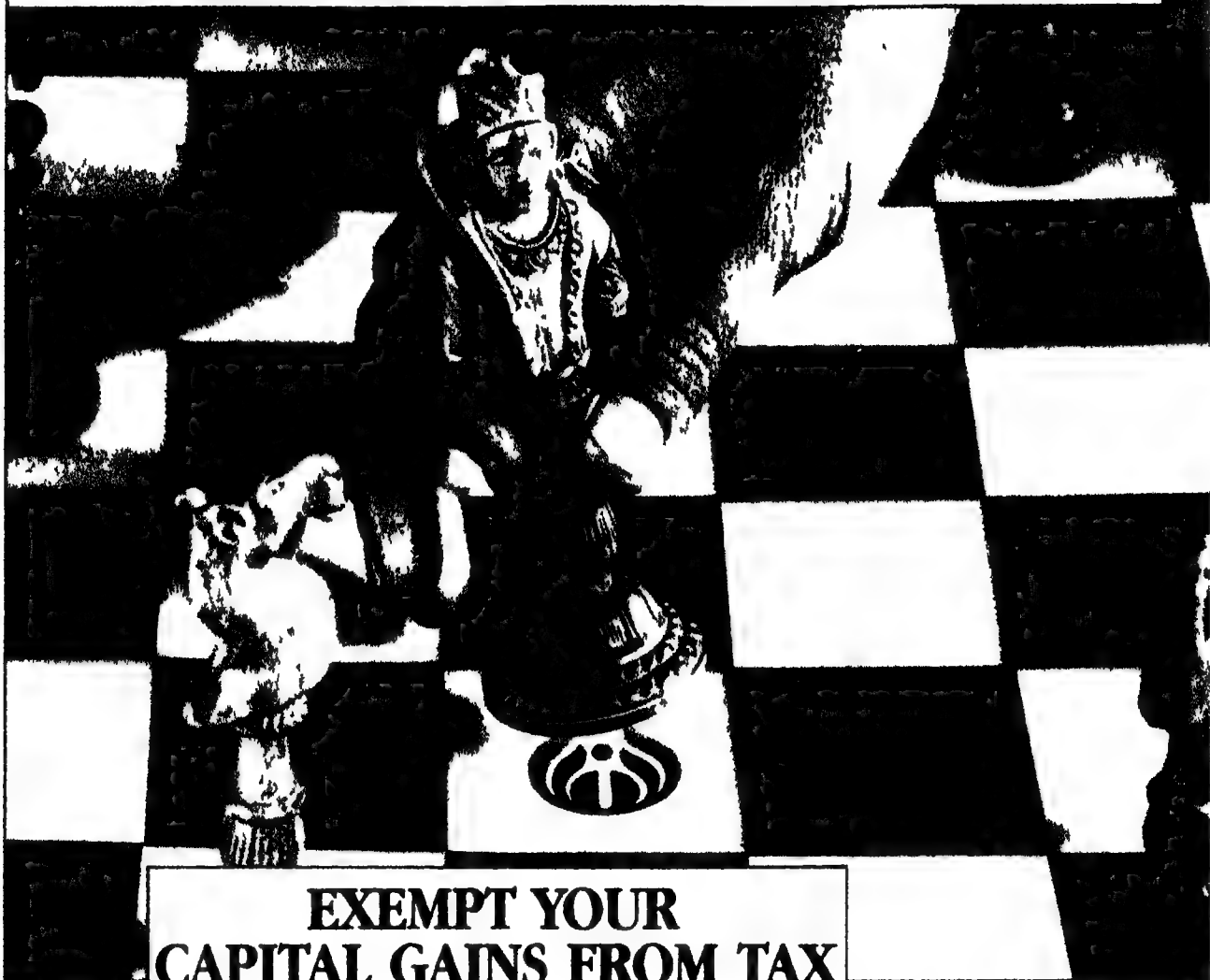
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Signs of Change

The shifts in the class and caste configurations in Bulsar, a town in south Gujarat, in the last two decades and the changing social location of Suthars, a caste which pioneered industrial activity in the region, give a clue to the nature of the political-economic transformation taking place

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Regulating Rents

Most critics of rent control legislation recommend its abolition arguing that this would improve the supply of rental housing and also lead to a decline in rents in the long run. A critical study of the impact of the Delhi Rent Control Act (1958) and the 1988 amendment do not quite bear out this point of view

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China Shakes

If China is shaking the world it is rather because of its exploitation, not its suppression, of capitalism. But while market capitalism and foreign investment may be all the rage today the mood may not last indefinitely

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Promise and Performance

The improved efficiency of State level manufacturing public enterprises would go a long way in enhancing the effectiveness of State governments as a whole

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Price of Power

The Karnataka State Electricity Board's decision to hike power tariff has generated much protest. The compulsions and problems of setting tariff rates in the industry

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How does the public sector Bharat Heavy Electricals fare in the power equipment market in terms of product quality performance and price?

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Who Wears What and Why?

Since household textile demand is a crucial factor in the growth of the industry its pattern, quality component and the income and price elasticities need to be understood

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Rein on Funds

With the proliferation of mutual funds, the need to set up legislation to govern their functioning becomes urgent

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Space for the State

The success of privatisation requires not only a reform of the private sector itself, but also an effective state and not, as many see it, a shrinking role for it

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Culture-Specific Designs

A universalistic approach to organisation and management is outdated and inappropriate. Today culture specific ideas based on psychoanalytic insights are contributing to the structuring of new models of organisation

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Ambedkar and Congress

While Ambedkar clearly linked the emancipation of the dalits with Swaraj, he was not willing to mortgage their political future to the tender mercies of the upper caste Hindu leadership of the Congress and sought a measure of political autonomy for them through the proposal of separate electorates

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Research on Bhopal

The Indian Council of Medical Research's findings on Bhopal clearly show that the gas leak has caused irreversible damage among the population who will need long term care

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Phule's Legacy

Many sections of Indian society have been trying to appropriate the legacy of Phule not with a view to continuing his unfinished mission of democratic revolution but to legitimise their own interests

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Daunting Prospects

Beyond June the country's economic prospects appear gloomy and the government will have to face the fact that it will have to keep running just in order to stay in the same place. And worse are the longer term prospects unless changes far beyond the immediate fiscal adjustments which the IMF may call for are made

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People's Choice

An analysis of the social background of Kerala's newly elected members reveals features not entirely unexpected for that State

1320

Police Action against Dam Oustees

WE strongly condemn the arrest of social activist Kumar Chandra Mardi and 450 tribals while they were protesting against the construction of Icha Dam, a part of Subarnarekha Multipurpose Project, at Icha near Chaibasa, Singhbhum district of Bihar. Financed by the World Bank, the project is a joint venture of the States of Bihar, Orissa and West Bengal.

On April 5, 1991, the local people, mostly tribals, went on an indefinite 'dharna' at the dam-site to stop the construction of Icha dam. The 500-strong non-violent protest was organised by the local organisations to stop the ongoing construction of this dam because this dam will displace 30,000 people, majority of whom belong to the Ho tribe in over 61 villages. So far, the project authorities have not come up with any rehabilitation plans to resettle the displaced people. But the lands of the would-be displaced people are being notified for acquisition and only cash compensation is being offered.

On April 9, the deputy commissioner came with a large police force to evict the protesters. When the protestors refused to withdraw the 'dharna' until and unless their demands were accepted by the project authorities, the police started dragging men, women and children to the police bus which took them to Saraikala police station. Before arresting them the police ransacked the tent meant for lodging the activists and set them on fire. They also harassed the women and separated them from their children. Kumar Mardi and 250 tribals were taken into custody. Since then about 50 people are courting arrest every day against the police action. In a meeting with tribal representatives, Jagnanadh Singh, minister of irrigation, Bihar government, assured the release of social activists and all other arrested people by April 30. But they have not been released as yet.

Recently, several offences involving crores of rupees have come to the light which includes withdrawal of excess payments, illegal removal of government property, filling of fake bank guarantees and of false payments. The parties involved are the contractors, Surya Construction and Ganimon Enterprises, the executive engineer of the project and senior officials of the bank concerned. The government has taken no action about these matters. This is not the first time that non-violent protests against the Icha dam has been met with repression and intimidation. On April 4, 1982, Ganga Ram Kalundia, an activist of Icha Kharkai Bandh Sangarsh Samiti was killed by the police when he organised people against the unjust eviction. We strongly condemn

the arrest of activists and other tribal protesters and demand their immediate release. We also demand that the State government and project authorities halt the construction of dam until a proper rehabilitation plan for the displaced population is formulated and implemented; a complete review of the project from the social, economic and environmental angles is carried out; the displaced people are given access to information about the dam, displacement and rehabilitation; strict legal and administrative actions are taken against the corrupt project officials, bank staff and contractors; and project authorities enter into a dialogue with the displaced people and the organisations representing them and stop the use of force by the police.

Kavaljit Singh, Anil Singh, Shankar Sundi, Ghanshyam, Arvind Kumar, Ranjan Pait and Vashudha Joshi, Anil Prakash, J John, Avadesh Kumar, Arjun Kumar and Balram
New Delhi.

Left Front and Left Intellectuals

ON the eve of the polls, a large number of writers, artists, lawyers and other professionals of West Bengal issued an appeal to the people to vote for the Left Front—Rastriya Morcha alliance. The appeal, circulated by the Ganatantrik Lehak Silpi Kalakushali Sangha, a CPC(M)-led organisation, was important not because its support for the Left Front was unconditional. The appeal contained no reference to the implementation of the report of the Mandal Commission, nor to the demand for more power to the States. Instead it emphasised the inability of the State government to perform certain obligations to the people without the

Centre.

Clearly these intellectuals and professionals are not in favour of a federal structure, but only want a Centre more benevolent and more merciful to West Bengal. Ironically, the appeal contains an axiomatic reference to the 'decentralisation' of power to the grassroots through the Panchayats, supposedly an important success of the Left Front government. It seems that the signatories are trying to confuse centralisation with decentralisation. The Panchayats have linked the people with the bureaucracy and the power of the latter remains the same. Fourteen years of Left Front government has revealed this beyond any doubt. To refer to it as 'decentralisation' is sheer make-believe.

Finally, the signatories remind the people of the seventies. It is well enough to point out the horrors of those hoodlum years, but the record of the signatories themselves is hardly credible. In the appeal, they have mentioned their occupational and social identities. Among 'educationist', the first name is B D Nagchoudhury. One recalls well his role as the vice chancellor of the Jawaharlal Nehru University during the Emergency. The list also includes a number of personalities, well known and not so well known, who wooed Indira Gandhi or Siddhartha Ray during the seventies for power and help. Now they have become champions of 'leftism' under the umbrella of the Left Front government of West Bengal. Others who are not as infamous have joined perhaps because of the fear psychosis that has seemingly stupefied them. There are honourable exceptions among intellectuals who by keeping away from this show of progressiveness, have proved themselves wiser.

Calcutta

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After Rajiv Gandhi

THE impression is unmistakable that the political establishment in the country perceives the crisis following the assassination of Rajiv Gandhi to be even more serious than that caused by the death, in similar tragic circumstances, of his mother a little less than seven years ago. If reports, widely publicised in the press, are to be believed, President R Venkataraman himself has considered it necessary to broach with prominent leaders representing different shades of the political spectrum the advisability of forming a national government, putting off the general election already under way and even bringing into being a constituent assembly to rewrite the Constitution and refashion the political system. The all-too-evident signs of panic in high political and government circles have to be explained not so much by the stature of the assassinated leader even as perceived in these circles—after all Rajiv Gandhi's entire political career spanned a bare decade and he was prime minister for just one term—but by the vastly enhanced fragility of the country's political institutions, among them very prominently the Congress Party.

It is sad to reflect that, for all the hyperbole now being lavished on him, it is not easy to identify many contributions by Rajiv Gandhi to arresting this degeneration. Quite the contrary, in fact. Prospects of any democratisation of the Congress Party under his leadership were dashed very early on; instead the drive for total personal control over the party, which so marked his mother's reign, was carried to further extremes, requiring the apportionment of all positions of influence exclusively among hangers-on and courtiers. So much so, to mention just one of the more striking consequences, the Union cabinet came over the years to comprise fewer and fewer members who commanded enough popular support even to get themselves elected to parliament. In the States, Congress Party chief ministers had to be shuffled and reshuffled with unfailing regularity and rival factions encouraged deliberately. The style of party management inevitably spilled over into the functioning of the government, with the tendency to use the different parts of the state machinery—most visibly, the official information media—to advance the cult of the sole leader getting progressively more unabashed. The result, altogether predictably, has been corruption, arbitrariness and total lack of accountability. In a political environment surcharged with tension and violence and with both the inclination and the means to commit mayhem widely dispersed, there could scarcely have been a more reliable recipe for what came to pass at Sriperumbudur on Tuesday night.

With the, quite admirable, rejection by Sonia Gandhi of the attempt of the scheming hangers-on to use her to protect their pelf and power by getting the Congress Working Committee to unanimously nominate her as the party president, the possibility has been opened up of the Congress at last

emerging from the spell of the Nehru-Gandhi dynasty. This has let loose a flood of suggestions for realignment of political forces in the country—of all Congressmen, present and one-time, coming together, of all centrist forces teaming up, of all secular elements joining hands to thwart the BJP-VHP combine, of the Left parties coming closer to the Congress, and so on. While a measure of rearrangement of the political pieces is implicit in the logic of the emergence of a post-Nehru-Gandhi Congress, it can hardly be lost sight of that there is a very real danger of the dominant classes and interests, which have their fingers in different political parties and groups, trying to use the so-called political realignment to drum up renewed legitimacy for policies and programmes whose unsavoury consequences as far as the mass of the people are concerned have become pretty well exposed.

Without in any way playing down the danger posed by the strengthened communal forces, the harm done to the country and the people by the policies pursued by the Congress governments in the eighties, which the short-lived National Front and SJD governments did little to reverse, has to be squarely faced. The country today finds itself on the brink of external bankruptcy and loss of economic sovereignty. There has been a marked widening of economic disparities, growth of unemployment, strengthening of inflationary pressures with its consequences for the living standards of the vast majority of the people, festering social inequities and aggravation of ethnic and regional discontent and alienation. These developments have after all played not a small role in creating the climate for the rise of Hindu communalism of the BJP and VHP variety. So any coming together of parties and groups, if it is to mean anything at all, must be based on a commitment to a programme to arrest and reverse these tendencies. But there are, one suspects, those who are championing a realignment of political forces for precisely the opposite reason—to win a fresh lease of life for the Congress's discredited policies. Consider, for example, the enthusiasm that is noticeable in the most unexpected circles for a coming together of the Left and the Congress; these circles are even prepared to accept the idea of the prime ministership under such an arrangement going to Jyoti Basu of the CPI(M). Partly this may well be a tribute to Jyoti Basu's undoubted political stature, but, considering some of the quarters from which these proposals are being mooted, can the calculation be altogether absent that a government with a Leftist veneer will stand a better chance of winning some measure of popular acceptance of the policies which are being pressed upon the country by the IMF and the World Bank as a precondition for the resumption of the flow of external funds to underwrite the continuance of the so-called economic liberalisation?

Survival Strategies

THE shock and sorrow that the people might have felt at Rajiv Gandhi's tragic end were allowed to dissipate within less than 24 hours into a ludicrous anti-climax by his colleagues in the Congress Working Committee when in a desperate search for his successor as the party president, they fell back on Sonia Gandhi. The unseemly haste in which Congress(I) veterans with years of political experience behind them chose to elect as their leader someone who is not even a debutante in Indian politics leaves us with the only surmise that is possible in such circumstances—a bankrupt leadership is trying to clutch at anything that might provide it with a tenuous link with the Nehru dynasty.

As important as the long-term strategy for survival is the Congress(I)'s immediate need to win the elections in the second and third phases of polling. Here again, the party's leaders and cadres have shown the least qualm in making use of the assassination, even before the dead leader's mortal remains could be consigned to the flames, for projecting the Congress(I) in larger-than-life colours to impress the electorate. The distinction between the protocol reserved for the funeral of the head of the state and that for the leader of a national political party was sought to be blurred at every stage to reinforce in the public mind the impression that even out of power, a Congress(I) ex-prime minister—and a scion of the Nehru family at that—could still command all the official honours. The official 'bandobast' can of course be justified on the ground that certain privileges are due to an ex-prime minister. But then, was such a grand 'bandobast' organised by the government when another ex-prime minister, Charan Singh, died a few years ago? What is important to note is the government publicity given to the funeral of the leader of a political party which was elevated to an official function, on the eve of an election where that party can make the most of such publicity in its election campaign. By conceding to the Congress(I) pressures for organising a ceremonial display with all the paraphernalia associated with the funeral of the head of the state who dies in harness, was the present prime minister merely showing respect to an ex-prime minister or plotting a new move in his own political game? Developments in the next few days may provide the answer.

Meanwhile, the publicity offered by the official media and gained through the state funeral of its leader is quite likely to boost the Congress(I) efforts to whip up the 'sympathy wave' on the crest of which it hopes to come back to power. But there is an ominous dimension to such efforts to create a 'sympathy wave'. At the local level, the Congress(I) leaders and their

causes do not appear to be content with a spontaneous wave. Soon after the news of the assassination was flashed by the media, Congress(I) hoodlums came out on the streets. But unlike 1984 (following Indira Gandhi's killing) when they had a particular target in the Sikh community, this time the objects of their fury seemed to be diffused at the beginning. On the night of May 21, in front of Rajiv Gandhi's residence at 10 Janpath, they hurled abuses indiscriminately against policemen, press reporters and photographers, and even attacked the car of President Venkataraman when he came to visit the residence. But soon their fury was cleverly steered by their leaders in the direction of the non-Congress(I) parties. Offices and residences of politicians of the DMK in Tamil Nadu, Telugu Desam in Andhra Pradesh, Janata Dal in north India and the CPI(M) in West Bengal began to be selectively attacked. One could discern a deliberate attempt to silence the anti-Congress(I) parties and their workers as a preparatory step in the next stage of electioneering.

MUTUAL FUNDS Hopes Belied

MUCH store was being set on the collections by the various mutual fund schemes which some of the major nationalised banks and some financial institutions have been allowed to float. The major assumption underlying this optimism was that people would be attracted to subscribe substantially to these schemes, given the tax concessions which subscriptions made under these schemes are eligible for.

Under Section 80CCB, any subscription under these schemes is deductible fully for arriving at taxable income subject to a separate ceiling of Rs 10,000. This meant that such subscription was not to be counted against the ceiling of Rs 40,000 under Section 80CCA for deposits made under the National Savings Scheme. Although both 80CCA and 80CCB contributions are fully deductible subject to the respective ceiling, the latter's additional advantage is that to the extent returns thereon accrue in the form of capital gains and not interest—since the mutual fund schemes are supposed to be equity-linked saving schemes—it also enjoyed exemption allowed to capital gains up to Rs 10,000.

Given the edge 80CCB contributions have over those under 80CCA, it was believed that collections under the various schemes entitled to the benefits of this tax concession would be substantial. The estimates of collections for 1990-91 ranged from Rs 1,000 to Rs 2,000 crore. However, it turns out now that the actual collections under the mutual fund schemes did not exceed Rs 700 crore in

1990-91. Obviously, the optimism originally expressed when the various schemes were launched has been sadly belied.

Whether or not the government persists with this tax concession and allows more schemes to be floated, a point that has not received sufficient attention in this context is that collections under these schemes do not accrue to the Central Budget, they are not shareable with the States on the lines of the small saving collections, which incidentally include deposits under 80CCA. This aspect becomes noteworthy because under the interim Central Budget for 1991-92, it has been proposed to mobilise as much as Rs 2,500 crore by way of disinvestment of government equity in selected public sector undertakings "in favour of mutual funds and financial or investment institutions in the public sector". Clearly, to the extent that mutual funds contribute to the funding of the proposed disinvestment of government equity, the Central Budget would be availing itself fully of the 80CCB contributions and the States would be kept totally out of the picture. Is that fair?

NUCLEAR INDUSTRY Desperate Measure

THE Atomic Energy Commission's latest proposal to accept spent nuclear fuel from foreign countries for reprocessing here appears to be a somewhat hare-brained scheme. Its objective apparently is to earn foreign exchange and it is part of the Indian atomic energy establishment's bid to export its much touted 'indigenously developed' capabilities in the field. First, just how many takers will there be for such an offer? And second, have the safety and security features been given sufficient thought?

According to the International Atomic Energy Agency (IAEA), there are some 325 research reactors in operation almost all of which produce wastes. As of 1989, nine countries were operating or building reprocessing facilities for spent fuel and 11 were sending or were planning to send their spent fuel for reprocessing abroad. Countries in Europe or in South America are unlikely to be shipping hazardous wastes to India, even if, as the AEC chairman claims, reprocessing is a "manpower intensive" operation which "can be done more inexpensively in developing countries"; there are too many other problems to cope with. For one thing, there are the stringent IAEA guidelines to be followed for the transport of such material and for another there are the other safeguards covering materials like plutonium. This means that only countries in Asia or Africa are likely to make use of these facilities. There were (as of 1989) only 24 research reactors in south and west Asia

China. The AEC chairman has also stated that India will accept spent fuel only from research reactors and that too only from those countries which will accept the wastes as well as the plutonium. Given all this, how many countries will be able to take advantage of the offer?

There is also the question of environmental safety. What this operation would involve is the spent fuel which consists of plutonium and other radioactive by-products being transported to India, the plutonium being separated from the wastes and the two being transported back again to the country of origin. Quite apart from the risk of plutonium theft, there are the risks that such transport on a regular basis poses. Only recently a traffic pile up in a European country, involving a truck carrying radioactive wastes, would have resulted in a major tragedy had emergency measures not been undertaken. Not that there is not such hazardous material on Indian roads already. According to a recent report 25,000 radioactive packages were shipped throughout the country in 1990. More significantly, there has been the bulk transport of spent fuel from the various reactors in the country to either the Trombay plant or the one at Tarapur and the movement of radioactive wastes to their designated resting places. Obviously the AEC will have to make extraordinary arrangements for the safe handling and transport of such material both within the country and overseas quite apart from the fact that it will have to be accountable to the IAEA for the high risk plutonium which it will separate from the wastes even if it is to be sent back to the country of origin.

Why should the AEC go to such lengths to earn negligible amounts of foreign exchange? It would appear that these plans have emerged out of a need to cover up past mistakes in planning. Clearly the AEC has now on its hands far too much idle capacity for reprocessing—with the third reprocessing plant at Kalpakkam nearing completion—which needs to be made use of. Hence this desperate scheme?

LEATHER EXPORTS

Large Potential

THE leather and leather goods industry has achieved impressive growth in exports in the Seventh Plan. In fact the export growth of the industry has been more impressive than the growth in its production. While the value of production increased from a base level of Rs 1,670 crore in 1984-85 to Rs 4,000 crore in 1989-90, export earnings rose from Rs 662 crore to Rs 2,030 crore over the same period. Thus

cent of its estimated production in 1984-85, it exported over 50 per cent of its production in 1989-90. Thus the leather industry has emerged as a thrust sector for exports. More importantly, unlike many exporting industries which depend on large-scale imports, the import component of leather goods exports is only about 15 per cent.

Rapid growth in leather exports was facilitated by liberalisation of import and industrial licensing policies, simplification of procedures and rationalisation of export incentives. The decision to discourage exports of semi-finished and finished leather and the accent on exports of value added leather products also paid rich dividends. The result of the fruitful interaction between the government and industry is not just the rise in export earnings but also a significant change in the export product-mix. The share of leather products in the total leather exports is now 65 per cent as against 40 per cent five years ago and this share is expected to increase substantially in the Eighth Plan. Equally significant is the fact that the general currency area now accounts for as much as 78 per cent of leather exports and only 22 per cent go to rupee currency areas.

The export target for 1990-91 was fixed at Rs 2,700 crore, which has been achieved according to provisional figures. But for the Gulf crisis, the target would have been surpassed. Going by the trend so far, the Eighth Plan export target of Rs 3,400 crore is expected to be achieved in 1991-92 itself. The Indian Leather Products Association (ILPA) is formulating a plan to increase India's share in the world leather products trade from the present level of 3 per cent to at least 5 per cent by 1994-95. The world leather trade is expected to increase from the current level of \$ 35 billion to \$ 50 billion by 1994-95. Thus the ILPA aims at stepping up India's leather and leather products exports to \$ 2.5 billion (Rs 6,000 crore) by 1994-95.

According to the Council for Leather Exports, it is possible to raise the country's leather exports to a level of Rs 10,000 crore by the year 2000. However, proper planning and policy measures would be required to achieve this ambitious target. Special efforts would be required to promote exports of high value items such as footwear and leather garments.

Footwear account for more than 50 per cent of the global imports of leather products. India exported footwear worth Rs 171.43 crore and footwear components worth Rs 518.45 crore in 1989-90. By 1994-95, it is proposed to increase exports of footwear from the current level of 16 million pairs to 45 million pairs. The

by 1994-95 from 40 million pairs in 1989-90. The leather garment segment of the industry has achieved a spectacular growth in exports. Its export earnings in 1989-90 amounted to Rs 332.88 crore, an increase of 100 per cent over the previous year's level of Rs 166.15 crore. The earnings of this segment are expected to reach a level of Rs 750 crore by 1994-95.

A major constraint in achieving the projected export targets is the growing shortage of hides and skins. According to official sources, the total requirement of leather by 1995 is estimated at 1,500 million square feet for the domestic and export markets for leather products. The demand-supply gap by then is expected to be roughly 200 million sq ft. This gap can be reduced to some extent through improved recovery of hides and skins. According to one estimate, the country loses about Rs 500 crore per annum due to non-recovery of hides and skins.

Apart from improving the recovery of hides and skins, it may be necessary to import some quantities of leather to meet the requirements of exporters of leather products. At the same time efforts must be intensified to phase out exports of finished leather to ensure that by the end of the current decade the country exports only value added leather goods.

Some other areas which need attention are lack of modernisation of tanning units, need to upgrade the quality of hides and skins by application of PU films and PU chemicals and augmenting supplies of leather chemicals and other raw materials through imports and domestic sources. Since units in the small-scale and cottage sector account for 85 per cent of the total production, they need help from government agencies and financial institutions.

YUGOSLAVIA

Balkan Crisis

WITH the ruling Serbian communists scarcely in a mood to dilute their obdurate chauvinism, that by and large provoked the electorates of four of the six Yugoslav republics to bring non-communists governments to power, a Balkan crisis of a kind has erupted yet again. Since the new governments in Croatia, Slovenia, Bosnia-Herzegovina and Macedonia themselves represented ethnic assertion against Serbian domination, the developments since last year's election seem in retrospect to have been proceeding ineluctably towards confrontation between the four rebel republics and Serbia and its satellites. The latest crisis is clearly an outcome of this accentuating conflict reaching the higher federal institutions and is for that reason perhaps the more serious, par-

not active complicity, is evident in Serbia's move to depart from the formal arrangement relating to presidency. The Croatian State Presidency representative Stipe Mesic's elevation to presidency following the expiry of the term of the Serbian representative Borislav Jovic has been obstructed. The eight-member State Presidency, representing each of the six republics of Serbia, Croatia, Slovenia, Bosnia-Herzegovina, Macedonia and Montenegro and the two provinces currently under Serbian control, Kosovo and Vojvodina, has a system of rotating presidency with each representative holding office for one year at a time. The system was devised by marshal Tito to prevent precisely the kind of ethnic problems now being faced.

The reason for the startling Serbian move lies not merely in the historical Serbo-Croat rivalry, but perhaps to a greater degree in the post-election tendency among the four rebel republics to demand a far looser confederation than currently obtains. In December last Slovenia, the most prosperous of the republics, producing 25 per cent of the country's GNP and with a 90 per cent Slovenian Catholic population, declared its intention, through a plebiscite, to secede. Slovenian president Milan Kucan has threatened to implement this decision by June 26. Likewise Croatia, the second largest republic with 75 per cent Croatian Catholic and 12 per cent Serb Orthodox population, has under the Right-wing nationalist presidency of Franjo Tudjman organised a referendum and opted out of the federation in order to create a far looser confederal system. Similarly, Bosnia-Herzegovina, with 43 per cent Muslim Slavs and 18 per cent Croats, and Macedonia, with 68 per cent Orthodox Macedonians and 25 per cent ethnic Albanians, though yet to hold referendums, have, fearing Serbian designs for 'Greater Serbia', followed more or less the Croat-Slovenian tendency towards greater autonomy.

The army's interest in the affair is not surprising either. With a 70 per cent Serbian officer corps the army has an interest in perpetuating Serbian domination. It had threatened to act independently after the State Presidency vetoed its demands for sweeping powers to combat ethnic violence and for imposition of martial law in Croatia and following the republics' refusal to heed its call for the disbandment of private anti-Serb militias. The State Presidency is the joint C-in-C of the army which would have been far from comfortable with a Croatian president. The obstruction of Stipe Mesic's presidency followed soon after the army

issued its ultimatum and the vote in the State Presidency followed existing divisions. The four non-communist republics voted in favour of his candidature while Serbia and the provinces of Kosovo and Vojvodina opposed it. Serbian satellite republic Montenegro abstained. A five-three majority is the minimum requirement in the State Presidency.

This move has evoked a sharp response from both prime minister Ante Markovic and foreign minister Budimir Loncar while the four republics have withheld their contribution to federal funds in violation of federal laws and added threats of total independence.

What raises fears of army intervention is not only the delicate state of inter-ethnic relations but the equally peculiar territorial distribution of ethnic groups. Croatia has a significant Serbian presence. In eastern and southern Croatia Serbs dominate to the extent of being 80 per cent of the population while places like Knin have formed anti-Croat Serb militias. Bosnia-Herzegovina has 31 per cent Serbs with cities like Banja Luka and Trebinje being fully Serb dominated. The anti-Serb feeling in these two republics has led to a kind of loose alliance between Muslim Slavs and Croat Catholics. Additionally Serbian controlled Kosovo has a 90 per cent Albanian population which could well link up with ethnic Albanians in Macedonia.

Serbian communist leader Slobodan Milosevic's popularity in his republic has much to do with his cultivation of Serbian chauvinism, using the plank of 'Greater Serbia'. This has also meant that Serbia has been providing aid to Serbs in the other republics. For instance, Serb militants in Croatia have already formed their own state in Krajina and merged it with Serbia. It is clear that non-resident Serbs have given up all pretence of any larger Yugoslav identity. And the army using the excuse of harassment of the Serb minority has begun to make intemperate noises about 'Croatian fascism'.

What has got the republics on the defensive has been the singular absence of Western enthusiasm for their project, if the Slovenian experience is anything to go by. Slovenian foreign minister Dmitri Rupel seeking international recognition for independent Slovenia admits that only two countries—believed to be Austria and Greece—have guaranteed recognition, while both the European Community and the US have actively discouraged Slovenian independence. In the light of this and fearing army invasion, Slovenia has sought to buy its freedom having already paid Serbia generous sums of money and offered to meet 25 per cent of Yugoslavia's debts. But even this has been of no avail.

TWENTY YEARS AGO

EPW, May 22, 1971

One of the many sweeping conclusions hastily accepted after the last Lok Sabha elections was that the results of the poll reflected the political demise of essentially regional parties. The fate of the Akali Dal in Punjab, the BKD in UP, the Bangla Congress in Bengal and so on was held up in support of this assertion. To that extent the elections were supposed to have reversed the trends towards fragmentation of political loyalties and support revealed by the 1967 general elections. There is, however, room for argument that what happened in 1967 was perhaps more typical of what may be expected of the political system in future and that it was this year's election results which were in the nature of a freak. In any case, there is little ground for reading into them a defeat for the regional parties specially; all parties, whether national or regional, with the possible exception of the CPI(M) in West Bengal, crumpled before the onslaught of the Congress(R). Indeed it can as well be argued that the elections exposed the essentially regional character and support-base of supposedly all-India parties like the CPI(M) or Jan Sangh.

It remains to be seen whether the apparent coherence and stability imparted to the political system by the massive success of the Congress(R) in the last elections is something more than a nine-days' wonder. But the circumstances in which the elections were fought were special enough to preclude any long-term conclusions being drawn about how far the cultural, linguistic, economic and other differences within our plural society, which had till the other day seemed to so strongly influence the political system, have been altered. It still seems a plausible hypothesis that the Congress(R) is likely to be most effectively challenged by local or regional parties; and if it is so challenged successfully in one State after another, its own all-India character and image, which shine so bright today, are bound to suffer.

* * *

In sharp contrast to the hysteria which has convulsed our elitist 'intelligentsia' over Bangladesh, there has been almost a deafening silence over the killings, mostly of young revolutionaries, in another neighbouring country—Ceylon. Those reactions that there have been are invariably sympathetic to the 'dilemmas' of the United Front government of Ceylon. Our government's reaction was indecently hasty. No sooner had Sirimavo Bandaranaike asked for military aid and armed personnel, than did Indira Gandhi oblige. In fact, some reports from Ceylon claim that if Indian Air Force planes had not landed with our old stocks of ammunition for the 303 rifles and Bren guns of the Ceylonese army, it is quite possible that the widespread and spirited attacks of the Janata Vimukti Peramuna, during the first few days after the beginning of the insurrection on April 5, would have overwhelmed the forces of the establishment.

STATISTICS

| Index Numbers of Wholesale Prices (1981-82 = 100) | | | Weight | Latest Week 20-4-91 | Variation (per cent) | | | | | | |
|--|-----------------------------|-------------------|-----------------------------|-----------------------------|-----------------------|----------------------------------|---------------------------|------------------|------------------|---------------|---------------|
| | | | | | Over Last Month | Over Last Year | Over March 31, 1991 | In 90-91** | In 89-90 | In 88-89 | In 87-88 |
| All Commodities | | 171.4 | 192.4 | 0.7 | 11.3 | 0.6 | 10.2 | 7.5 | 8.2 | 5.8 | |
| Primary Articles | | 166.9 | 198.3 | 1.2 | 16.7 | 1.0 | 13.1 | 4.9 | 11.3 | 9.1 | |
| Food Articles | | 177.3 | 212.5 | 0.6 | 16.8 | 0.5 | 11.9 | 9.9 | 9.0 | 10.2 | |
| Non-food Articles | | 176.4 | 216.5 | 2.4 | 21.7 | 1.9 | 16.9 | 1.7 | 21.6 | 11.3 | |
| Fuel, Power, Light and Lubricants | | 164.9 | 188.6 | — | 13.8 | — | 11.9 | 5.5 | 3.5 | 6.7 | |
| Manufactured Products | | 174.7 | 189.7 | 0.6 | 7.8 | 0.5 | 11.9 | 9.4 | 7.2 | 3.7 | |
| Cost of Living Index | | | Base | Latest Month | Variation (per cent) | | | | | | |
| | | | | | Over Last Month | Over Last Year | Over March 1990 | In 1989-90 | In 1988-89 | In 87-88 | In 86-87 |
| Industrial Workers | 1982 = 100 | 202 ¹ | 1.5 | 16.1 | 14.1 | 6.5 | 9.1 | 9.2 | 8.7 | | |
| Urban Non-Manual Employees | 1984-85 = 100 | 165 ¹² | 0.6 | 13.0 | 12.2 | 6.9 | 6.3 | 9.0 | 7.9 | | |
| Agricultural Labourers | July 60 to June 61 = 100 | 828 ¹² | 0.5 | 10.0 | 12.5 | 3.2 | 11.4 | 9.9 | 4.7 | | |
| Money and Banking | | | Latest Week (19-4-91) | Over Last Month | Over Last Year | Variation (per cent in brackets) | | | | | |
| | | | | | | Over March 23, 1991 | In 90-91 | In 89-90 | In 88-89 | In 87-88 | |
| Money Supply (M ₃) | Rs crore | 2,72,601 | 5,900 (2.2) | 34,906 (14.7) | 5,900 (2.2) | 34,300 (14.9) | 28,571 (18.1) | 22,027 (15.7) | 22,295 (18.8) | | |
| Net Bank Credit to Government Sector | Rs crore | 1,44,437 | 6,148 | 23,117 | 6,148 | 21,778 | 12,715 | 12,811 | 12,776 | | |
| Bank Credit to Commercial Sector | Rs crore | 1,73,877 | 997 | 20,917 | 3,920 | 19,552 | 20,531 | 12,389 | 11,294 | | |
| Net Foreign Exch Assets of Banking Sector | Rs crore | 7,020 | 997 | 645 | 997 | 1,429 | 637 | 682 | 1,314 | | |
| Deposits of Scheduled Commercial Banks | Rs crore | 1,95,979 | 4,790 (2.5) | 25,202 (14.8) | 4,790 (2.5) | 24,230 (14.5) | 22,041 (18.7) | 15,321 (14.9) | 17,320 (20.7) | | |
| Foreign Exchange Assets | Rs crore | 2,826 | -1,172 (-29.3) | 2,669 (48.6) | -1,172 (-29.3) | 1,710 (30.0) | 830 (11.6) | 508 (6.6) | 604 (8.6) | | |
| Index Numbers of Industrial Production (1980-81 = 100) | | | Weights | Latest Month (Nov 90) | Averages for | | | | | | |
| | | | | | Variation (per cent) | | | | | | |
| | | | | | 1990-91 | 1989-90 | In 1989-90 | In 1988-89 | In 1987-88 | In 1986-87 | In 1985-86 |
| General Index | 100.0 | 201.9 | 200.3 | 182.8 | 8.3 | 8.7 | 7.3 | 9.1 | 8.7 | | |
| Mining and Quarrying | 11.5 | 199.0 | 202.8 | 199.7 | 5.9 | 7.9 | 3.8 | 6.2 | 4.2 | | |
| Manufacturing | 77.1 | 197.9 | 195.6 | 175.6 | 8.3 | 8.7 | 7.9 | 9.3 | 9.7 | | |
| Electricity | 11.4 | 232.1 | 230.5 | 214.4 | 10.7 | 9.5 | 7.7 | 10.3 | 8.5 | | |
| Basic Industries | 39.4 | NA | NA | NA | NA | 9.9 | 9.6 | 9.2 | 6.8 | | |
| Capital Goods Industries | 16.4 | NA | NA | NA | NA | 7.4 | 15.9 | 18.2 | 10.6 | | |
| Intermediate Goods Industries | 20.5 | NA | NA | NA | NA | 11.5 | 4.8 | 4.4 | 7.5 | | |
| Consumer Goods Industries | 21.6 | NA | NA | NA | NA | 6.0 | 6.5 | 7.1 | 12.5 | | |
| Durable Goods | 2.6 | NA | NA | NA | NA | 22.1 | 7.5 | 15.9 | 18.7 | | |
| Non Durable Goods | 21.0 | NA | NA | NA | NA | 2.4 | 6.2 | 4.9 | 11.5 | | |
| Foreign Trade | | | Unit | Latest Month (Jan 91) | Cumulative for* | | | | | | |
| | | | | | 1990-91 | 1989-90 | 1989-90 | 1988-89 | 1987-88 | 1986-87 | 1985-86 |
| Exports | Rs crore | 3,024 | 26,236 | 22,104 | 27,681 (36.3) | 20,302 (29.0) | 15,741 (26.2) | 12,452 (14.3) | 10,895 (7.2) | | |
| Imports | Rs crore | 4,131 | 35,890 | 28,955 | 35,412 (+25.6) | 28,194 (+23.9) | 22,399 (11.2) | 20,096 (2.2) | 19,658 (14.7) | | |
| Balance of Trade | Rs crore | 1,107 | 9,654 | 6,851 | 7,731 | 7,892 | 6,656 | 7,644 | 9,763 | | |
| Employment Exchange Statistics | | | Unit | Latest Month Dec 90 | Cumulative for* | | | | | | |
| | | | | | 1990 | 1989 | 1990 | 1989 | 1988 | 1987 | 1986 |
| Number of Applicants on Live Register as at end of Period | Thousand | 34,632 | 34,632 | 32,776 | 34,632 | 32,776 | 30,050 | 30,247 | 30,131 | | |
| Number of Registrations | Thousand | 600 | 6,541 | 6,576 | 6,541 | 6,576 | 5,963 | 5,465 | 5,535 | | |
| Number of Vacancies Notified | Thousand | 46 | 530 | 600 | 530 | 600 | 543 | 621 | 623 | | |
| Number of Placements | Thousand | 25 | 284 | 289 | 284 | 289 | 329 | 360 | 351 | | |
| Income | | | Unit | 1989-90 | 1988-89 | 1987-88 | 1986-87 | 1985-86 | 1984-85 | 1983-84 | 1982-83 |
| | | | | | | | | | | | |
| Gross Domestic Product (current prices) | Rs crore | 3,92,524 | 3,49,105 | 2,94,408 | 2,60,442 | 2,34,159 | 2,07,869 | 1,85,991 | 1,58,851 | | |
| Gross Domestic Product (1980-81 prices) | Rs crore | 1,95,237 | 1,85,543 | 1,70,716 | 1,63,924 | 1,53,348 | 1,49,966 | 1,44,310 | 1,33,469 | | |
| Per Capita Income (1980-81 prices) | Rupees | 2,142 | 2,078 | 1,910 | 1,881 | 1,852 | 1,804 | 1,780 | 1,682 | | |

* For current year upto latest month for which data are available and for corresponding period of last year

** Excluding gold and SDRs + Upto latest month for which data are available NA Not available

++ Provisional data @ Quick estimates

Notes: (1) Superscript numeral denotes month to which figure relates e.g. superscript¹ indicates that the figure is for January and so on
(2) Figures in brackets denote percentage variation over previous period

Poetry Changes Nothing

GPD

What appears at first sight to be an ordinary patriotic poem published in the overseas edition of the People's Daily may end up creating something of a media storm in China

SUB EDITORS and assistant editors are in for hard times in (what was once People's Republic of) China. When it was being ruled by Stalinists and Maoists it all made sense perhaps. Who does not know the repressive methods and the constantly invigilating eye of those communists? Now that all of them are gone and forgotten you must wonder why the editors and sub editors face any difficulty in (Deng's Republic of) China. Well, they are about to. The overseas edition of the *People's Daily* carried a poem which it should not have, at least from the point of view of job-security of a sub editor or two. Maybe our human rights enthusiasts could be put on the job of monitoring the future and, of course, the past of the editorial staff of the *People's Daily*. Since the edition involved is the overseas edition, they can legitimately do so.

The two reference to the overseas edition (with due apologies to our human rights enthusiasts) are made on purpose. This is with a view to dispelling the impression that the controversial poem has been circulated within China. It has not been. Eventually via Hong Kong and coastal China it will reach there. But in all probability this has not happened yet.

Not only was the poem carried in the overseas edition, the author also happens to be studying in the US. If the American government was as sensitive to the rights of the Chinese as it was to those of the Kuwaitis after it was invaded by Saddam's Iraq, it might well allow the Chinese poet to settle down in the US. He might make an ideal teacher of poetry and politics. Anyway, it must be made clear what kind of game he played with the editorial staff of the *People's Daily*. All and sundry will play games with you if you are outdated. After all, this newspaper must be the only institution in China which still carries the qualifier 'peoples'. That is, six years after Gorbachev became the (doubtful) boss of the Soviet Union and exhorted everyone that "we are in the same boat and should row in the same direction". Obviously the staff at the *People's Daily* do not think so. But then they have landed themselves

in an impossible situation.

Anyway, to return to the poem. It is printed in the traditional Chinese style. Vertically and from right to left. It makes a nice little square. Seven vertical lines and eight characters in each line. In translation the poem reads:

The East Wind stroking the face
prompts the growth of peaches
and plums,
A strong eagle spreads its wings to soar
to great heights
A bright moon shines on the sea, and
I shed my passionate tears,
Far away from home, I ascend a height
to think of my native land
I am determined to dedicate myself to
the service of my country,
People nourishing me weigh heavier than
10,000 taels of gold
I rise bravely and dash ahead to
revitalise the country,
Wait the Divine Land for spring is
everywhere

It is easy to see that it is a typical example of a patriotic poem. It could have been written in any country and in any language. During the days of the nationalist movement any number of such poems were written. Savarkar in fact used the very words 'passionate tears' in one of his poems. We are told that any number of 'new' historians are increasingly questioning the 'nationalist' character of our nationalist movement. But they probably do not question the fact that any number of poems, plays and pieces of fiction and essays were written during those years. So what is so great about this poem? And why should it create a storm in the 'international' and, therefore, in the Chinese newspaper world?

That it has created a storm in the

Chinese policy-makers' world is clear enough. The reason for it is two-fold. Zhu Haihong (the poet) played a nice little game with the editorial establishment of the *People's Daily*. The game becomes clear if you started reading from left-hand top diagonally to right hand bottom, from line 1 on the right to the line 7 on the left. If you read the relevant characters they are *Li Peng Xia Ping Min Fen*. In translation they mean "Li Peng must be removed from power to assuage popular indignation".

In short, this is a modern version of 'bombard the headquarters', except that it emanates from the safe haven of the American paradise and Beijing is no Baghdad for Bush and his men to discipline. This is not because the rulers in Beijing are (or are not) socialist, but rather because China is much too big for the Americans to intervene directly. There are certain advantages in bigness. All our secessionists do not realise that they would be turning their people into cannon-fodder for the Americans if they actually succeeded in carving out small little states for themselves. So there would be some media storm over the Chinese poem, but it would lead to practically nothing else.

The poem was appropriately entitled as Yuan Xiao ('The Sweet Dumplings'). These dumplings are made at the time of the lantern festival which usually announces the arrival of spring—like Baisakhi in North India and Chaitra Pratipada to the south of the Vindhyas. In short, the poem will be a tearful memory of the motherland and of those who, whatever their number, were killed in the Tiananmen Square in June 1989. A sub-editor or two will lose their jobs. But that's about all. Poetry changes nothing. Nor does the tearful memory of the motherland. And certainly long-distance strategies of political change are even more futile. Gone are the days of Lenin when writing in exile was and could become such a force. Changing the world is out of fashion now. As we said above, Zhu Haihong can look forward to a job in an American University and continue writing his diagonal poetry—but that's about all.

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Incoherent Privatisation, Indian Style

D N Ghosh

Privatisation does not necessarily mean reduction in the role of the state; it requires a more effective state, with the political will to create conditions for industrial efficiency, productivity and technological advance. Any policy thrust that has as its sole objective the reduction of the fiscal deficit will, sooner than we expect, result in serious market failures.

I

IN defence of a sweeping privatisation law, Czechoslovakia's finance minister, Vaclav Klaus, whom some economic journalists describe as his country's Milton Friedman, asserts, "Those who reject privatisation and seek a Third Way between the market and socialism, should realise it leads to the Third World".¹ Somewhat uncharitable, perhaps, to have dragged in the Third World to score a debating point, but to win political acceptance for a highly emotive and sensitive issue as privatisation is an unenviable task for any finance minister.

What our finance minister has sought to do is to strike a middle path between the public and private sectors; 20 per cent of government equity in selected public sector undertakings would be divested in favour of mutual funds and financial or investment institutions in the public sector. The measure would yield Rs 2,500 crore to the exchequer in 1991-92, but, equally importantly, the finance minister expects that this broadbasing of equity through the proposed disinvestment would improve the management of the public enterprises. The expectation is based on questionable premises.

The first set of implicit premises. It has been taken for granted that divesting of equity in the manner proposed would bring about a qualitative change in the management of the concerned public enterprise. There is an intrinsic nexus between the objective of an enterprise and the managerial efficiency of that enterprise in harnessing its resources for the achievement of that objective. Management efficiency in the same enterprise over a period of time or comparative efficiency of managements in different enterprises would lend itself to easy evaluation, if the objective were set clearly in terms of market costs and profitability. If a public enterprise has multiple objectives (such as employment maintenance, regional development and income distribution) and con-

tinues to be one of the instruments of the state for reaching these objectives, appraisal of managements between two time periods or between the public and private sectors becomes an extremely complex and baffling exercise, beset with a host of methodological issues. With multiple objectives where the focus is lost, both public and private enterprises suffer from the same limitations. It does not seem that the multiple objective character of a public enterprise is proposed to be altered; and if not, mere infusion of private shareholding in public enterprises would not bring about any improvement in management if such improvement is to be judged against the performance of a similar private sector enterprise with clearly defined market objectives.

The second set of fallacies arises from the axiomatic belief that private sector managers, given their incentives and autonomy, exhibit performance better than their public sector counterparts. This is a popular belief, not without logic or rationale, but certainly not of universal applicability.

Evidence of the connection between ownership and efficiency is mixed.² Ownership is not always a distinguishing reason for the difference in performance. It is not ownership but inter-connection between ownership and competition that promotes efficiency. Under competition, private firms are likely to do better, but if there is little competition, regulated private firms do not perform better than public firms and may do worse. The incentive to productive efficiency comes from the pressure on private firms to achieve better to stay in business, in competitive product markets to avert the threat of take-over of corporate control from the market. If, however, there is little competition in the product market, if the risk of bankruptcy is slight and if the risk of take-over is also minimal, the pressures of the market affect the private sector manager no more than his public sector

counterpart. Available evidence also does support the view that efficiency of firms, public as much as private, is improved by a competitive environment.

In the case of sectors where competitive conditions do not exist and are difficult to generate and sustain, change in ownership would not necessarily lead to efficiency in terms of costs and profitability. Given the structure of an industry and the technological compulsion to operate on a certain minimum scale too large to allow the existence of a number of other competing units, it may be unavoidable, as a measure of public policy, to regulate the operation of these enterprises in such monopoly or quasi-monopoly situations. The regulatory authority will have to fix prices on the basis of normative standards and function as a proxy for market pressure. Efficiency in this type of industries is a function of the market structure rather than ownership. The market structure in many developing countries allows private enterprises to flourish without due regard for costs and profitability; this is unlike the situation in many of the developed countries where norms established by the regulatory bodies act as severe deterrents. Assuming that the finance minister had in mind some selected public enterprises with the objectives set in terms of costs and profitability, it cannot be laid down without reservation that privatisation would necessarily lead to productive and allocative efficiency.

The third set of fallacies. Look closely at the new hybrid corporate creature that the finance minister proposes to create with part of the divested equity. The scheme envisages divestiture of shares to mutual funds and investment and financial institutions in the public sector. A purely revenue-raising measure, it will be far-fetched to call it a move towards privatisation. Clearly, this would be construed as a direct interference with the autonomy of the mutual funds in the making of their investment decisions for maximising returns to investors. Their manoeuvrability in the management of funds entrusted by the investors will be affected adversely not by market forces but by other considerations. Assuming ultimate divestiture at a later stage to the public at large, we would have a new class of corporate creatures where 80 per cent of equity will be with the government and the remaining 20 per cent with the public.

Would this make any difference to the current behavioural pattern of public enterprises? It does not look possible. The public sector character of the enterprises will continue to remain as it is, since only

a minority part of the government holding is being diluted. The control and regulatory parameters may remain as they are; and if so, the divestiture will not make any difference to the management style of the public enterprises. It would purely be a measure towards reduction of the fiscal deficit and with hardly any impact on what is being conceived of as the efficiency fall-out of the privatisation move.

Visualise another scenario. In the event of the holdings of mutual funds being off-loaded to the public at large, is that likely to make a difference to the enterprises? The tradition in India is that the minority shareholders in the private sector manage the company even though the majority of the equity may be with the financial institutions. In the Indian corporate scenario, we live happily with the concept of a private group owning a minority share and controlling the company as the owner-manager. Any attempt to rationalise this is interpreted as a grave interference with the rights of the particular group of shareholders, even though they happen to be in a minority. Can it therefore be ruled out that, despite certain statutory safeguards, a determined controlling group acquires control over some of these public enterprises and uses it in a manner which is detrimental to the ultimate interests of the company or the shareholders? In the context of the present relationship between business and politics, taking the state out in certain sectors, even marginally, would open up golden opportunities for certain classes of the private sector to bring in the state in another way for guaranteeing benefits which otherwise would not accrue to them in a competitive situation.

The finance minister's statement raises more questions than it answers. We have raised these not to argue against privatisation as such, but to search for clarity. The finance minister has, quite understandably, the task of absorbing the shock of abandoning the holy cow and at the same time sending the distress signal to IMF. In this clever political game of obfuscation, he seems to have perhaps succeeded.

II

The finance minister's bald statement while presenting the budget does not provide us with a guide map for privatisation. We have raised a trail of unanswered questions above and we now need to understand in this context the principles and problems or priorities for evaluating any policy initiatives towards privatisation.

Privatisation did not emerge as an ideology as socialism did. It may be viewed as a pragmatic reaction to the perceived inefficiencies of most public enterprises. The sources of inefficiency

NOTICE

It is hereby notified for the information of the public that The Mafatlal Fine Spg. & Mfg. Co. Ltd., proposes to give to the Central Government in the Department of Company Affairs, New Delhi, a notice under sub-section (1) of section 21 of the Monopolies and Restrictive Trade Practices Act, 1969, for substantial expansion of their undertaking. Brief particulars of the proposal are as under:

1. Name and address of the owner of the undertaking:

The Mafatlal Fine Spg. & Mfg. Co. Ltd.
Mafatlal Centre, 7th Floor,
Nariman Point,
Bombay-400 021.

2. Capital structure of the owner organisation as on 31.3.91:

| Particulars | Rs. in lacs. |
|-------------|--------------|
| Authorised | 3,000.00 |
| Subscribed | 1,447.44 |

3. Location of the unit or division to be expanded.

The Mafatlal Fine Spg. & Mfg. Co. Ltd.
Unit No. 2, Rambhau Bhogale Marg,
Bombay-400 010

4. In case the expansion relates to the production, storage, supply, distribution, marketing or control of goods/articles, indicate.

- (i) Names of goods
- (ii) Licensed Capacity/turnover before expansion
- (iii) Expansion proposed

Not applicable. The proposal is for import/installation of 8 Nos. Open End Spinning Machines consisting of 192 rotors each in replacement of existing 1536 Ring Spindles in terms of Press Note No. 26 dt. 12.10.1989 issued by the Ministry of Industry, New Delhi, permitting the replacement of Spindles by Open End Rotors in the ratio of 1:1.

5. In case the expansion relates to the provision of any service, state the extent of expansion in terms of usual measures such as value, turnover, income etc.

Not Applicable

6. Cost of the project.

Rs. 7,50,32,320/-

7. Scheme of finance, indicating the amounts to be raised from each source.

| | |
|------------------------|-------------------|
| Internal Accruals | Rs. 18,20,000/- |
| Financial Institutions | Rs. 7,32,12,320/- |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein.

Dated this 24th day of May, 1991.

For THE MAFATLAL FINE SPG. & MFG. CO. LTD.

Sd/-
(E.V.S. CHAKRAVARTHY)
SECRETARY

arise from decision-making processes based on political expediency rather than on commercial logic, on investment decisions dominated by Treasury compulsions and inherent conflicts of interests with government both owning and controlling an industry.

In their privatisation efforts, different countries have given priority to different objectives: improving economic performance of the unit concerned, resolving the persistent problem of management and control relationships between government and industry, raising of resources for reduction of fiscal deficits, disciplining the power of public sector trade unions, promotion of a kind of popular capitalism through wider share ownerships.³ The multiple objectives may be mutually inconsistent, but this in itself cannot be construed as a criticism of the policy. By and large, any objective which seems achievable is seized upon as justification, though economic efficiency, which is the most important of these objectives, has been the most difficult to attain.

International experience is a pointer that the privatisation programme should not, to start with, be undertaken on a grand scale. Look at the UK. Its interesting experience is instructive in many ways. Privatisation did not start in that country as a well-designed policy at all. When the Conservative government was first elected in 1979, it was little more than a gut reaction born out of impatience with the shortcomings of the nationalised industries. As the programme got under way and met with an unexpectedly enthusiastic response from investors, it became, as a financial commentator put it, "a policy with almost everything going for it, as if by a process of alchemy, the dull metal of Britain's unloved public sector was being transformed into pure gold".⁴ In Chile, the 1973-74 bout of privatisation was privatisation by fiat leading to serious market failures. It was corrected in 1982-83 by a second re-privatisation programme, subsequently fine-tuned in two further sectoral privatisation programmes in the late eighties. In Eastern Europe recently privatisation has failed to gain momentum, as earlier anticipated, in the absence of property rights, competitive market conditions and lack of a scientific regulatory system and support of technology and the market. The lessons both for developed and developing countries do point to the futility for rushing ahead full-scale with a strategy of grand design without adequate preparation.

Selection of the enterprise and the specific industrial segment is the heart of any policy. Different sectors raise very different issues of economic organisation and efficiency, different aspects of public policy (like national security, regional

development, control of monopoly, etc) and a differentiation of policy responses according to the circumstances of the case. As discussed above, change in ownership cannot guarantee efficiency. What is critical is the market structure in which an industry operates and the climate of competitive pressures. It is, therefore, simplistic to press for divestiture across-the-board in all public enterprises. This is not to argue against divestiture as a mode of privatisation or to ignore its deficit-reducing impact; in fact, in the UK the move towards privatisation was spurred largely by the size of the fiscal deficit. What is important is the selection of enterprises in specific industrial and market structures where the two objectives of economic efficiency and divestiture converge.

The choice of modality. Commonly, privatisation has been associated with transfer of government-owned industries in a way which ensures that the predominant share in the ownership of assets lies with the private shareholder. The range of modality may be enlarged to cover transfer of responsibility of operating any activity to the private sector (and incidentally reducing the impact on the budget). In this wider perspective, other groups of activities readily come to mind; services which are currently provided by the government at zero or near-zero cost (financed by taxation, but which might conceivably be sold in the market with or without a public subsidies programme); an outside private sector contract brought in to replace an insider for government purchases and services and relaxation of official restrictions on entry of industry into different markets. If we are looking towards efficiency, we should be flexible in the choice of modality. In different countries, the variation of modality has been freely encouraged to realise the basic objective of economic efficiency.

In the UK, public offering has been the most conspicuous method with the government retaining special powers conferring on it special privileges in the public sector. This method was adopted in Rolls Royce, British Airways, British Petroleum, the British Gas Corporation and British Telecommunications, to name a few. Royal Ordnance was privatised through private sale in two phases: in July 1986 to Vickers to purchase the Leeds Tank Factory and the rest in April 1987 to British Aerospace. British Airways Helicopters was sold through private sale to a private consortium newspaper group comprising Robert Maxwell, *Scottish Daily Record* and *Sunday Mail*. Buy-out by employees was adopted in Leyland Bus, National Bus and National Freight Companies. There are cases of merger, notable among which was that of British Leyland with the Rover

Group. While the UK has the advantage of a very developed stock market and a financial services sector, it is not always so in other countries. Take Spain. It has a small public sector but when the public sector deficits went up sharply during the seventies from 0.3 per cent of GDP to 5.6 per cent, the government sold the assets to foreign companies, one of the major reasons being that the stock market could not have absorbed a large stock fluctuation. The experience of Chile is instructive from the Indian angle; it brings out sharply the need for screening potential buyers, care and caution needed for large-scale divestiture in a limited financial market and the risk factor of relying heavily on debt as an instrument of financing the sale of shares.⁵

A major source of controversy has been the extent of shareholding that should be divested to the public, and the extent and nature of control of management as between the representatives of private and public shareholders.⁶ In the privatisation cases which started in the UK from 1979 onwards, the majority of equity was transferred to the public, but the government retained a minority holding with considerable power of intervention through the instrumentality of what is called the 'golden clause'. The intention is to assign to the government certain special rights to approve or disallow certain actions including liquidation, take-over, issuance of certain special shares and limitation on control by any particular investor group. The government has also taken certain special rights to be present at the meetings as an observer, requiring written consent for the removal of any articles of association and for approval of certain special appointments. The British pattern is virtually true of almost all countries, though the nature of control differs. A divestiture makes the break from the earlier character of public enterprises only in the sense that the government tradition of continuing with the monopolist control function lapses, though no government has abdicated full control.

Regulation after privatisation has been invariably a thorny issue. It would not do to privatise without a rigid regulatory framework. Where markets cannot determine costs and profitability, the regulatory bodies will have to do so. Experience in many of the developing countries is that a private sector running public utilities can, with the help of the state and without an independent regulatory agency, make the whole system more inefficient. In the case of monopolies and utilities, particularly such as gas, water and electricity, market forces can, without a regulatory intervention, generate dislocation and exploitation. In the privatised utilities, British Gas, Water and British Telecom,

the regulatory authority is, in fact, stepping into the shoes of a market maker;⁷ otherwise, these would tend to become self-serving organisations. In the case of units which are sought to be privatised and where competitive conditions are difficult to create, as in most of the developing countries, it is extremely important, as a pre-condition, to set up a strong regulatory body which performs the watch-dog functions from the beginning itself.

Lastly, an essential precondition for the success of privatisation is the reform of the private sector itself. It has been fashionable to talk of the reform of the public sector, but it is no less important to ensure that the private sector behaves responsibly. The crucial issues concern corporate disclosures and the corporate ownership pattern, with large family or business houses with entrenched concentrations of economic power. An extensive programme of divestiture, it is not far-fetched to visualise, could reinforce the existing patterns of economic power and control. These could frustrate any deregulation and competition policy, if some of the recent instances are any pointers. This is not to argue against privatisation but to stress the highly critical role of the regulatory and statutory agencies to enforce efficiency in the overall public interest. We can ignore the risk of conversion of public monopoly into private monopolies at our own peril.

Reduction of the fiscal deficit is important but the mechanical process of raising resources for the budget should not guide the modalities of a privatisation policy. Privatisation is not itself a development strategy; it has to be fitted appropriately within the framework of a development strategy.

Privatisation does not necessarily mean reduction in the role of the state; it requires an effective state, with the political will to create conditions for industrial efficiency, productivity and technology. Any policy thrust that has as its sole objective the reduction of the fiscal deficit will, sooner than we expect, result in serious market failures.

Notes

- 1 *Asian Wall Street Journal*, April 1, 1991
- 2 I A Kay and D J Thompson, 'Privatisation: A Policy in Search of a Rationale', *The Economic Journal*, March 1986.
- 3 World Bank, *Techniques of Privatisation of State-Owned Enterprises*, 3 Vols, Washington, 1988.
- 4 'Privatisation: A Financial Times Survey', September 16, 1987.
- 5 Jorge Marshall and Felipe Monte, 'Privatisation in Chile' in *Privatisation in Less Developed Countries*, Cook and Kirkpatrick (ed), Harvester Wheatsheaf, 1988.
- 6 'Distributional Issues in Privatisation' in Federal Reserve Bank of New York *Quarterly Review*, Summer 1989.
- 7 Charles Leadbeater and David Thomas, 'Unequal Struggle over Power', *Financial Times*, March 13, 1991

MAFATLAL INDUSTRIES LIMITED

NOTICE

It is hereby notified for the information of the public that Mafatlal Industries Ltd. proposes to give the Central Government in the Department of Company Affairs, New Delhi, a notice under sub-section (1) of section 21 of the Monopolies and Restrictive Trade Practices Act, 1969, for substantial expansion of their undertaking. Brief particulars of the proposal are as under

1 Name and address of the owner of the undertaking

Mafatlal Industries Limited,
Regd Office: Asarwa Road,
Ahmedabad 380 016

2 Capital structure of the owner organisation as on 31-3-91

| Particulars | Rs. in lacs |
|-------------|-------------|
| Authorised | 5,000 00 |
| Subscribed | 1,315 00 |

3 Location of the unit or division to be expanded

New Shorrock Mills,
Divn of Mafatlal Industries Ltd.,
Kadwadwanj Road
Nadiad 387 001 (Dist Kheda Gujarat)

4 In case the expansion relates to the production, storage supply, distribution, marketing or control of goods indicate

- (i) Names of goods
- (ii) Licensed capacity/turnover before expansion
- (iii) Expansion proposed

Not applicable. The proposal is for import/installation of (Six) Nos Open End Spinning Machines in replacement of existing Ring Spindles in the ratio of 1:1 in terms of Press Note No. 26 dt. 12.10.1989

5 In case the expansion relates to any service, state the extent of expansion in terms of usual measures such as value, turnover, income etc

Not Applicable

6 Cost of the project

Rs. 550.23 Lacs

7 Scheme of finance, indicating the amounts to be raised from each source

The cost of the project will be met partly from internal cash accruals and partly by way of loans from financial institutions

Any person interested in the matter may make a representation in quadruplicate to the Secretary Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein

Dated this 24th day of May, 1991

For MAFATLAL INDUSTRIES LTD

Sd/-
R R PAT'EL
SECRETARY

Jealousy of Possessions

Jeena Khatkhate

The Indian (from Bharat, that is India) comes to the America of Columbus aggressively determined to establish his identity, but as he begins to feel increasingly American his obsession with his Indian identity evaporates and he strives constantly to disidentify himself with Indians.

A FEW centuries ago, Columbus came to the shores of what is known as modern America and called its natives 'Indians'. It was sacrilege then, as it is now. How could anyone call the cultureless, 'tribal' people, steeped in ritualistic cannibalism, Indians? The people of Aryavarta, who created one of the greatest civilisations of the world and enriched a philosophical domain, deserved better than to be identified with the barbaric natives of America of some mere four hundred years ago. The Indian (from Bharat, that is India) now comes to the America of Columbus, resolutely trying to establish his identity. When he meets an American, he harks back to his Indian prototype and curses himself that the American does not behave like an Indian. He is distant, callous, artificial, synthetic, outwardly pleasant but inwardly rude. He visits a department store, but what troubles him is the 'deafening discord' he hears from the metronomic beep and stutter of the cash register. That evokes in his mind the picture of a "wizened old man back home who gingerly put the weights onto his scale, weighed the potatoes, counted the change, and talked about his son". He goes to a bank to open an account and feels put off by the bank which identifies him not by his name, but by an alphanumeric symbol. He is disquieted by his alienation, but he wants to remain in a society where he sees neither his past, nor his present, nor his future; he consoles himself that "maybe constant alienation is a healthy antidote to the threat to individualism in a foreign culture".

If the young man who arrives in America thinks in old ways, the old man who comes here to settle thinks in ways befitting his ancient traditions, scriptures, and culture. He will see divorces around him, and mope over the decadence of American families; he will see young girls and boys dating and curse their sexual promiscuity while reminiscing over the virtuousness of his youth. He will look at the

morning papers for news about India and set them aside as useless. If India does not figure in the news or is given only a little space to describe some railway accident or a communal riot, he will condemn the self-centredness of American journalism. Yet when newspapers flash on their front pages the riots following the Ratha Yatra, or the Kashmir insurgency or the Punjab shootings, his blood boils. These cursed Americans revel only in showing the worst that is happening in India. Why are American art critics raving over Peter Brook's *Mahabharat*? Bhishma is black, Karna is black, Gandhari is black. How can Aryans as fair as the Greeks be black? Even our greatest epic is vulgarised by the West. They would then conclude that the society which they are blessing not only by their visits but also by hankering after permanent resident visas is rotten to the core.

But time is a healer. The ardour for identity evaporates with the efflux of time. The Indians' loathing for Americans undergoes a radical change. After all, if we live in America, what can we do except tolerate them. And if you tolerate them, then why not choose the best amongst them—the white. The blacks, they come from the bush; they live in slums; they are drug addicts; they are violent; they are not people we should break bread with. And relationship with them by marriage? Never! With white Americans, yes, of course.

As they feel increasingly American, they give up their obsession with an Indian identity and strive constantly to disidentify themselves with Indians. You see many Indians who, running into other Indians for the first time, will try to use every device to identify their caste, their language and their possessions. Somebody's last name sounds unfamiliar, somewhat unusual. Who could he be? A Tamil, an Andhra, a Brahmin? Is he well placed? Otherwise he will be a pest; he will ask for some favour which I cannot,

do not want to, bestow. Why should I when he does not belong to my caste, does not speak my language? Better I preserve my powers to do good only to the privileged few. If Indians are holding important positions in international organisations, they have to guard themselves from contamination by other Indians. What if they were to ask for favours? How would I look in the eyes of the Europeans or the Americans, if I am seen helping the brownies? I have to maintain my image as an international civil servant, above board in every respect! After all, it is wrong to expect a highly placed Indian in an international organisation to be a Salvation Army man offering succour to all and sundry Indians. Not doing good does not mean doing bad is expunged. You can be a hatchet man for someone above you and damn if the victim is an Indian. This too proves your non-parochialism. So the excluded Indians almost say to themselves what president Havel said when he assumed the presidency: "I would only add that, in my opinion, the hidden motivation driving all my dogged efforts is precisely this innermost feeling of being excluded, of belonging nowhere, a state of disinheritance as it were, of fundamental non-belonging. The real reason I am always creating something, organising something, is to vindicate my permanently questionable right to exist!"

However, the malign neglect of the unlucky fellow Indians suddenly becomes benign if perchance he falls on evil days. There will be gallons of crocodile tears shed. Some help may be offered knowing full well that things have gone beyond redemption. In social relationships, Indians reveal their arithmetical and mathematical skills. If one is prospering, they divide his virtues, if one is down and out, they multiply his vices.

The Indian society in the US thrives on jealousy—caste jealousy, religious jealousy, language jealousy, the jealousy of one's own possessions and the possessions of others. As in the case of the Pacific Islanders, jealousy of possessions is the key to the Indians' culture. Thus their identity is with their old habits, old mores, old modes, while they are busy disidentifying themselves from their compatriots. They are like philosopher Kant's timber, "so crooked as that from which man is made, nothing entirely straight can be carved".

Constraints on Economic Policy Price of Profligacy

B Gopalakrishna Kumar

While the short-term economic problems may at first sight look daunting, they are tractable compared to the longer-term questions which will essentially determine the possibilities of development in the nineties and beyond.

AS negotiations with international agencies continue to arrange financial assistance in helping the country tide over its external payments crisis, the government appears to be confident that the worst is over and that the ignominy of a default on loan obligations—which looked a real possibility just two months ago—has been staved off. Meeting the press in Vancouver, the finance secretary was recently quoted as saying, "We will continue to maintain an impeccable record on debt service and on contractual payments." In what must have been music to his ears, the Aid-India Consortium at a meeting in Washington in the last week of April apparently pledged one billion dollars to help India meet its balance of payments problem for the next three months.

On the foreign exchange front, it appears that the country may be just about keeping its head above water. The Reserve Bank has recently further tightened the screws on domestic industrialists: first, by hiking the margin on letters of credit (thereby making it even more difficult to raise foreign exchange for imports); second, by augmenting interest charges on delayed export realisations and decreeing that exporters will get replenishment licences only on repatriation of earnings, not on shipment as before, and third, by putting pressure on banks to restrict the granting of fresh credit to industrialists. Since a huge amount of money—in the region of one billion dollars—is tied up in unremitted export proceedings, measures on this account are intended to help convert blocked funds into liquid cash. Curbs on bank lending, on the other hand, sound more like a good old-fashioned credit squeeze with the aim of bringing down the level of economic activity and thereby achieving a lower external deficit at a reduced level of domestic output.

Despite the grim resolve that is sought to be demonstrated through the imposition of these measures, there is really no dispelling the sense of crisis that seems to have set into the body politic in recent months. India's short-term debt is esti-

mated at \$4 billion. This is a reflection of the predilection of previous governments to maintain growth rates at any cost even if it meant getting into risky short-term commitments with international financiers. Now that the chicken have come home to roost what is urgently needed to ward off a repayment crisis is a large medium-term loan to give the country some breathing space. It remains to be seen whether this will materialise.

The short-term macro objectives and their underlying constraints can be simply stated: they are to ensure that attempts to curb the external imbalance and in particular restrain the growth of imports take place in a graduated manner until the domestic situation stabilises and the second round of loans from Fund sources can be mobilised along with further slices of commercial loans when and if the country's credit rating improves. There is, therefore, a need to prioritise import reductions; and here it must be said that across-the-board measures like the RBI's recent restrictions, notwithstanding some relief given to the diamond industry, do not sufficiently differentiate between essential and non-essential production. Many small companies which contribute substantially to export earnings will simply be unable to find the cash to deposit the 200 per cent margin on letters of credit. Further, wholesale credit restrictions, even on borrowers which secure their raw materials entirely from domestic sources, are a recipe for imminent stagflation. It is vital, generally speaking, that full support continues to be given to exporters, even as the inevitably painful squeeze on imports is applied. Otherwise, there is the obvious danger that whatever is gained on import reductions will be offset by shortfalls in export earnings, particularly in sectors where export earnings are import dependent.

BEYOND JUNE

Beyond June, a different script will have to be written. A much larger loan than

was made available in the first instalment will probably be negotiated under the IMF's Extended Fund Facility. It is clear—whatever the government of the time says—that the IMF will impose conditions. The governor of the Reserve Bank has recently disclosed that the country's current account deficit had soared to 3 per cent of GDP last year. In today's terms, a deficit of the order of \$8 billion (or Rs 16,000 crore) is not very good news in terms of the macro-economic adjustments required. If the IMF asks for an adjustment similar to the one agreed upon on the last occasion (in 1981) when a large loan was negotiated, the deficit will have to be brought down to around 1 per cent of GDP. This means that the country will have to reduce its current account deficit by Rs 12,000 crore in a reasonably short time (perhaps three years). Export growth by itself cannot bring this about, given the situation in the international economy and the hardening of protectionist tendencies in many potential markets in the EEC and elsewhere. In this context it is doubtful whether even a fuller devaluation of the rupee (as opposed to the gradual depreciation of its value that has been taking place in recent years) will add much to our export performance. It is also unreasonable to think that other inflows (such as NRI balances or foreign inflows) could in any way foot the bill. It thus seems inevitable that in the medium term a cutback in imports combined with a reduction in domestic absorption should be on the cards.

One aspect of the crisis on the external front has to do with essentially extraneous factors, namely, a vastly heightened threat perception which keeps defence expenditure at unsustainably high levels. The RBI governor in fact recently also admitted that one of the most immediate reasons for the huge trade deficit is the volume of defence imports that the country committed itself to; the problem is complicated by the fact that this import expenditure has not been properly accounted for. Unless something is done on this front, the burden of adjustment will fall entirely on other sectors and the process will be even more painful than it ought to be.

A second equally important aspect of the current scene is that it has brought into sharp relief an endemic feature of our economic system, namely the extent to which it is dependent on doles and hand-outs to various interest groups, the cumulative effect of which is to keep government expenditure commitments at a very high level, and which ultimately

serves to rob policy-makers of any alternatives that might otherwise have emerged.

Take the mounting bill on subsidies alone. The total amount of subsidies in 1990-91 came to around Rs 10,000 crore (taking up roughly 10.5 per cent of total expenditure), of which the food and fertiliser subsidies took up Rs 2,200 crore and Rs 4,000 crore respectively (with the export subsidy coming to around Rs 2,610 crore). It is well known that a large component of the fertiliser subsidy is regressive in nature and that the beneficiaries are on the whole prosperous agriculturists who, in addition, are not income-tax payers. The food subsidy, though undoubtedly more justifiable, ultimately really benefits only urban households (except in a few States like Kerala) whereas the majority of the poor are in the rural areas. In addition the PDS bill has been inflated by large numbers of bogus ration card holders. (It has been estimated that a pruning of the fertiliser subsidy which would raise the price of fertilisers by 20 to 30 per cent would entail only a marginal increase in the overall cost of production. Similarly there is scope for streamlining the operation of the food distribution system, and diverting the savings for expanding the operation of food for work programmes in rural areas.) In addition to these costs, the tax payer spends crores of rupees on hidden subsidies: for instance, he by and large underwrites the huge losses suffered by state electricity boards. According to some estimates, once all this is taken into account, the total bill on account of subsidies will mount to Rs 20,000 crore.

Besides the subsidy element, the expenditure commitments of the government increased several fold since the seventies. Large public sector pay increases were conceded, including much larger allocations for defence pensions. Against the backdrop of a deteriorating law and order situation, government administrative expenditure itself increased at a dramatic rate, registering a compound rate of growth of 20 per cent per annum over the eighties.

WEAK MULTIPLIER EFFECTS

These developments are largely mirrored in fiscal trends that became apparent in the last two decades. The revenue deficit widened sharply, and the government increasingly had to borrow, first from the RBI (defining the so called official level of deficit financing) and, secondly, and more importantly, from the public. The bulk of the borrowing was used to finance current government consumption expenditure including debt servicing. As a result, whereas the ratio of Central government debt to GDP was 37.1 per

cent in 1980-81, it shot up to 51.7 per cent in 1989-90. In fact, the fiscal year that ends on March 31, 1992 will be the last in which borrowings will have any surplus over debt servicing (estimated at more than Rs 23,000 crore in 1991-92, i.e. one-fourth larger than that in 1990-91). In future, unless there is some unexpected improvement in government finances, domestic borrowing will fall short of debt service requirements.

The increase in expenditure and the resort to debt need not have caused such severe macro-economic dislocations if the expenditure had substantial multiplier effects on the economy. It is often held that government deficits 'crowd out' private saving, that is, the burden of debt financing together with its servicing component makes the government soak up the available private saving for its own use, whereas it could have been put to more productive use by private individuals. This kind of thinking permitted the criticism levelled at the large government deficits in the Reagan years in the US, culminating in the so called Gramm-Rudman amendments calling for constitutional limits to deficit financing.

Arguments of this kind, however, neglect to point out that private investment activity is often too weak to make use of the saving that individuals would supply and that in such cases the economy operates below capacity because there is too little spending relative to the available saving. In these circumstances, government spending and even deficit financing could absorb private saving that would otherwise not be used. There is considerable evidence that such 'crowding in' between public and private economic activity existed in the Indian economy till at least the late sixties.

Several factors pointed in the subsequent period to reverse this trend. First, public investment which had shown substantial complementarities with private economic activity went into a cyclical downturn in the eighties. Second, the pattern of economic growth in the seventies and eighties, following a period of gradual lifting of controls on private investment activity, was oriented less to manufacturing items and more to consumer durable and service sector products. This meant that the process of industrialisation became more and more import dependent, initiating the start of the pressure on the external front witnessed today. Finally, the effects of the large growth in government employment noted above not only strained government finances but also added a large chunk of middle class demand for consumer durables, many of which were, as we have seen, largely import fuelled.

The difference in the character of growth in the two periods thus made it more difficult for any of the complementarities noted above to take effect. Rather the process of growth simply became debt-financed instead of investment financed and government expenditure increasingly began to draw on the extent of savings available in the economy. Adding to the shortage of investible resources was the progressive failure to mobilise more revenues, and greater and greater reliance on indirect taxes and instruments like administered price hikes—which have an in-built inflationary potential—as a way of garnering resources. While certain sectors of the economy witnessed fast growth, total employment growth fell over the seventies and eighties. Organised sector employment, which registered growth rates of more than 5 per cent per annum in the 1960s, fell in the next two decades: between 1983-87, it grew only by 1.4 per cent per annum.

HARD DECISIONS

The government is therefore in a quandary, from which it cannot escape within the current rules of the game. Given the current limitations on resource mobilisation and difficulties in cutting expenditures, the state has to get deeper into debt to fulfil even existing commitments, like the inhabitants of Alice's Garden of Wild Flowers, it simply has to keep running to stay in the same place. A number of consequences follow from this state of affairs: first, in the short run, by cornering so much of the available funds, the government has been rail roading other borrowers on the capital market; second, in trying to persuade the public to buy its paper, the fisc has been pushing up the rate of interest on government securities, making returns on other equity and deposits look less and less attractive. But in the longer term, the consequences are that an imbalanced macro-economic structure, that lacks any of the characteristics that could promote sustainable growth and employment, has been set into motion.

Breaking out of this bind will call for a number of hard decisions which will have implications much beyond the immediate fiscal adjustments that the IMF may call for. It is first important to see what should not be done. One option which a future government may take in order to meet a hypothetical target reduction in the budget deficits is to make token cuts in revenue expenditure here and there, with perhaps a bit more of the ersatz privatisation involved in disinvestment of selected government equity holdings in public corporations, and then take a large swing at capital expenditure. This would

have the merit of avoiding a confrontation with any entrenched interest group. There were clear indications of this kind of thinking in the finance minister's mini budget speech on the occasion of the vote on account. But this would be irresponsibility at its worst, not just because it would put future development efforts in jeopardy (and notably muddy any prospects of finalisation of the Eighth Plan, already delayed by a year) but also because it would simply postpone the hardest decisions as regards government's economic policy.

The policy changes which are likely to have the highest pay-offs are in the area of government expenditure and its reorientation into more productive areas, a cutting down of inessential imports (including the

large and unscrutinised defence component already alluded to) and much greater attempts at harnessing resources so that they can be redeployed to revive falling employment growth. In the longer term, much more concerted efforts at improving the country's abysmal record in granting basic literacy to its citizens will also be needed if the productivity gains of better human resource endowments are ultimately to be reaped here as they already have been in South Korea and other south-east Asian success stories.

In sum, while the short-term problems may at first sight look daunting, they are tractable compared to the longer-term questions which will essentially determine the possibilities of development in the nineties and beyond.

Social Background of Kerala District Council Members

George Mathew

A study of the social background of the newly-elected members of the district councils in Kerala brings out many interesting aspects of Kerala's socio-political and economic set-up and some characteristics of the emerging political leadership.

A SURVEY was carried out under the auspices of the Institute of Social Sciences, New Delhi, to understand the social background of the newly elected district council members in Kerala. The Kerala district council election, held in January, attracted national attention because of three important reasons:

(i) This was the first election after vesting the district councils with enormous powers (about 150 subjects have been transferred from the State to the districts), which will make Kerala a federation of districts, a unique feature in the panchayati raj system in the country.
(ii) National and international issues like the Gulf War, the Mandir-Masjid dispute, reservation for backward castes, etc. were the determining factors in this election to the local bodies, more than local issues.
(iii) The Congress(I) could not gain control of even a single district and, contrary to the usual electoral experience, the ruling LDF gained absolute majority in 12 out of the 14 districts. In one district there was a tie between LDF and UDF and the other, Malappuram, went to UDF because of the Muslim League.

The main aim of the study was to know the kind of leadership emerging at the local level in the State. Local self-government—at the district and below—is, no doubt, the nursery for a healthy and

vibrant democracy and therefore such a study was considered significant when there is serious thinking on amending the Constitution to give panchayati raj the prime place in our polity.

The Kerala district councils have 474 seats. Out of that two members had expired when the survey was conducted and thus the effective strength was 472. Out of 472 members, 363 (77 per cent) responded from all over the State. All members from the districts of Wayanad and Alleppey responded. In Trivandrum district, out of 40, 39 responded and in Pathanamthitta district, 22 out of 23 responded. While the response was 75 per cent and above from Quilon, Kottayam, Ernakulam, Trichur, Palghat, Malappuram and Cannanore districts, the lowest response came from the districts of Idukki and Kasargodu. The data were collected through interviews with questionnaires.

The result of the survey reveals many interesting dimensions of Kerala's socio-political and economic set-up and emerging characteristics of the political leadership.

(1) Out of the 363 members interviewed, 125 were women and 238 men. That is to say, women members were about 35 per cent of the total elected members, which is well above the 30 per cent reservation for women proposed in the national

legislation. This means a large number of women fought non-reserved constituencies against men and won.

(2) Only 14 per cent of the members are unmarried.

(3) The religious composition of the members is almost proportionate to the population pattern existing in the State. Hindu members are 57 per cent (percentage of Hindus in Kerala 58.15), Christians 23 per cent (the State has 20.56 Christians) and Muslims 17 per cent (Kerala's Muslim population is 21.25 per cent). The drop in percentage of Muslim members could be attributed to the low response we got from certain districts where Muslims are in a majority. Moreover, eight members had not specified their religion.

(4) 17 per cent of the members belong to Scheduled Castes and Scheduled Tribes. This is much higher than the State's SC/ST population. Percentage of SCs in the State is 10.02 and that of STs 1.02 only. Members belonging to the Other Backward Castes (OBCs) are 31 per cent. About 16 per cent members have refused to identify their caste, saying they do not believe in caste. Interestingly, all of them belong to the Communist Party (Marxists).

(5) Kerala has a preference for younger leadership. 26 per cent of the members belong to the age group (21-35 years); 50 per cent belong to the age group (36-50 years). Thus, 76 per cent of the members are below 50 years. Those who are 65 and above constitute only 2 per cent.

(6) The State is well known for its rural-urban continuum. 79 per cent of the members are from villages and only 21 per cent live in town areas. In a way, these towns in Kerala are also extensions of villages. According to official statistics Kerala's rural population is 81.26 per cent

TABLE 1: AGE DISTRIBUTION OF ELECTED MEMBERS OF KERALA DISTRICT COUNCILS

| Age Group | Total Number | Percentage |
|-----------------|--------------|------------|
| 21-35 | 94 | 25.89 |
| 36-50 | 183 | 50.41 |
| 51-65 | 77 | 21.21 |
| 65+ | 6 | 1.65 |
| Not ascertained | 3 | 0.83 |
| Total | 363 | 100.00 |

TABLE 2: EDUCATIONAL LEVEL OF THE ELECTED MEMBERS OF KERALA DISTRICT COUNCILS

| Educational Level | Total Number | Percentage |
|-------------------|--------------|------------|
| Up to primary | 24 | 6.61 |
| Higher secondary | 184 | 50.69 |
| Graduate | 100 | 27.54 |
| Post-graduate | 48 | 13.22 |
| Other than above | 3 | 0.83 |
| Not ascertained | 4 | 1.1 |
| Total | 363 | 100.00 |

and urban 18.74 per cent.

(7) 71 per cent of the members have assets like land, livestock, tractor, pump

TABLE 3 OCCUPATIONAL BACKGROUND OF THE ELECTED MEMBERS OF KERALA DISTRICT COUNCILS

| Occupations | Total Number | Percentage |
|----------------------------|--------------|------------|
| Agriculture | 35 | 9.64 |
| Business | 17 | 4.68 |
| Craftsman | 1 | 0.27 |
| Homework | 19 | 5.23 |
| Petty trader | — | — |
| Service in informal sector | 7 | 1.93 |
| Service in formal sector | 5 | 1.38 |
| Primary school teacher | 25 | 6.89 |
| Secondary school teacher | 17 | 4.68 |
| College teacher | 16 | 4.40 |
| Contractor | 1 | 0.27 |
| Full-time party work | 163 | 44.90 |
| Professional | 21 | 5.79 |
| Any other | 9 | 2.48 |
| Not specified | 27 | 7.44 |
| Total | 363 | 100.00 |

TABLE 4 PROFESSIONAL BACKGROUND OF THE ELECTED MEMBERS OF KERALA DISTRICT COUNCILS

| Professions | Total Number | Percentage |
|-------------------------------|--------------|------------|
| No professional qualification | 99 | 27.27 |
| Law | 45 | 12.40 |
| Engineering degree/diploma | 10 | 2.77 |
| B Ed/M Ed | 24 | 6.61 |
| Medicine (allopathy) | — | — |
| Medicine (homoeopathy) | 2 | 0.55 |
| Medicine (ayurveda) | 2 | 0.55 |
| Any other | 23 | 6.34 |
| Not ascertained | 158 | 43.53 |
| Total | 363 | 100.00 |

TABLE 5 NEWSPAPER READING HABITS OF ELECTED MEMBERS OF KERALA DISTRICT COUNCILS

| | Number of members | Percentage |
|------------------------------------|-------------------|------------|
| <i>No of newspapers read</i> | | |
| One | 10 | 2.75 |
| Two | 41 | 11.29 |
| More than two | 300 | 82.64 |
| Not ascertained | 12 | 3.30 |
| Total | 363 | 100.00 |
| <i>Language of Newspapers read</i> | | |
| English only | 2 | 0.55 |
| Malayalam only | 157 | 43.25 |
| Both English and Malayalam | 174 | 47.93 |
| Any other | 5 | 1.38 |
| Not ascertained | 25 | 6.89 |
| Total | 363 | 100.00 |

sets, commercial vehicles, etc. 5 per cent say they have no assets. Coming specifically to the ownership of land, 60 per cent of the members own land and 13 per cent are landless. It needs to be mentioned, however, that 5 per cent women members have indicated that they do not own any land, the land could be in their husband's name. Therefore, the percentage of landless could be less than what is indicated above.

Interestingly enough, a large number of members (up to 27 per cent) hesitated to indicate whether they own assets or not. This again could be attributed to the factors mentioned above.

(8) Needless to say, given the unique characteristics of Kerala, all the members are literate. 51 per cent has completed higher secondary, 28 per cent are graduates, and 13 per cent are post-graduates. Those who have studied up to primary school only form just 7 per cent.

(9) Regarding their occupational background, 45 per cent stated they were full-time party workers. 10 per cent are agriculturists and 5 per cent are in business. While 7 per cent are primary school teachers, 5 per cent are secondary school teachers and an equal percentage are college teachers. It is interesting to note that in the entire sample there is only one member who is a contractor.

(10) About 13 per cent of the members are in law by profession, 3 per cent in engineering and about 2 per cent practise homoeopathy/ayurveda. 7 per cent have B Ed and M Ed degrees. Interestingly enough, no doctor (allopathy) is a member of any district council.

(11) The print media's place in Kerala's social and political life is well known. Therefore it was not surprising when all members rightly claimed that they read newspapers. 83 per cent read more than two newspapers, 11 per cent read two newspapers and 3 per cent read one newspaper a day. 48 per cent read Malayalam as well as English newspapers. It may be noted here that although Kerala is a small State it has in Malayalam language alone 114 dailies, 121 weeklies, 103 fortnightly and 527 monthlies.

(12) From the study we find that 19 per cent of the members elected are from families having a political and public life tradition. 18 per cent indicated that their fathers were in politics and more than 1 per cent have indicated that their mothers were active in public life. 7 per cent indicated that other members of their families were in politics and public life. 32 per cent are from families entering public life or politics for the first time. Among

TABLE 6 INVOLVEMENT IN POLITICS: THE PREVIOUS GENERATION OF FAMILY MEMBERS OF ELECTED MEMBERS OF KERALA DISTRICT COUNCILS

| | Number | Percentage |
|----------------------|--------|------------|
| Father | 64 | 17.63 |
| Mother | 5 | 1.38 |
| Any other member | 24 | 6.61 |
| More than one member | 17 | 4.68 |
| No involvement | 118 | 32.50 |
| Not ascertained | 135 | 37.19 |
| Total | 363 | 100.00 |

TABLE 7 INVOLVEMENT IN POLITICS: PRESENT GENERATION OF FAMILY MEMBERS OF ELECTED MEMBERS OF KERALA DISTRICT COUNCILS

| | Number | Percentage |
|----------------------|--------|------------|
| Brother | 67 | 18.46 |
| Sister | 5 | 1.38 |
| Husband/wife etc. | 40 | 11.02 |
| More than one member | 32 | 8.82 |
| No involvement | 102 | 28.10 |
| Not ascertained | 117 | 32.23 |
| Total | 363 | 100.00 |

them 20 per cent have their sisters/brothers in politics or public life while 11 per cent have indicated that their husbands/wives were already in politics or public life.

(13) 10 per cent of the elected members have lived and worked outside India. Among these, 32 per cent had lived and worked in Gulf and the remaining in other countries.

CONCLUSION

This survey shows that the members elected to the district council are educated and are exposed to issues and developments outside their State. Their reading habits and interaction with people outside the State and the country have a significant bearing on their perception of civic life and political understanding. That is the main reason why broader issues of national and international importance affect the Kerala electorate even in local bodies elections.

Secular ideals have made deep inroads into Kerala society. For example, a 37 year old woman respondent from Malabar has said that she had education up to tenth class (secondary school). She reads more than two newspapers a day. She is a member of the board of the District Co-operative Bank and co-operative society. She refused to indicate the caste to which she was born.

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Health Damage due to Bhopal Gas Disaster

Review of Medical Research

Rajiv Lochan

The findings of the various studies undertaken by the Indian Council of Medical Research in Bhopal are beginning to produce medical evidence of the enormity of the Bhopal Gas Disaster.

CONSIDERING the enormity of the health damage caused due to the Bhopal disaster the scientific information available on the health status of the victims of the disaster is far from adequate. Lack of scientific information has led to an underestimation of the damage caused by Union Carbide Corporation. It has also impeded the emergence of a proper line of medical treatment for the gas victims. Most of the large scale attempts to generate information have been carried out through studies conducted by the Indian Council of Medical Research (ICMR). It is indeed unfortunate that even this information and the implications they carry have not been made available outside a limited circle. This note is primarily an attempt towards dissemination of the information generated by ICMR.

After the gas disaster the ICMR initiated studies on the effect of the gases that leaked on the night of December 2-3 1984 from the Union Carbide pesticide factory. In all, ICMR took up 27 projects that were directed mainly towards the study of the effects of the gases on the respiratory, reproductive, gastro intestinal, ocular systems of the affected people. A few studies were carried out on the impact of the gases on children of various age groups. The sample populations for the studies were taken from among the gas exposed people and for comparison a sample population from the non gas exposed areas (control area) were made part of the study. The data for the studies were collected both from hospital and through visits to the community. The ICMR has established a special centre for carrying out the studies known as the Bhopal Gas Disaster Research Centre (BGDRC) which has carried out the only extensive medical studies in the aftermath of the Bhopal disaster. The findings of the ongoing studies are reported in the annual reports published by the centre which are the data sources for this article. In places findings of sample studies have been projected to cover the estimated gas affected population so as to arrive at an overall assessment. Along with the estimation of health damage caused by the Bhopal disaster we

also consider the health care costs that would need to be borne to deal with the large scale and serious damage. It is understood that such health care will have to be provided to the gas affected population at least for the next 20 years. Given that the suit for damage pressed by the Indian government on behalf of the gas victims against Union Carbide is yet to be decided, all medical findings and analysis based thereon have legal implications.¹

Though a number of studies have been carried out only those studies are considered here in which the health effects in the study area are found to be significantly higher than those found in the control area. Health effects of the toxic gases and the costs of health care for individual health problems have been discussed with reference to these chosen studies.

According to the 'Long Term Epidemiological Study on the Health Effects of Toxic Gas Exposure' (principal investigator, M. P. Dwivedi, director Bhopal Gas Disaster Research Centre) the total estimated exposed population in 1984 was 5,21,262. Of this population 32,477 were in severely exposed area, 71,917 in moderately exposed area and 4,16,869 in mildly exposed area. A population of 80,021 (20.3 per cent) of the total was covered by the ICMR study. The division of the entire gas affected area into mild, moderate and severe areas has been done on the basis of exposure related mortality rates in the immediate aftermath of the disaster.

According to this study the abortion rate was 7.63 per cent in 1990 in the affected area while in control area the rate was 3 per cent. The abortion rate is decreasing in the gas affected area gradually. It came down to 7.63 per cent in 1990 from 8.22 per cent in 1989. At this rate it will take about nine years to attain the control area rate. During these nine years 3,568 abortions would be due to gas exposure. An estimated Rs 1,000 is required for health care in the case of abortion which means Rs 3.56 million will be required for health care of the gas-affected women who have undergone abortions.

The people who have gas exposure

symptoms at the end of six years are, obviously, 'permanently' rather than just 'temporarily' injured. The symptomatic population among all gas victims is 30.52 per cent and is increasing year after year as the injury has affected their body systems irreparably. In the control area the symptomatic population is only 18.94 per cent. This means that 60,632 additional people are suffering from gas exposure over and above the control area figures. For the care and cure of this general morbidity at least Rs 10 per person would be required. Although the number of people suffering from general morbidity is increasing in the gas hit areas, for the sake of simplicity if we take this number to be stationary then the money required only for the medicare of this morbid population would be for Rs 1.45 billion (Table 1).

LUNG INVOLVEMENT

Various studies have established the severity of effect on lungs due to exposure to toxic gases in Bhopal. According to this study (principal investigator N. P. Mishra) 98.4 per cent of the gas exposed population was found to be having exertional dyspnoea and it was found to be progressive in some cases. Recurrent respiratory infections (73.4 per cent), chest pain (42 per cent), joint pains and easy fatigability are the other common symptoms.

About 24 per cent of the gas affected population have Reactive Airway Dysfunction Syndrome (RADS) in which the patient had paroxysmal attacks of breathlessness following toxic gas inhalation. In

TABLE 1. GENERAL MORBIDITY TREND (SYMPTOMATIC)

| Time Period | Per Cent Morbid Population | |
|----------------------------|----------------------------|--------------|
| | Affected Area | Control Area |
| May 4 to Nov 3 1987 | 15.26 | 4.24 |
| Nov 4 1987 to May 1988 | 15.69 | 8.05 |
| May 4 to Nov 3 1988 | 16.15 | 5.55 |
| Nov 20 1988 to May 29 1989 | 23.01 | 17.26 |
| May 30 to Nov 21 1989 | 26.14 | 18.50 |
| Nov 22 89 to March 31 1990 | 30.52 | 18.94 |

TABLE 2. MENTAL HEALTH STATUS (Per 1000 Population)

| | Severely Affected Area | Mildly Affected Area | Control Area |
|---------------------|------------------------|----------------------|--------------|
| Anxiety state | 30.2 | 20.91 | 5.71 |
| Neurotic depression | 15.10 | 17.25 | 7.99 |
| Others | 2.03 | 2.21 | 1.14 |
| Total | 48.13 | 7.77 | 14.84 |

TABLE 3: GROWTH FAILURE IN CHILDREN BORN TO GAS-EXPOSED WOMEN

| Age of Children (Months) | Failure Rate in Affected Population (per cent) | Failure Rate in Control Population (per cent) |
|--------------------------|--|---|
| 12 | 11.47 | 10.36 |
| 18 | 13.03 | 16.26 |
| 24 | 12.92 | 10.57 |
| 30 | 8.78 | 4.81 |
| 36 | 13.25 | 7.25 |
| 42 | 15.43 | 13.02 |

the control population such symptoms were presented by 2 per cent of the population. Research studies have shown that RADS could persist for several years after the injury. It is also likely that a number of persons with RADS will turn into cases of asthma and the disease would become incurable. Symptomatic treatment with regular use of bronchodilators is the only course of treatment for such patients. It is safe to assume that there are at least 1,14,677 persons whose symptoms can be related to inhalation of toxic gases. Considering that treatment of paroxysmal attacks will cost an estimated Rs 1000 per person per year for the next 20 years the total cost of health care of persons presenting RADS will be Rs 2.3 billion.

Detailed lung-function tests reveal that 11.4 per cent of the gas victims have Chronic Obstructive Airway Disease (COAD) as against only 4 per cent in the control population. The national average for this disease is only 1.7 to 2.2 per cent. A significantly high number of victims (even young non smokers) have developed COAD as a result of toxic injury to the airways. That means 38,573 persons are suffering with COAD above the control area figures. COAD is a progressive and deteriorating disease. For its medical treatment at least Rs 1,000 will be required per year per person for the next 20 years on average. That means Rs 77.1 million will be required (Table 3).

The study of small airway function among the gas affected population revealed that almost all the patients (97.5 per cent) had evidence of small airway obstruction. In the course of the study risk parameters were identified for positive identification of small airway obstruction and it was found that 60.7 per cent of the affected population showed the involvement of three or more parameters. In contrast, 74 per cent of the control cases had either no involvement or only one parameter involvement. Such findings have led the researchers to suggest that small airway obstruction be taken as a marker for the diagnosis of toxic gas induced lung disease.

The costs of health care for the 5,08,230 (97.5 per cent) victims suffering from small airway obstruction for the next 20 years at the rate of Rs 1000 per year per person amounts to Rs 10 billion.

OTHER HEALTH PROBLEMS

In the house-to-house survey undertaken between September 1988 and August 1989 by the ICMR, it was found that anxiety neurosis and neurotic depression were the most common psychiatric problems among the gas-affected people (principal investigator B. B. Sethi). The study conducted in 1990 indicates that 48.13 in 1,000 persons in severely affected and 47.77 in 1,000 persons in mildly affected areas were suffering from these mental illnesses as compared to 14.84 per 1,000 persons in the control area. By taking into account figures from previous studies it is possible to conclude that while the incidence of psychiatric illness remains more or less stationary in the control area, 14-15 per thousand, it has been increasing in the gas-affected area. While this incidence was 40 per thousand in 1988 and 42 per thousand in 1989 it has gone up to 47 per thousand in 1990. Even without taking into account this rise, the number of persons whose mental health impairment can be attributable to toxic gas exposures is 1,72,590. Assuming treatment costs for psychiatric illness to be Rs 1,000 per person per year the total cost of mental health care for 20 years comes to Rs 3.45 billion (Table 2).

In one study (principal investigator N. R. Bhandari) the growth of children born to gas-exposed women was monitored considering different parameters. It has been found that the failure-to-grow rate is significant after the age of 18 months (8.78 at the age of 30 months). Children born to gas-exposed women also exhibit a significantly higher delay in gross motor (control of voluntary body movements) and language sector develop-

ment. At the age of 36 months 4.83 per cent children show delay in gross motor development and 6.59 per cent show deficient development in language sector. The circumference of the head of both male and female children was found to be significantly higher in the affected area than in the control area. It was also found that the chest circumference for female children was significantly lower compared to the control population.

The birth rate in the affected area is 29.43 per 1000 population. That is, in the next 20 years 3,06,800 children will be born. With the above maintained failure rates 12,180 more children will show delay in growth, 6,656 children will show delay in gross motor sector, 11,720 children will show delay in language sector development in the next 20 years in the affected area over those in the control area. All these children will require special attention to aid growth. If Rs 1,000 per child were to be assumed to be required for the special care of these children, then Rs 30.55 million will be required (Table 3). It needs to be mentioned that the children covered by this study were born much after the gas exposure to their mothers. Abnormalities found among such children therefore, indicate systemic damage caused by the toxic gases.

The health status of children of age group 6 to 15 years was studied (principal investigator N. R. Bhandari) and was found to be similar to that of the adult population in terms of the nature of ailments. 55.96 per cent of the child population in the affected area had breathlessness while the corresponding data for the control area was only 1.6 per cent. Cough was reported by 61.23 per cent of the affected children as compared to only 2.34 per cent of children in control area. Chest pain was reported by 1 per cent children in the control area while 17.4 per cent complained of chest pain in the affected area. As many as 6.65 per cent of affected children were hospitalised between May 1989 and March

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1990 compared to 0.25 per cent of population in the control area in the same period.

An estimated gas-affected population of 5,00,000 will require some kind of health care or other for the next 20 years. The total cost of such health care comes to \$ 1.14 billion. It needs to be mentioned that the total compensation claimed by the Indian government is \$ 3.3 billion and the compensation amount calculated by the Citizens Commission on Bhopal, a US-based coalition of 50 social and environmental organisations, was 4.1 billion dollars. The health care costs arrived at in the present note, therefore, are quite in accordance with the forementioned amounts of total compensation.

Notes

- 1 We are aware that the computations of health care costs presented here also have legal implications and we hope that these computations can help the court in quantifying the liability of Union Carbide once such liability is established. It needs to be made clear,

however, that the computations presented here do not purport to be the total compensation payable by Union Carbide but address the issue of health care costs alone and are thus part of the amount for relief and restitution payable by the offending party in a law suit. However, these calculations do not include health care costs that may need to be borne for health effects that have not manifested so far but are likely to emerge. For instance, the study of chromosomal aberrations by ICMR has indicated their presence among the gas-affected population but has yet to quantify such aberrations. The problem of genetic diseases that may occur due to gas exposure-related chromosomal aberrations are also left out. Nor does it include in its estimation the health care cost that has been borne (both by the Indian government and the gas victims) during the acute phase between December 1984 and the year 1990. Significantly excluded is also the cost of medical surveillance which is an essential task considering that very little is known about the exact nature of the toxic gases and the long-term damage caused by them. As will be apparent, the medical care costs mentioned in the paper are conservative estimates.

Wastes Not Wanted

Satyaban Sarkar

The control of toxic wastes which are polluting our river waters rapidly merits urgent and special attention.

At a recent workshop in New Delhi, representatives of WHO and the Central Pollution Control Board once again expressed concern about the extent of river water pollution in India. The Yamuna, for instance, is highly polluted because of the dumping of industrial wastes from 50,000-70,000 small-scale industrial units operating in India's capital. In Bihar the Son river has the highest fish mortality rate amongst all rivers and its once thriving carp fishery has been wiped out by discharges from paper, chemical, cement and sugar factories. The indiscriminate dumping of lethal cyanide wastes in Ezhinagar canal from electroplating operations has caused buffalo deaths in Madras. The control of toxic wastes is a small focus on the large canvas of environmental pollution control measures, but it merits special and urgent attention.

In the manufacture of some industrial end-products, highly toxic by-products are released and are difficult to neutralise. There are also some chemicals which serve useful purposes but have to be safely disposed of once they have been so used. The pesticide industry, manufacturing synthetic organochlorine and organophosphates, etc, is an example of this. Dioxin, for instance, is a by-product in the manufacture of certain herbicides and ob-

tained during the bleaching of paper pulp. Extremely small doses of dioxin can cause horrible diseases. America's Environmental Protection Agency sets its safety standards by assuming that any dioxin—even, in theory, a single molecule—is bad for you.

Disposal of seemingly innocent refuse may give rise to toxic products. Every year the average American opens 300 kg of boxes, bags, and other packaging material, then throws it all away, and after a while that adds up to a new landfill, which again is a hazard in its own class. Plastic products are not biodegradable. At best, they may only break up into smaller bits of plastic which stay around and do not decompose in the same way that plant, animal products and pottery do. In bonfires, they give off toxic products—PVC gives off hydrogen chloride, besides such highly toxic and carcinogenic chemicals as dioxins and dibenzofurans. Nylon, some acrylics and polyurethane foam not only spread fire swiftly but also produce hydrogen cyanide. Polyurethane foam at below 600°C gives off a dense, choking yellow smoke that contains isocyanates, including toluene di-isocyanate, a very potent allergen and irritant.

Heavy pollution is being discovered in US bases in Germany as the US prepares

Europe: contaminated airfields where jet fuel has drained into underground aquifer and has migrated outside the military complex, hazardous chemicals and poisonous metals in landfills, toxic chemicals in water tables from dry-cleaning plants. Governments of the industrial North are increasingly seeking to ship this waste to poorer nations and paying them to deal with it. In their own countries, the estimated costs of cleaning up the waste disposal sites are enormous—\$20 to 100 billion in the US, \$10 billion in FRG, and in the non-nuclear, tiny, clean Netherlands \$1.5 billion, *Future Earth*, published by Christopher Helm, London, 1988, p 103.

Shipment of toxic wastes for disposal/destruction within governmental guidelines is big business. The case of polychlorinated biphenyls or PCBs in UK has gone into the political arena, with trade unions stepping up the campaign against import of dangerous wastes without adequate safeguard regulation and forcing disposal contractors into refining their incineration techniques to avoid the generation of dioxins. Incidentally, little is known about how we dispose of our PCB oil or PCB-contaminated material like disused transformer castings.

A mere transfer of location of the waste often does not mean environmentally safe disposal of the waste. Take the case of emissions from coal-fired power stations. In UK, plans to scrub out the impurities that go up the chimney and to discharge the mercury and the chloride into rivers will merely add to the river pollution, and objection has been raised by the UK National Rivers Authority. Nuclear or radio-active waste is a class apart—it will stay around till time can take care of it. Nor can metallic poisons (copper, mercury, etc) be made benign.

Organic wastes can however be rendered non-toxic. One of the most effective treatments for toxic organic waste is to burn it at around 1300°C at which point the chemical compounds break down into their constituents and (in theory) non-toxic parts. The caveat is that the incinerators have to be run super efficiently, otherwise, the toxics will survive the burners, escape into the air and end up in human lungs or intestines, via food-chain, etc.

Bronze age metalworkers phased out arsenic alloys in favour of inferior tin alloys because of the health hazard involved. They knew what was bad for them and acted accordingly. Shall we be so lucky especially in countries like ours where appropriate technology may generate research papers and conferences but not the technology?

Jotirao Phule: An Incomplete Renaissance

Satyakam Joshi
K S Raman

The sharp and manifold increase in the caste and communal struggles of the recent past has made Phule's thought and action more relevant than ever before. A report on a seminar which evaluated his relevance in the present crisis.

JOTIRAO PHULE has once again been in the news, discussions, debates, etc. and rightly so at the time of his death centenary. Phule born at Pune was a pioneer activist and thinker of his times who fought against upper caste domination, exploitation, hypocrisy, and social injustice, and led the Satyashodhak non-Brahmin movement in late 19th century. His manifold contributions to the understanding of Indian society left a deep imprint on Maharashtra society. Unfortunately, so far he has remained as a 'regional thinker' of Maharashtra despite his pioneering contribution.

Many sections of Indian society have been trying to appropriate the 'legacy of Phule' not with a view to continue his unfinished mission of democratic revolution but to legitimise their own interests. It is not a coincidence that the recent crises in India not only reflect the interests of those sections but also suggest the emergence of new caste class alliances in the process of 'democratic revolution'.

Seeing the need to understand Phule's contributions dispassionately against such a background and liberate his image from the shackles of regionalism, the Centre for Social Studies, Surat, organised a seminar first of its kind outside Maharashtra to evaluate his thought and action and understand his relevance in the present crisis. The seminar was held from January 9-11, 1991 with financial support from Western Regional Centre of the Indian Council of Social Science Research (ICSSR). About 50 leading scholars and activists from various parts of India participated and 13 papers were presented. These papers were discussed in five different sessions: (i) Culture, Counter Culture and Ideology, (ii) Peasantry and Peasant Movements, (iii) Relevance of Phule in 20th Century, (iv) Education, Reservation and Caste Politics, and (v) Women, Dalits and Social Oppression. An impressive bibliography of about 300 titles relating to Phule and Phuleism was also distributed by the Centre to all the participants.

I

There were three presentations in first session. J V Naik outlined the genesis and

development of the ideology of Phule. Arvind Deshpande sought to construct a framework to locate Phule in a larger perspective and explain his efforts in creating a 'counter culture' to the existing Brahminical culture. S P Punalekar tried to locate Phule in a larger historical perspective to evaluate his legacy—both his positive contribution to the Indian democratic revolution and its limitations, and grappled with a more crucial question as to why his efforts were unsuccessful.

J V Naik traced historically the external influences on Phule's thought and action. Phule's career, according to Naik, could be assessed into two distinct phases. In the first phase, he was a social activist with local and Western influence and did not try to develop an ideology of his own. His ideas were influenced by Reverend Theodore Parker and Thomas Paine from the West and various socio-reformist movements in India, more notably the struggles of local Kolis and Ramoshis on the one hand and Paramahansa Sabha and Dadoba Tarkhadkar on the other. In the second phase, particularly from 1869 onwards, Phule tried to develop his non-Brahmin ideology which could be discerned in his three celebrated studies of the period—Chhatrapati Shivaji Raju, Bhosle Yancha Powada, Brahmanache Kasab and Gulamgiri.

Punalekar argued that an evaluation of Phule's thought and action was imperative because most of the "contemporary social and political problems and the crises arising out of their irresolution date back to situation and questions raised by Jotirao Phule in mid 19th century." Phule's 'social project' according to Punalekar, had two domains: (a) 'building a theoretical understanding of Indian society and its cultural matrix', and (b) articulating this through some 'radical practice'. He perceived the Indian social system from four dimensions: (i) Social hierarchy and dominance, (ii) subordinated status of women, (iii) exploitation of the primary producers by the state and Shetjis and Bhatjis, and, (iv) religious fundamentalism and casteism. Phule and Phuleism, therefore, should be understood and assessed in overall socio-cultural and political context, i.e. against a background of "economic want, social

neglect and cultural oppression of majority by the minority." However, according to Punalekar the significance of Phule's philosophical-ideological contribution lies in "situating a problematic cultural system, i.e. overarching ideology dominating the thought process and behaviour of the toiling masses."

Punalekar argued that the failure of Phule's social project was related to various questions such as emergence of upper and middle classes among the shudra peasantry, neo-Brahminism among the shudra peasants, etc. and so only through a serious scrutiny of 'the structures of hegemony in Indian society' and their 'changing saliency in a changing socio-economic context' could these questions be properly answered.

Arvind Deshpande suggested that Phule tried to destroy the anti-humanist traditions in India and replace them by a universal humanist tradition. He held that Phule was distinctly different from the erstwhile social reformers. Social reform movement aimed at social change within the framework of culture, whereas Phule had a broader understanding of culture and society. His attack was not just on Brahminism but the social culture of the Hindu.

Phule was the first thinker to classify the Bhat Brahmins not merely as religious social castes but also as economic occupational classes. He was convinced that economic poverty was the main cause of the social backwardness of the masses and was perpetuated by the culture of Hinduism. And hence the need to create a 'counter culture'. In his attempt to create a counter culture—the culture of the rustics, Phule, according to A Deshpande, had to rely upon religion because 'no culture can sustain itself without a religion'. However, Phule decisively broke with the erstwhile upper caste reformers who took an easy recourse to the myths of great tradition, mythology of success, victory, glory.

While creating a culture of the rustics, whose traditions he represented, Phule had to face a dilemma. As a rationalist, he was against superstitions and yet he could not accept a complete severance of ties with the traditions. To avoid this dilemma, he revitalised those elements of the popular mass tradition which could be interpreted as struggles of natives against the Aryans. And secondly, in the process of reinterpretation, he insisted upon a robust rationality that made the supernatural elements ridiculous. Thus the non-Aryan struggle against the Aryans became the local theme of Phule's counter-culture of the masses.

The discussion centred around whether Phule was a reformer or revolutionary and whether the concept of counter culture is adequate and correct. G P Deshpande

held that Phule provided a language to revolutionary theory and wondered whether Phule could be seen only as a part of the reformist tradition. Sharad Patil held that since Phule aimed at abolishing the caste system, he must be hailed as a 'social revolutionary'.

The term 'counter-culture' Sharad Patil claimed, is a term of class societies and is not applicable to a caste society like India. He further said that Phule was the first to define the forces of democratic revolution in terms of caste struggles, i.e., brahminism vs abrahminism. The concept 'counter-culture' is, therefore, not adequate enough for a proper evaluation of the thought and practice of Phule. G P Deshpande argued that a proper evaluation of Phule's legacy not only demands an understanding of 'counter-culture', but also of the counter effects of a reformist movement. Gail Omvedt felt that although Phule was trying to create something like a 'counter-culture', as term is likely to be misused, a better one should be coined.

The question of stratification within the 'shudra peasantry' also generated a stimulating debate. There was a broad consensus on issues such as existence of a stratification within the peasantry, and the mobilisation of the masses in the democratic cultural revolution based on the criteria of caste and class. However, the degree and intensity of stratification within the peasantry remained a controversial issue. Gail Omvedt felt that stratification was not intense enough to divide the peasantry into antagonistic classes.

Ashok Chousalkar argued that in order to give a new cultural orientation to non-Brahmin castes Phule tried to make Bahiraja a cult figure among the peasantry because Phule felt that to bring about a democratic revolution in India, creation of a cultural tradition having popular heroes of non-Brahmin tradition at its heart is essential. That is why his reinterpretation of Bali was not based on mythology but his own Aryan vs non-Aryan paradigm wherein he described Bali as a peasant king who led the non-Aryan combat against Aryan aggression. Thus the myth of Baliraja was essentially a 'political myth' which sought changes in the power relations of the Hindu society.

II

The second session was devoted to the question of Phule and peasant movements. Classes within the peasantry and mobilisation of middle and landless peasants has been a general understanding of 'traditional Marxists'. Gail Omvedt argued that this was a one-sided approach and inadequate (at least in the Indian context) to understand the complexity of the situa-

tion. Instead, she suggested, that the 'process of exploitation' should be central to the analysis.

Phule, according to Gail Omvedt, provided 'an alternative to the supporters of the traditional Marxist analysis of the peasantry'. She dealt with three main themes of peasant exploitation underscored by Phule: (i) imperialist exploitation of the peasantry or accumulation by world metropolitan centres; (ii) supra-village level exploitation by the state and regional elite; and (iii) local exploitation by village-level elites.

Gail Omvedt maintained that supra-village level exploitation has been almost completely overlooked and the role of imperialist exploitation in the post-independent India has not been properly examined. A proper understanding of these themes of Phule, according to her, should broaden the scope of analysis of peasant exploitation—particularly the partial and inadequate analysis of 'traditional Marxists', and thus may be viewed as 'enriching historical materialism'. She therefore regarded Phule as peasantist theorist despite his weak understanding of the role of imperialism and the actual process of exploitation.

Ram Bapat raised a serious doubt whether Gail Omvedt was propounding a 'new peasantist perspective' and providing a theoretical justification. In other words, he felt that she was using Phule to justify Sharad Joshi's (Shetkari Sanghatana) view point. Bapat argued that the forces of world capitalism *vis-a-vis* the forces of national and regional accumulation have reached a particular stage where the latter have been looking for new theories such as the theories of 'undifferentiated peasantry' in favour of their interests. Denying Bapat's interpretation Omvedt said that she did not attempt at model building but was hinting at the plurality of situation.

Sharad Patil tried to differentiate the theoretical positions of Phule and Sharad Joshi. Sharad Joshi, he argued, has built up a new model that challenges historical materialism—that the peasant, not the worker, produces the surplus value, and the Indian peasantry is undifferentiated, whereas Phule viewed the Indian village as one with two clearly divided camps, that is of two castes. Phule was also aware of the differentiation within the shudras. He nevertheless relegated it to the background as he was interested in uniting them against 'Bhatshahi'. He wondered how getting remunerative prices for their produce could emancipate the peasantry from continuing 'Bhatshahi'.

A R Desai objecting to categorisation of 'traditional Marxist' or 'traditional Marxism', pleaded for locating peasant activities in the overall production process. He also stressed the need to identify the

types of exploitation that have been taking place. Punalekar suggested that to understand what Phuleism could contribute to an understanding of the present contradictions, the concept of 'peasant community', rather than 'differentiated peasantry', would probably be more useful if we use it as an historical category.

III

The sharp and manifold increase in caste and communal struggles of the recent past has made Phule's thought and action more relevant than ever before. G P Deshpande claimed that Phule was the first Indian 'system builder' and did provide a 'logic of history', as Hegel did in Europe, because Phule was the first to attempt a transformation of plural categories of history into singular or universal. He, therefore, stands in sharp contrast to Weber's statement that all ideas of universal significance came from Europe. Phule's thought proved that the socio-political struggles of the Indian people could generate a universal criterion. Phule also talked of knowledge and power long before Foucault did. In fact Foucault's post-modernist analysis came at a time when Europe has literally seen an 'end of history', whereas Phule's efforts were to change the world/society with the weapon of knowledge.

A proper understanding of Phule, according to G P Deshpande, should be in the context of and in relation to the Raja Rammohan Roy tradition and the Chiplonkar-Tilak tradition. Phule, influenced by Protestantism, tried to provide an 'internal critique' of Hinduism whereby he was preparing the Indian people to enter into the phase of 'world capitalism'. Eventually, Rammohan Roy's tradition produced its opposite, whereas Phule's tradition unfortunately died down.

J V Naik argued that there was a difference between the traditions of Phule and Raja Rammohan Roy while Sudhir Chandra wondered whether G P Deshpande was indicating Ayodhya as the opposite of Roy tradition. G P Deshpande, responding to the query, clarified that the Rammohan Roy tradition aimed to reform or better the Hindu social system. Its approach was piecemeal. Its limitation was that it tried to reform the high caste Hindus whereas the Phule tradition sought a complete change. This was an epistemological break from the past. He also argued that by opposite of Rammohan Roy tradition he did not mean Ayodhya. Ayodhya was the degeneration of the opposite, i.e., the pluralist religious thinking such as Vivekananda's.

Sharad Patil presented a paper on the methodology of Phule and its contemporary relevance. Contrary to 'Brahmi-

nical methodology' that Hindu society is bound to have upper caste rule, Phule created a non-Brahmin methodology wherein he tried to continue the non-Brahmin folk tradition with the hypothesis of Western scholars, that the non-Aryans were subjugated by the Aryans. This made him conclude, Patil claimed, "that with the fall of Bali the history of India is the history of caste struggles". Patil named it the 'Historical Materialism of the pre-British Indian society'. Patil further claimed that the Indian renaissance is bound to be unfinished as it is still visualised through nationalist and class viewpoints, which are basically 'Brahminical'. Nevertheless, he concluded, the long awaited decisive struggle between the Brahminical methodology and the 'revolutionary positive non-Brahminical methodology has begun. Only its successful outcome can open the way to the completion of the unfinished Indian renaissance.

In the ensuing debate on the categories caste and class, and the concept of class formation within the castes Sudhir Chandra and Arvind Deshpande disagreed with Sharad Patil's view that in pre-British India there were no classes. Patil reiterated that pre-British India was exploited by Brahmin and military castes. He accepted class formation within castes but claimed that this is not enough to 'destroy the caste system'. He argued that the democratic struggles must be organised simultaneously on caste and class lines.

Gopal Guru focused on Phule's views on reservations and the contemporary scenario, while R B Dewasthalee, S Jondhale and B I Bhole focused on Phule's perspective on education. Gopal Guru emphasised the emerging contradictions in contemporary society and the relevance of Phule in that context, from the viewpoint of reservations. Phule wanted reservation on the basis of caste and believed that it would break the monopoly of Brahmins in the field of administration. However, today, a hundred years after the death of Phule, Brahmin vs non-Brahmin is no longer the only contradiction in society. Class formation within the non-Brahmin castes is taking place. And one of the most important contradictions seems to be between the Brahmin and non-Brahmin elites on the one hand and the Dalits, adivasis and women on the other. Gopal Guru concluded with the comment that a 'lack of internal critique' within the non-Brahmin camp was one of the main reasons for their tenuous alliance with fundamentalists.

G P Deshpande questioned Gopal's use of 'internal critique' because it needed a systematic framework applied to a total system. Instead of quoting literally, he further suggested, evaluating Phule in a dynamic sense, i.e., to put in Brechtian terms, bringing the 'historically possible

facts', will help us understand the present reality.

R B Dewasthalee focused on Phule's views on primary education discerned through his memoranda submitted to the 'Hunter Commission'. According to him Phule was the first to plead for the case of universal, compulsory and free primary education. S Jondhale argued that Phule visualised three important purposes of education: (i) a share of lower castes in the employment; (ii) intellectual emancipation from the Brahminical Hinduism; and (iii) facilitating a process of reform from below. One of Phule's most significant contributions was the setting up schools for girls. The relevance of Phule in the contemporary period, according to Jondhale, was in the context of providing education for lower castes and women, and promoting primary education rather than the higher education.

The important tenets of Phule's philosophy of education, according to Bhaskar Bhole, are: to correlate education with day to day life of the common people; to do away with elitism in the field of education; compulsory vocational training in primary education, to eradicate the evils of poverty, superstitious elitist prejudices; and, to offer special concessions and incentives to the students of backward castes. Bhole claimed, that Phule, contrary to the upper caste reformist viewpoint of enlightenment, visualised education as a 'liberating force'. However, the contemporary scene of education, he contended, was essentially neo-Brahminical and non-egalitarian. 'Vidya' in its essence has become 'avidya' and needs to be combated. G P Deshpande raised a doubt that Phule's views on 'vidya' were weak and ambivalent like his views on colonialism and imperialism. He upheld the imperial pedagogy against the Brahminical pedagogy, i.e., one form of domination to the other form of domination.

V

Pushpa Bhawe and Vidyut Bhagwat focused on the women's question as perceived by Phule. Both of them agreed that Phule believed in equality of human beings. Bhagwat however felt that while defending women's role and rights Phule's writings 'occasionally betray biologicistic mode of reasoning'. She concluded that despite this limitation he was a radical supporter of women's equality.

Sudhir Chandra suggested that instead of emphasising the 'uniqueness of Phule' attempt should be made to find historical parallels of his time such as Malbari. Radhakant Barik queried whether Phule's feminism was indigenous or influenced by the West. Gail Omvedt in response ex-

plained that he was a feminist since 1882 onwards, and the influences were shaped by his own experiences in his caste and Pandita Ramabai's Arya Mahila Sabha. G P Deshpande however expressed his doubt whether Phule could be called a feminist, because such specialisation was not possible in the 19th century.

VI

The last session was devoted to the review of seminar discussion; its achievements and shortfalls. One of the most important contributions of this seminar may be the initiation of a process that can redeem Phule as a regional thinker and place him in a larger context. Bapat pointed out that Punalekar's emphasis on the 'structure of hegemony', Gail Omvedt's analysis of 'peasant methodology' and Naik's division of Phule's political career are the first of their kind. G P Deshpande's term 'internal critique' is likely to gain currency in future studies on Phule. However, he said that the seminar was lacking in some important aspects. Most importantly, Bapat felt, that Phule has been seen in isolation. Instead, he suggested, contemporary parallels should have been brought in to locate Phule in 'his' historical context. He also felt that a proper study on 'Phule and Political Economy' is neglected and also proposed a proper textual analysis of Phule's writings.

Arvind Deshpande pointed out some of the missed dimensions in the seminar. He felt that many of the studies missed the individual vs time, space, society context, vital for a historical perspective. He also pointed out that the 'historical rigour' necessary for this kind of seminar was lacking. He suggested that a few studies of the other side of the system to that of Phule would have been more helpful.

All through the seminar the underlying thrust of some of the papers and much of the discussion had been what sections of people should be mobilised for a successful 'democratic revolution' and how they should be mobilised and in what way Phuleism is useful. Many of them also expressed their deep concern about the process of 'sanskritisation' or 'neo-Brahminisation' of shudras and held the reason was the 'lack of internal critique'. Their concern about why 'shudras' can no longer lead the democratic revolution in this country is legitimate but the categories such as 'sanskritisation' or 'neo-Brahminisation' are inadequate to explain it because it is connected with the rise of shudra castes as a part of the ruling classes, which in turn has been clearly connected to the development process that originated since Phule's departure. It is this dimension of political economy that was underemphasised in the seminar.

Gandhi, Ambedkar and Separate Electorates Issue

DN

The objective of Gandhi's 'epic Yeravada fast was to force the dalits, under Ambedkar, to accept their position of being subordinated to the politically dominant sections of the Hindu community

THE British colonialist's attitude towards the press called it a "British Raj Party" supporter. On more than one occasion, it was denied by Kaori Raut. It was brought up once again in the context of the press that took a "British Raj Party" attitude towards Gandhi's fast. The British Raj Party's attitude towards Ambedkar was not as good as Gandhi's. Gandhi used a fast to death to pressurise Ambedkar to accept his terms. This fast to death should be remembered, was not against the British the enemy but against a component of the national struggle, the big dalit movement led by Ambedkar. Under this pressure, Ambedkar succumbed. Perhaps it was the effect not so much of the moral pressure as much as of the fear that at that, were Gandhi to die, the cause of Hindu unity/dalit could be attacked by upper caste Hindu community places.

A British colonialist sought to prolong its stay in India and used every conceivable form of division in Indian society to try and destroy the prospects of unity in the multi-racial people. Until Ambedkar's fast, the movement had largely seen its enemy as only the upper caste Hindu and was sided with the British to oppose the oppression of the caste Hindus.

The Congress, on the other hand, allowed this tactic to be put into successful use to keep the "take up questions of racial oppression in order to strengthen the anti-colonial struggle. As a result, the Congress refused to consider or work on them, the main issues questions along with the national struggle, however national and anti-colonial it was.

In the days of class struggle, a Hindu nationalist like Swami Vivekananda, founder of the Arya Samaj, was not in favour of the notions of superiority/inferiority as being contradictory to the injunctions of the Vedas. Dayanand Saraswati introduced the idea of superiority/inferiority not only to the Hindu community for Gandhi as well as to the British. The British provided no justification for the notion of superiority

or inferiority among the four great divisions of Hindu society: each *varna* was equal to the rest and passages from various texts are interpreted to maintain this position. [Dalton, 1967, 166]

Vivekananda continued the eulogy of caste, comparing it favourably to the European system. "Competition is cruel, cold and heartless... is the law of Europe. Our law is caste... the breaking of competition checking its forces, mitigating its cruelties, smoothing the passage of the human soul through the mystery of life" [quoted in Dalton, 1967, 167]

Gandhi, as is well known, started out as a staunch defender of caste in all its orthodox. He supported prohibitions on inter-dining and inter-marriage as supposedly promoting "self-restraint." He held that caste was a vital institution of Hinduism (Hindu community). "I believe that caste has saved Hinduism from disintegration. But like every other institution it has suffered from excrescences. I consider the four divisions alone to be fundamental, natural and essential. The innumerable subcastes are sometimes a convenience, often a hindrance. The sooner there is fusion the better" [Gandhi, 1936]

JATI AND VARNAS

Later on Gandhi did not continue his defence of dining and marriage restrictions and opposed untouchability. But he was not willing to attack the hereditary division of labour expressed in *varnashramadharma*. Faced with pressure from the rather weak dalit movement, which the British wanted to use to divide the anti-colonial struggle, Gandhi emphasised the distinction between *jati* and *varna* and insisted that caste (viz, *jati*) had nothing to do with religion. "Caste has nothing to do with religion. It is a custom whose origin I do not know and do not need to know for the satisfaction of my spiritual hunger. But I do know that it is harmful both to spiritual and national good. *Varna* and *ashrama* are institutions which have nothing to do with castes. The law of *varna* teaches us that we have each one of us to earn our bread by following

the ancestral calling. It defines not our rights but our duties. It necessarily has reference to callings that are conducive to the welfare of humanity and to no other. It also follows that there is no calling too low and none too high. All are good, lawful and absolutely equal in state" [Gandhi, 1936]

It was in keeping with this notion that "there is no calling too low and none too high" that Gandhi adopted the use of the term, "Harijan" in place of untouchable and such like terms. All along Gandhi insisted that caste (*varna*) was essential to Hinduism. "If caste and *varna* are convertible and if *varna* is an integral part of Hinduism, I do not know how a person who rejects caste, i.e., *varna* can call himself a Hindu" [Gandhi, 1936, 86]

The distinction between *varna* and *jati* has been a subject of much discussion. What is noteworthy is that those who wish to preserve caste (which for a long time has been *jati*) refer to the early period of the existence of castes, of *varna*. Broadly two stages can be identified in the development of caste (class) society in India. In the first stage "the priests, warriors and administrators were entitled to the surplus in the form of taxes and gifts for services rendered" [Sharma, 1987, 179]. This stage could be labelled that of a "tributary system." It was broadly the period of the *varna* system.

From the time of the Gupta empire land grants became increasingly important. Along with the taxes paid to the raja or empire, the local feudals (*samants*) began to get an increasing share of the surplus. "Indian kings made land grants to get the taxes (surplus) collected. In their turn the grantees collected rents from their subject tenant peasants who could be evicted and even subjected to forced labour" [Sharma, 1987, 190]. Besides, subject tenant peasant there were also untouchable agricultural labourers. The artisan and service castes in *jajmani balutedari* relations had defined jobs to perform in return for shares of the agricultural crop.

It was in the early medieval period that the caste system was tightened up [Yadava, 1987, 204]. And untouchability, as a characteristic of the caste system, dates to about the second century AD [Gupta, 1985, 23]. The establishment of the full-fledged caste system coincides with the change from the earlier tribute paying system to the feudal system.

The distinction between *varna* and *jati* has a certain historical importance. But in the contemporary period, it was disingenuous to suggest that it was *varna* that should be retained and not *jati*, because what actually existed was *jati* with all its features of discrimination and untouchability. To ask, as Gandhi did, that

people should follow their traditional callings was to condemn the untouchables and other low castes to a life of servitude

Gandhi's solicitous attitude towards the upper castes is revealed time and again. In the 1924 Vikom Satyagraha against untouchability he asks the leaders "not to overawe the orthodox" [Dalton, 1967, 171]. At the time of the Yeravada fast [Pyarelal, 1932, 197] Gandhi asked Kelappan to call off his fast for opening up the Guruvayur temple in Malabar on the specious ground that "not enough notice had been given" [Pyarelal, 1932, 197]. Gandhi frequently cautioned that "there should be no coercion. We must, by patient toil and self suffering, convert the ignorant and superstitious but never seek to compel them by force" [Pyarelal, 1932, 132]. This "patient toil and self suffering" in the struggle against untouchability did not include a fast unto death, a weapon he was willing to wield against Ambedkar and the demand for separate electorates for the untouchables, but not against the upper castes to demand an end to untouchability. No wonder Ambedkar was compelled to ask, "Why did he not undertake a fast unto death against untouchability?"

AMBEDKAR'S ANTI CASTE PROGRAMME

Ambedkar insisted against Gandhi, that a partial attack on untouchability would not do and that it was the caste system as such which needed to be overthrown. He proposed that Hindu society needed to be reorganised on the basis of the principles of "Liberty Equality and Fraternity", that for this the "sense of religious sanctity behind caste and *varna* must be destroyed and this sanctity can be destroyed only by discarding the divine authority of the *shastras*" [Ambedkar 1936, 86].

As the Hindu scriptures sanctified the caste system, any revolt against this caste system would only be possible after the oppressed (at least) had rejected their condition and oppression as being divinely ordained, the result of *karma*, or whatever. But such a rejection of caste could only be the beginning of a revolt against the caste system, not its end.

Ambedkar did not deny the economic features of the caste system, its division of labourers, as Ambedkar put it. But for him, it was the ideological factor, sanction of the *shastras* that was all important. Presumably, once the ideology had been rejected, the rest, the economic changes in particular, would follow suit. But it was the very experience of continued caste oppression despite conversion to Buddhism that led the Dalit Panthers, obviously influenced by the Naxalite movement, to declare in their 1973 manifesto "To eradicate untouchability, all the land

will have to be redistributed" [Dalit Panthers, 1986, 141].

Ambedkar's anti-caste programme stressed the importance of the low castes getting political power, or a share of it, in order to liberate themselves. "Nobody can remove your grievances as well as you can and you cannot remove them unless you get political power in your hands" [Ambedkar, 1930, 341]. In a change from the earlier pro British attitude of the anti-caste movement, Ambedkar pointed out, "No share of this political power can come to you so long as the British government remains as it is. It is only in a Swaraj Constitution that you stand a chance of getting any political power into your own hands without which you cannot bring salvation to your people".

At the 1930 Round Table Conference Ambedkar explained why the untouchables needed a Swaraj government. "Indeed, so far as we are concerned, the British government has accepted the social arrangements as it found them. Our wrongs have remained as open sores and they have not been righted, although 150 years of British rule have rolled away the reason it [the British government] does not intervene is because it is afraid that its intervention to amend the existing code of social and economic life will give rise to resistance" [Ambedkar 1930, 505].

POONA PACT

This brings us to the crucial Poona Pact. At the Round Table Conference Ambedkar had argued for separate representation and electorates for the Depressed Classes arguing that "although they are included among the Hindus, they in no sense form an integral part of that community. Not only have they a separate existence, but they have also assigned to them a statute [status?] which is invariably different from the status occupied by any other community in India" [Ambedkar 1930 503].

Gandhi objected to separate electorates for the Depressed Classes. The reason for his objection it might seem, was that he did not want to restrict the Depressed Classes to just this measly share of seats but to enable them to stake their claim to "the kingdom of the whole world". What was clear was that there was, with the caste system continuing in existence, no way in which the Depressed Classes could stake their claim to "kingdom of the whole world". It is like present day opponents of reservation asking "Why should the lower castes aspire only to the reserved seats? If they are good enough they can get all the seats".

Gandhi's real objection to separate seats for the Depressed Classes was not that it gave too little to the Depressed Classes

but that it would "destroy Hinduism", as Gandhi stated in his letter to Ramsay MacDonald before beginning the Yeravada fast [Pyarelal, 1932, 111]. Earlier, at the Round Table Conference Gandhi had similarly seemed to argue from the point of view of what was good for the Depressed Classes. "Will untouchables remain untouchables in perpetuity?" [Gandhi, 1931, 297]. And in a manner now familiar from the anti Mandal agitation he said, "It will create a division in Hinduism" (emphasis added) as though the division did not already exist.

What is clear is that Gandhi's aim in opposing the scheme of separate electorates for the Depressed Classes was to further the aim not of the Depressed Classes but of Hinduism, not the religious interests of Hinduism but the political interests of the leadership of the Hindu community. Faced with the challenge from the leadership of the Muslim community and faced with the prospect of a reduction in the seat it could command in the legislatures, the leaders of the Hindu community not just Gandhi but also Mahatma, the leader of the Hindu Mahasabha, reacted with a politics of inclusion—those who had formerly been excluded from the Hindu fold as untouchable, were now sought to be included within the fold with the paternalistic name *harijan*.

Conventional (Hindu upper caste) wisdom has it that Gandhi overcame the British imperial policy of divide and rule by the Yeravada fast. The fast (The *Epic Fast* as it is called in the book by Pyarelal wrote about it) is part of the legacy of the national movement. This conventional wisdom also has it that Ambedkar was a willing tool of the British in implementing their divide and rule policy.

GANDHI OBJECTIVE

It has already been pointed out that the importance of Ambedkar in the context of the anti colonial movement lies precisely in that he clearly articulated the incorporation of the dalit with Swaraj. At the same time he was not without a regard for the political future of the dalits to the tender mercies of the upper caste Hindu leadership of the Congress. What he sought was a measure of political autonomy for dalits within the national movement. Through separate electorates Ambedkar sought to ensure that dalits would be elected by the dalit community. Gandhi, on the other hand, wanted to prevent exactly this measure of autonomy. Agreeing to reservation of a proportion of seats for dalits Gandhi insisted that these dalit representatives would be elected by the entire Hindu community. This would ensure that the upper castes

who dominated the Hindu community would decide on who would be the dalit representatives. But by agreeing to proportionate representation for dalits Gandhi was admitting that there were divisions among Hindus which should have a bearing on the political structure. Though he said about separate electorates that it "will create a division in Hinduism", he was in effect accepting that this division was not being created by the provision of separate electorates. Gandhi's objective clearly was to maintain an upper caste hegemony over the whole Hindu community.

That Ambedkar was not falling prey to British colonialism's 'divide and rule' is shown in that, at the Round Table Conference and elsewhere, he insisted that it was only under a Swaraj government that the Depressed Classes could hope for salvation—of course, on the basis of their own organised strength and by establishing their political autonomy.

So, it was not the British policy of 'divide and rule' that was at issue in Gandhi's Yeravada fast. The question was whether or not dalits were to be allowed a measure of political autonomy. Gandhi's objective was to keep the Hindus united as a political community. United against whom? Not, as conventionally argued, against the British—that was not the issue in the Yeravada fast. The unity of Hindus as a political community was necessary in getting their politically dominant sections (upper caste Hindus, landlords, professionals and, behind them, the important power of the pan-Indian bourgeoisie) a greater weight *vis-a-vis* the other communities, meaning essentially Muslims, in the constitutional set-up leading to 'self-rule'. It was for this reason that Gandhi could unite behind him, at that time, all the organisations and representatives of upper caste Hindus, ranging from Madan Mohan Malaviya of the Hindu Mahasabha to G D Birla. Of course, this is not to imply that these organisations subsequently remained united behind Gandhi—the differences over partition and the assassination of Gandhi are proof that they did not. But in the Poona Pact they were united behind him. And the objective of the Yeravada fast was to force the dalits, under Ambedkar, to accept their position of being subordinated to the politically dominant sections of the Hindu community.

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CHINA

Export-Led Market Capitalism

Nigel Harris

Market capitalism and foreign investment are all the rage in China for the moment, for they seem so superior to what went before. But this mood will not last indefinitely.

I

CHINA SHAKES THE WORLD! is still on sale in the foreign language bookshops of the People's Republic. Goodness knows why: it is as relevant to today's China as a Victorian tract. China may be shaking the world but it is rather because of its exploitation, not its suppression, of capitalism.

This year the country has resumed growth, returning to the slipstream of world trade. In the first quarter of 1991, industrial output increased by nearly 14 per cent (compared to the same period of 1990). This, despite government caution, resumes the hectic pace of growth throughout much of the eighties—industrial output, in real terms, grew annually by 15 per cent between 1983 and 1988. Furthermore, there have been excellent harvests in the last two years and, although there were heavy losses because of a lack of storage space, rural incomes in the more fertile areas have grown strongly.

You can almost smell the growth, the electricity of breakneck economic change. Guangdong province, alongside Hong Kong, is as before in the lead, apparently irrepressible, despite all central efforts to curb it. The provincial output grew by over 21 per cent per year between 1983 and 1988, and there was continued rapid growth even in the following two recession years. The long-term trend is dramatic—in the two decades to 1978, the average per capita provincial income of the non-agricultural population increased 0.75 per cent per year; in the decade after, by 7.7 per cent per year.

The heart of the industrial growth is the cities, towns and villages of the twisted mass of waterways that constitute the Pearl River Delta, particularly between Guangzhou and Hong Kong. Some of the localities are nationally famous for the speed of their industrialisation—Shunde, Foshan, Dongguan, with the decade-old brand new boom city of Shenzhen, the Special Economic Zone immediately next to Hong Kong. Rural prosperity and peasant savings have spread factories throughout the countryside. The villages seem to have been entirely rebuilt, with three-storey little palaces for the new rural rich. Some of the construction work spills over into party corruption—in mid-April, it was reported in *China Daily* that 759 party officials had been accused of illegally building private homes, 58 were sentenced on criminal charges and hundreds more sacked. And in the cities and towns, the construction work is even more extensive—it seems as if they are being rebuilt before your eyes with high rise offices, apartments and the customary symbol of status, palatial hotels for overseas Chinese visitors returning in search of roots and with investible funds.

What is the basis for this extraordinary decade of growth? A key factor was the reform of the rich well-watered agriculture of the delta region, increased prices of agricultural produce, restoration of rural markets and the rural industrialisation programme encouraged by the government. A second has been the coincidence of three factors: first, Hong Kong's rising wages along with strict immigration controls, which forced employers to search out new locations for the sort of manufac-

relying on cheap labour; second, the long expansion of the United States economy with a radical dependence upon increasing manufactured imports, and, third, the Chinese government's deliberate encouragement of foreign investment, creating a framework to give some assurance to foreign business that they could manufacture without facing expropriation or predatory taxation. Hong Kong firms scrambled to reach collaboration deals with Chinese corporations, setting up over ten thousand establishments, many of them processing and assembling exports. They began in the Special Economic Zone, but almost simultaneously moved on to other parts of the delta which might not enjoy the same publicly provided incentives, but where labour was even cheaper and local authorities desperate to be hospitable. By 1989, it is estimated that operations in Guangdong province producing for Hong Kong firms employed two and a-half million workers. If we add to this the additional jobs in manufacturing, construction, infrastructure and other services which have been created as the result of this, the province must hold the world record for job creation in the eighties.

The spread of Hong Kong manufacturing has been considerably assisted by the peculiarly decentralised system of government that now operates in the province, and the ferocious competition between local authorities to woo and capture foreign investment. Local government has considerable local taxing power and autonomy, they have used it to improve highways, land clearance and drainage, to build power plants to escape the notoriously erratic supply of power to develop telephone communications, even to build ports, as well as elements of technical infrastructure. Since the competition is so strong, they have bent all efforts to cut the bureaucratic restrictions on foreign investment to speed up the processing of applications and facilitate action (one company maintains it is far quicker now to invest in the delta than in free market Hong Kong).

What do the companies make? It is the usual export processing output—garments (especially knitwear), footwear, toys, luggage, sports bags and equipment, electronic consumer goods, prams, and from time to time, with the famous flexibility of Hong Kong firms to meet quickly any external demand, particular temporary exports for example, latex gloves, plastic-covered bird cages, etc. These firms now produce about a third of the provincial industrial output. Much of it goes to the United States. Thus, while Hong Kong's manufacturing labour force has begun to decline in size, its output of industrial goods has soared.

As in other countries engaged in export-processing, nearly 60 per cent of the labour force is women. Their average age is 26, but more than 50 per cent are under the age of 22. Of the workers 90 per cent are said to be migrants from rural areas—there are possibly two or three million migrants in the delta from outside the province. On the other hand, some 50,000 Hong Kong citizens now work in the delta—managers, technicians, supervisors, buyers. 15,000 vehicles cross the border daily, and about a fifth of Hong Kong's currency is said to circulate in Guangdong.

II

How does this fast moving export led market capitalism fit the rigidities of a state organised economy? The one continually undermines the other, eroding the foundations of state control. Consider the workforce. The settled urban labour force of the fifties was registered and thus entitled to a mass of privileges denied to the rural majority—access to urban schools, state jobs at fixed rates of pay with lifetime security of employment, health insurance, disability and old age pensions, highly subsidised housing, food and clothing rations. Very few were allowed to enter this minority apart from the children of existing members. The registered citizens now constitute about 16 to 17 per cent of the population. From the fifties to the late seventies there was also tight control of migration to the cities and from the seventies the one child family policy was enforced strictly on urban couples. The demographic results can now be seen—the median age of the rural population is 21 and of the urban 26. The results of this complex of measures entailed that whenever the economy expanded, there were likely to be severe shortages of urban labour, with rising wage pressure. In the sixties, this was relieved by the 'worker-peasant' system bringing into the city to do unskilled manual work young rural males for strictly limited periods without including them in the privileges and pay of the registered urban labour force. In the eighties, the problem has been eased by relocating urban manufacturing, or subcontracting it, to rural areas. This is part of the basis for the rapid industrialisation of parts of the countryside—between Shanghai and Nanjing along the Yangtze river in southern Jiangsu, in the area between Tianjin and the Shandong Peninsula, in the Xiamen area of Fujian and, of course, in the Pearl River Delta.

From 1978, the controls on migration have been eased. Nonetheless, foreign businesses, looking for cheap labour for export processing, naturally opted to employ workers who were not entitled to

the privileges of the registered population, whether the locations were in urban or rural areas. Rural workers are not entitled to fixed wages, have few welfare entitlements or subsidies, output prices can be varied, there is a light burden of regulation and taxation (especially where local authorities are competing to offer favours), more land, etc. Local party cadres employ their power to favour enterprises in their districts, to obtain for them cheap sites, supplies, low interest credit, taking a cut for themselves along the way (hence the proliferation of private mansions of party officials).

Nonetheless, the labour force for the Pearl River industrialisation is heavily migrant and therefore, in strict terms, illegal. At least it is now officially acknowledged—as 'floating population'. Some estimates put the number of unregistered people in urban China as high as 50 million (others at one in five of the urban population). There are about 2 million in Shanghai. In the Pearl River Delta, some estimates suggest two thirds of the population of Baoan County (adjacent to the Shenzhen Special Economic Zone) is unregistered, a half in Foshan, and up to 16 per cent in Dongguan. The unregistered must feed themselves from the open market and house themselves privately, only the peasants can officially build private houses, so it is presumed they house the new workers on the peri-

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primary of the black market, alongside the official 'white' economy, there exists a growing black—or at least, grey—labour market and a private housing market, the two coming to play an increasingly important role in the overall economy.

III

The four or five coastal enclaves of very high growth—of which the Pearl River Delta is the most dynamic—are not the vast expanse of China proper. The gap between the richer and poorer areas of the country has widened dramatically in the eighties. In the second half of the decade, four of the leading provinces (Guandong, Fujian, Zhejiang and Jiangsu) increased their real output by about 140 per cent, or four times as much as the slowest growing provinces. Nor is anyone apparently adding up the cost of high growth, particularly in the provision of infrastructure (especially high where factories are spread thinly in rural areas). Few seem troubled by the possibly transitory character of export-processing production or concerned to ensure that there is increasing domestic content in the output. The government complains that production is of low technology, and has now demarcated 38 zones for high technology manufacture; there are precious few hi-tech operations in these zones. Not too many people seem to realise that, by definition, export processing employs low technology precisely because it is dependent upon cheap labour. It is undoubtedly valuable in a poor country in turning unskilled rural workers into a semi-skilled industrial labour force, in training managers, supervisors and technicians, especially in the skills of selling in a world market, but it cannot upgrade technically China's output. Indeed, contrary to much opinion in China, foreign investment cannot save the country, only the Chinese can do that.

This is especially important since at the same time as co-operative and private manufacturing is growing, the state sector—employing a third of the industrial labour force—is floundering. In 1990, the profits of state enterprises fell by 58 per cent. At the last National People's Congress, the prime minister reported that a third of the national budget was now devoted to keeping afloat the third of state enterprises which were 'sick' (to use the Indian term) and subsidise urban food supplies. Furthermore, the quality of output was often poor—for example, some say that only a quarter of the 66 million tonnes of steel produced is usable in modern manufacturing. There is great overproduction in certain sectors, especially in heavy industry, the

output merely going to useless stocks.

The old industrial economy, especially in a city like Shanghai, is also now much afflicted by the increasing protectionism of provinces, counties and cities. China's government is now unbelievably decentralised. The centre relinquished the right to raise taxes to key provinces—the provincial government bargains over the size of a fixed annual payment to the centre, and keeps the rest of what it raises. This produces considerable anomalies—Guandong has been favoured so it pays to the centre only ten per cent of the 10 billion yuan it raises, whereas Shanghai parts with three-quarters of its revenue (or 10.5 billion yuan). Yet whatever the payments, the centre has run a growing budget deficit without the means to increase its revenue to cover it. Last year, in the draft Eighth Plan proposals, the centre tried to introduce some central taxes, but the provinces, led by Guandong, defeated it, just as they defeated Beijing's attempt to restrict the growth of rural industry.

China has always been an archipelago of local economies with relatively little interaction between them. Local isolation—and self-sufficiency—has been exaggerated by the failure to invest in adequate inter-provincial and inter-urban transport links. But now the problem of fragmentation is increasingly extreme. There used to be a tendency to restrict inter-provincial trade in raw materials, but now the restrictions are affecting manufactured goods—each province is attempting import substitution, to the severe loss of national manufacturing centres like Shanghai. Beijing has only very weak capacity to control the country now, a weakness compounded by what seems to be a stalemate between the leadership factions.

The provinces are now very powerful, particularly the coastal provinces, the main beneficiaries of the new economic order. They maintain great pressure for continued reform, whatever the conservatives at the centre may think. The government might now decide that it is time to shift favours from Guandong and the south-west to Shanghai and the north-east and has offered a gigantic new development project at Pudong for a new Shanghai (shades of New Bombay!) and a new Shanghai stock exchange. But the other provinces swiftly seized the opportunity—Shenzhen, without central permission, opened its own stock exchange one day before Shanghai, and Guangzhou (capital of Guandong) and a number of other cities announced plans to open exchanges. Shenzhen also proposed that Special Economic Zones should have the right to issue their own currency, to control their foreign trade and have law-

making powers—the centre, however, virtual sovereignty. The more gloomy commentators foresee a time when these centrifugal forces may pull the country apart, much as is occurring in the Soviet Union, with Hong Kong merging in an independent Guandong, Taiwan in Fujian, and Japan and South Korea in the north-east.

For the leadership of the coastal provinces, it seems, the condition of continued rapid growth is expanding reforms, moving increasingly towards a full market economy. Nobody can say it; there must be a facade of hypocrisy, but the war on this issue is already over. Whatever the centre says, Guandong apparently continues regardless as it wishes. Even at the centre it is accepted that a private housing market must emerge, unprofitable plants must be closed, urban unemployment accepted, subsidies ended and food prices freed; some are perhaps even thinking of privatisation. But the leadership moves very slowly, trapped between those who say what happened in June 1989 was due to an excess of reform, and those who argue it was the result of a failure to reform enough.

Meanwhile, in the short term, there are hazards. The United States economy is in recession, and its government threatens China with the removal of trade privileges unless the trade deficit is eliminated. Hong Kong merchants are among the most nimble in the world, so they may find alternative outlets if the worst happens. Competition from garments made in Pakistan is another threat. But at least tourism is back to normal after the great decline of 1989; 27 million people visited China last year. There are great problems in the short-term bunching of debt payments next year.

However, there are still grounds for optimism about the economy. What is less promising is the political scene. Many people speak openly of their hostility to the regime, and some no doubt dream of an end to the monopoly of political power in the hands of the Communist Party. The subjective basis for what happened in June 1989 seems to be intact, and people await the opportunity to return to the same agenda. The central leadership is very old and cannot last indefinitely.

Meanwhile, the fast moving forces of a market economy continually erode the sluggish rigidities of the old order. The reform programme will necessarily bring with it new forms of class struggle and new considerations of what sort of society China is to be. For the moment, market capitalism and foreign investment may be all the rage for they seem so superior to what went before, particularly the insanities of the Cultural Revolution. But that mood will not last indefinitely.

Working of State-Level Manufacturing Public Enterprises: Promise and Performance

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REVIEW OF INDUSTRY AND MANAGEMENT

Working of State-Level Manufacturing Public Enterprises

Promise and Performance

T L Sankar
R K Mishra
R Nandagopal

The manufacturing State-level public enterprises are operating in vital areas of the economy. Their efficiency and effective working would strengthen not only their functioning but also the effectiveness of State governments as a whole. However, these enterprises suffer from many infirmities which call for suitable policy and operational reforms not merely at the State level but also at the enterprise level in each State. The structural reforms suggested in the paper could go a long way in helping them turn the corner.

MANUFACTURING enterprises are a very fascinating area to study in the domain of the State level public enterprises (SLPEs). With the direct involvement of the various State governments in the industrialisation process of the country, such enterprises are being set up in increasing numbers by every State. The budget allocations provided for equity support for these enterprises have registered a phenomenal growth. However, their working has become a matter of great concern to policy-makers in view of the non-fulfilment of their objectives to a large extent. An intensive study is required to dissect this phenomenon and to suggest measures for the turn-around of the manufacturing SLPEs. We propose to investigate in this paper the genesis, growth, objectives, investment, financing, physical and financial performance, and problems of these enterprises. The information contained in the paper has been collected from the data base on the SLPEs set up by the Planning Commission and the Ninth Finance Commission at the Institute of Public Enterprise.

GENESIS, GROWTH AND OBJECTIVES

The manufacturing SLPEs have a long history of working to their credit. Even before independence the princely states of Travancore and Mysore had set up rubber, soap and oil factories and encouraged sericulture. The success of this direct intervention encouraged the princely States of Rajaputana, Jammu and Kashmir, Vijayanagaram and Hyderabad to set up more and more of such units. After independence and with the onset of the planned era it became obligatory on the States forming the Indian Union to participate in industrial reformation and restructuring. Many States as a result of this deliberate policy started setting up manufacturing units in the middle of the 1960s. Between 1955 and 1965, 180 manufacturing SLPEs were set up by the various States. The period 1965 to 1980 saw a great spurt in the number of and investment in these enterprises. It was in this period that the base of such units was widely diversified from soaps, detergents, sericulture, paper, mining, cement and sugar

units to light and heavy engineering, steel and scooters. Many such units were set up by the Industrial Development Corporations (IDCs) in Andhra Pradesh, Gujarat, Tamil Nadu, Maharashtra and Haryana to produce steel, paper, scooters and engineering items. It was during this period that the States in the north-east set up manufacturing enterprises to exploit the agro and forest based local resources while States such as Uttar Pradesh and Maharashtra started cement, fertiliser, textiles and sugar units as a part and parcel of their area development programmes. The 1980s were a decade of consolidation for these industries. During this period, manufacturing SLPEs have come up in the area of electronics, drugs and phar-

maceuticals, telecommunications, beverages and computers. The takeover of sick units has also added to the portfolio of PEs in this decade as many State governments decided on socio-economic grounds on the acquisition of such units from the private sector. These units mostly include textile, tea, chemical and engineering enterprises taken over by the West Bengal, Maharashtra, Gujarat, Kerala and Tamil Nadu State governments.

The number of these enterprises differ from State to State. Table 1 shows that the first three places went to Kerala, West Bengal and Karnataka which had 47, 24 and 21 manufacturing SLPEs, respectively. Assam, Gujarat, Maharashtra, Rajasthan, Tamil

TABLE 1: STATE-WISE DISTRIBUTION OF MANUFACTURING SLPEs

| State | Total No of SLPEs | A | B | C | D | E | F | G | H |
|---------------------|-------------------|----|----|----|----|----|----|---|----|
| 1 Andhra Pradesh | 8 | 4 | — | 1 | 2 | — | 1 | — | — |
| 2 Arunachal Pradesh | — | — | — | — | — | — | — | — | — |
| 3 Assam | 19 | 6 | 4 | 4 | 2 | 1 | 2 | — | — |
| 4 Bihar | 9 | 1 | 2 | 1 | 1 | 2 | 1 | 1 | — |
| 5 Goa | 4 | 2 | 2 | — | — | — | — | — | — |
| 6 Gujarat | 17 | 4 | 3 | 1 | 1 | — | — | 1 | 7 |
| 7 Haryana | 5 | 2 | 2 | — | 1 | — | — | — | — |
| 8 Himachal Pradesh | 6 | 1 | 2 | — | 1 | — | — | — | 2 |
| 9 Jammu and Kashmir | 7 | 1 | — | — | 1 | — | — | 1 | 4 |
| 10 Karnataka | 21 | 6 | 1 | 2 | 2 | 2 | 1 | — | 7 |
| 11 Kerala | 47 | 7 | 10 | 3 | 2 | 3 | 1 | 1 | 20 |
| 12 Madhya Pradesh | 8 | 1 | — | 1 | 2 | — | — | — | 4 |
| 13 Maharashtra | 16 | 1 | — | 6 | 1 | 1 | — | — | 7 |
| 14 Manipur | 2 | — | 1 | — | — | — | 1 | — | — |
| 15 Meghalaya | 4 | — | — | — | 1 | — | — | 1 | 2 |
| 16 Mizoram | — | — | — | — | — | — | — | — | — |
| 17 Nagaland | 1 | — | — | — | — | — | 1 | — | — |
| 18 Orissa | 6 | — | 2 | 2 | 1 | — | — | — | 1 |
| 19 Punjab | 1 | — | — | — | — | — | — | — | 1 |
| 20 Rajasthan | 15 | 2 | 1 | — | 2 | — | 1 | — | 9 |
| 21 Tamil Nadu | 15 | 3 | 1 | 2 | 1 | — | 2 | 1 | 5 |
| 22 Tripura | 1 | — | — | — | — | — | — | — | 1 |
| 23 Uttar Pradesh | 14 | — | 4 | 4 | 1 | 1 | 3 | 1 | — |
| 24 West Bengal | 24 | 8 | 4 | 3 | 1 | 2 | 1 | — | 5 |
| Total | 250 | 49 | 39 | 30 | 23 | 12 | 15 | 7 | 75 |

Notes : A - Engineering, B - Electronics, C - Textiles, D - Mining, E - Drugs and Chemicals, F - Sugar, G - Cement, and H - Others.

Source: Database on SLPEs, Institute of Public Enterprise, Hyderabad.

Nadu and Uttar Pradesh followed with 19, 17, 16, 15 and 14 enterprises, respectively. These States took upon themselves the 'entrepreneurial role' more enthusiastically than the other States. The need for filling up the entrepreneurial void was self-evident in the case of some States such as West Bengal and Kerala, where private sector has remained shy in venturing to set up manufacturing units. It is very important to note that out of 754 SLPEs in the country in the manufacturing, trading and service, finance, promotional and welfare sectors, manufacturing SLPEs topped the list with 250 enterprises, followed by 236 promotional, 121 trading and service, 93 welfare and 54 finance SLPEs. Table 1 shows that engineering and electronics enterprises dominated the overall manufacturing SLPEs scene in the country.

The objectives of the SLPEs vary from State to State. The objectives have also undergone changes over a period of time. However, the broad objectives of these enterprises are aimed at (i) filling up the entrepreneurial gap caused by the private sector in the various States; (ii) undertaking capital-intensive and risk-prone industrial activity; (iii) supplementing and supplanting the efforts of the private sector in the industrial development of the States; (iv) exploiting technological advantage in favour of States in areas of high-tech base; (v) operating monopoly business in the state sector; and (vi) generating surplus for the planned development of the states and for their own growth.

INVESTMENT AND FINANCING

As on March 31, 1987, 250 manufacturing SLPEs had an investment of about Rs 3,837 crore. Table 2 shows that the investment in these enterprises more than doubled during the six-year span of the study. Excepting West Bengal and Uttar Pradesh, the investment in other States has shown higher-than-average growth.

The ground rule for the investment pattern in manufacturing enterprises initially specified by the Central government and subsequently followed by State governments is a debt-equity mix of 1:1. This is based on the consideration that such enterprises entail huge capital investments, longer gestation period, stable turnover and rapid obsolescence of technology. There have been variations in this ground rule insofar as fertiliser and paper units are concerned as they require capital in mega proportions. Finance theories point out that these enterprises need to follow the source-cum-stage-based approach under which the financing is linked to the stage of operation of an enterprise. In the gestation period, these enterprises should be financed by equity. In operation, they should be financed by debt. In expansionary phase, these enterprises should be financed by part debt and part equity as, on the one hand, the ongoing activities would be in their normal run and the erection and construction would take place for expansion,

on the other. Once the releases of funds are negotiated the flow should be as per schedule. Tables 2 and 3 give the data on investment and financing of these enterprises.

It may be observed from Table 2 that Karnataka, Andhra Pradesh and Uttar Pradesh shared the top three places in terms of investment in the manufacturing SLPEs. It is worth noting in this context that huge investment in a couple of enterprises gave them this honour. In the case of Karnataka, the investment in Mysore Paper Mills and Visveswaraya Iron and Steel amounted to Rs 230 crore and Rs 165 crore respectively. The Singareni Collieries Company in Andhra Pradesh had an investment of Rs 440 crore. In Uttar Pradesh, the investment in its Sugar Corporation turned out to be Rs 247 crore. We may mention here that the top five manufacturing SLPEs in terms of investment in the country included Singareni Collieries Company, UP State Sugar Corporation, Tamilnadu Newsprint and Papers, Mysore Paper Mills, and Durgapur Projects (Rs 187 crore). The investment in these enterprises worked out to nearly 40 per cent of the total investment in the manufacturing SLPEs in 1986-87.

Table 3 shows that the debt-equity ratio in different States varies very widely. But generally within the States the debt-equity ratio followed a steady pattern over the years. When the enterprises in the manufacturing sector do well financially, they would be in a position to raise institutional finances and tap other budgetary sources and increase the debt component. The presence of a higher debt-equity ratio in Andhra Pradesh, Karnataka, Gujarat and Maharashtra could

be ascribed to these reasons. In fact, some of the large SLPEs like Singareni Collieries and Hyderabad Allwyn in Andhra Pradesh have obtained external debt assistance in large measure. However, in the case of West Bengal the increasing debt-equity ratio appears to reflect more the tendency to capitalise the accumulated losses as debt in the organisations. It is worth noting that lack of proper policy towards the financial structuring of the organisation in different States is a matter of serious concern. On the whole, for all the enterprises taken together equity fell short of the 1:1 norm in States such as Andhra Pradesh, Rajasthan, Assam, Orissa, Haryana, Punjab, Tamil Nadu, Karnataka, Kerala, Madhya Pradesh and Maharashtra. This constituted a departure from the well established practices of designing the capital structure as it failed to provide the financial incentive to undertakings to earn profits. When more than half of the enterprises were either incurring cash losses or had receding net worth, it was inappropriate for these enterprises to have an excessively high debt-equity ratio. The financing practices in the enterprises under reference reveal a couple of interesting dimensions. These enterprises had depended, by and large, on the State governments for both debt and equity support. The financing through current credit formed a very negligible proportion (say, less than 10 per cent). Only in the case of a few enterprises fixed deposits were invited from public. The foreign participation in the equity capital similarly was limited to some hi-tech enterprises such as Hyderabad Allwyn, Mandya Paper Mills, Tamilnadu Newsprint and

TABLE 2: CAPITAL INVESTMENT IN MANUFACTURING SLPEs

(Rs in lakh)

| Sl No | State | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 |
|-------|-------------------|---------|---------|---------|---------|---------|---------|
| 1 | Andhra Pradesh | 27943 | 36418 | 49620 | 51446 | 50203 | 58383 |
| 2 | Assam | 3964 | 4957 | 5719 | 7963 | 11004 | 13159 |
| 3 | Bihar | 6197 | 9178 | 11519 | 13039 | 17839 | NA |
| 4 | Cooa | 165 | 891 | 10451 | 12958 | 11658 | 19193 |
| 5 | Gujarat | 4208 | 5910 | 7508 | 10713 | 19585 | 19584 |
| 6 | Haryana | 750 | 880 | 910 | 940 | 980 | 1068 |
| 7 | Himachal Pradesh | 829 | 938 | 981 | 1008 | 1140 | 1271 |
| 8 | Jammu and Kashmir | 2929 | 3381 | 4581 | 5808 | 6451 | 7549 |
| 9 | Karnataka | 44890 | 47748 | 50440 | 52271 | 54118 | 60529 |
| 10 | Kerala | 27016 | 33430 | 39789 | 42447 | 44698 | 46605 |
| 11 | Madhya Pradesh | 1840 | 1920 | 2140 | 2860 | 3240 | 3870 |
| 12 | Maharashtra | 5840 | 6077 | 6251 | 7952 | 6795 | 7861 |
| 13 | Manipur | 394 | 410 | 465 | 520 | 580 | 627 |
| 14 | Meghalaya | 920 | 970 | 1040 | 1210 | 1485 | 1726 |
| 15 | Nagaland | 294 | 328 | 360 | 384 | 420 | 496 |
| 16 | Orissa | 7944 | 9270 | 10717 | 12853 | 14261 | 15244 |
| 17 | Punjab | 74 | 80 | 84 | 91 | 98 | 113 |
| 18 | Rajasthan | 3100 | 3933 | 4630 | 4977 | 5676 | 5743 |
| 19 | Tamil Nadu | 15662 | 16024 | 36755* | 40014 | 41643 | 45514 |
| 20 | Tripura | 910 | 980 | 1060 | 1140 | 1310 | 1516 |
| 21 | Uttar Pradesh | 21505 | 28051 | 34820 | 39946 | 45302 | 49575 |
| 22 | West Bengal | 17840 | 24182 | 27208 | 30202 | 32856 | 37654 |
| | Total | 195214 | 235956 | 307048 | 340742 | 371344 | 397279 |

Note: * The investment in the manufacturing SLPEs of Tamil Nadu skyrocketed in the year 1983-84 due to investment in the Tamilnadu Newsprint and Paper Mills.

Source: Database on SLPEs, Institute of Public Enterprise, Hyderabad.

Papers and New Government Electric Factory. Again, some of these enterprises which earlier belonged to private entrepreneurs had preference share capital which constituted a very small proportion of their share capital. Since most of these enterprises were financially not viable, even the debt funds had to come only from the State governments. The manufacturing SLPEs in the north-east were exceptions as the Central government funded the debt component of these enterprises largely.

PHYSICAL AND FINANCIAL PERFORMANCE

The turnover to investment ratio, the capacity utilisation, product rejection rate and project implementation schedules could be some indicators helpful in measuring the physical performance of the manufacturing SLPEs. However, it has not been possible to collect systematically information on them.

The capacity utilisation was low by all standards. It fluctuated between 25 and 50 per cent in most of the States. The reasons adduced for low capacity utilisation include lack of balancing facilities, inept site selection, energy shortages, sub-standard plant and equipment, transport bottlenecks, inadequate technical personnel, lack of infrastructure, market failures, demotivated personnel, absence of an appropriate mechanism to enforce a strong marketing drive, failure of market and lack of vision regarding diversification on the part of the top management of these enterprises.

It is difficult to fix the optimal rate of return for the manufacturing SLPEs as the products manufactured by these enterprises cover a wide spectrum of goods from consumer durables to electrical equipment, and engineering goods to consumer products like soaps, detergents, textiles. In the private sector, the average rate of return of these industries varies widely as the risks involved in each sub-category of industry is different. For example, electrical industries which tend to be highly profitable are associated with high risk of their turning out to be loss-making if they do not upgrade the technology or keep their market prices competitive. The cement, sugar, textiles industries have a low profitability but have less risk and greater possibility of consistent performance. A study of the profitability of manufacturing enterprises in the public sector proves that such expectations are real. There are units with highly profitable potential and there are many more with very low profitability. This is not surprising as many of the SLPEs in the manufacturing sector were originally profit-making industries which became sick and were taken over as sick industries.

Secondly, some of the SLPEs under the manufacturing category started off with congenial disabilities as they were located in inappropriate places and were provided with technologies which were outdated. Some were supplied with sizes which are sub-optimal. Furthermore, in this sector, there

are a number of enterprises which have not gone into full production and overcome their initial teething problems. Given these variations, it would be improper to suggest a rate of return on the basis of observed situations. It appears proper to suggest the optimal rate of return that one sees in the private sector. Normally in various price fixations by the Bureau of Industrial Costs and Prices, the rate of return is taken as 12 to 15 per cent on the net assets. Taking this one would accept that the current rate of return for long-term loans would be about 12 per cent. It follows from the above that the minimum rate of return could be fixed at 12 per cent before payment of interest and taxes. It is worth noting that the central public enterprises as a whole are able to show a rate of return on capital employed of a little over

12 per cent consistently from 1960.

The financial performance of these enterprises has become very critical in view of the budgetary deficits of the State governments. These enterprises have been called upon to contribute their might to filling the kitty of the State governments. They also need to mobilise finances for their own growth. Table 4 gives the data on the financial performance of these enterprises. We have taken the profit before interest and taxes (PBIT) to investment as the indicator of financial performance.

The rate of return in the manufacturing SLPEs in each State is given in Table 4 for the years 1981-82 to 1986-87. The table indicates that the performance of the SLPEs in the manufacturing sectors for, reasons which we have set out already, is uniform

TABLE 3. DEBT-EQUITY RATIOS OF MANUFACTURING SLPEs

| Sl. State No | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 |
|---------------------|---------|---------|---------|---------|---------|---------|
| 1 Andhra Pradesh | 2.45 | 2.80 | 2.00 | 2.95 | 2.25 | 2.09 |
| 2 Bihar | 0.37 | 1.42 | 1.42 | 1.42 | 1.42 | NA |
| 3 Goa | 1.25 | 1.44 | 1.21 | 1.28 | 0.58 | NA |
| 4 Gujarat | 2.09 | 2.50 | 2.23 | 2.96 | 1.61 | 1.61 |
| 5 Himachal Pradesh | 1.19 | 0.58 | 0.58 | 0.48 | 0.50 | NA |
| 6 Jammu and Kashmir | NA | 1.62 | 0.27 | 0.24 | 0.53 | 0.53 |
| 7 Karnataka | 4.08 | 4.24 | 2.29 | 2.33 | 0.25 | 2.59 |
| 8 Kerala | 1.75 | 1.95 | 2.11 | 1.52 | 1.61 | 1.72 |
| 9 Madhya Pradesh | NA | 0.57 | 0.33 | 0.33 | 0.33 | 0.33 |
| 10 Maharashtra | 0.97 | 1.28 | 1.42 | 1.29 | 2.44 | 2.28 |
| 11 Manipur | NA | NA | 0.11 | 0.09 | 0.09 | 0.09 |
| 12 Nagaland | 1.73 | 1.73 | 0.53 | NA | NA | NA |
| 13 Orissa | 1.77 | 0.95 | 2.28 | 2.14 | 1.96 | 1.67 |
| 14 Punjab | 0.55 | 1.01 | 1.03 | 1.08 | NA | NA |
| 15 Rajasthan | 0.62 | 0.94 | 0.98 | 1.06 | 1.31 | 1.36 |
| 16 Tamil Nadu | 1.87 | 0.93 | 0.62 | 1.52 | 1.66 | 1.28 |
| 17 Tripura | NA | NA | NA | NA | 1.01 | NA |
| 18 Uttar Pradesh | 0.76 | 0.75 | 0.94 | 0.99 | 1.02 | 0.81 |
| 19 West Bengal | 4.76 | 4.81 | 5.24 | 4.97 | 6.57 | 5.34 |

Source: Database on SLPEs, Institute of Public Enterprise, Hyderabad

TABLE 4. RATE OF RETURN IN MANUFACTURING SLPEs

| State | 1981-82 | 1982-83 | 1983-84 | 1984-85 | 1985-86 | 1986-87 |
|---------------------|---------|---------|---------|---------|---------|---------|
| 1 Andhra Pradesh | 10.02 | 0.74 | 3.12 | 1.78 | 17.79 | 15.29 |
| 2 Bihar | 11.92 | 2.54 | -2.54 | -2.54 | 2.54 | 2.54 |
| 3 Goa | 5.89 | 7.95 | 10.75 | 35.07 | 49.11 | 49.11 |
| 4 Gujarat | 8.33 | 2.23 | 1.41 | 1.20 | -3.62 | 3.62 |
| 5 Himachal Pradesh | -0.32 | 0.32 | 0.47 | 0.38 | 1.52 | 1.52 |
| 6 Jammu and Kashmir | NA | NA | 0.45 | 16.56 | 4.70 | 4.70 |
| 7 Karnataka | 4.65 | -3.96 | -2.59 | -0.28 | 0.78 | 2.49 |
| 8 Kerala | 3.71 | 0.16 | 0.22 | 3.03 | 0.35 | 0.28 |
| 9 Madhya Pradesh | NA | 5.68 | 5.41 | 5.41 | 5.41 | 5.41 |
| 10 Maharashtra | 4.04 | 3.92 | 0.32 | 0.12 | 0.94 | -0.05 |
| 11 Nagaland | 20.61 | -17.44 | -3.81 | NA | NA | NA |
| 12 Orissa | 2.85 | 5.23 | 3.53 | 3.93 | 5.68 | 3.71 |
| 13 Punjab | 0.72 | 3.39 | -3.98 | -1.26 | NA | NA |
| 14 Rajasthan | 1.32 | 12.26 | 25.31 | 0.35 | -3.48 | -3.48 |
| 15 Tamil Nadu | 5.02 | -2.72 | 1.46 | 0.06 | 4.54 | 2.25 |
| 16 Tripura | NA | NA | NA | NA | 5.69 | 5.69 |
| 17 Uttar Pradesh | -0.24 | 4.35 | -3.61 | -3.13 | 0.70 | 1.83 |
| 18 West Bengal | -1.07 | 0.92 | -5.62 | -1.14 | -0.17 | -0.02 |
| 19 Meghalaya | -1.76 | -0.55 | -1.52 | -0.84 | -0.84 | -0.84 |
| Average | -0.53 | 0.37 | 0.87 | 2.12 | 3.90 | 3.72 |

Source: Database on SLPEs, Institute of Public Enterprise, Hyderabad.

neither within the State nor as between States. Within each State the performance fluctuates very widely in different years, may be due to one or two major manufacturing industries performing very well or very badly in particular years and their performance over-shadowing the performance of other units.

In Goa, the manufacturing industry being only one, the performance was positive for all the years and increasing steadily. In Madhya Pradesh it was positive at a modest level of 5.41 per cent. Moreover, it was far below the target of 12 per cent which was assumed as a reasonable rate of return for the State. In certain States this average of 12 per cent was reached in particular years but was not kept up, e.g. Rajasthan. But it is depressing to note that the manufacturing SLPEs' performance was very bad in some years in certain States such as Bihar, UP and West Bengal. The average for all the SLPEs in the manufacturing sector for the country as a whole was far below 12 per cent varying from (-) 0.5 per cent to (+) 3.9 per cent during the various years of the study. The reasons for this need an in-depth analysis, but it would appear that while the State governments took entrepreneurial decisions to set up manufacturing industries to go by their productive capability, their capability to implement such decisions was poor and they had only achieved in getting a lot of manufacturing industries which had not performed, as well as similar industries in non-government sectors.

It is evident from the study that the manufacturing SLPEs did not pay any heed to business prudence and commercial working. The working capital in these enterprises exceed 6 to 8 months' requirements of production and turnover which hints at the poor cash management in these enterprises. The accumulated deficits to paid-up capital ratio points out that in most of the States the situation had crossed the danger mark. Excepting some mining and mineral enterprises in Rajasthan, Madhya Pradesh and Maharashtra and a couple of enterprises in the electronics and telecommunication sectors in some States, viz. Uttar Pradesh, Kerala and Gujarat, most of the enterprises had wiped out their paid-up capital. The profitability in many cases was discouraging even at the gross margin levels. The optimal rate of return for these enterprises is 12 per cent per annum on their investment. Table 4 shows that the rate of return before interest and taxes in the manufacturing SLPEs averaged 1.74 per cent during the period 1981-82 to 1986-87. In the SLPEs in Goa the best average rate of return was 25.31 per cent which was well above the optimal rate of return. This shows that there was tremendous scope for the SLPEs to boost their profitability. This is supported by the fact that the overall rate of return for all the manufacturing SLPEs during the period 1981-82 to 1986-87 never exceeded 4 per cent.

The categorisation of manufacturing SLPEs as profit-making, mixed perfor-

mance and continuously loss-making enterprises shows that out of 250 such enterprises, 33 earned profits continuously, 80 had given mixed performance (i.e. their financial position changed from profit to loss and vice versa), and 137 incurred losses without fail. The continuously profit-making enterprises included Hyderabad Allwyn, New Government Electricity Factory, Gujarat Communications Systems, and few enterprises from the Keltron and Uptron groups. These enterprises operated in competitive and hi-tech fields. They had a great amount of clarity about their corporate mission and objectives. The mixed performance enterprises were operating in the field of textiles, minerals, sugar and steels. The fluctuation in the demand of their products and changes in the policies of the controlling State governments influenced their financial results from one of profit to losses and vice versa. For example, the textile mills which made losses as taken-over units started turning the corner in the closing years of the study due to boom in the textiles market. Similarly, the enterprises in minerals sector earned profits or incurred losses depending upon the prices negotiated for export orders. The continuously losing enterprises included jute mills, engineering firms and chemical units. The top five chronic losers in 1986-87 included Visveswaraya Iron and Steel (Rs 139 crore), UP State Sugar Corporations (Rs 122 crore), Durgapur Projects (Rs 62 crore), Kerala Minerals and Metals (Rs 45 crore), and Durgapur Chemicals (Rs 43 crore).

Table 5, besides depicting the manufacturing SLPEs in the three categories men-

tioned earlier, shows the percentage of accumulated losses to capital invested in these enterprises across the various States. The losses were as high as 656 per cent in Himachal Pradesh (the major culprit being Mahan Foundry), 240 per cent in Kerala, 240 per cent in Tripura (the jute mills being the major irritant) and 201 per cent in West Bengal. Table 5 clearly points out that the topmost priority needs to be given to the turn-around of the loss making enterprises. Such of these enterprises which could not be turned-around should be closed down at the first opportunity. To consolidate the gains further, efforts should be initiated to shift the mixed performance enterprises to the category of profit-making enterprises through appropriate short- and long-term reforms. These may include measures ranging from the introduction of the Memorandum of Understanding to the stabilisation of output plans.

PROBLEMS

All these enterprises had pre-natal and post-natal problems. Their pre-natal problems mainly related to project management. In many cases site selection itself emerged as the major problem. In certain other cases wrong demand analysis turned out to be the key contributory factor to losses. Defective plant and machinery hindered the working of many enterprises. In some cases the selection of inappropriate technology constituted the main limitation. Time and cost overruns as evidenced by sums tied up in their capital works-in-progress were frequent. The case of

TABLE 5: FINANCIAL PERFORMANCE OF MANUFACTURING SLPEs

| State | Profit-Making Enterprises | Mixed Performance Enterprises | Loss-Making Enterprises | Accumulated Losses to Paid-Up Capital (in Per Cent) |
|-------------------|---------------------------|-------------------------------|-------------------------|---|
| Andhra Pradesh | 2 | 3 | 3 | 73 |
| Assam | — | 7 | 7 | 85 |
| Bihar | — | 2 | 8 | 70 |
| Goa | 3 | — | 1 | 20 |
| Gujarat | 2 | 8 | 7 | 32 |
| Haryana | 1 | 2 | 2 | 72 |
| Himachal Pradesh | — | 1 | 5 | 656 |
| Jammu and Kashmir | — | 2 | 4 | 43 |
| Karnataka | 5 | 9 | 7 | 72 |
| Kerala | 5 | 17 | 25 | 240 |
| Maharashtra | — | 3 | 3 | 142 |
| Manipur | — | 3 | 3 | 56 |
| Meghalaya | — | 1 | 3 | 40 |
| Madhya Pradesh | — | 3 | 5 | 14 |
| Nagaland | — | — | 1 | 85 |
| Orissa | 1 | 2 | 2 | 120 |
| Punjab | — | — | 1 | 10 |
| Rajasthan | 2 | 5 | 8 | 75 |
| Tamil Nadu | 4 | 5 | 6 | 18 |
| Tripura | — | — | 1 | 240 |
| Uttar Pradesh | 6 | 4 | 4 | 95 |
| West Bengal | 2 | 3 | 22 | 201 |
| Total | 33 | 80 | 137 | |

Source: Database on SLPEs, Institute of Public Enterprise, Hyderabad.

Karnataka Soaps and Detergents, formed in 1980 to takeover the departmental units at a consideration of Rs 27.07 crore corroborates this analysis. Due to delay in taking a decision about implementation of expansion project, there was a cost overrun of Rs 5.08 crore, representing about 100 per cent of the initial estimated cost, including Rs 3.42 crore (56.25 per cent) towards increase in the cost of plant and machinery, although there was no significant change in the scope of the capabilities of various equipment. After commissioning of the soap expansion project in 1984-85 at a cost of Rs 17.28 crore (up to 1983-84) raising the installed capacity to 26,000 tonnes per annum, the actual production was only 25.2 per cent in 1984-85 and 37.4 per cent in 1985-86. Shortfall in utilisation of installed capacity was partly due to non commissioning of soap drying and finishing lines for translucent soap and marbled soap. In view of marketing constraints and severe competition, the company could achieve production to the extent of 42 to 83 per cent of the targets during the five years up to 1985-86. The production in detergent plant commissioned in 1976 which was restricted to match the off take in the market ranged from 18.3 per cent to 74.6 per cent during the five years up to 1985-86. Further, as noted earlier, many of the taken over sick units could not be turned around and consequently they kept on adding to the losses of SLPEs in the sector under reference.

The post natal problems revolved around the operational deficiencies in these enterprises which included lack of systems and procedures with regard to the purchase and upkeep of materials, recruitment, promotion and motivation of personnel, formulation of suitable credit collection and cash management policies and choice of appropriate product mix. The marketing function was not accorded a suitable status in these enterprises. As a matter of fact, marketing had all the attributes of selling and continued to lack the elements of dynamism in toto. These enterprises also weathered storms on the interface relationship with the State and Central governments, suppliers and consumers. They were subjected to rigorous public scrutiny. Further, they did not do much to transform their supervisory and managerial personnel through training and management development. The management information systems in these enterprises did not take into account the internal and external requirements. Under these circumstances it is not surprising to note that strategic management and corporate planning remained merely pious hopes. These enterprises never looked back to their profiles of activities which in many cases resulted in them adding on innumerable but little useful work.

CONCLUSION

The manufacturing SLPEs are operating in vital areas of the economy. Their efficiency and effective working would strengthen

not only their functioning but also the effectiveness of State governments as a whole. However, these enterprises suffer from many infirmities which could be rectified by suitable policy and operational reforms not

merely at the State level but also at the enterprise level in each State. The structural reforms suggested in the paper are expected to go a long way in helping them turning the corner.

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Rajiv Lochan

There are several factors which must be taken into account while considering the competitiveness of an industrial product, such as for instance the existing market conditions for the product, the quality of the equipment and its performance in service. In the field of power generation the products of the public sector Bharat Heavy Electricals (BHEL) compete with equipment from international manufacturers. How do they fare in terms of price, quality and performance?

COMPETITIVENESS is a relative concept. A firm's competitiveness cannot be judged in certain products without a proper understanding of the operations of its rival firms as well. To put it differently, we have to understand the rules of the game of the market for those products. Hence in the first part of this article we discuss the nature of the market for heavy electrical equipment. In the second section we show that BHEL's products are competitive in both price terms and in terms of technical parameters. In the third section we compare the performance of equipment supplied by BHEL to that of imported equipment in India.

I

Nature of Market

The salient features of the market for heavy electrical equipment may be described as follows:

- (i) A customer's decision to buy a particular piece of equipment not only depends on its price and quality but also on the suitability of the equipment for his system, the experience that the manufacturers of the heavy electrical equipment have on similar work and the relation between the customer and the manufacturers.¹
- (ii) Every customer has his own rationale for evaluating a tender.
- (iii) The price of a heavy electrical equipment "in fact is a package which includes many non price elements such as speed of delivery, credit terms, ease of ordering and quality of after sales service".²
- (iv) There is no continuous price information available for heavy electrical equipment in trade journals.³

(v) Any comparison of price is "true only for the product at the time of the purchase in the country under the set of conditions".⁴

(vi) There is a large excess capacity in the world and many of the firms follow marginal cost pricing strategy.⁵

From the above it is clear that if we want to discuss the competitiveness of BHEL's products we have to analyse the global tender so that we can (i) first compare the technical parameters of BHEL's products *vis a vis* its competitors and (ii) the price quoted by BHEL and its competitors. It should also be noted that since many firms the world over follow marginal cost pricing strategy they would not be making profit in the product at the price they quote in global tenders. So even if BHEL makes losses at the price it quotes in the global tender, it could still be competitive. We will show in Table 1 that BHEL has either made profit or very small loss at the competitive price. Finally, to judge BHEL's competitiveness it is necessary to compare BHEL's equipment with imported one.

II

Competitiveness of BHEL's Products

We will examine this question in the case of two major products of BHEL—210 MW

turbo generator (TG) sets and 210 MW boiler. We divide this section in two parts: (a) analysis of Singrauli and Korha tenders. Here we compare the price and the technical parameters of the product of BHEL with that of competing firms and (b) analysis of cost data of Tarakka project (BHEL won all these tenders—original documents even in the appendices).

ANALYSIS OF SINGRAULI AND KORHA TENDERS

For Singrauli project there were only two companies—BHEL (India) and Fuji (Japan) participating in the tender for 210 MW boiler. While Fuji quoted Rs 52.90 crore, BHEL quoted only Rs 37.46 crore. Thus BHEL quoted a price which was 15% less than the price quoted by the only competitor or by Rs 15.4 crore. In the case of the 210 MW TG package in the same Singrauli tender while Hitachi quoted Rs 35.8 crore, Toshiba Rs 37.43 crore, Fuji Rs 29.09 crore, BHEL quoted only Rs 30.56 crore. Here also BHEL did not use the 15 per cent price preference available to the domestic products in IDA tender. If BHEL had utilised this 15 per cent price preference they would have quoted Rs 33.4 crore (i.e. the lowest price quoted in the tender—Rs 29.09 crore plus 15 per cent price preference). It is not clear why BHEL quoted such low price for both boiler and TG sets because of its technical specifications.

TABLE 2

(In Crores)

| | October 1960 | November 1980 | December 1980 | First Fortnight of January 1981 |
|--|--------------|---------------|---------------|---------------------------------|
| Average daily energy generation by 13 sets | 1,81 | 37.43 | 35.33 | 36.47 |

TABLE 1

| Steam Generator Package | | 210 MW TG Package | | | |
|---------------------------------|-------|-------------------|--------|--------|---------|
| | BHEL | Fuji | BHEL | Fuji | Hitachi |
| Efficiency at 100 per cent load | 87.49 | 88.9 | 2024.3 | 2037 | 2030 |
| 80 per cent load | 88.02 | 89.1 | 2055.5 | 2060 | 2078 |
| Output | 700 | 700 | 2139.9 | 2043.5 | 2064 |
| Commencement of total operation | | | | | |
| Unit I | 157 | 156 | 154 | 170 | 157 |
| Unit II | 183 | 182 | 180 | 196 | 183 |
| Unit III | 209 | 209 | 205 | 222 | 209 |

For the Singrauli tender, see Appendix I

tions are concerned BHEL's products appear to be as good as that of other firms. This is clear from Table I. It is clear that BHEL's boiler is technically as good as that of Mitjui. In the 210 MW TG package also BHEL's sets are comparable to the other sets.

In the tender for Korba which BHEL won, it was the only firm participating in the tender for boilers. For 210 MW TG set ANSALDO was the only competitor. While ANSALDO quoted Rs 60.815 crore, BHEL quoted only Rs 39.42 crore. Thus here also BHEL quoted a price, much lower than that of the competitor (the Korba tender is attached, Appendix II).

For the Singrauli project, BHEL is supposed to have made a loss of Rs 25 crore.⁷ That is, while they quoted Rs 67.9 crore for the turbogenerator-boiler package, their cost was Rs 92.9 crore. (Though it should be noted that loss would have been more had they not got export incentives from the government which they get in IDA tenders. On the other hand duty drawback which they got is less than the customs duty that they pay.) If they had quoted a price 15 per cent in addition to the lowest price quoted by any competitor they would have then quoted Rs 94.14 crore. In that case they would have made a profit. Thus they can make profit even when they quote a price which is just 15 per cent higher than the lowest price quoted in the global tender. This shows that they are competitive.

ANALYSIS OF COST DATA

We have the cost data on the Farakka project which BHEL won in global tender (Appendix III). BHEL made a loss of Rs 5.85 crore on the 210 MW TG set and a profit of Rs 1.71 crore on the 210 MW boilers though it is true that without export incentive, the loss would have been greater. They got Rs 34.1 crore as export incentive for the TG sets and Rs 2.69 crore as export incentive for boilers. However, on the other hand the duty drawbacks that they got is less than the customs duty that they paid. For example, for the turbogenerator they did not get any duty drawback, while in the case of boilers they got duty drawback of only Rs 1.13 crore, i.e., only 6.92 per cent of the price of the direct material, including duty. We know from the study of BHEL done by CEI,⁸ that the customs duty paid by BHEL on the raw material for the 210 MW TG set was 17.08 per cent of the value of raw materials including duty. And this was so in the case of 210 MW boilers as well. Now if we exclude the export incentive in the case of 210 MW TG set for the Farakka project and include 17.08 per cent of the value of direct materials consumed as duty drawback, the loss would be Rs (-)7.04 crore. In the case of the 210 MW boilers if we allow duty drawback at the rate of 17.08 per cent of the value of direct material and exclude export incentive, the profit will be Rs 68.20 lakh. Thus if BHEL gets raw materials at international prices, then even without an export

APPENDIX I: SINGRAULI STPP—DATE OF OPENING: 7.10.77

| | BHEL | Fuji | Toshiba | Hitachi |
|---|-------------------------------------|---------------|----------------|----------------|
| A TG Package: | | | | |
| i) Total package price (Yen) | — | 8,332,070,000 | 11,188,000,000 | 11,170,160,000 |
| (Rs) | | + | + | + |
| (DM) | | 22,937,776 | 27,423,400 | 32,560,000 |
| | | 2,174,463 | | |
| Converted in Indian Rs | 305,600,000 | 290,853,453 | 374,251,420 | 371,834,960 |
| ii) Total equipment price converted in Indian Rs | 275,700,000 | — | — | — |
| iii) Total erection price converted in Indian Rs | 18,300,000 | — | — | — |
| iv) Total weight of package (T) | 5620 | — | — | — |
| v) Heat rate (Kcal/Kwh) at | | | | |
| 100 per cent | 2024.3 | 2027 | 2013 | 2050 |
| 80 per cent | 2055.5 | 2060 | 2013 | 2078 |
| Average | 2139.9 | 2043.5 | 2013 | 2064 |
| vi) Auxiliary power consumption (KW) | 5851.5 | | | |
| vii) Guaranteed output (KW) | | | | |
| viii) Commencement of trial operation for | | | | |
| Unit I | 154 | 170 | 155 | 157 |
| Unit II | 180 | 196 | 182 | 183 |
| Unit III | 205 | 222 | 209 | 209 |
| ix) Loading for heat rate (Rs per Kcal/Kwh) | Rs 330,000 | | | |
| x) Loading for auxiliary power consumption (Rs/KW) | 9,000 | | | |
| xi) Loading for delay in commencement of trial operation (Rs per day) | Rs 120,000 | | | |
| xii) Exchange rate | 1 Yen = Rs 0.031 as on October 1977 | | | |
| | 1 DM = Rs 4.4248 | | | |
| B. Steam Generator Package | | | | |
| i) Total package price (Yen) | | | | 10,777,500,000 |
| Converted in Indian (Rs) | | 374,600,000 | | + |
| | | | | 193,880,000 |
| | | | | 527,982,500 |
| ii) Total equipment price converted in Indian (Rs) | | 304,000,000 | | |
| iii) Total erection price converted in Indian (Rs) | | 5,700,000 | | |
| iv) Total weight of package (Tonnes) | | 27663 | | |
| v) Efficiency at 100 per cent load | | 87.49 | | 88.9 |
| 80 per cent load | | 88.02 | | 89.1 |
| vi) Output (T/Hr) | | 700 | | 700 |

(Contd)

APPENDIX I (Contd)

| | BHEL | (Mitui) Riley |
|---|---|---------------|
| vii) Auxiliary power consumption (KW) | 5365 | |
| viii) Commencement of trial operation | | |
| Unit I | 157 | 156 |
| Unit II | 183 | 182 |
| Unit III | 209 | 208 |
| ix) Loading for deficiency in 90 per cent MCR efficiency (Rs per 0.1 per cent decrease in efficiency) | 860,000 per 0.1 | |
| x) Loading for auxiliary power consumption (Rs per KW) | 9,000 | |
| xi) Loading for delay in commencement of trial operation (Rs per day) | 170,000 | |
| xii) Exchange rate | 1 Yen = Rs 0.031 as on October 1977. | |

subsidy BHEL will be making profit in boilers (though marginal) and a loss of Rs (-)7.04 crore in the case of the turbogenerator in Farakka project. Given this, it can certainly be concluded that BHEL can make a profit in the case of the 210 MW boilers at competitive price.⁹ Even in the case of 210 MW TG set, it can be argued in the light of Singrauli and Korba tender that BHEL might be making losses because it quoted too low a price.

III

Quality of Power Equipment Supplied by BHEL

In this section we will discuss the quality of power equipment supplied by BHEL, and also try to find out how BHEL's products compare with imported equipment.

A number of State Electricity Board (SEB) officials informed the Estimate Committee (1980-81) that power equipment supplied by domestic manufacturers had not performed satisfactorily and they felt that this was "the main factor contributing to the poor performance of power stations in the country".¹⁰ An expert on power stated that

APPENDIX II

3x200 MW KORBA SUPER THERMAL POWER PROJECT (August 1978)

| | BHEL | Ansaldo (Italian) |
|---------|----------------|---|
| Turbine | Rs 39.42 | Rs 60.815 crore (\$ 6.5 crore + Rs 11.69 crore) |
| Boiler | Rs 59.57 crore | No companies |

APPENDIX III: COST AND PROFIT (LOSS) STATEMENT OF BHEL (210 MW (KWU), FARAKKA

| Transfer from (1) | Turbo Generator | | | | Boiler | | | |
|--|---------------------|------------------|------------------|--------------|------------|--------------------------|------------------|--------------|
| | Own (2) | Bangalore (3) | Hyderabad (4) | Total (5) | Own (6) | Trichy Ranipet (7) | Hyderabad (8) | Total (9) |
| 1 Direct material | 980.00 | 114.90 | 206.75 | 1301.65 | 1146.75 | 388.18 | 101.76 | 1636.69 |
| 2 Transfer from other units at cost | 17.00 ^a | — | — | 17.00 | 30.83 | — | — | 30.83 |
| At transfer price | 110.00 ^a | 11.48 | 56.66 | 178.14 | — | — | — | 0.00 |
| 3 Total | 1107.00 | 126.38 | 263.41 | 1496.79 | 1177.58 | 388.18 | 101.76 | 1667.52 |
| 4 Direct labour | 30.00 | 1.52 | 2.25 | 33.77 | 30.35 | 2.72 | 2.07 | 35.14 |
| 5 Fabrication charges paid to sub con | — | — | — | 0.00 | 115.36 | 34.75 | — | 150.11 |
| 6 Power and fuel | 72.00 | 0.30 | 2.24 | 74.54 | 27.79 | — | 1.72 | 29.51 |
| 7 Factory overhead | 291.00 | 13.02 | 21.99 | 326.01 | 231.34 | 31.55 | 26.99 | 289.88 |
| 8 Tooling expenses | 71.00 | — | 2.77 | 73.77 | — | — | 2.01 | 2.01 |
| 9 R and D expenses | 33.00 | 0.87 | 3.22 | 37.09 | — | — | 2.76 | 2.76 |
| 10 Depreciation | 103.00 | 1.86 | 5.37 | 110.23 | 37.02 | 16.04 | 4.47 | 57.53 |
| 11 Total | 1707.00 | 143.95 | 301.25 | 2152.20 | 1619.44 | 473.24 | 141.78 | 2234.46 |
| 12 Less scrap sale | 18.00 | 0.85 | 0.75 | 19.60 | 16.52 | 4.30 | 0.78 | 21.60 |
| 13 Works cost (11-12) | 1689.00 | 143.10 | 300.50 | 2132.60 | 1602.92 | 468.94 | 141.00 | 2212.86 |
| 14 Packing cost | 6.00 | 0.24 | 2.18 | 8.42 | 27.74 | — | 1.24 | 28.98 |
| 15 Admin and commercial expenses | 211.00 | 10.39 | 12.03 | 233.42 | 148.29 | 81.56 | 12.74 | 242.59 |
| 16 Royalty and payment and collaborators | 8.00 | 16.00 | 1.93 | 25.93 | 10.28 | — | — | 10.28 |
| 17 Guarantee expenses | 6.00 | 4.52 | — | 10.52 | 20.00 | — | — | 20.00 |
| 18 Total | 1920.00 | 174.25 | 316.64 | 2410.89 | 1809.23 | 550.50 | 154.98 | 2514.71 |
| 19 Bonus | 11.00 | 0.36 | — | 11.36 | 17.71 | 1.33 | — | 19.0 |
| 20 Interest | 30.00 | 14.53 | 9.66 | 54.19 | 126.90 | 10.55 | 8.45 | 145.9 |
| 21 Excise duty on inter unit transfer | — | 18.05 | — | 18.05 | — | — | — | 0.00 |
| 22 Inter unit transfers | 207.00 | (207.19) | — | — | 725.81 | (562.38) | (163.43) | 725.8 |
| 23 Total cost of sales | 2168.00 | 0.00 | 326.30 | 2494.49 | 2679.65 | 562.38 | 163.43 | 2679.6 |
| 24 Sales realisation | | | | | | | | |
| a Basic price | 1038.00 | — | 246.47 | 1284.47 | 2083.00 | — | — | 2083.0 |
| b Price variance | 208.00 | — | 75.90 | 283.90 | 385.30 | — | — | 385.3 |
| c Export incentive | 341.00 | — | — | 341.00 | 269.28 | — | — | 269.2 |
| d Duty draw back | — | — | — | 0.00 | 113.29 | — | — | 113.2 |
| Total (a to d) | 1587.00 | 0.00 | 322.37 | 1909.37 | 2850.87 | 0.00 | 0.00 | 2850.8 |
| 25 Profit (-\$81) | | 0.00 | -3.43 | -585.12 | +171.22 | -562.38 | -163.43 | +171.22 |

ine sets that BHEL had supplied had many design/manufacturing defects. This resulted in poor availability as well as output of these sets.¹¹ Thirty two design manufacturing defects were identified in the sets supplied by BHEL, by a SEB BHEL and their collaborators were supposed to have accepted these defects. Another SEB complained to the committee that "94.38 per cent of the operational hours lost in a power unit were attributable to equipment failure, design defect and deficiencies. The percentage in respect of the other unit was 85.23 and 87.28".

BHEL conceded the point but attributed it to lack of experience. The chairman, BHEL, stated before the Estimate Committee on January 9, 1981 that the first 200 MW set supplied by BHEL was commissioned only in December 1977 and it started working only in May 1978. Thus the oldest 200 MW set supplied by BHEL was not more than three years old. Thirteen sets were working out of which some had come only a year ago. The chairman, BHEL, asked "unless the sets run how can you put things right?" BHEL informed the Estimate Committee in March 1981 that they had rectified the 'initially identified' design defects in eight out of 13 sets which had been commissioned up to March 31, 1980 and promised that the rest of the sets would be rectified during plant shut downs. BHEL further stated in the note that the performance of the sets which have been rectified 'has been quite satisfactory', giving data as in Table 2.

BHEL also maintained that they would utilise this experience to modify the subsequent sets manufactured by them at the manufacturing/erection stages so that similar problems did not arise in future. They hoped that 'all sets which would be commissioned from 1981-82 onwards would not have these teething problems'.¹²

A comparison of power equipment supplied by BHEL and imported equipment working in similar conditions can give an indication of the quality of BHEL's equipment. In this regard CMD BHEL stated:

In the IP unit in Delhi the imported units are one of 35 MW, and three units of 61.5 MW. There is only one BHEL unit. In 1979-80 operating availability of imported unit was 81 and that of BHEL 85. In 1980-81 the imported unit availability was 71 and BHEL's 94. The plant load factor in 1979-80 of imported unit was 71 and BHEL's 72. In 1980-81, that of imported unit was 79 and BHEL's 72. At Harduaganj there was one item of imported equipment 2x50 MW and two of BHEL's 2x60 MW and 1x60 MW that is three units. In 1979-80 the operating availability of the imported unit was 46, ours was 62. In 1980-81 it was 36 for the imported units and 68 for our units. In 1980-81 their plant load factor was 26 and ours was 45. Thus at Obera for the five units of 50 MW each imported from the Soviet Union we had corresponding three units of 100 MW. The operating availability in 1979-80 was 52 for the imported units and 86 for our units, in 1980-81 it was 63 for the imported units and 70 for BHEL's units. Their plant load factor

in 1979-80 was 44 and ours was 60; in 1980-81 for the imported units, it was 45 and for ours it was 40—of course, this needs to be examined.

He also stated that "by and large BHEL units, by all accounts were better".¹³

It might be that BHEL's assessment is biased, so we quote from the Rajyadhyaksha Committee Report. Comparing indigenous equipment with the imported equipment the report says, "it would appear that the indigenous sets have a lower availability on the whole than the imported ones. This may partly be due to the fact that the indigenous sets have come in relatively recently and are taking more time than anticipated to settle down. No general statement can, however, be made that all imported sets perform better than indigenous ones and some, in fact do significantly worse. There is, however, sufficient data to suggest that the better imported sets currently show superior performance to the indigenous sets even after the stabilisation period of the latter is over. The performance gap, however, appears to be narrowing with the more recently supplied indigenous 200 MW sets although they too still have to settle down".¹⁴ That the main problem earlier was lack of experience is further supported by the fact that now BHEL's sets are working much better. The *Annual Report of BHEL 1986-87* says 'BHEL sets achieved plant load factor of 53.5 per cent against the national average of plant load factor of 53.2 per cent for the year. While 200-210 MW sets which constitute the backbone of power generation in India achieved a PLF of 58 per cent, the norm set by Rajyadhyaksha Committee. 500 MW sets recorded a PLF of 75.9 per cent. The performance of 60/110 MW, however, needs improvement for which modernisation programmes have been drawn up' (pp 4-5).

Thus it would appear that BHEL has been competitive in international competitive bidding but it has been facing losses because it has been quoting too low prices. The quality of BHEL's products are not necessarily worse than that of the imported equipment and the quality of BHEL's equipment in terms of plant load factor has improved.

Notes

- 1 Cilingiroglu Ayhan, 'Manufacture of Heavy Electrical Equipment in Developing Countries', World Bank Staff Paper, Number 9, Baltimore, London, 1969, p 18.
- 2 Ibid.
- 3 Ibid.
- 4 Ibid.
- 5 Ibid, p 13.
- 6 Ibid, pp 7 and 43.
- 7 44th Report of the Committee on Public Undertakings on BHEL, 1981-82, p 40.
- 8 'Capital Goods Project Imports—A Study of the Indian Fertilisers and Power Industries', Confederation of Engineering Industry, New Delhi, August 1986, p 32.
- 9 Also see World Bank, *India. Non Electrical Industrial Machinery Manufacturing—A Subsector Study*, World Bank, August 1984, Document No 5095, p 33. It found out that

in case of 210 MW boilers the domestic resource cost was only 0.84. This being less than 1, it implies that the protection was negative and if it is produced with raw material at international prices it would be competitive.

- 10 *Thirteenth Report of the Estimate Committee on Power Generation*, Central Electricity Authority, Seventh Lok Sabha (1980-81), Lok Sabha Secretariat, New Delhi, para 6.2.
- 11 Ibid, para 6.3, p 86.
- 12 Ibid, pp 87-89.
- 13 *Forty fourth Report of Committee on Public Undertakings on BHEL*, 1981-82, p 50.
- 14 *Report of the Committee on Power*, Chairman Rajyadhyaksha V. G., GOI, Ministry of Energy, Department of Power, New Delhi, 1980, para 4.23, p 54.

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Electricity tariffs in Karnataka

V Ranganathan

The recent hike in power tariff in Karnataka has evoked unprecedented protest from consumer groups in the State. Among the criticisms levelled are the inefficiency of the Karnataka State Electricity Board, which has been attributed to the absence of competition from the private sector, and the subsidy to farmers. The paper attempts a proper scrutiny of the various factors underlying the tariff revision.

THE recent hike in power tariff has set off unprecedented opposition from many consumer groups. Their objections broadly:—The need for a hike in a year when hydro reservoirs are full and high cost import from Maharashtra may not be needed.

—KEB may be making a loss, but government is mobilising resources from power sector through Electricity Tax, water royalty and interest on loans (all the three amounting to Rs 166 crore). Stated differently, this means, KEB should not be viewed in isolation or partially, the power sector as a whole, taking KEB, KPC and government should be considered.

—Why should consumers pay for the inefficiency of the KEB: their T and D losses are high at 22 per cent; it is overstaffed (compared to Tamil Nadu and Andhra Pradesh); why free electricity to them etc.

—Why should consumers pay for the farmers who get electricity at throwaway prices? Let the government directly subsidise them.

—Cost of generation is only 37 paise per unit. (Critics have mistakenly compared the revised tariff with the cost of generation, whereas the proper comparison should be with the weighted average cost of power after considering imports, and the additional costs including losses to bring the power up to the respective user points.)

They have also objected to the 'removal' of EHT rebate and power factor incentive and have also asked for rebate on night use of power. They have gone as far as to suggest that they will not pay at the revised rates. Some have felt that the present plight is because of the KEB's monopoly and that competition from private sector will redeem the situation. All this calls for a proper scrutiny of the revision in tariff.

The board (KEB) appoints a Tariff Committee and the *Tariff Committee Report* is supposed to be considered by the board of KEB for arriving at a decision on revised tariff. This is as it should be, for this is what is enshrined in the Electricity Supply Act—that the within-state tariff is in the domain of the state electricity board (SEB). But in practice this is seldom followed and the tariff is indeed decided by the government. No chairman of any SEB has at any time raised this issue of autonomy in tariff making, and thus the practice has been going on unchallenged, with the *quid-pro-quo* that the management is also not responsible for the financial performance of the board. In fact chairmen of KEB have the dubious distinction of being allowed to have a say in tariff

making, only after their retirement. In what follows, we will analyse both the tariffs recommended by the Tariff Committee and the one adopted by the board/government and meet the objections raised by user groups.

First of all one must be clear as to whether tariff making should be done by the electricity board, as per the Electricity Supply Act, or by the government as is the practice. For this has implications. When the SEB sets the tariff, the supply act enjoins it to price power in such a way to earn a surplus of at least 3 per cent of the value of fixed assets of the board. (Remember that with the new invitation to private sector into power sector, they can earn 15 per cent.) In this case, what matters is only the profitability to the SEB, and not the resource mobilised by the State through tax, royalty etc. In other words, a so-called partial analysis, from the narrow point of view of KEB is valid, never mind if KPC makes supernormal profits. But then the tariff making power for KEB must be understood in the broader context of financial and operational autonomy to the board, where it can, to some extent, dictate the price to KPC as a monopsonistic buyer; it can claim subsidy from government for fulfilling any social objective that the government may want of it, eg Bagayathi Schemes or subsidy in agricultural tariff.

If on the contrary we agree for government to set the tariff, then two things follow: (1) The SEB is not obliged to run on commercial lines. The requirement of Electricity Supply Act of earning at least 3 per cent surplus cannot be insisted upon. (2) The existence of multiple objectives, and subsidy become legitimate. It becomes similar to the postal department. Then the consumers cannot complain of cross subsidy to the farmers, just as the consumers of Re 1 postal envelopes cannot complain that they are forced to subsidise the consumers of Re 0.15 post cards. This is because government has the right to meet the redistribution objective, and it can very well choose electricity as one of the instruments of achieving this objective. It is normally in this context that agriculture sector and weaker sections are cross subsidised by the government, and when government sets the tariff it hardly matters whether it takes recourse to cross subsidy or subsidises the board explicitly, because in this scheme the electricity board is really part of government.

The Tariff Committee has not resolved this dilemma, viz, whose point of view, KEB's or government's it has to take. To

illustrate, a major term of reference has been to evolve a tariff structure to earn a surplus of 3 per cent at least. Interestingly, cross-subsidy to agriculture has *not* been one of the terms of reference, and yet for IP sets it has recommended an average realisation of only 45 paise per unit against its own calculated cost of 119 paise per unit. Subconsciously the Tariff Committee has reckoned that subsidy to agriculture is there to stay, and the increase can only be marginal, and the quantum of increase has nothing to do with objective figures. That the cost figure for agriculture itself is at best a guess is another matter, to which we shall revert later.

Against the mandate of the terms of reference and Electricity Supply Act of setting tariff to earn *at least* 3 per cent surplus, the Tariff Committee has focused on the word *at least* and has recommended tariffs that proposed to earn the board a surplus of 11.9 per cent in the first two years and 6.5 per cent in the third year. Was it over enthusiastic? The committee sought to justify saying that the extra surplus would go towards wiping out the accumulated loss of KEB, which on March 1990 stands at Rs 326 crore.

There is another dilemma when it comes to power tariffs, viz, whether to price at average cost (plus a rate of return) or marginal cost. Average cost is the total operation and maintenance cost along with depreciation and interest divided by the total energy produced. Marginal cost is the cost incurred to produce one extra unit of energy. Since one is not going to add capital equipment to produce just one unit of output, in practice, the marginal cost is accepted to be redefined as the average incremental cost. Practically speaking, the average cost pricing passes on the benefits or disbenefits of the past to the consumers, but does not give an accurate signal as to the relative scarcity of the product in future. It also ensures that the financial target of the enterprise is met. Marginal cost pricing on the other hand gives an accurate signal about the value of the product and its relative scarcity and therefore aids the users as to how to efficiently use it. However, it does not give any clue to profitability of the producing utility, since it is a method of pricing all the units of output with the cost of producing the last unit of output. In the electric utilities in the west, the marginal cost was less than the average cost in the initial years for thermal plants, due to economies of scale in unit size of plants and technological improvement

...to other heat rates. Even then the engineers, particularly in Electricity-de France, advocated marginal cost pricing, for the sake of resource use efficiency. They said the loss to the utility could be compensated by a lump-sum payment to the utility. This led to the concept of allowing a fair rate of return to the utility. Thus investment decisions and pricing decisions were divorced of each other, yet both with the same objective of achieving efficiency, in producing electricity of the right amount and using the electricity so produced so that maximum benefit is achieved. However, in recent times, due to increase in electricity equipment costs and the cost of coal, both marginal capacity and energy costs of electricity are on the rise, and marginal cost is more than the average cost. In such a situation, pricing based on average cost which is what is practised by most SEBs leads to passing on the benefits of past investment on cheap hydro thereby giving a misleading picture about the cost of producing extra power for today and tomorrow's additional needs. Table 1 illustrates the point. The hydro power from Sharavathi costs 12.75 paise per unit to KEB but the latest addition of thermal power at Raichur costs 92 paise per unit and the proposed Mysore Thermal 140 paise per unit clearly indicating that the marginal cost of power in Karnataka is rising and is much higher than the average cost. However, it must be pointed out that the computation of marginal costs as above, is neither along economic nor along the World Bank suggested lines. In fact the Tariff Committee has pleaded inability to compute capacity and energy costs either on accounting or on marginal cost basis (though this has not deterred it from formulating demand and energy charges without a basis).

Normally marginal capacity generation costs are incurred to meet the peak capacity demand at the margin. In Karnataka these are done by hydro plants, and the costs relate specifically to the power house component of the storage hydro plants which is about 55 per cent of total capital cost of hydro. The marginal energy costs are the costs of meeting energy demand at the margin, which is done by burning coal and generating energy in coal thermal plants based on merit order operation. A study conducted by the author for Karnataka in 1987 arrived at the marginal costs as given in Table 2.

The marginal capacity cost corresponds to Rs 9116/kW of average capital cost of hydro plant, with 40 years' life and 6 per cent discount rate, which is the long term cost of capital for KEB. System losses are taken at 4.8 per cent for EHT, 8.4 per cent for HT and 11 per cent for LT and a group coincidence factor of 0.7 for EHT, 0.6 for HT and 0.35 for LT. Investments in T and D are assumed. Cost of coal at power plant is taken at Rs 300/ton for the figures in Table 2. Now, we can assume pithead cost of coal as Rs 250/ton and transport and handling cost as Rs 500/ton for Raichur

Marginal energy cost would then be three times that shown in Table 2. Then the corresponding revised equivalent marginal power costs are 70 p/unit at EHT end, 78.5 p/unit at HT end and 106.5 p/unit at LT end.

Thus the figures of 92 p and 140 p/unit for Raichur and Mysore thermal (at EHT end) represent financial marginal costs of purchase from KPC, while the figures in Table 2 or their modifications refer to the economic marginal costs, to the State as a whole. It is not our case that marginal costs should be adopted overnight, but bringing tariffs progressively nearer marginal costs is desirable. If it leads to the board making excess profits, they can be directed to reinvest expanding the supply.

One reason for the high cost of power now and for the future is because the State had invested very little of the surplus of funds it got from the power sector in the power sector itself, eating out of its capital as it were. As long as KEB was surplus in power tariffs were low and KEB itself financially sound making profits. With increasing energy deficits imports from outside the State has led to increasing cost of power and this has eroded the profitability of KEB. Secondly, before fully utilising its hydro potential it has concentrated on having more thermal plants on the argument of a balanced hydro thermal mix and this has also led to higher cost of power.

COSTS AND TARIFFS

The accounting costs at various voltage levels and the tariffs—as existing, as proposed by the Tariff Committee and as announced by the board—are shown in Table 3.

The Tariff Committee, after conceding that "it was not possible to work out these (capacity and energy) costs more accurately in the absence of data" (p. 9) has gone on to compute the same nevertheless for marginal costs (p. 100). Alas, their understanding of marginal costs has been wrong, they have arrived at a set of figures for off-peak marginal energy cost, which are lower than peak marginal energy costs. 'Marginal' and 'off-peak' are antithetical. The committee working out the cost for LT rural is at best a guess work, since there are no meters to measure IP set consumption, and it is perhaps difficult to resist the temptation of passing off a bit of the T and D loss as agricultural consumption. In fairness to the committee, it has mentioned the difficulty in separating the T and D loss, theft and agricultural consumption, but to ask us to believe that IP sets consumption to be second highest at 30.5 per cent, next only to the HT industry consumption at 38.5 per cent without offer any data is asking a bit too much. Even on the cost side, a disproportionately large amount of KEB annual expenditure, to the tune of about 30 per cent is allocated to village electrification. Much of the criticism against subsidy to agriculture must be understood in this context that it is not based on hard facts, and one gets the impression that RE costs of 249 p/unit have been shown too much on the high side.

In fact quite apart from absence of meter

TABLE 1 COST OF POWER

| Source | 1990-91 | | 1991-92 | | 1992-93 | |
|----------------------------|----------------|-------------|----------------|-------------|----------------|-------------|
| | Per Cent Share | Price P/kWh | Per Cent Share | Price P/kWh | Per Cent Share | Price P/kWh |
| KPC and KEB | 77 | 31.6 | 74 | 36.4 | 74 | 38.4 |
| Central sector | 18 | 60 | 21 | 60 | 22 | 60 |
| Maharashtra | 5 | 65 | 5 | 65 | 4 | 65 |
| Weighted avg cost @ 220 KV | | 47 | | 52 | | 54 |
| 'Marginal cost' | | | | | | |
| Raichur thermal | | | | 92 | | |
| Mysore thermal | | | | 140 | | |

Source: Tariff Committee Report, 1990

TABLE 2 EQUIVALENT MARGINAL POWER COSTS

| Cost Head | | Relevant Cost | Conversion Norm | Converted Cost (paise/KWh) | Total (paise/KWh) |
|-----------------|----------|-------------------------|--------------------------|----------------------------|-------------------|
| EHT | Capacity | Rs 296.76/KW | 5000 kWh/KW | 5.93 | 27.45 |
| | Energy | Rs 0.2143/KWh | — | 21.43 | |
| | Service | Rs 261.55/year/consumer | 2.7 ml kWh/year/consumer | 0.009 | |
| HT | Capacity | Rs 418.28/kW | 5000 kWh/KW | 8.36 | 31.8 |
| | Energy | Rs 0.2340/kWh | — | 23.40 | |
| | Service | Rs 130.78/year/consumer | 2.7 ml kWh/year/consumer | 0.005 | |
| LT (Industrial) | Capacity | Rs 266.14/KW | 1000 kWh/KW | 26.6 | 54.0 |
| | Energy | Rs 0.2628/kWh | — | 26.3 | |
| | Service | Rs 48.57/year/consumer | 4608 kWh/year/consumer | 1.05 | |

Source: Vikalpa Vol 12 No 2, April/June 1987

ing, there is no book keeping at present in any State Electricity Board to show the exact cost of rural electricity. Also the projected costs do not reflect the rural realities of indefinite power cuts to rural areas, and rostering, and idea originated specially for the rural consumers!

There is a controversy whether agricultural consumption should be metered or not. More specifically, the question is whether to have capacity or energy as the numeraire for consumption. A two part tariff, as for HT is clearly unwarranted on cost considerations. Here the common principle is that the tariff structure should follow the cost structure. Due to steep rise in delivered cost of coal, the proportion of marginal energy costs is most dominant in the total costs. Viewed from another angle, marginal energy requirements are met from imports and these are paid on the basis of energy units. Hence energy is the most appropriate numeraire and metering should be restored. This is, assuming that one wants to adopt the marginal cost approach. On the

basis of average cost, however, a large portfolio is still hydro, and energy cost is negligible and hence HP based tariff is suitable. The picture was different some time back, when Karnataka was an all hydro system and no imports of power were resorted to, during this time, marginal energy cost was the energy cost of hydro, which was close to zero. HP based metering was also appropriate then. However, we fully agree with the Tariff Committee that restoration to metering is not going to be easy at all for KEB. Removal of meters has been a one way trip, because it has proved to be very popular with the farmers, for it has liberated them from the clutches of the linemen! Even otherwise, an earlier study had indicated that the cost of meters and the cost of meter reading are more than the revenue collected. One of the chief engineers of KEB had confided that 25 per cent of HT meters are not working, hence metering of IP sets in distant places will materialise only on a distant date. Though the committee proposed a hike for agriculture sector, the board/government

the hike is very little

HT TARIFFS

HT Industry accounts for about 39 per cent of consumption. The industry has been made to bear the brunt of the tariff hike, with an increase of about 24 per cent. The government and the committee have clearly gone on the basis of inelastic demand for this category and their ability to pay. The industry on the other hand has been arguing that tariff must be set to them on the basis of cost—to serve principle. They have asked for FHTI rebate and even asked for rebate for night off peak consumption. Normally it is true that Western utilities adopt cost based pricing and also offer lower price for off peak power but it must be remembered that there is a situation of surplus power. When there is a power deficit situation as exists now for most SEBs, it is entirely appropriate for any producer to resort to demand based pricing, which in

TABLE 3 COSTS AND TARIFFS
(Average Cost of Power for 1991-92, Paise Per Unit)

| | | At 220kv | At 110kv | At 66/33/ 11kv | At 1T Urban | At 1T Rural | | | | |
|----------------------------------|-------------------------------|----------------------------------|-----------------|----------------------|--|-------------------|----------|--------------------------|-----------------|----------|
| Average cost ^a | | 47 | 50 | 69 | 82 | 122 | | | | |
| Marginal cost ^b | | 70 | 78 ₹ | | 106 ₹ | | | | | |
| Marginal cost ^c | | | | | | 249 | | | | |
| | Percentage Consump tion | Tariffs As Existing (1989-90) | | | As Proposed by Tariff Committee (1990-93) | | | As Announced by Board | | |
| | | Rs/ kVA/mo | P/unit | Av. Rev. | Rs/ KVA/mo | P/unit | Av. Rev. | Rs kVA/mo | P/unit | Av. Rev. |
| HT1 water supply and sewerage | 1.2 | 40 | 55 | 97 | 50 | 70 | 79 | 50 | 70 | 79 |
| HT2a industrial | 38.5 | 40 | 80 | | 50 | 110 | 119 | 50 | 115 | 121 |
| b | | | | | 50 | 150 | | 50 | 150 | |
| HT3 agriculture | 0.6 | 35 | 30 | 71 | 0 | 55 | 55 | 0 | 55 ¹ | 55 |
| HT4 RE-C | 0.5 | 0 | 30 | 30 | 0 | 30 | 30 | 0 | 30 | 30 |
| 1T1a domestic | 6.4 | 3/mo | 45 | 70.44 | 4/mo | 60 | 82 | 4 mo | 55 | 77 |
| | | | (0.25) | | | (0.25) | | | (0.50) | |
| | | | 80 | | | 80 | | | 75 | |
| | | | Beyond) | | | (Beyond) | | | (Beyond) | |
| 1T1b Bagayajothi | 0.45 | 2.5 | | 47.65 | 2.9 | | 47.85 | 2.5 | | 47.8 |
| 1T2 AEH | 8.7 | 2.5/kw min 10 | 60 | 72.22 | 3/kw min 12 | 75 | 87.5 | 3/kw min 12 | 75 | 87 |
| | | | (0.250) | | | (0.200) | | | (0.250) | |
| | | | 80 | | | 100, | | | 100 | |
| | | | (Beyond) | | | (Beyond) | | | (Beyond) | |
| 1T3 commercial | 2.2 | 2.5 kw min 5 | 140 | 183 | 3/kw min 5 | 180 | 204 | 3 kw min 5 | 200 | 205 |
| | | | (0.50) | | | (0.50) | | | | |
| | | | 175 | | | 200 | | | | |
| | | | (Beyond) | | | (Beyond) | | | | |
| 1T4 IP sets | 30.5 | | | | | | | | | |
| 0.5 HP | | 90/HP/Yr ² | | | 480/HP/Yr ² | 45 | | 90 HP/Yr ² | | 13.14 |
| 5.10 HP | | 120/HP/Yr ³ | | 9.7 | | | | 130/HP/Yr ⁴ | | |
| Above 10 HP | | | 35 ⁴ | | | 55 ⁵ | | | 50 ⁶ | |
| LT5 industry general | 6.1 | 6/HP/mo | 90 | 125 | 115/120 | 142 | | 8/HP/mo | 90 | 125.5 |
| Tiny | | " | 85 | | 5HP/5HP | | | 6/HP/mo | 65 | |

Notes: (1) Subject to Rs 140/KVA/Yr minimum 2P/unit rebate for capacitor (2) Re 0.15/HP/Yr rebate for capacitor (3) Re 0.20/HP/Yr (4) Subject to Rs 100/HP/Yr 5P/unit rebate for capacitor (5) Subject to Rs 100/HP/Yr 2P/unit rebate for capacitor (6) Subject to Rs 130/HP/Yr 2P/unit rebate for capacitor (The above is not a complete coverage of all tariff categories) (a) As per Tariff Committee. (b) As per author's calculations. (c) Tariff Committee, p. 9

turn means pricing 'what the traffic can bear'. By the same token bulk supply to colonies must be exempted from the hike, by reclassifying them. As regards the industry demand for off-peak rebate, the Tariff Committee has clearly spelt out why it is not applicable here, viz, a large amount of power is imported on per unit basis. There is an even stronger reason, the time of day pricing is relevant only in a situation like Tamil Nadu's where the capacity shortage is more than the energy shortage and the board can gain something by flattening the load curve. In Karnataka, with a large storage hydro portfolio offering 'banking' facilities, peak demand management is not the main issue, except between 6 to 9 p.m. Hence there is no case for off-peak rebate. In fact it can be argued that there is no case at all for two part tariff in Karnataka for any category, and all consumers can be billed on energy consumption alone. This may even reduce some scope for malpractice in noting the monthly maximum demand. The industry has also alluded to the inflationary impact of hike in tariff. For the industry as a whole, electricity bill accounts for about 5 to 7 per cent of the total cost, hence a 25 per cent increase in tariff will lead to about 1.25 per cent in cost, and in some industries part of this 1.25 per cent increase can be absorbed and need not be passed on to consumers or downstream industries. Hence there is no meat in the inflation argument too. The industry has also questioned the hike in view of the good reservoir position, thus mitigating if not obviating the need for high cost of imports. The Tariff Committee has considered this aspect and has recommended rebate for good hydro position and price sur-charges if the cost of coal or the cost of imported power goes up. Even though this approach is a faithful representation of reality, the wisdom of allowing wild fluctuations in the long-term price of electricity is questionable. This is because, for power intensive industries their very viability may depend on the price of electricity and they can ill-afford to absorb wild fluctuations. Hence perhaps rightly the board/government, has decided not to pass on the benefit of good monsoon to the consumers, but at the same time they will also absorb the price increases due to adverse monsoon or due to increase in price of imported power in the next two years. The fuel surcharge will be narrowly applicable for KPC's thermal portfolio only.

The board has given incentives for fixing capacitors, but here the Tariff Committee's caution has to be borne in mind, it says people fix capacitors to get rebate and later take them off!

DOMESTIC/AEH

Apparently, this category is given power on a no profit no loss basis. Fair enough. However, there is no need to retain the anachronistic AEH category, once beneficiaries of cheap power through declining block tariff, now on the receiving end being classed

as rich people! True, electricity for heating use must be discouraged, but this can be achieved by a simple increasing block tariff, which is in vogue anyway.

There has been scathing criticism on the inefficient working of KEB and even the former chairman of KEB, as chairman of Tariff Committee has given a list of suggestions to improve the performance of KEB—along the lines of 'all I wanted to do, but could not?'! Notwithstanding these 'inefficiencies', which are a bit exaggerated, the bottom line is good monsoon and more hydro exploitation means less or no power cut, to consumers and profit position to KEB and woe-unto both, otherwise! In short in god we must trust, and also hope that more money is committed for higher level of exploitation of hydro potential.

In the present context, both the tariff hike to industry and the subsidy to agriculture

are inevitable, for different reasons. Industry should realise that the option is not between price increase or no price increase, but rather between price increase and power cut and the choice is clear. However once the hike is accepted, the board and government are obliged to ensure that in future power availability is ensured by committing the resources so mobilised to expansion of low cost power generation. The board must ensure one other thing, which does not take much investment, viz, minimisation of power failures by better maintenance of distribution gear. Hundreds of suggestions can be made for performance improvement of KEB, but one fundamental requirement is that government must ensure a long-term tenure, of at least five years, for top management, including the chairman—whether a bureaucrat, technocrat or management professional—and finance and technical members, and avoid the uncertainty about it.

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A Regulatory Framework for Mutual Funds

Samir K Barua
Jayanth R Varma
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One major change that has taken place in the financial services industry is the establishment of a large number of mutual funds. Though only nationalised banks and financial institutions are permitted to set up these funds there is increasing pressure to allow such funds to be set up in the private sector. It is time therefore to introduce appropriate legislation to govern the functioning of mutual funds.

This paper discusses the various issues connected with the operation of mutual funds and proposes a set of regulations to ensure that they are effective. The proposed regulations draw heavily on the Investment Company Act of 1940, the US legislation on operation of investment companies.

I

Introduction

THE changes in the Indian financial services industry over the last five years have spawned several new institutions, new instruments and an entirely new breed of market players. The establishment of several mutual funds under the aegis of public sector banks and investment institutions is one of the more significant of these developments.

The first open ended fund in India, the Unit Scheme 1964, was set up by the Unit Trust of India (UTI) established under a special act of parliament, the Unit Trust of India Act, 1963. The basic objective of the act was to encourage savings through financial intermediation. The fund proved quite popular with both individuals and corporations and its size by 1990 has grown to about Rs 7,000 crore. Over the years, Unit Scheme 1964 has come to be regarded as primarily an income fund. The same institution also promoted the first close ended fund, known as Mastershare, in September 1986. This fund started with a corpus of Rs 150 crore, to which about another Rs 83 crore were added in March 1989. This fund, conceived as a growth fund, has also been very successful. The funds are highly liquid; for Unit 1964, UTI provides two way quotations for sale and repurchase every month while the mastershares are listed and actively traded in all the major stock exchanges in the country. The management and trusteeship for both the funds are performed by UTI itself.

The success of these two funds, particularly the second fund, generated pressure on the government to allow nationalised banks and private organisations to establish mutual funds. The banks were finally given the green signal, and since then the Indian market has witnessed establishment of several mutual funds by the large nationalised banks. These funds have a variety of objectives: growth, income, growth and income and providing tax shelter to the subscribers. The objective has a major influence on the investment policy of the fund. A growth fund is likely to be of portfolio predominantly of stocks, an income fund is likely to invest mainly in bonds while balanced portfolio would serve the objective of growth and income. The tax

shelter funds are based on government concessions available for investments made in certain kinds of securities which serve the economic and social needs of the country. The funds being conceived are increasingly meeting the diverse needs of individuals. Given the burgeoning growth in the funds mobilised by these funds, the time has come to understand clearly the role they play in the economy and also frame regulations to streamline their functioning.

Mutual funds compete with other forms of savings in the economy. Their major attractions from the point of view of an individual are: access to expertise in investment decisions, economies of scale in transaction costs and cost of search for information, diversification achievable through size, convenience because of absence of book-keeping on a variety of assets, liquidity of investments and ability to choose a fund which meets the precise cashflow needs. Given these advantages, these funds have proved extremely popular in the more developed capital markets. If the initial response is any indication, they have come to stay in the Indian financial environment. While they are useful for individuals, what larger impact do mutual funds have on the economy in general?

There is little evidence to conclude (based on studies done in the Western markets) that popularity of mutual funds results in a higher rate of savings in the economy. However, because of their ability to undertake superior analysis, their entry in the market in large numbers ought to result in better information flow, more efficient pricing of securities and consequent efficient allocation of resources. It has been observed that participation of mutual funds in the capital market generally results in a rise in the market capitalisation, thereby raising the price-earnings ratios. If nothing else changes, this would reduce the cost of capital for the private sector and encourage investments. This is beneficial for the economy as it opens up avenues for growth. However, high price-earnings ratios may also prove counter-productive by introducing a element of instability in the market if the prices are bid so high that their maintenance at those levels depends too long on unrealised expect-

tations. Should one conclude, that on the balance, establishment of mutual funds is beneficial for the economy?

This would be so only if we are able to ensure that the growth of mutual funds is along orderly lines. Experience, the world over as well as our own, confirms that at least in the sphere of economic activity government ownership does not constitute public good and norms of operational conduct need to be applied with equal force to public sector organisations as well. Our own none-too-long experience with mutual funds points to several questionable practices, such as guaranteeing a minimum return on a fund which is meaningless if a large portion of the fund is invested in equity, providing no information on the investment strategy of the fund thereby giving no clue to subscribers about the risks involved, collecting amounts which are much larger than the initial intent without well thought out policy on gainful deployment of funds, withholding information from subscribers on performance of the funds, and (possible) charging of unjustifiably high management fees and expenses for managing the funds. Since the management and trusteeship of these funds reside in one body, ensuring investor protection is an obvious casualty. There is an urgent need therefore to rein in the operations of these funds through appropriate regulations.

The regulatory framework must, therefore, be designed to ensure that the mutual funds are managed for the benefit of their investors. The mutual funds must not become instruments for benefiting the promoters or the government and its favoured (public sector) institutions. Nor should they be transformed into mere tax avoidance devices. Another objective of the regulatory system should be to ensure that mutual funds do not exploit their privileged position to gain an unfair advantage over individual investors who choose to manage their portfolios themselves.

These regulatory concerns become more serious in the Indian situation where the regulatory system for securities markets, in general, is very weak and inadequate. Indeed, the emergence of mutual funds on a large scale makes the task of strengthen-

ing securities regulation more urgent and critical. The government of India has recently announced a set of guidelines for mutual funds. These, however, only spell out the general rules for good behaviour of mutual funds without laying down any specific norms they must observe for investor protection. Drawing on the legislation in countries with longer experience of mutual funds, such as the Investment Company Act of 1940 of the US, it should be easy to evolve a comprehensive set of guidelines for operation of mutual funds in India. This paper examines the emerging practices of the mutual funds in India and suggests an appropriate framework for regulation of their operation.

II

Issues Needing Legislation

In this section we discuss the significant issues that arise from establishment and operation of mutual funds in an economy. We describe the limited Indian experience on these issues and wherever relevant briefly describe the American experience. These discussions provide the basis for the legislation we propose in the subsequent section.

Taxation. The mutual funds floated by public sector banks and financial institutions are exempt from income tax under the provisions of Section 10(23D) of the IT Act. The Unit Trust of India has long enjoyed this exemption under Section 32 of the UTI Act. In addition under Section 80L(1)(va) of the IT Act the income distributed by these funds qualifies along with dividends, interest on bank deposits and certain other government securities for a tax exemption up to an aggregate limit of Rs 13,000. As a result of this, even short term capital gains earned by the funds acquire the quality of dividends and qualify for deduction under Section 80L in the hands of investors merely because the gains have been routed through a mutual fund.

Private sector mutual funds, even if permitted, are not viable because the above tax concessions are not available to them. If a private mutual fund is organised as a company, it will suffer from double taxation, as both corporate as well as individual income tax will be charged. Subject of course, to the provisions of Section 80M of the IT Act. If the mutual fund is organised as a trust then under the provisions of Section 161(1A) of the IT Act the income of the fund will be taxed at the maximum marginal personal tax rate, which is far higher than the tax rate applicable to most small investors. Therefore, private mutual funds are at a tremendous disadvantage vis à vis public sector mutual funds.

Individual investors too are worse off as compared to a public sector mutual fund in terms of taxes. The interest on debentures does not qualify for any tax concessions. Thus the mutual funds gain an unfair advantage over an individual investor who puts his money directly in debentures. This

could be a major reason for the lack of an active secondary market for debentures. The mutual funds are increasingly driving the individual investor out of the debenture market. This is highly unfortunate and undesirable.

Thus the government has used taxation as a major tool to restrict competition from the private sector. This is undesirable because in the long run, healthy competition is in the interest of individual investors as well as the economy. We believe that tax concessions should be extended to all, thereby making private mutual funds viable. Otherwise the government will stand accused of promoting tax avoidance devices which even allow 'laundering' of low risk debenture interest into tax free income.

The taxation of mutual funds should be based on the principle that investors should, as far as possible, be taxed as if they had invested their funds themselves and earned the income directly. One simple way of achieving this effect would be to enact a proviso to the effect that nothing in Section 161(1A) shall apply to a mutual fund. Section 161(1) would then operate to ensure that the trustee of the fund shall be assessed "in his representative capacity only, and the tax shall be levied upon and recovered from him in like manner and to the same extent as it would be leviable upon and recoverable from the [investor]".

Disclosures and Information Dissemination. Since mutual funds are typically organised as trusts, the offer document is not a prospectus within the meaning of the Companies Act. The offer document thus seems to be totally outside regulatory purview, and there seem to be no provisions about what information must be disclosed. In addition, the only remedy to an investor who has put money in a mutual fund on the basis of misleading statements in the offer document is a common law action for deceit. The benefit of Section 62 of the Companies Act will not be available. The issuer will also escape all criminal liability under Section 63 of the Companies Act.

It is necessary to point out here that even in the case of companies, the enforcement of legal provisions relating to prospectus leave much to be desired. The worst offenders in this respect are the highly misleading advertisements on television and in the press.

While the Securities and Exchange Board of India (SEBI) is debating about the form and content of an ideal prospectus for the corporate sector, the mutual funds are raising large funds from the public with full official blessings on the basis of scanty information. A study of the offer documents of two recent schemes (Ind Jyothi Units—Annual Income and Growth Scheme, 1990 and Magnum Multiplier Scheme, 1990) shows a number of deficiencies.

The offer documents are totally silent on a number of critical issues that are of immense concern to any prospective investor. (1) The offer documents give no details on

the investment policy the fund proposes to adopt, that is the proportions of total investment in various securities. Thus, subscribers have no clue as to the risk they may be assuming by investing in the fund. Without this crucial information, the guaranteed minimum return (announced by one of the funds) is meaningless.

(2) There is no mention of management fee and management expenses that is likely to be charged to the funds.

(3) There are no details about frequency and the method of computing NAV, nor is there any mention of how the sale and repurchase prices will be linked to the NAV. Incidentally, government guidelines allow a spread of 7 per cent between sale and repurchase prices which, in our opinion, is absurdly high.

In our opinion, it must be mandatory to disclose full information on investment policy, management fee and other expenses of the fund, as well as the policy on computation of NAV and how it will be linked to sale and repurchase prices. It is also equally important to ensure that the mutual funds are not allowed to change the rules of the game later without the consent of the members. For example, there must be a legal mechanism to ensure that a fund does not deviate by choice from the stated investment policy later. The current practice of the trustees (read the promoter bank) retaining untrammelled powers to amend the terms of a scheme and making all such amendments binding on the subscribers is retrograde and oppressive.

In the United States, open ended mutual funds are required to compute their NAVs twice every day and the difference between the repurchase and the resale price is not allowed to exceed 2 per cent of the NAV. In India, the largest open-ended mutual fund, Unit 64 scheme of the UTI, does not publish NAVs at all and sets monthly repurchase and resale prices well below the prevailing NAV. The close ended funds in India, either do not announce their NAVs at all or do so very erratically. The most regular in this respect is UTI's Mastershares which usually publishes outdated NAV once a week, the lag between the computation and the announcement dates sometimes being more than a week.

Management Fee and Transaction Cost

There are no guidelines on the maximum management fee and other operating expenses that may be charged/incurred by a mutual fund. Recently, a leading mutual fund has published summarised results, the expenses incurred by various schemes vary widely as can be seen from table.

It is surprising that while there is extensive (and in our opinion, excessive) regulation of managerial remuneration in the case of companies (Sections 198, 269 and 314 of the Companies Act), there seems to be none regarding the management fee paid to the investment managers of mutual funds. The need for regulation in this case is far greater

because the investment manager, the promoter, and the trustee are all effectively the same (one being a subsidiary of the others)

Considering that the profitability of the nationalised banks, the major promoters of mutual funds in India, is under tremendous pressure, there could be a temptation to overload the mutual funds with charge for expenses. It also needs to be explicitly provided that the executive salaries and rent and other administrative expenses be borne by the investment manager out of its fee and not charged to the mutual fund separately

The US law restricts the management fee to a maximum of 1 per cent of the value of funds managed. There is also a restriction on the expenses that may be charged for managing the fund. In practice, however, possibly due to intense competition, the management fee actually charged averages only about 1/2 per cent. It has also been observed that the fee charged to individuals is even lower, about half the amount charged to mutual funds. Empirical studies done in the US market indicate that on an average, the mutual funds turn the portfolio over about once a year. The studies also indicated that performance of funds has no definite relationship with either the fee charged or the portfolio turnover.

While it would be necessary, in the long run, to conduct studies in the Indian market to come up with appropriate ceiling on management fee and other costs, to begin with some ceiling needs to be prescribed based on the laws elsewhere and judgment about the Indian market.

Management of Mutual Funds The government of India guidelines specify that the mutual funds must be managed by "professionals with proper qualifications and experience of industry, capital market and other relevant fields. At least 40 per cent of the trustees on the board of trustees should be persons of eminence in suitable fields who are not representing or associated with the promoters, that is, should be independent outside members."

In actual practice, however, the settler, the trustees and the managers are limited to the banks and their wholly owned merchant banking subsidiaries. The entire management and day-to-day operations of the funds are handled by persons who are on deputation from the promoter bank. This could result in the following undesirable consequences.

(1) Absence of a long term orientation in the deputed staff as they know that their tenure in the organisation is short and that they will go back to the promoter bank to pursue their

career. It might be relevant to recall that one of the banes of India's public sector in the early years was the deputationists culture brought by bureaucrats deputed from the government with little long-term commitment to the deputed organisations.

(2) Undue direct and indirect influence by the parent bank officials over the deputed staff managing the mutual funds.

(3) Inability to build-up expertise and specialised knowledge due to the changing profile of the staff.

It will be appropriate to bring in regulation which requires approval of appointment of the investment manager by the general body of unit holders. Such a regulation would be in line with the regulations prevailing in the Western capital markets and our own Companies Act which mandates shareholder approval for managerial appointments.

Issues Relating to Capital Market The fact that mutual funds in India are run by banks and financial institutions raises the spectre of massive insider trading. These institutions, in their role as bankers, term lenders or merchant bankers are privy to a large amount of confidential information about their clients. By using this inside information they could boost the performance of the mutual funds managed by them. Such insider trading is inimical to the development of a healthy capital market.

The problem of insider trading is not peculiar to mutual funds. It is a much more endemic phenomenon in India, and is in large part attributable to the total lack of legal and regulatory safeguards against insider trading. (Many kinds of insider trading are not illegal in India, and in any case there is no regulatory agency for investigating such activities and prosecuting offenders.)

Despite claims about the existence of a Chinese Wall around mutual fund operations, it is extremely unlikely, that the mutual funds will not be tempted to breach the wall just a little so that 'inside' information flows in. Besides, since the funds are managed by executives deputed from the banks/institutions, they have informal access to corporate information from the commercial and investment banking wings of the parent bank.

In the primary market, the promoter banks are either directly or indirectly in a position to influence the issuers to make firm allotment of shares to the mutual funds under their umbrella. In a country where new issues are heavily oversubscribed, as they are systematically underpriced (thanks

to the price fixation policy of the controller of capital issues), firm allotment of large blocks of equity in favour of mutual funds gives them a tremendous unfair advantage. Since the new issues generally provide high initial returns, mutual funds can show superior performance by benefiting from such a policy.

Inter-Scheme Dealings: Since each mutual fund currently manages several schemes there is considerable scope for transactions between different schemes. These transactions may be influenced by the need to show superior performance by a few selected schemes which are then advertised to sell newer schemes to the public. Transfers done from one scheme to another with such motives are extremely unfair to the subscribers of schemes which are currently neglected by the mutual funds. Such unethical practices must be outlawed as they deny the full returns due to the subscribers of a given scheme. Enforcing this through legislation may be difficult as the transactions may be put through a broker to give it a semblance of genuineness.

Fears on this score are based on newspaper reports* on such transfers from one scheme to another. Privately too, managements of mutual funds believe and state that in India no scheme is ever going to be genuinely liquidated in the market, it is only going to be taken over by floating newer schemes. This is extremely improper unless the subscribers to the new schemes are taken into full confidence and made aware of the above compulsions.

In this context the US law is quite clear as it prohibits transactions between an investment company and any affiliated person. The US law also prohibits any offer to a holder of the security of an investment company to exchange his security for a security in the same or another investment company on any basis other than relative net asset values.

Exercise of Voting Power Most mutual funds in India are organised as trusts. Under Section 187B read with Section 153B(4) of the Companies Act, they cannot exercise any voting power in respect of shares acquired by them if the paid up value of the shares exceeds Rs 5 lakh. The voting power in these cases is exercisable by the public trustee who is a government official. We think that Section 187B of the Companies Act was a misguided attempt to curb 'benami' holdings. It has served no worthwhile purpose and ought to be scrapped. In any case, its application to mutual funds is totally absurd. At the very least, mutual funds should be exempted from this section.

It may be noted that the guidelines announced by the government specify that, "A mutual fund shall not invest more than 5 per cent of its assets in the shares of any company. Similarly, it shall also not invest in more than 5 per cent of the shares of any

* India Fund Sells to Unit 64 Oswal Agro, *The Economic Times*, February 6, 1990

TABLE

| | Scheme 1 | Scheme 2 | Scheme 3 | Scheme 4 |
|--|----------|----------|----------|----------|
| I Total investments (Rs crore) | 96.3 | 196.4 | 121.4 | 30.2 |
| II Expenses incurred as a percentage of investments (year end) | 6.1 | 1.1 | 2.8 | 8.2 |
| III Expenses incurred as a percentage of the year's income | 30.4 | 5.9 | 6.2 | 18.2 |

company under 'any one scheme' These guidelines, while useful *per se*, leave the issue of corporate control wide open as several funds/schemes can together acquire a significant voting power in a given company.

Investment Policy The guidelines cited in the previous paragraph limiting a mutual fund's holdings in any single company ensures diversification of portfolio and limits the possible misuse of funds to benefit a particular company. We are also in agreement with three of the other guidelines announced by the government.

(1) Mutual funds should not borrow or pledge their assets in the normal course, during temporary emergency these can be done and duly reported to SEBI.

(2) A mutual fund should not again normally invest in another mutual fund or keep deposits with companies.

(3) The mutual fund must take/give deliveries in all their transactions.

III

Regulations on Operation of Mutual Funds

The discussions in the preceding section are the basis of the regulations we propose in this section. These regulations should form the core of what may be described as 'The Investment Companies Act 1990'.

(1) An investment company means any person (including a company, trust, partnership or association) which

- (a) issues or proposes to issue any security or has outstanding any security which it has issued, and
- (b) is, or holds itself out as being engaged primarily or proposes to engage primarily in the business of investing, reinvesting or trading in securities.

But excludes

- (a) persons primarily engaged in the business of underwriting and distributing securities, selling securities and acting as brokers,
- (b) banks, insurance companies and similar financial institutions,
- (c) charitable trusts,
- (d) any person whose outstanding securities are beneficially owned by not more than one hundred persons and which is not making and does not presently propose to make a public offering of its securities.

For the purpose of this definition security includes shares, debentures, notes, bills, commercial paper, bonds, units, trust certificates or in general any interest or instrument commonly known as a security.

(2) No income tax on surtax shall be payable by an investment company in respect of its income by way of interest, dividend, capital gains or the profits and gains of business of investing, reinvesting or trading in securities.

(3) Where the income of an assessee includes dividends or other income distributed by an investment company, that part

of such dividends shall qualify for the deduction under Section 80I of the Income Tax Act as is attributable to income earned by the investment company from sources (like dividends) which themselves qualify for deduction under Section 80I. For this purpose every investment company making a distribution of income shall provide a certificate to its security holders providing the above information.

(4) The provisions of the Companies Act relating to prospectus shall so far as may be, apply to an offer document issued by an investment company. These include provisions relating to

- (a) civil and criminal liability in relation to misstatements (Sections 62 and 63)
- (b) penalty for fraud in inducing persons to invest money (Section 68), and
- (c) matters to be stated and reports to be set out in the prospectus (Section 56 and Schedule IV) so far as these are relevant to mutual funds.

(5) The investment policy of a fund shall be specified in the offer document by clearly stating the aggregate proportion that the fund plans to invest in short-term instruments and long term instruments. Within the long term instruments, it shall specify the proportions that are to be invested in stocks and bonds.

These proportions are likely to change with the changes in the market value of securities. In such an eventuality on every liquidation it shall be mandatory for the fund to reinvest in a manner that would restore the proportions to the declared values.

(6) The terms of any scheme of an investment company shall not be varied without the approval of the security holders in general meeting. The provisions of the Companies Act relating to alteration of memorandum and articles of association shall, so far as may be, apply to such a variation. The provisions of Section 106 and 107 of the Companies Act relating to variation of shareholders rights including the right of dissentient shareholders to approach the court shall also apply to an investment company.

(7) The provisions of section 187B shall not apply to shares held by an investment company. In other words, the investment company shall be entitled to exercise voting power in respect of its shareholding.

(8) Every investment company shall hold an annual general meeting of all security holders to consider the annual accounts. The provisions of the Companies Act relating to annual general meeting and annual accounts shall so far as may be apply to investment companies also. In particular, the annual accounts shall include a statement on the shares and debentures held by the fund. The number, the cost and the market value of these securities as on the balance sheet date shall also be included in this statement. The profit and loss account shall be itemised at least with respect to each category of income and expense representing more than 5 per

cent of total income or expense.

(9) The provisions of Section 169 of the Companies Act relating to the right of 10 per cent of the shareholders to requisition an extraordinary general meeting shall apply to the security holders of an investment company.

(10) The provisions of Sections 255, 256 and 257 of the Companies Act relating to appointment of directors shall apply to the appointment of trustees of an investment company. This means that two thirds of the trustees shall be subject to retirement by rotation and shall be appointed in general meeting.

(11) The general body of security holders of an investment company shall be entitled to place such restrictions on the powers of the board of trustees as the general body of a company is entitled to place on the board of directors under Section 291 of the Companies Act.

(12) The provisions of the Companies Act relating to appointment and removal of auditors, their qualifications and disqualifications and their powers shall apply to the auditor of the investment company. In particular, the auditors shall be appointed in general meeting.

(13) The provisions of Sections 397 and 398 of the Companies Act relating to the powers of the court to prevent oppression and mismanagement shall apply to an investment company.

(14) The provisions of Section 416 of the Companies Act relating to contracts in which the company is an undisclosed principal shall apply to an investment company. These provisions require the terms of any such contract to be reduced to writing and submitted to the board.

(15) The management fee is a charge for the expertise and efforts involved in designing and maintaining a portfolio. Since expertise needed depends on the type of portfolio and the effort does not necessarily increase linearly with the size of the portfolio, the management fee should be a function of both.

There shall be ceiling of one half of 1 per cent of the funds managed for an all equity portfolio, and a ceiling of one quarter of 1 per cent of funds managed for an all bonds portfolio. For balanced portfolios, the ceiling shall be worked out using these two limits. The ceilings themselves shall decrease with the size of the portfolio according to the following schedule.

| Size of Fund (Rs '00 crore) | Management Fee |
|--------------------------------|--|
| < 200 | 1.0 per cent of funds |
| < 400 | 2 cr + 0.95 per cent of funds in excess of 200 |
| < 600 | 3.90 cr + 0.90 per cent of funds in excess of 400 |
| < 800 | 5.70 cr + 0.85 per cent of funds in excess of 600 |
| < 1000 | 7.40 cr + 0.80 per cent of funds in excess of 800 |
| > 1200 | 9.00 cr + 0.75 per cent of funds in excess of 1000 |

The management fee applicable to an all bonds portfolio shall be one half of the fee applicable to an all equity portfolio of the same size. The above management fee shall cover executive salaries and administrative expenses including office rent and the investment company shall not incur any additional expense in this regard.

(16) The ceiling on annual transaction cost would be based on the turnover of the portfolio expected in a year. An all stocks portfolio is likely to be turned over more frequently as compared to an all bonds portfolio. While specifying the limit, a transaction cost of about 0.5 per cent has been assumed.

The average annual transactions cost over the life of an all equity fund shall not exceed 1 per cent of the value of the fund. The average annual transactions cost for an all bonds fund shall not exceed 0.5 per cent of the value of the fund. This would imply that on an average these portfolios are not expected to be turned over more than twice and once a year respectively.

(17) It shall also be mandatory for the fund to compute and publish the net asset value every day. The fund shall also, periodically (end of every quarter) announce the details on the securities held in the portfolio.

The resale and repurchase price of an open ended fund shall be specified every day such that they straddle the NAV and the difference between them is less than 2 per cent of the NAV.

(18) An investment company shall not invest more than 5 per cent of its assets in the shares of any company. Similarly, it shall also not invest in more than 5 per cent of the shares of any company.

(19) An investment company shall not borrow or pledge its assets.

(20) An investment company shall not invest in another investment company.

(21) An investment company shall take/give deliveries in all their transactions.

(22) An investment company shall not enter into any transaction of purchase or sale of securities with the promoters or trustees or any persons/institutions in which the promoters or trustees are interested.

(23) No offer shall be made to a holder of the security of an investment company to exchange his security for a security in the same or another investment company on any basis other than relative net asset values.

(24) Any investor who has been affected by the violation of any of the above guidelines shall be entitled to sue the trustees and the promoters for damages. In addition, the trustees and other officers shall also be subject to penalties which may be imposed on a prosecution by the government.

CENTRE FOR DEVELOPMENT STUDIES

TRIVANDRUM - 695 011

The Centre is interested in recruiting bright young persons as *RESEARCH ASSOCIATES* to participate in its teaching and research activities relating to population and development.

Candidates for the post should have a Masters degree with a high second class and Ph.D. in Economics/Statistics/Demography/Sociology/Regional Planning. Those who have submitted the Ph.D. thesis are also eligible to apply. Candidates should have an interest to carry out interdisciplinary research on some aspects of linkages between population and development.

The scale of pay is Rs 2200-75-2800-100-4000 and allowances on par with Central government employees in Trivandrum. Higher starting salary may be given in deserving cases. Upper age limit is 32 years with the usual relaxation for reservation categories. The appointment could be on regular basis or on contract basis for a fixed period.

The Selection Committee may relax the qualification in exceptional cases and can also consider suitable candidates from outside the list of applicants. Those selected at the preliminary screening based on the evaluation of application may be called for a personal interview. Candidates belonging to SC/ST, backward communities and women are specially encouraged to apply. Application on plain paper giving (1) name (2) address (3) date of birth (4) educational background from higher secondary indicating subjects studied, marks/class obtained and University (5) academic distinctions or honours (6) work experience indicating position held, period and organisation (7) list of publications with full citation (8) names of three referees and (9) any other relevant information should reach the **Director, Centre for Development Studies, Prasanth Nagar Road, Ulloor, Trivandrum 695 011** before June 30, 1991. Applicants should also enclose a copy each of their best publications.

FORM II-A
(See Rule 4A (1))

FORM OF GENERAL NOTICE TO BE GIVEN TO THE MEMBERS OF THE PUBLIC BEFORE MAKING AN APPLICATION TO THE CENTRAL GOVERNMENT UNDER SUB SECTION (2) OF SECTION 22 OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969.

NOTICE

It is hereby notified for the information of the public that JINDAL STRIPS LIMITED proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of the Monopolies and Restrictive Trade Practices Act, 1969 for approval to the establishment of a new undertaking/unit/division. Brief particulars of the proposal are as under:

- | | |
|---|--|
| 1. Name and address of the applicant | : JINDAL STRIPS LIMITED Delhi Road, HISAR (Haryana) |
| 2. Capital structure of the applicant organisation | : Authorised : 15.00 crores Subscribed and paid up : 10.58 crores |
| 3. Management structure of the applicant organisation indicating the names of the directors, including the managing/wholtime directors and managers, if any | : Sh. O.P. Jindal, Chairman & Mg. Director Sh. Sajjan Jindal, Jt. Mg. Director Sh. Ratan Jindal, Jt. Mg. Director Sh. T.R. Tuli, Director Sh. S.L. Gupta, Director Sh. T.C. Mitla, Nominee of HSIDC Sh. N.H. Bhatler, Nominee of SICOM Sh. S.P. Nagarkatte, Nominee of ICICI Sh. B.K. Kapoor, Director Sh. Vinod M. Nowal, Director Sh. O.P. Vaish, Director Sh. R.K. Gupta, Director |
| 4. Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division | : New Unit |
| 5. Location of the new undertaking/unit/division | : Raigarh, (M.P) |
| 6. Capital Structure of the new undertaking | : N.A. |
| 7. In case the proposal relates to the production, storage, supply, distribution, marketing or control of any goods articles indicate: i) Name of goods articles ii) Proposed licensed capacity iii) Estimated annual turnover | : Cement : 5,00,000 MT per annum : |
| 8. In case the proposal relates to the provisions of any service, state the volume of activity in terms of usual measures such as value, income, turnover etc. | : N.A. |
| 9. Cost of project | : Rs. 9200.88 lacs |
| 10. Scheme of finance indicating the amounts to be raised from each source | Equity : 3066.96 lacs Loan from financial institutions/ mutual funds/banks : 6133.92 lacs <hr/> 9200.88 lacs |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhawan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein.

for JINDAL STRIPS LTD ,

Sd/-
P.L. AJMERA
SECRETARY

Dated:

Demand for Textiles in India

G V S N Murty
T R Sukumari

It is often alleged that the growth of the Indian textile industry is constrained by demand factors, in particular the demand from the household sector. This being so, it becomes necessary to assess the patterns of existing demand for textiles in order to examine how this may be improved. This study examines the pattern of textile consumption, its quality component and income and price elasticities of demand, in order to derive the crucial factors to improve household textile demand.

I

Introduction

THE textile industry occupies a pride of place in the Indian economy. It is one of the largest industries in the world in terms of spinning and weaving capacities. After a period of relatively good performance in the 1950s, it has been characterised by a deceleration in output and investment growth. The severe recession of the mid sixties also affected this sector adversely. In recent years, structural changes have been pronounced in the production of textiles and in the mode of production. The organised mill sector has shown a significant fall in output while the decentralised sector has doubled its output during 1970 to 1986. The aggregate output growth of cotton textiles is below the population growth while it is far above that for synthetic and blended fabrics. Thus there is a shift in the mode of production from mill sector to decentralised sector (mostly power looms) and shift away from the production of cotton cloth to synthetic and blended varieties.

The structural changes in the production of textiles are reflected in the demand patterns of the largest buyer, the household sector. After showing a stagnancy in the per capita consumption of cloth (PCC) in 1970s, an improvement is witnessed both in the quantity and quality of consumption of the household sector. The yearly PCC which was around 13.52 metres in 1981 had increased to 16.45 metres in 1987. Within the textile group cotton cloth has maintained a constant level of 10.5 metres while the non cotton and mixed varieties have shown gradual increase. The percentage of textiles in the total consumer expenditure also witnessed a gradual increase from 8 to 11 per cent from 1970 to 1987.¹ Thus the consumption of textiles in the household sector has improved both in quantity and quality terms.

It is often alleged that the growth in the Indian textile industry is constrained by demand factors, in particular the demand from the household sector. As this industry in recent years is not facing severe constraints on account of raw material and other factors of production and in view of the fact that household sector is the largest buyer of textiles, the growth of the industry depends on the growth in household demand. In this context it is important to enhance the demand for textiles so that the textile industry

would not conceive the sickness observed earlier.

The improvement in household demand for textiles could be visualised through

- (1) Enhancing the growth of per capita income or per capita consumption expenditure (PCE),
- (2) An appropriate pricing policy
- (3) An appropriate structure of relative prices of different varieties of clothing.

This study examines the pattern of textile consumption, its quality component and the income and price elasticities of demand, to cull out the crucial factors to improve the household textile demand. The analysis is carried out by resorting to the estimation of two stage complete demand systems for textile consumption. In the first stage the pattern of textile consumption is examined along with other items like food, fuel etc., of the consumption budget, while in the second stage the pattern of consumption of varieties of textiles is examined.

The two stage model is developed and estimated with the available information. The models are seen to be theoretically consistent and empirically manageable, so that the approach could be utilised efficiently in projecting the future demand.

This paper also provides a scenario analysis on household demand for textile in India for the years 1995 and 2000. The sensitivity of projections across alternative growth patterns of per capita consumption expenditure and that of alternative price changes are examined. By making plausible assumptions about non household demand and exports, the fibre requirement of cotton, synthetics and cellulosics in 1995 and 2000 are also estimated. We hope the estimates would be useful in planning the textile sector in understanding the structure of textile demand and in assessing the role of price mechanism in improving demand.

The next section provides the trends in textile consumption. Section III concentrates on the analysis relating to the two stage demand model. Section IV examines the emerging per capita demand patterns in value and quantitative terms for the years 1995 and 2000 under alternative PCE and relative price scenarios. Section V provides the projected estimates of aggregate demand in 1995 and 2000 along with the fibre requirements. Section VI summarises the results.

II

Trends in Textile Consumption

We have four alternative data sources on consumption/availability of textiles in India. They are (1) National Accounts Statistics (NAS), (2) National Sample Survey on Consumption Expenditure (NSS), (3) Economic Survey (ECS) and (4) Consumption of textiles published by the market research wing of the Textile Committee (CPT). The NAS and ECS data are based on production estimates while the rest of the two data bases are from the consumer surveys carried out from time to time. The NSS and CPT data provide rural urban break up of textile consumption while the other two are for the country as a whole. Since this study concentrates on the demand patterns for the country as a whole, we rely heavily on the NAS and CPT data.

Table I provides the estimates of average annual compound rate of growth (ROG) of textile consumption in quantity and value terms and of textile prices for the period 1976 to 1987. These rates are arrived at by estimating semi log trend equations. The NAS and CPT data are used for this purpose. The growth rates from the NAS data refer to textile consumption at 1980-81 prices.

It can be seen that the NAS per capita textile expenditure (PTE) at 1980-81 prices has grown at a rate of 3.10 per cent while the CPT data show a growth of 7.3 per cent. The consumption of textiles in metres has grown at a rate of 2.17 per cent. For cotton, the growth is negative (-0.72 per cent) but statistically insignificant while it is impressive for non cotton (15.41 per cent) and mixed varieties (12.65 per cent). The fact that the growth in the value terms (at 1980-81 prices) is higher than that of quantity implies the presence of improvement in the quality of textile consumption. The quality improvement is also reflected in the shifts in the composition of consumption. Cotton textiles, which accounted for 90 per cent of aggregate consumption (in metres) in 1976, declined to 65.8 per cent in 1987, the share of non cotton increased from 3.5 per cent to 14.7 per cent and mixed varieties from 6.3 to 19.5 per cent. The growth in aggregate household demand during 1976 to 1987 is 1.59 per cent for cotton, 18.01 per cent for non cotton and 15.19 per cent for mixed varieties. These trends broadly indicate that the non-cotton and mixed varieties would

play a dominant role in the future consumption budgets of the household sector

Textiles prices witnessed a growth of 6.55 per cent with NAS and 6.15 per cent with wholesale price index (WPI) data. With CPT data it is around 11.22 per cent. The CPT price data is simply the ratio of value to quantity of consumption. The movements of this ratio, therefore, cannot be considered as reflecting the price changes as the budget shares within textile group are allowed to change over the period. Thus an alternative price index with 1980-81 budget weights is constructed. The growth in this index (constructed with 1980 CPT budget weights), broadly confirms the pattern reflected in NAS and WPI data. Thus the prices of textile are seen to increase at a rate of around 6.5 per cent during 1976 to 1987.

As per the CPT data, 35 per cent of textile consumption in value terms is accounted for by cotton, 32 per cent by non-cotton and 33 per cent by mixed varieties. Price change in any one of them would induce a change in the price of textile. For example, *ceteris paribus* change of 10 per cent in the prices of cotton would imply 3.5 per cent change on textile prices and a 10 per cent change in non-cotton and mixed varieties would imply 6.5 per cent change in the price of textiles.

The demand for textiles depends on the relative price structure of items like food, fuel, etc. Any change in the relative price structure of these items would affect the aggregate textile demand which in turn would alter the demand structure of the different varieties of clothing. An improvement in the demand for textiles in the country therefore depends on the sectoral pricing policies of the government and in particular the policies for cotton, non cotton and mixed varieties. It is necessary, therefore, to assess (1) what is the percentage change in the demand for textiles because of a certain percentage change in income or PCE? (2) what is the percentage change in the demand for textiles because of a change in the price structure of food, fuel, etc., (3) what is the change in the demand for the individual varieties of textiles with a change in the above factors along with changes in the price structures of the varieties. In the next section attention is focused on these aspects by calibrating a two-stage demand system for textiles.

III

Two-Stage Demand Model for Textiles

The distribution of growth over different types of economic activity and of income over socio-economic groups are the key factors that determine the process of economic development. In this context the successive adjustments between the production possibilities and demand patterns play a crucial role in forging a link to the complex chain of economy wide processes. Such adjustments unveil different implications for long run policy formulation. If the impediment

in the production is because of demand factors, it is highly important to examine the pattern of demand and identify the factors affecting demand.

In a policy model when one attempts to solve the implementation problem as far as possible by arranging for zero demand pressure in the consumer market, it becomes an important statistical and econometric problem to estimate the complete set of demand elasticities i.e., income, own price and cross-price [Frish 1962]. The pattern of these elasticities reveals the possible directions of change in the demand patterns.

These directions of change could be used in targeting the production and in tracing the factors (controllable) that impede the growth in demand. They also throw light on the likely impact of alternative government policies (mostly income and price) on demand and in turn production.

Recognising the above need several research organisations and government agencies have estimated price and income elasticities of demand for textiles in India. The approaches adopted to arrive at the estimates however are different and in many cases are not comparable.

The estimates depend on the specification of the models, the data base and the methods of estimation. The market research wing of the Textile Committee (MRTC) for example uses the data for one year to arrive at price and income elasticities. The price variable in this is defined as the ratio of value to quantity of consumption. Thus these elasticities suffer from severe specification problems which limit their use for policy prescriptions.

The first systematic attempt to build demand models for textiles was made by Murty [1983] followed more recently by Goswami [1990]. These studies integrate the NSS data on consumer expenditure with that of CPT data to arrive at a two stage demand model for textiles.

In the study by Goswami [1990] the estimated elasticities suffer from defects. These defects, as will be shown later in this paper, are mainly because of the specification of the price variable in the model. The price variable is specified as the ratio of value to quantity of consumption. The elasticities therefore represent the compounding effects of prices and quality and use of them for policy purposes would yield results which will be far from reality.

A two stage demand model is formulated in this paper to examine the pattern of price and income elasticities. The first stage model reveals the direction of change in textile demand owing to change in PCE and prices of four broad groups, viz., food, clothing, fuel and others. The second stage model reveals the direction of changes in the demand for varieties of clothing owing to changes in the prices of varieties and PTE. In both the stages a Linear Expenditure System (LES) is postulated, which is derivable from the Stone-Geary utility function.

Writing P_1, P_2, \dots, P_N and Q_1, Q_2, \dots, Q_N as the price and quantity of consumption of N goods in the first stage allocation of PCE, say $M (= \sum P_i Q_i)$, then the first stage LES system can be written as:

$$P_i Q_i = P_i C_i + B_i [M - \sum P_j C_j] + u_i \quad (1)$$

$i = 1, 2, \dots, N$
In this system C_i 's are interpreted as committed quantities (or expenditures) and B_i 's as marginal budget shares (MBS) i.e. $\sum B_i = 1$. Given M , $(M - \sum P_j C_j)$ provides the 'supernumerary expenditure' and the consumer is assumed to allocate it across goods, in proportion to B_i , the MBS of i^{th} good. Thus the estimates of B_i provide information on how a consumer distributes additional income on the i^{th} good.

Analogous to the first stage model the second stage model can be written as:

$$P_i Q_i = P_i c_i + b_i (m - \sum P_j c_j) + v_i \quad (2)$$

where $m - \sum P_j c_j$ is PTE and k is the suffix for textile group in the first stage LES model. u_i and v_i are stochastic terms.

In the second stage model also, $\sum b_i = 1$ and c_i 's are the committed quantities (or expenditures) within the textile group. Since the models are based on utility maximisation hypothesis, the set of demand relations in (1) and (2) satisfies all the theoretical requirements.

The fulfilment of the theoretical conditions requires that $B_i > 0$ and $b_i > 0$. The committed quantity interpretation for C and c_i is only suggestive and it is not always possible when $C < 0$ and $c < 0$. This negativity however is not inconsistent with the theory.

The LES models in (1) and (2) are a simultaneous system of non-linear equations with the parameters B_i, C_i, b_i and c_i . The empirical results that follow are obtained by adopting the iterative Zellner's [1962] estimator.

TABLE I AVERAGE ANNUAL COMPOUND GROWTH RATES (1976-1987)

| Item | Growth Rate | R ² |
|-----------------------------|-------------|----------------|
| <i>Per capita</i> | | |
| PCE at 1980-81 prices (NAS) | 2.16 | 0.94 |
| PTE at 1980-81 prices (NAS) | 3.10 | 0.85 |
| PTE at 1980-81 prices (CPT) | 7.30 | 0.89 |
| Cotton (metres) | 0.72 | 0.20 |
| (not significant) | | |
| Non cotton (metres) | 15.41 | 0.94 |
| Mixed (metres) | 12.65 | 0.94 |
| All textiles (metres) | 2.16 | 0.68 |
| <i>Aggregate</i> | | |
| Cotton (metres) | 1.59 | 0.54 |
| Non-cotton (metres) | 18.01 | 0.95 |
| Mixed (metres) | 15.19 | 0.95 |
| All textiles (metres) | 4.53 | 0.91 |
| <i>Prices</i> | | |
| NAS | 6.56 | 0.97 |
| WPI | 6.20 | 0.97 |
| CPT | 6.50 | 0.96 |

tion procedure after linearising the models with Taylor's series expansion. The cross-equation restrictions are imposed in the Zellner's procedure and is repeated until the parameters converge. The stochastic terms u_i and v_i in different equations are assumed to be contemporaneously correlated with zero mean and common covariance matrix. The estimated covariance matrix of residuals at each iteration is used in Zellner's procedure. The converged estimates will be identical with Maximum Likelihood (ML) estimates. The expressions for the complete set of elasticities which are worked out at the sample mean are given below.

First Stage LES

Income elasticity of good i wrt PCE,

$$E_i = B_i/W_i \quad (3)$$

Price elasticity of good i wrt j^{th} price,

$$E_{ij} = E_i \phi - E_i W_j (1 + \phi E_j), \text{ for } i=j \quad (4)$$

$$= -E_i W_j (1 + \phi E_j), \text{ for } i \neq j$$

where $\phi = -(M - \sum_j P_j C_j)/M$

W_i = estimated budget share for the i^{th} good from the first stage model

Second Stage LES

Income elasticity of good i wrt PTE,

$$e_i = b_i/w_i \quad (5)$$

Price elasticity of good i wrt j^{th} price,

$$e_{ij} = e_i \theta - e_i w_j (1 + \theta e_j), \text{ for } i=j \quad (6)$$

$$= -e_i w_j (1 + \theta e_j), \text{ for } i \neq j$$

where $\theta = -(m - \sum_j p_j c_j)/m$

w_i = estimated budget share for the i^{th} good from the second stage model

DATA AND RESULTS

For estimating the above demand models we need information on prices, quantities (or constant price expenditures) of consumption of different items in the consumer budget and similar data for textile sub group also. Previous studies on the subject have used the NSS data on consumer expenditure for the first stage model and income class wise CPT data for the second stage. In view of the fact that the NSS estimates of cloth consumption are biased downward, we utilise the time series NAS data on consumption for four broad groups—food, clothing, fuel and others—spanning the period 1960 to 1986. The implicit price indices (with 1980-81 = 1) are used for P_i 's in the model. For the second stage model we utilise the CPT time series data on three varieties of textiles—cotton, non cotton and mixed—spanning the period 1976 to 1987. The time series data is used to minimise the compounding effects of quality on price elasticities. If time series of cross section data, along with the price variable defined as the ratio of value to quantity of consumption are used, then the price elasticities will be biased as they also include the quality effects.

Table 2 gives the ML estimates of the first stage model along with the estimated budget shares (W_i) and the explanatory power of the model (R^2). The asymptotic standard errors of the estimates are not given as they

are all statistically significant.

It can be seen that all B_i 's (i.e. MBS) are positive and MBS is maximum for others followed by food and clothing. The MBS for textiles as a whole is estimated to be 0.158, i.e., an average consumer would spend Rs 15.80 on textile from an additional PCE increase of Rs 100.

The complete set of elasticities presented in Table 3 reveals the income elasticity of demand for textiles as 1.5942 and own price elasticity as -0.5938, implying thereby that textiles is income elastic and price inelastic in nature. Further a 10 per cent rise in food prices under *ceteris paribus* assumptions is seen to reduce the demand for textiles by 6 per cent. Among other goods in the consumer budget the adverse effect of a rise in food prices is highest for textiles.

The elasticities are within the range of cross country estimates reported in Table 4. In consequence the first stage model can be viewed as consistent. Looking into the magnitude of cross country estimates

doubts arise about the validity of the results reported by Goswami [1989].

The parameter estimates and elasticities of the second stage model are given in Tables 5 and 6 respectively. These tables indicate that MBS is the highest for non-cotton and is followed by mixed and cotton varieties. Cotton accounts for a negligible MBS which is consistent with the data during the period. The elasticities within textile group are negligible for cotton. The demand for cotton textiles therefore is insensitive to a change in PTL or price of cotton. The elasticities for non cotton are estimated as 2.488 wrt PTE and 2.029 wrt own price, the corresponding elasticities for mixed are estimated as 1.048 and 1.422. Thus non-cotton and mixed textiles are elastic wrt PTE and own price.

The cross price elasticities (Table 6) indicate that a 10 per cent rise in non cotton prices under *ceteris paribus* assumptions would increase the demand for mixed varieties by 7 per cent while a 10 per cent rise

TABLE 2. PARAMETER ESTIMATES OF LES STAGE I

| Commodity | B | C | W | R ² |
|-----------|--------|--------|--------|----------------|
| Food | 0.3937 | 583.54 | 0.5341 | 0.992 |
| Clothing | 0.1582 | 70.65 | 0.0993 | 0.996 |
| Fuel | 0.0296 | 49.14 | 0.0415 | 0.981 |
| Others | 0.4184 | 263.17 | 0.3211 | 0.991 |

TABLE 3. ESTIMATES OF PRICE AND EXPENDITURE ELASTICITIES (Mean Level Model Stage I)

| Commodity | Elasticity wrt the Price of | | | | Expenditure Elasticity |
|-----------|-----------------------------|----------|--------|--------|------------------------|
| | Food | Clothing | Fuel | Others | |
| Food | 0.5377 | 0.0350 | 0.0233 | 0.1356 | 0.7316 |
| Clothing | 0.6542 | 0.5938 | 0.0508 | 0.2955 | 1.5942 |
| Fuel | 0.2931 | 0.0342 | 0.2546 | 0.1324 | 0.7143 |
| Others | 0.5347 | 0.0624 | 0.0415 | 0.6644 | 1.3030 |

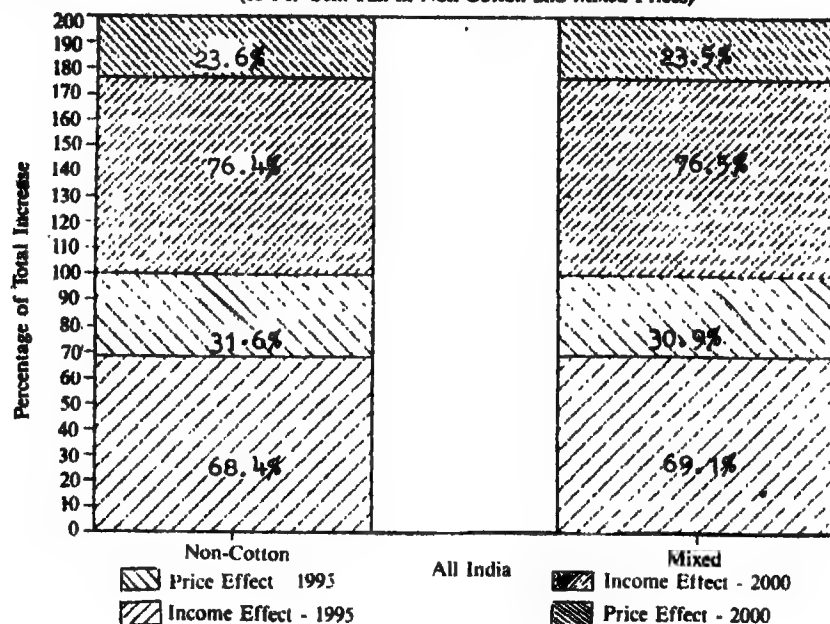
TABLE 4. CROSS COUNTRY ESTIMATES OF BUDGET SHARE, EXPENDITURE AND OWN PRICE ELASTICITY OF TEXTILES

| Country | ABS | MBS | EXP EL | PRIEI |
|--------------|-----|-----|--------|-------|
| Korea | 104 | 061 | 0.66 | 0.13 |
| Thailand | 084 | 101 | 1.20 | 0.21 |
| Philippines | 074 | 055 | 0.75 | 0.12 |
| Taiwan | 051 | 069 | 1.26 | 0.35 |
| Jamaica | 107 | 208 | 1.95 | 1.01 |
| Panama | 074 | 081 | 1.08 | 0.62 |
| South Africa | 118 | 164 | 1.39 | 0.34 |
| Greece | 122 | 168 | 1.37 | 0.83 |
| Ireland | 100 | 134 | 1.33 | 0.44 |
| Puerto Rico | 106 | 112 | 1.06 | 0.86 |
| Italy | 101 | 087 | 0.86 | 0.54 |
| Israel | 094 | 103 | 1.10 | 0.29 |
| UK | 107 | 067 | 0.62 | 0.49 |
| Australia | 110 | 050 | 0.45 | -0.20 |
| West Germany | 123 | 096 | 0.78 | 0.59 |
| Sweden | 115 | 071 | 0.62 | -0.44 |
| US | 095 | 108 | 1.14 | -0.66 |

Notes: ABS = Average Budget Share
MBS = Marginal Budget Share
EXP EL = Expenditure Elasticity of Demand
PRIEI = Own Price Elasticity of Demand

Source: Lluch, Powell and Williams [1977]

CHART 1: DECOMPOSITION OF DEMAND FOR TEXTILES
(10 Per Cent Fall in Non-Cotton and Mixed Prices)



in prices of mixed varieties would increase the demand for non-cotton by 4.9 per cent.

The estimates of second stage model also deviate markedly from the results reported by Goswami [1990]. Goswami estimated the own-price elasticity of cotton within textile group as -1.2827 while the estimate in this paper is only -0.1326 . It should be noted that the simulations or demand projections will be sensitive to the magnitude of price and income elasticities and thus Goswami's results cannot be taken to reflect the true changes. If that is the case what are the factors that explain the difference? This aspect is discussed below.

Goswami [1989] used the CPT time series of cross-section data for textile consumption and unit values for prices which include also some part of quality. When a demand model is postulated, it is assumed that the observations are generated as if they are random drawings from a population facing different price structures. If quality variation is not present we should expect only one price for all consumers in each year. But the CPT data show a one-to-one correspondence between unit value and income. We present below a tentative model which can partly take into account the quality effects on the elasticities.

Let us assume that in period t , we have income classes and the corresponding unit values for cotton are p_1, p_2, \dots, p_k . The average unit value p^* for all income classes together can be obtained as a weighted average of p_1, p_2, \dots, p_k . The quality premium paid by i^{th} income class for cotton will be $(p_i - p^*)$ which may be positive or negative. If quality variation is present, it will be positive for higher income classes. We can now decompose the value of consumption of cotton for i^{th} income class as $(p_i - p^*) q_i + p^* q_i$.

The first part represents the quality component of total expenditure on cotton. This decomposition could be used to formulate a LES type model to estimate it from the time series of cross-section data.

If three varieties of textiles are considered, LES will become a six equation system, where the three additional variables represent quality.

$$(p_i - p^*) q_i = [p_i - p^*] c_i + b_i [m - \sum_{j=1}^3 (p_j - p^*) c_j - \sum_{j=4}^6 p^* c_j], i = 1, 2, 3 \quad (7)$$

$$p^* q_i = p^* c_i + b_i [m - \sum_{j=1}^3 (p_j - p^*) c_j - \sum_{j=4}^6 p^* c_j], i = 4, 5, 6 \quad (8)$$

In this model b_1, b_2, b_3 would yield the quality effect on the MBS while b_4, b_5, b_6 provide the MBS net of quality.

The CPT time series of cross-section data

for the period 1973-87 are used to examine the quality effects. Weighted ML procedure is used to estimate the six equation system by taking the number of estimated households in each class as weight. The estimated quality effects on the MBS are given in Table 7.

With an increase of Rs 100 in PTE, Table 7 reveals that the actual increase in cotton expenditure would be Rs 10.66 and quality component Rs 1.77. The total quality component of MBS for cotton, non-cotton and mixed varieties works out to be around 11.14 per cent of the increase in PTE. When this component is not distinguished, the actual MBS would be biased which in turn affects the elasticities. The nature of bias depends on: (1) the distribution of income class-wise prices around the average price, and (2) the shifts in this distribution over the period.

The results relating to quality effects amply demonstrates that the LES estimates based on all observations of CPT time series of cross-section data on varieties of textiles would yield inconsistent directions of change in demand patterns. The inconsistencies could be minimised by estimating LES models for each income class (or a group of classes), since the intra-class variations in quality would be less prominent than inter-class variations.

In order to assess the extent of deviation in MBS and elasticities with the full data set, LES with CPT data is estimated by taking all the income class-wise observations for the period 1976 to 1987. Data on six income classes for each year are used amounting to 72 observations in all. The income class-wise price data are defined in the index form by taking mean level price of 1981 = 1.0. Since the number of households is not constant

TABLE 7: QUALITY EFFECTS ON MARGINAL BUDGET SHARES

| Item | Marginal Budget Shares | |
|------------|------------------------|----------------|
| | Quality Effect | Net of Quality |
| Cotton | 0.0177 | 0.1066 |
| Non-cotton | 0.0598 | 0.4182 |
| Mixed | 0.0339 | 0.3638 |

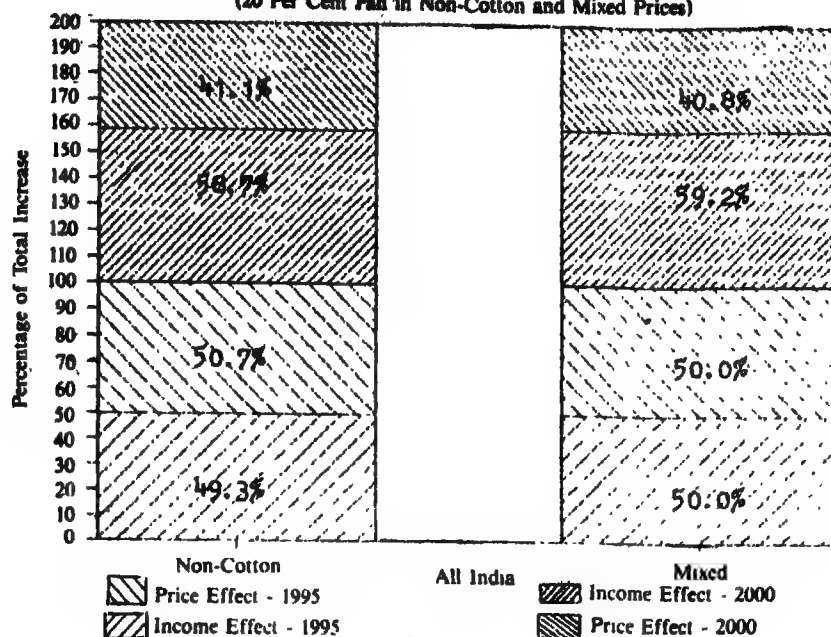
TABLE 5: PARAMETER ESTIMATES OF LES
(Mean Level Model: Stage 2)

| Commodity | b | c | w | R ² |
|------------|--------|-----------|--------|----------------|
| Cotton | 0.0293 | 72.9906 | 0.4278 | 0.9794 |
| Non-cotton | 0.6413 | -130.6799 | 0.2577 | 0.9953 |
| Mixed | 0.3294 | -38.0609 | 0.3144 | 0.9881 |

TABLE 6: ESTIMATES OF PRICE AND EXPENDITURE ELASTICITIES
(Mean Level Model: Stage 2)

| Commodity | Elasticity wrt the Price of | | | Expenditure Elasticity |
|------------|-----------------------------|------------|---------|------------------------|
| | Cotton | Non-Cotton | Mixed | |
| Cotton | -0.1326 | 0.0506 | 0.0135 | 0.0684 |
| Non-cotton | -0.9513 | -2.0288 | 0.4919 | 2.4882 |
| Mixed | -0.4005 | 0.7745 | -1.4216 | 1.0477 |

CHART 2: DECOMPOSITION OF DEMAND FOR TEXTILES
(20 Per Cent Fall in Non-Cotton and Mixed Prices)



across the income classes and for each income class across years, weighted ML procedure is used to arrive at the parameter estimates. These estimates are presented in Table 8 and elasticities in Table 9. A comparison with the results given in Tables 5 and 6 reveals that all-class model overstates the MBS for cotton and understates for non-cotton; for mixed textiles, however, the difference is marginal. These features, unequivocally indicate that estimates based on unit values need correction for quality changes.

IV

Per Capita Demand Projections for Textiles: 1995 and 2000

This section portrays the likely household demand for textiles for the years 1995 and 2000. The LES models estimated in the previous section are used for this purpose. While formulating alternative scenarios the following features as revealed by the LES parameter estimates are taken into account

- (1) PCE price of textiles and food significantly affect the demand for textiles.
- (2) 10 per cent change in cotton prices would induce 3.5 per cent change in textile prices.
- (3) 10 per cent change in the prices of non-cotton and mixed varieties would induce 6.5 per cent change in textile prices.
- (4) Non-cotton and mixed varieties of textiles are income and price elastic in nature.
- (5) Cotton is inelastic both wrt price and income.

Looking into these features, it can be emphasised that the demand for textiles in household sector would depend on the growth in PCE, and changes in the prices of food, non-cotton and mixed textiles.

For projecting the future demand for textiles nine price scenarios and three PCE scenarios are considered together. The nine price scenarios are as follows:

- PS1: No change in relative prices.
- PS2: 10 per cent fall in the prices of cotton.
- PS3: 10 per cent fall in the prices of non-cotton.
- PS4: 10 per cent fall in the prices of mixed variety.
- PS5: 10 per cent fall in the prices of non-cotton and mixed varieties.
- PS6: 20 per cent fall in the prices of cotton.
- PS7: 20 per cent fall in the prices of non-cotton.
- PS8: 20 per cent fall in the prices of mixed varieties.
- PS9: 20 per cent fall in the prices of non-cotton and mixed varieties.

The three PCE scenarios are as follows:

- ES1: 2.5 per cent increase in PCE.
- ES2: 3.5 per cent increase in PCE.
- ES3: 4.0 per cent increase in PCE.

The scenarios from PS2 to PS4 imply 3.2

to 3.5 per cent fall in the textile prices, while those from PS6 to PS8 imply 6.4 to 7 per cent fall. PS5 and PS9 imply a 6.5 per cent and 13 per cent fall in textile prices. It should be noted that the price scenarios refer to a fall in prices over the projection period while the PCE scenarios refer to yearly changes.

In all the scenarios, the relative prices of food, fuel and others in the first stage model are assumed to be constant. 1987 is taken as the base year for projections and the LES parameter estimates are converted into 1987 prices. The CPT expenditure on textiles, which is Rs 356.53 for 1987, is taken as base value. Since the CPT and NAS estimates of textile consumption differ markedly, the elasticity estimates from the first stage are used to project the demand for all varieties of textiles. The first stage projected estimate along with the second stage parameter estimates of LES are used to arrive at the demand for individual varieties.

The detailed steps involved in the projections are given below.

Step 1: Given a price scenario work out the change in textile price.

Step 2: Use the LES first stage elasticities (given in Table 3) along with step 1 result and PCE growth, to derive the growth in PTE over the projection period.

Step 3: Work out the actual PTE with the help of step 2 result and the base value of consumption of textiles.

Step 4: Use step 3 result along with the second stage LES estimates (given in Table 5) to arrive at projections for the varieties of cloth.

The per capita demand (PD) is more responsive to PCE growth than price reduction. This is as expected, since the price reduction refers to the entire projection period, while PCE growth is on yearly basis.

The PD for all textiles, which is 16.35 metres in 1987 will be in the range of 18.7 to 24.84 metres in 1995 and between 20.47 and 30.02 metres in 2000. The PD will be maximum when price reduction is envisaged for both non-cotton and mixed varieties. It will almost be invariant when price reduction is envisaged separately for each of the varieties (i.e., in PS2, PS3, PS4, PS6, PS7, PS8). The composition of demand however will

TABLE 8: PARAMETER ESTIMATES OF LES
(All Class Model: Stage 2)

| Commodity | b | c | w | R ² |
|------------|--------|-----------|--------|----------------|
| Cotton | 0.1185 | 41.7087 | 0.4308 | 0.9701 |
| Non-cotton | 0.5571 | -142.3861 | 0.2581 | 0.9833 |
| Mixed | 0.3244 | -52.7362 | 0.3112 | 0.9886 |

TABLE 9: ESTIMATES OF PRICE AND EXPENDITURE ELASTICITIES
(All Class LES Model: Stage 2)

| Commodity | Elasticity wrt the Price of | | | Expenditure Elasticity |
|------------|-----------------------------|------------|---------|------------------------|
| | Cotton | Non-cotton | Mixed | |
| Cotton | -0.5497 | 0.2016 | 0.0731 | 0.2750 |
| Non-cotton | -0.4751 | -2.2578 | 0.5739 | 2.1589 |
| Mixed | -0.2294 | 0.7641 | -1.5772 | 1.0426 |

The PD for cotton textiles in 1995 and 2000 is insensitive not only to its own price reduction but also wrt the prices of non-cotton and mixed. It will be in the range of 10.8 to 11.8 metres in 1995 and 11 to 12 metres in the year 2000. On the contrary the increase for non-cotton and mixed varieties will be sizeable with a reduction in the prices of all the varieties. The PD for non-cotton, which is 2.4 metres in 1987 will be in the range of 3.73 to 7.29 and 4.68 to 9.19 metres in the years 1995 and 2000 respectively. The PD for mixed textiles, which is 3.20 metres in 1987, will be in the range of 3.98 to 6.75 metres in 1995 and 4.59 to 8.63 metres in 2000. Alternative scenarios thus exhibit a wider range of projections for non-cotton and mixed varieties. The prevalence of such a marked range in projections is plausible in view of the fact that the PCE and price scenarios represent both the pessimistic and optimistic alternatives.

Since it is difficult to discuss in detail the magnitude of all the PD projections, we present in Table 10, the emerging demand in 1995 and 2000 by assuming 2.5 per cent PCE growth, which is slightly above the growth witnessed in recent years.

The PD for cotton will almost remain invariant maintaining a level of around 11.00 metres in both the periods. Price reduction induces substantial shifts in the demand for non-cotton and mixed varieties. During 1987 to 1995, the shift in non-cotton would be from 2.40 to 4.09 metres without price reduction, and would reach the level of 4.87 metres with 10 per cent fall in prices and 5.83 metres with 20 per cent fall in prices. For mixed varieties the shift would be from 3.2 to 4.34 metres and to 4.85 metres and 5.48 metres with 10 and 20 per cent price reduction respectively. Thus with 10 per cent fall in prices the PD for non-cotton would be increased by 100 per cent and mixed varieties by 52 per cent. With a 20 per cent fall in prices the PD for non-cotton and mixed varieties would be increased by 143 per cent and 71 per cent respectively. During 1987 to 2000, the PD for non-cotton would be increased by 160 per cent and 208 per cent with 10 per cent and 20 per cent price reduction and that of mixed varieties by 80 per cent and 103 per cent respectively.

In order to assess the significance of price reduction we present in Table 11 the changes in PD due to price reduction and PCE growth. The non-cotton and mixed varieties are taken for this purpose. In 1995, with 10 per cent price reduction, 69 per cent of the increase in PD will be on account of PCE growth for both non-cotton and mixed varieties and 31 per cent on account of price reduction. With further price reduction the contribution of price and PCE growth would remain the same, i.e., about 50 per cent. However, in the year 2000 the contribution of PCE growth will be sizeable: 76 per cent with 10 per cent fall and 59 per cent with 20 per cent fall. Charts 1 and 2 depict the contributions of price reduction and

mixed varieties. These results thus show the importance of price reduction to improve the per capita domestic demand.

The estimates of aggregate household demand for the years 1995 and 2000 are given in Table 12. These are arrived at by assuming the population in 1995 as 904 million and that in 2000 as 999 million. With 10 per cent price reduction, the aggregate demand in 1995 and 2000 would be 18,676 and 23,136 million metres respectively. The corresponding estimates for individual varieties in million metres are: 9,890 and 11,149 for cotton textiles; 4,402 and 6,244 for non-cotton; 4,384 and 5,744 for mixed varieties.

mainly due to non-cotton and mixed varieties and this increase will be sizeable with further price reduction.

V

Aggregate Demand for Textiles and Textile Fibres

Total demand for textiles comprises household demand, non-household demand, and exports. The non-household demand and exports in 1995 and 2000 are derived by making plausible assumptions. The exports of cotton textiles in 1995 and 2000 are

TABLE 10 PROJECTED PER CAPITA HOUSEHOLD DEMAND FOR TEXTILES (IN METRES)
(Assumed Growth in PCE: 2.5 Per Cent PA)

| Prices | Year | Cotton | Non-Cotton | Mixed | All Textiles |
|------------------------------------|------|----------------|---------------|---------------|----------------|
| No change | 1987 | 10.75 (100) | 2.40 (100) | 3.20 (100) | 16.35 (100) |
| | 1995 | 10.97 (102) | 4.09 (170) | 4.34 (136) | 19.40 (119) |
| | 2000 | 11.19 (104) | 5.34 (223) | 5.15 (161) | 21.69 (133) |
| 10 per cent fall in NCOT and mixed | 1995 | 10.94 (102) | 4.87 (203) | 4.85 (152) | 20.65 (126) |
| | 2000 | 11.16 (104) | 6.25 (260) | 5.75 (180) | 23.16 (142) |
| 20 per cent fall in NCOT and mixed | 1995 | 10.90 (101) | 5.83 (243) | 5.48 (171) | 22.21 (136) |
| | 2000 | 11.13 (104) | 7.39 (308) | 6.49 (203) | 25.01 (153) |

* Figures in brackets are the indices with 1987 = 100

TABLE 11: DECOMPOSITION OF INCREASE IN PER CAPITA DEMAND

(In metres)

| | 1995 Contribution of | 2000 Contribution of |
|---|----------------------|----------------------|
| | PCE Growth | Price Fall |
| 10 per cent fall in non-cotton and mixed prices | | |
| Non-cotton | 1.69 (68.4) | 0.78 (31.6) |
| Mixed | 1.14 (69.1) | 0.51 (30.9) |
| 20 per cent fall in non-cotton and mixed prices | | |
| Non-cotton | 1.69 (49.3) | 1.74 (50.7) |
| Mixed | 1.14 (50.0) | 1.14 (50.0) |

Figures in the brackets are the percentage contributions to the increase in demand.

TABLE 12 PROJECTED AGGREGATE HOUSEHOLD DEMAND FOR TEXTILES

(In million metres)

| Prices | Year | Cotton | Non-Cotton | Mixed | All Textiles |
|------------------|------|--------|------------|-------|--------------|
| No change | 1987 | 8,411 | 1,880 | 2,501 | 12,792 |
| | 1995 | 9,917 | 3,697 | 3,923 | 17,537 |
| | 2000 | 11,179 | 5,334 | 5,144 | 21,657 |
| 10 per cent fall | 1995 | 9,890 | 4,402 | 4,384 | 18,676 |
| | 2000 | 11,149 | 6,244 | 5,744 | 23,136 |
| 20 per cent fall | 1995 | 9,854 | 5,270 | 4,954 | 20,078 |
| | 2000 | 11,118 | 7,383 | 6,484 | 24,985 |

Assumed Population: 1995 - 904 Million
2000 - 999 Million

TABLE 13. DEMAND FOR COTTON, SYNTHETIC AND CELLULOSIC FIBRES

| Prices | Year | Cotton (Lakh Bales) | Synthetics (Million Kg) | Cellulosics (Million Kg) |
|------------------|------|------------------------|----------------------------|-----------------------------|
| No change | 1995 | 115 | 513 | 200 |
| | 2000 | 134 | 698 | 271 |
| 10 per cent fall | 1995 | 115 | 586 | 228 |
| | 2000 | 133 | 733 | 285 |
| 20 per cent fall | 1995 | 114 | 658 | 256 |
| | 2000 | 133 | 910 | 354 |

assumed to be of order 1,200 and 1,800 million metres respectively. The corresponding exports of synthetics (including cellulose) are assumed to be of order 200 and 250 million metres.

For deriving the non household demand, the composition of household demand and non household demand in 1986 is assumed to remain same in 1995 and 2000. The aggregate consumption of textiles of the non household sector in 1986 is 2,200 million metres, of which cotton, non cotton and mixed varieties account for 1,444, 135 and 621 million metres respectively. The estimates indicate that the contribution of household sector in total demand of household and non household is 85 per cent for cotton, 93 per cent for non cotton and 77 per cent for mixed varieties.

The demand for synthetics is obtained by adding 82 per cent of non cotton demand with that of mixed varieties and exports, and by subtracting the cellulose share (which is 28 per cent of synthetics). The estimates of aggregate demand are used to arrive at the requirements of cotton (in lakh bales), synthetics (in million kg) and that of cellulose (in million kg). Table 13 provides the estimates with 2.5 per cent PCE growth assumption, and with three price alternatives: no change, 10 per cent fall and 20 per cent fall in relative prices.

The cotton requirement in 1995 and 2000 would be around 115 and 134 lakh bales respectively. The requirement is insensitive to the price scenarios. Without any change in relative prices the demand for synthetic fibres would be 513 and 698 million kg, while for cellulose it would be 200 and 271 million kg respectively. With 10 per cent price fall, synthetic yarn requirement would be 586 and 733 million kg in 1995 and 2000 respectively, the corresponding estimates with 20 per cent price fall would be 658 and 910 million kg. The fibre requirement of cellulose up to 2000 would be in the range of 200 to 354 million kg.

Price reduction of synthetics induces significant increase in the synthetic yarn requirement. This could be met in fact through the expansion of installed capacity. The installed capacity of synthetics in 1990 is 595 million kg while the licensed capacity is for 969 million kg. Thus, the yarn requirement up to 2000 could be met with the existing licensed capacity. However, the need for capacity expansion, and in turn the additional investment, would arise when the

PCE exhibits growth above 2.5 per cent.

It may be noted that the price reduction in textiles is possible only when government is keen to protect the textile industry and retain its status as one of the largest industries in the world. Although price reduction may lead to loss in the government revenue, the increase in household demand would be sizeable. At the same time the constraints faced by the industry on account of raw materials, import restrictions, and tariffs etc. have to be eased to enhance textile production in the country.

While deriving the estimates many assumptions are made which may affect the analysis adversely. We have not taken into account the demographic factors, the composition of rural/urban population, the structure of demand across income classes and spatial units etc. These factors have to be incorporated in the demand models to arrive at the complete set of elasticities and projections with less bias. Estimation of such models would not only help in efficiently tracing the changes in demand patterns but also in projecting the demand under alternative demographic scenarios.

VI

Conclusions

A two stage demand model is developed and estimated to assess the role of income and prices in the future demand for textiles. The following broad conclusions emerge from the analysis:

- (1) The demand for cotton textiles is inelastic both wrt income and its own price.
- (2) The demand for non cotton and mixed varieties is elastic both wrt income and own price.
- (3) Quality improvements in textile consumption are seen to exist.
- (4) The per capita demand for cotton textiles would almost remain invariant at a level of 11 metres up to the year 2000.
- (5) Substantial shifts in the composition of textile demand are seen to emerge in 1990 and 2000 and they will be in favour of non cotton and mixed varieties.
- (6) With 2.5 per cent growth in per capita total expenditure, per capita consumption of non cotton which is 2.4 metres in 1987 will be increased by 4.09 metres in 1995 without any price reduction, with 10 per cent and 20 per cent price reduction (in non-cotton and mixed varieties) it will be 4.87 and 5.83 metres respectively. The per capita consumption

of mixed varieties which is 3.4 metres in 1987 will be increased by 4.43 metres in 1995 without price reduction; with 10 per cent and 20 per cent price reduction the consumption will be 4.85 and 5.48 metres respectively.

(7) The contribution of price reduction to the increase in demand for synthetics is seen to be substantial.

(8) With 2.5 per cent PCE growth, the existing licensed capacity of synthetic yarn production would meet the yarn requirement up to the year 2000.

Notes

[We are indebted to Y. K. Alagh for valuable comments and suggestions.]

- 1 See National Accounts Statistics (NAS).
- 2 Per capita income and PCE are used synonymously in the subsequent analysis.
- 3 Capital letters are used for first stage model and small letters for the second stage model.

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Employees and Organisation in India

Need to Move beyond American and Japanese Models

Rajen K Gupta

There has been a general tendency to pursue theories of organisation and management in a universalistic approach. But culture-specific ideas are beginning to take shape. This paper reports on the implications of recent psychoanalytic insights about the Indian 'self' (as distinguished from the American and Japanese 'self') for organisation and management. It also reviews major indigenous contributions and indicates new dimensions which need to be included in furthering culture-specific theories for organisations in India.

WORK organisation is a major human innovation. A modern society is unthinkable without it. Almost everything around in a home today is a product of a modern work organisation, so are the constantly flowing conveniences like water in the tap and electricity. For services like health, education and banking also we are dependent on the services provided by various work organisations. Easily the most complex aspect of any such work organisation is the organisation of people who make it work. Almost by definition an organisation cannot deliver the required products or services without the necessary co-operation of the people working in it. Such co-operation, however, cannot be taken for granted. Perhaps fortunately, in spite of seeing the necessity of such work organisations, people are unwilling to subjugate themselves totally and blindly to organisational imperatives as these may be framed from time to time. Hence there is a continuing quest for better designed organisations. One of the continuing acid tests of an organisational design is the extent to which it integrates the employees with the organisation without making them lose their dignity.

As and when necessary humankind created some kind of organisations to fulfil its needs throughout the recorded history of various civilisations. But apart from a few organisations for civic administration or for propagating religious ideas, not many large organisations existed before the first industrial revolution. Technology made it possible to operate large organisations for a more efficient service to the populace at large. Conscious, scientific study of the design of organisations is an even later phenomenon.

Those who began studying the organisations tended to take the universalistic nature of organisations for granted. So the pioneers assumed and began to look for universal principles of good organisational designs. In the next stage organisational thinkers began to compare aspects like technology, task or environment across organisations but continued to hold universalistic applications of their local findings. Comparative study of organisations across societies, nations or cultures is a very recent phenomenon not more than a couple of decades old.

India has lagged behind Western countries in the formal study of modern organisations.

Hence it has tended to be governed by the current international intellectual hegemony in this respect from time to time. The first major influence on organisational designs came from the imperial powers mainly United Kingdom, UK and USA having so many historical and cultural linkages between them, shift from British concepts to American concepts, but continued to retain a flavour of following universally applicable principles of organisational design and management. Some authors like Crozier¹ tried to draw attention to the cultural specificity of organisational functioning but did not deter the universalistic thinking enough.

The real point of departure from universalistic thinking came from the meteoric rise of Japan as an industrial power. America began to lose its economic hegemony. Experiences of interactions of Western executives with their Japanese counterparts during international business deals were puzzling to them, to say the least. Interest began to grow in the design and management of Japanese organisations. They were found to be so different from Western theories that universalism of Western theories got a big jolt. The 'Far-east' began to be prominent in suggesting a new paradigm of managing organisations.

Somehow, though universalistic hegemony of Western ideas for organisational management has given way to comparative views, Indian organisations are tending to see Japanese management as the next panacea. More and more organisations are trying to transplant Japanese practices hoping for the Japanese miracle to take place on Indian soil. But doubts persist and anxiety continues as to whether these ideas can work in India. The debate tends to swing between 'Japanese management is the answer' to 'Japanese management cannot work in India'. Lack of team work continues to haunt the organisations and the capitalistic greed of owners and managers keeps employees and their unions on their defensive guard. Public sector at large is disowned by everybody but for being exploited for personal gains. Employees in service organisations like banks make a mockery of customer service and public systems' employees seem to be self-serving rather than serving the public.

Perhaps nobody has the answer to the uni-

que problems of Indian organisations. Even with best efforts the solution to problems of such a recent human innovation in a developing society cannot be found overnight. But the approaches to discover solutions themselves need to be improved. The simple formula of borrow and try, and then accept or reject, will not do. Accepting the comparative perspective, there is a need to look deeper into ourselves, own up our history and culture. Then practices in other countries and societies can be treated as ideas to be examined in relation to the local context. Explorations can then take the shape of an active inquiry and search rather than one-shot internalisation of the current management fad.

This paper culls out some fresh insights about the similarities and differences between American, Japanese, and Indian psyche. Implications of these differences for the adaptation of American and Japanese management techniques by the Indian organisations are briefly indicated. The ideas of major Indian management thinkers are then examined in the light of the fresh insights. Finally the gap in management thinking so far have been identified to draw an agenda for theorisation, research and experimentation.

AMERICAN, JAPANESE AND INDIAN 'SELF'

Comparative views on 'self/psyche' are mainly coming from psychologically-inclined anthropologists and culturally-sensitive psychologists and psychiatrists. During the early part of twentieth century, interest in the study of culture and personality was there but then for many decades it remained on the periphery. There is now a renewed interest in understanding the subjective experience in different cultures.²

A major fresh step in this direction has been taken by Alan Roland.³ He is a psychoanalyst, but with a difference. Theoretical developments in psychoanalysis have been dominated by European, British and American psychoanalysts. Even while looking at other cultures the view has been constrained by the theories developed in these countries/cultures. There is a growing awareness now that theories about social phenomena are culture- and history-bound. Roland has taken courage to take on such a comparative historico-cultural stance while

Japan. On his journey to the East he made a conscious and deliberate effort to look for alternate concepts to understand the 'self' in Indian and Japanese cultures. He spent eight months in India mainly in New Delhi, Bombay and Bangalore. During this period he conducted short-term psychoanalytic therapy in Bombay over a total of five months with 12 English-speaking middle and upper-middle class Indian patients from five different religious communities, supervised two psychoanalysts and several social workers, attended a wide variety of case presentations at a variety of institutions, co-counselled three groups of women college students with a social worker and had lengthy discussions with a variety of psychoanalysts, psychologists, psychiatrists, social workers, anthropologists and sociologists. He also related his experience in India with his experience with Indian clients and students in America. Similarly he spent a month in Japan. There he supervised a number of analyses and held in depth discussions. Based on these he has come up with refreshingly original formulations of the nature of the 'self' in India and Japan is distinct from the American 'self'. He also articulates subtle differences between the Indian and the Japanese 'self'.

His formulations emphasise some major differences. According to him while in America develops a highly individualised self, Indians and Japanese develop a highly familial 'self'. Further, the structure of familial 'selves' of Indian and Japanese also differ. The following sections elaborate on these ideas.

AMERICAN VS INDIAN SELF

Comparing the American and Indian societies in terms of individual functioning Roland writes:

In Indian society with all its enormous heterogeneity the pervasive dominance of the extended family almost as an entity unto itself, is a constant. The importance of emotionally close well defined hierarchical family relationships with reciprocal responsibilities throughout life is even manifested linguistically, where there are specific words for each and every kinship relationship. This is in contrast to the Western generalised kinship terms of cousin, brother in law, and so forth. Specificity for highly complex kinship relationships becomes important in a social structure where the extended family is the dominant focus of an individual's life. It is therefore a necessity to understand Indian family relationships and structures to perceive the psychological make up. This, of course, is in contrast to American urban society where peer groups, and various other extra familial social contexts assume an ever increasing importance vis-a-vis family relationships. Occupational and other major life decisions are rarely left to the individual. Moreover, a multi-millennial world-view of the basic meaning of the life cycle is imbibed throughout the formative years into the

frequent religious festivals. It is not too much to generalise that Indian society stresses far more the extended family, community or *jati* (popularly known as caste) hierarchy, and the continuity of traditions than American society, which is so oriented towards change, social and physical mobility a multiplicity of social options, an egalitarian ideology, and considerable autonomy of the individual.⁴

Roland holds the position that "the intrapsychic development of the 'self' is congruent with the major socio-cultural patterns of a society and will therefore, vary in contrasting societies".⁵ As he "worked with patients and talked with Indian analysts, the picture that emerged of the Indian 'self' is one whose ego boundaries encompass others of the extended family, a 'self' less separate and differentiated intrapsychically than the 'self' of most Americans".⁶ Due to enormously close tie to the mothering person, and the cultural intensification of idealisations and veneration of parental figures, which is reinforced through mythological images, the Indian 'self' develops to be "far more deeply identified with family and 'jati' than a contemporary American" (p 242).⁷ And

Relationships to the Indian psyche are usually far more important than issues. Further Indians seem to make their major narcissistic investments in the self and family rather than in public places.⁸

Of further relevance in relation to work organisations is the patterning of aggression as a part of the familial self.

As Kamalini Sarabhai (personal communication) a psychoanalyst, put it, public spaces are not so much a man's land as an arena for conflict. The point she was making is that anger and hostility have to be controlled and contained within close extended family relationships; therefore, these feelings often become unconsciously split off and displaced outside the family.⁹

Moving beyond the contrast between the American 'individualised self' and Indian 'familial self' Roland goes on to point the 'spiritual' or 'transcendental self'. "Without positing such a self" he believes, it is totally impossible even to begin to comprehend the Indian personality society and culture.¹⁰ To him existence of such an aspect of Indian 'self' is indicated by "a mythic orientation to everyday relationships, a magic cosmic involvement with destiny, and the practice of a wide variety of rituals frequently associated with both myths and magic cosmic correspondences".¹¹ He also sees the Hindu cultural world-view giving spiritual meaning to interpersonal transactions and the various goals and stages of life.¹²

Contrasted with such a 'familial communal-spiritual self' of Indian is the gestalt of 'the individualised self' of American personality "where there is far more autonomy and individuation, and an imposed socio-cultural necessity to choose and take action on a number of social options ranging from

ideology, and activities as well as the need to self-create one's own identity. On the other hand, intimate relationships tend to be far more fragile".¹³ Roland does not compare Indians and Americans on the spiritual or transcendental dimension. From this contrast, it seems easy to infer that managerial innovations addressed to the individualised American 'self', such as detailed individual performance appraisal, management by objectives, job enlargement, job enrichment, etc, would not produce similar positive response from a strongly familial-communal-spiritual self.

INDIAN VS JAPANESE 'SELF'

There has been more work comparing Eastern and Western cultures and personalities than the differences within the Eastern hemisphere. Oftentimes Western analysts club all the Eastern societies together.¹⁴ But lately the study of differences amongst Eastern societies is beginning to appear. DeVos¹⁵ has given brief account of the differences in psycho-social homeostasis between the 'Chinese and Japanese 'self'. Roland's in-depth psychoanalytic work is amongst the first to compare and contrast Japanese and Indian 'self'. Differences between the two, as brought out by Roland, are especially relevant for the purpose of this paper. This is because sometimes lack of sufficient comparative analysis and the fact that Buddhism—which is the most-influential religious/spiritual doctrine in Japan—originated in India, can lead to a misplaced hope that Japanese approach to management of large organisations would fit the Indian situation like a glove.

It would however be useful to mention the discovered similarities between Indian and Japanese 'self' before elaborating on the differences. The major similarity can be stated quite clearly by reiterating the contrast pointed out between the Indian and American 'self'. It is that both Japanese and Indian 'selves' are not individualised but familial.

Taking off from Kluckhohn and Strodtbeck¹⁶ Triandis¹⁷ contrasts individualism with collectivism. According to him "individualism refers to the belief that the individual is an end in him/her self" and as such ought to realise the 'self' and cultivate his or her judgment notwithstanding the weight of pervasive social pressure in the direction of conformity with the views, needs, or goals of some in group'. On the other hand 'collectivism implies an emphasis on (a) the views, needs and goals of one or more in group rather than oneself, (b) social norms and duties defined by in-groups rather than emphasis on behaviour that results in individual pleasure, (c) beliefs and values shared within groups rather than beliefs and values that are idiosyncratic for particular individuals, and (d) readiness to co-operate with in-group members'.¹⁸

Roland's findings would place the American

... they come to the individualistic pole of the individualist-collectivist polarity while both Japan and India would fall close to the collectivist pole. Hsu's¹⁹ findings would place the Chinese 'self' also along with Japan and India. Roland (1988) finds that 'there is considerable similarity between Japanese and Indians inasmuch as both have far more open outer ego boundaries with less psychological space around themselves than Westerners a 'self' that is far more relational, a strongly set inner ego boundary that preserves a much more private 'self', and a more developed interpersonal sensitivity and interdependence.²⁰ As mentioned in the beginning he finds both Japanese and Indian 'selves' as 'familial' in nature as contrasted with the 'individualised' 'self' of the American.

Coming to the differences, the major distinction lies in the boundary of the familial 'self'. As indicated by the label 'familial' the primary family is the common in-group for the Japanese as well as Indian, but its extensions beyond the family differ. A minor detour via Hsu's comparison of Chinese and Japanese 'self' would be useful here.

Like its Chinese counterpart the Japanese culture says to the individual that his self-esteem and future are tied to his relationships with other human beings and not to himself. He must find his appropriate station in life by insuring for himself and his immediate family an appropriate place in such a human network. However, here the Japanese and Chinese part ways. All Chinese sons are tied to their first human group and their common ancestors, but Japanese inheriting sons and non-inheriting sons fare differently. For Japanese inheriting sons the situation is quite similar to that of their Chinese brethren. But Japanese non-inheriting sons must find their human network elsewhere.²¹

This expulsion from the primary family notwithstanding, Japanese culture provides quick and nearby alternatives through the institution of 'iemoto'. According to Hsu the core structure of 'iemoto' is that of a master-disciple (client) relationship.

Each master has several disciples (clients) with whom he maintains mutual dependence. He commands great authority over his disciples. He owes to them the best he has to offer (livelihood, instruction, justice and social responsibility), and his disciples owe him allegiance, subordination of his art and skill, and most of whatever he acquires. This relationship and its characteristic ideas are not economic, nor political, nor militaristic, nor religious. They can be applied to any field of endeavour, whether it be running a bean paste shop, an army, or a university.²²

All ties in the 'iemoto' are couched in pseudo-kinship terms. From this point of view each 'iemoto' [can grow into] a giant kinship establishment, with the closeness and inclusiveness of its interpersonal links but without the kinship limitations on its size.²³

The Chinese, on the other hand, were much more tied psychologically to their kinship base. Their rule of equal division of inheritance reinforced this tie from generation

to generation. . . Consequently, although the set of ideas of how human beings relate to each other (work, care, succouring, subordination and superordination, affiliation, competition, devotion, etc) which are characteristic of Japanese 'iemoto' was also present in China, the Chinese have largely restricted their application to those who were actually related through kinship bonds and their immediate extensions, in sharp contrast to the Japanese whose 'iemoto' organisation enabled them to live out these ideas far afield.²⁴

Very interestingly Roland's differentiation between Indian and Japanese 'self' has a close parallel with that of Hsu's between Chinese and Japanese 'self'. He calls the Indian 'self' as familial-jati' or familial-communal 'self' and the Japanese 'self' as familial-group 'self'. In the former the sense of belonging, loyalty and regard is restricted to the extended family, community and caste, while the Japanese quite smoothly transfers such sentiments to extrafamilial groups such as local clubs, associations, school as well as the work group. Hsu's sociological analysis of the rules for inheritance amongst Chinese also parallel that in India. This directly implies that in Japanese organisations group culture would be a natural consequence of the psycho-social milieu, but in India the familial-communal 'self' cannot be expected to transfer its loyalty to the heterogeneous work group. In fact it might be at the root of the lack of team work amongst Indians.

Roland also points out striking similarities and differences regarding mother-son relationship between Japanese and Indians. He identifies three aspects of this relationship.

The first is prolonged symbiotic mothering where there is enormous emotional involvement and devotion with considerable physical closeness, caring and affection. The second factor revolves around the high degree of maternal empathy with the child's inner feelings, needs, wishes, temperament and inclination.

The third factor is indeed more specific to the Japanese and involves intense maternal expectations for a very high degree of performance and skill in both relationships and tasks.

What is more specifically Japanese is that the mother uses her empathic understanding to encourage and guide her growing children in persisting and concentrating in their work in becoming fully emotionally engaged in doing something as well as possible in enduring all kinds of hardships and overcoming obstacles, in examining themselves for faults and correcting them (White, 1987) and for boys in competitively achieving in school.²⁵

In Indian case such a "maternal expectation for a high level of performance" is not equally prevalent. Hence while the Japanese tends to suppress his own wishes, "Indians seem far more in touch with their own wishes and wants, and are much freer to ask or manoeuvre to fulfil them."²⁶ Just as for Hsu the transfer of 'iemoto' sentiment is responsible for Japanese industrial success,

Roland considers these maternal expectations as a source of intense achievement motivation to be "a mainspring to the successful modernisation of Japan and its current economic success".²⁷ It is not difficult to see the complementarity of the two factors for rapid, successful industrialisation.

Extended 'iemoto' sentiment, group orientation, and high achievement orientation lead the Japanese to commit themselves very intensely to the work organisation as well as the whole society. But the strong family-'jati' orientation with low concern for social achievement leads the Indians to adopt a significantly different pattern of behaviour in non-family work or public/social settings. Though they contain their aggression in familial settings, they experience no urge to contain it in non-familial settings. Coupled with lack of internalised achievement orientation, they would be prone to non-productive expression of aggression and exploitation of work or public systems for personal/family gains at the cost of social good. Roland finds that

Clinical work with Indian patients not infrequently elicits bitter, angry feelings about a superior in the hierarchical relationship, although the overt behaviour remains highly deferential, conforming to the expectations of the situation. Or quite frequently the overt attitude is deferential but the actions are less than co-operative.²⁸

He goes further to say that

These highly personalised hierarchical relationships become models for other relationships outside of the extended family, particularly within one's own community or 'jati' (cf Sakala, 1981) 'where there is also a feeling of being at home, and even within some organisational hierarchies. B. K. Ramamujam (1986)²⁹ has emphasised that Indians are constantly gauging and testing the level of intimacy they may have with someone outside of the extended family. On the whole however there is a sharp division between one's own people of family and community, and others from other communities (Sinha 1980).³⁰ If more personalised familial type of hierarchical relationships are not established outside of family and 'jati' then these relationships can be characterised by very little caring of the other person, and in fact considerable manipulation of the other may take place for one's own ends."³²

Another major ground on which both Indians and Japanese appear to be similar when compared with Americans but show subtle differences between them is their attitude towards transcendental spiritual or the religious dimension. The dominant religious spiritual influence operating in India is that of Hinduism. Buddhism which originated in India as a reaction to Brahminical hold over Hinduism, travelled to Japan via China where it continues to be a major influence along with indigenous Shintoism, has little influence in India today. On the whole spiritual thought and conduct in India tends to be more esoteric than in Japan. The roots of Hinduism in Vedic

thought emphasise the possibility of realising or attaining oneness with the supreme being, while Buddhism holds no promise beyond salvation from human suffering. While Hindu spiritualism finds its day-to-day expression in religious rituals, Japanese spiritualism gets expressed in aesthetic pursuits. Hence Japanese spirituality is not other worldly while Hinduism subordinates the existent world to the esoteric one. As a result of which there is greater congruence of spiritual precepts and daily life in Japan than in India; in the latter contradictions between the preaching and practice are to be found in abundance.

In Japan there is much greater homogeneity amongst its people regarding their religious beliefs. There is nothing like the rigid caste system which in India contextualises even the right conduct. Japan can almost be seen as a large homogeneous religious spiritual congregation, with business organisation as an integral part of it. Hence the inculcation of spiritual values is an integral part of the training and development system of Japanese corporations.¹³

What comes through delineation of the concept of 'self' in America, Japan and India in the above is that there is an emerging consensus in a group of culturally sensitive anthropologists, sociologists, psychologists and psychoanalysts that there are basic differences between Western and Eastern cultures. Roland's work further illuminates subtle differences between the Japanese and Indian self.

MANAGEMENT AND NATURE OF SELF

It is also apparent from their success in industrialisation, that America and Japan have been able to develop organisational designs and management approaches with a productive fit between the psyche of employees and management policies and practices. Poor productivity of Indian organisations indicates that we are yet to achieve an equally effective fit.

The American model of management which has a match with the individualised 'self' would naturally have problems in integrating a familial 'self' with an independent entity called a company or organisation which considers employment relationship as a legal contract. Explicit focus on clearly delineated roles and responsibilities without visible concern for the well-being of the junior employee and his family would be a relationship doomed to be an alienating one from the beginning. Open discussion of strength and weaknesses would create an embarrassment which people with familial 'self' would prefer to avoid. Performance-linked punishments would not be in line with the ethics of seniors in the familial system. Katju (1986)³⁴ investigated the personal values of Indian managers of a large multinational organisation in India. Among the values which ranked high across different age groups was the value of domestic happiness. Perhaps this may be the reason why Indian

managers find it extremely difficult to dismiss an errant employee as it is argued 'he too has a family to support'.³⁵ In the same vein rewards are likely to be at least partially governed by relational rather than performance considerations. Hence the meticulously elaborate performance appraisal systems designed after American ideas are bound to be side lined or at best become mere paper exercises. Rao³⁶ has illustrated how covertly the officers in a public sector undertaking sabotaged a performance appraisal system which was established after their own consent.

Let us take a look at the more recently imported Japanese model of management. It is a more tempting model than the American because Indian 'self' shares major common differences with Japanese 'self' when compared with the American 'self'. Both Japanese and Indians have a familial 'self'. But what are the implications of the fact that while Japanese have a familial 'self' which incorporates the work-group as soon as they go out to work. It is true for the superior, subordinate as well as peers. On the other hand the Indian familial 'self' continues to be largely family or 'jati' centred. Hence in India the organisation, the work group, or the superior cannot benefit from the subordinate employees' familial 'self'. In fact Roland agrees with Kamalini Sarabhai's proposition that since the Indian contains his aggression as a family member, he splits it and shows it outside the family; for an Indian the work organisation is a place to earn the livelihood for the family and not a place where he belongs.

Just as for the subordinate employees, Indian managers with a similar familial 'self' are more likely to treat their subordinates as 'other-impersonals' rather than as 'own-personals' as would be seen by the Japanese manager who invariably gets involved with the personal problems and even in helping in the marriage of the subordinate.

Secondly, since the Indians harbour a narcissistic 'self' within the familial 'self' which is not so true for the Japanese, it would be more difficult to manage the Indian. It has often been found that even after being given explicit negative feedback by the more courageous of the Indian managers, very often Indian subordinates would when denied a promotion, lament that they were not told in advance about their shortcomings. What else would a narcissistic 'self' do but to deny any wounds inflicted on it and to blame the other in the process! Due to their more accessible private 'self' Indians are more likely to indulge in cribbing, blaming, gossiping and rumour-mongering frittering away their energies in non-productive form which may even have an anti-productivity ripple effect. Similar tendencies in the superior managers would compound this problem.

In summary, as contrasted with the American individualised 'self', Indian and Japanese 'selves' are familial in structure. Hence the American model of management

that attempts to provide meaningful autonomous work and reward to the individual may be grossly insufficient to integrate an Indian or Japanese in that! Very naturally then, the Japanese approach to management has baffled Americans. Actually the Japanese entrepreneurs and managers have achieved a fascinating continuity from family to the organisation in terms of the management of social relations and through it the reinforcement of the Japanese self. But as pointed out Japanese self develops to be a familial-group self while the India self develops into a familial-jati self. Work group does not directly figure in the Indian self, nor high maternal expectations for performance at tasks. Japanese organisations have also integrated the spiritual self of the Japanese into the organisation through symbolic organisational spirits/dieties and spiritual training.

From this fresh comparative psychoanalytic journey emerges the deep seated roots of the problem of integrating the Indian employee with the Indian organisation. The problem appears to be insurmountable if one imagines both the superior and the subordinate carrying the same familial-jati self into the work organisation. It would result in a mutually manipulative relationship with very weak integration with the organisation. This picture is consistent with the profile arrived at by Dayal,³⁷ and Sinha.³⁸ But Roland's deep psychoanalytic view indicates that improving the situation is going to be more difficult than assumed so far. Let us review the scope and limitations of the solutions suggested so far.

INDIAN THOUGHT ON MANAGEMENT

Apart from the faddists, mainly those falling head over heels for American or Japanese approaches, Dayal³⁹ and Sinha⁴⁰ have made major recommendations to address the uniquely Indian situation. Pareek⁴¹ has been working in action research mode to understand culture-organisation interaction. Tripathi⁴² has given some indications for the preferred direction. Chakraborty⁴³ has been vigorously following a strongly traditionalist approach steeped in Hindu philosophy.

ISHWAR DAYAL

Dayal's contribution to the issues under consideration comes from his dual perspective as an organisation theorist and a consultant in organisation design. Speculating about the implications of the characteristics of Indian employees for designing administrative systems in work organisations he writes that 'the most suitable behavioural characteristics of the administrative system should be the following:

(1) *Personalised relationships*: The employees' acceptance of the work organisation whose social system does not arouse feelings of being threatened, except when

basic norms are violated. The present notion of contractual relations between management and employees appear inconsistent with his expectations and needs. The code of conduct as represented in the standing orders also seems alien to the social system of his home and community.

(2) *Exercise of authority based on the affiliative rather than organisational position* This basis was recognised in the older pattern of management in India. The chief cashier brought his own people into the bank to handle the paying and receiving of cash. Only those whose relationship was established were employed and in case of misconduct, the employee was approached through the relative who invariably disciplined him. This very sentiment can be recognised in organisations in which management suggests that the trade union should have the responsibility for disciplining an employee.

(3) *The need for having a father figure who is seen to be sympathetic nurturant and benevolent as a father would be* Most employees address their senior managers as 'mai-bap'. For many people these sentiments are perhaps real. Personal relationships may need explicit recognition with due reward for loyalty.⁴⁴

On the other hand, Dayal notes that, "work organisations... appear to generate dependence on the superior, depersonalised relationships, emphasis on formal roles rather than closer informal relationships. Superiors convey such sentiments and values to their subordinates in work situations. These differences in the expectations of the two systems create a feeling of 'not being understood', 'no one cares for us', a feeling of being 'an orphan' in the organisation. The alienness is built into the system"⁴⁵

Dayal then goes on to describe his approach to designing the structure in the largest commercial bank in India keeping the Indian context in mind. The bank decided to have a two-tier management in medium and large branches in place of a single tier as earlier. It also created a position in the regional head offices to act as a human link between the branches and head office. The first feature has continued but the second could not be stabilised due to the inability of the people to sustain a role without much formal authority.⁴⁶ Dayal also recognises that the success or failure of prevailing personnel policies and practices in organisations in India are, in all likelihood, directly influenced by cultural factors. Then policies and practices may have to differ significantly from the Western and from those prevailing in public administration and in many large work systems where apathy and indifference among employees are far from uncommon.⁴⁷ Dayal's sweep of ideas and his application of the same in practical organisational design is admirable. However, without underestimating the value of his suggestion, by stopping at trying to create family like relationships in work settings he underestimates the pull of actual family, which very often would be away from the work organisation in the Indian

case. He has also shown some diffidence with the problem of overcoming the apathy and indifference among lower level employees. [Personal communication]. His continuing efforts on the issues with another large organisation would be worth knowing about.⁴⁸ Dayal, however, continues to ignore the spiritual or transcendental aspect of the Indian 'self' which Roland points out, can be ignored only at the peril of truncating the interpersonal relationships as well as curtailing the growth of the person. Japanese organisations, as noted earlier, do not ignore or neglect this aspect. Dayal himself quotes from the study by Seth⁴⁹ on the religious activities on the shop floor carried out by the workers but fails to develop on it.

J B P SINHA

J B P Sinha and his associates have been engaged in a major research programme for over 15 years to discover and enunciate a leadership style suitable for Indian organisations.⁵⁰ Theirs is the most systematic programme of its kind in India.

Sinha agrees with Dayal's summary of the subordinates' expectations in India.⁵¹ Apart from giving credence to the psychoanalytical and anthropological explanations of these expectations Sinha also suggests some historical and economic reasons for the pattern of needs and expectations. Indicating some historical evidence he suggests that royal administrative practices during the Mughal period have been shaping the model style of life in India. "The alien rulers had to maintain their distance from the people over whom they must have absolute power. Distrust was inevitable and unlimited loyalty had to be valued most."⁵² This gave rise to a "climate of insecurity, uncertainty and distrust."⁵³

Later he employed another line of explanation which rests on the premise that "extreme poverty throws up certain requirements and expectations. In the process of coping with them, certain needs and values spring up and crystallise".⁵⁴ He labels this pattern as the *poverty syndrome*. According to Sinha

The constant threat of being gulped by the surging flood of poverty gives rise to a typical syndrome of pressing needs and values and the strategies to handle them. For example

- (a) One tends to perceive that resources are limited and a large number of aspirants are vying for them.
- (b) Hence, one must struggle to monopolise them to ensure survival and security...
- (c) One must have power in order to monopolise the resources and control those who may be or have resources.
- (d) The power has to be absolute...
- (e) Power can be maintained by mechanisms of status congruence and enhancement...
- (f) The strange thing about power maintenance in India is that in many instances it is based on renunciation, giving away, self-sacrifices, and self-denial.⁵⁵

This is a fairly powerful idea and to the extent it is valid, it is going to remain operative for many decades to come given the projection of population growth, economic development and lack of equitable distribution of benefits.

However, without waiting for the debate between the psychoanalytical, historical and economic explanations to be concluded, Sinha proposes a model of effective executive leadership for Indian conditions. It is the 'Nurturant Task Leader'.

The 'Nurturant-Task' style has obviously two main components: concern for task and nurturant orientation. The NT leader structure his and his subordinates' role clearly so that communications are explicit, structured and task-relevant. He initiates, guides, and directs his subordinates to work hard... Responsibilities are pin-pointed and areas of decision making are synchronised with them. He, thus creates a climate of purposiveness and goal-orientation.

His task orientation, however, has the motif of nurturance. He cares for his subordinate shows affection, takes a personal interest in their well-being and above all, is committed to their growth.⁵⁶

Sinha also proposes that the NT style, when practised for sometime, would prepare the subordinates for the Western democratic idea of participative management. Experimental studies are cited in support of this proposition. But on the whole Sinha consider the NT style as a tentative model which needs further study.

Sinha's theory has an unmistakable Indian flavour. Dayal and Sinha start with similar inferences about the operating needs of the Indian subordinate. But while Dayal has focused more on developing the appropriate structures, Sinha has focused sharply on the interactional requirements between the superior and subordinate. In this sense the two emphases complement each other. Both have attempted to bring in some features of the Indian family into the organisational structure and relationships. In that sense both are trying to address the needs of the familial 'self'. Both also seem to be holding the hope that soon enough scientific-rational democratic approach would become dominant in work organisations. They also seem to hold the assumption that when the employee reports to duty, he carries an autonomous self which is only waiting to be engaged by the task and relationships at work. They fail to take into account the familial 'self' which may have strong anchors in the family which are person specific and may act as strong pulls away from the work organisation.

Recently Sinha⁵⁷ has gone beyond the superior subordinate relationship. Based on his understanding of Japanese culture and management, he feels that generation of 'competition between' organisations could lead to co-operation within. Hence if competition could be encouraged and organisations held responsible to remain viable, it would "make people shift their loyalty to work groups without changing their ways of relating with each other".⁵⁸ Without ignor-

ing the persistent pressures for local, regional, and national identities, Sinha is optimistic about such a market-oriented strategy. It is an idea worth consideration for public policy-makers and organisational top managements.

In his latest writings Sinha^{58(a)} has started taking cognisance of the spiritual aspect also. However, clear linkages between the spiritual self and organisational realities are yet to be delineated.

UDAI PAREEK

Pareek⁵⁹ is another organisational psychologist who continues to be concerned with the issues of societal culture and its linkage with organisational behaviour. He has cross-cultural experience of research, teaching, and consulting. His view is that "each culture has its strengths and weaknesses, functionality and dysfunctionality for developing modern organisations. While designing an organisation or a system in an organisation, we can build on the existing strengths, further reinforce these strengths and use the positive aspect of the culture for organisation designing."⁶⁰

He goes further,

In the Indian context, for example, organisations should make sure that such positive qualities of the Indian cultures as concern for others, tendency to harmonise and synthesise various points of view, positive regard for different points of view, and general respect of knowledge and expertise are properly used while designing systems. For example, instead of promoting individual competitive spirit in the organisation, a spirit of collaboration may be developed.⁶¹

Pareek has neither suggested any specific design features nor suggested any preferred leadership style. However, his general approach to the problems of organisational effectiveness can be inferred from his practice. He has remained a major proponent of the human process oriented organisation development (OD) which takes the organisations to an OCTAPAC culture, where OCTAPAC stands for openness, collaboration, trust, authenticity, proactivity, autonomy and confrontation. He has developed numerous OD interventions to develop such a culture. He strongly believes that work organisations can become agents of change in the society at large.

Pareek has further conceptualised his approach in his work with the ministry of health in Indonesia. Detailed documentation of this effort is not yet available but it is mentioned as the "four fold model S-P-S-T (structure-process-strategy-tactics)"⁶²

The underlying principle of such an intervention is to respect and use some positive aspects of the culture, and modify the dysfunctional aspects through structural changes, information system, temporary systems, communication system, reward system and linkage building, through incremental planning, action research, modelling process and so on.⁶³

In this brief description he conveys a sense of satisfaction with the model as applied in Indonesia. More detailed descriptions would be worth looking forward to.

Unfortunately, in India there is no tradition yet for rigorous reporting or study of OD interventions. Their increasing popularity could be taken to be a partial indication of their appropriateness. Spread of training based on humanistic behavioural science, of which Pareek is a major proponent, could be another indication that people are liking such humanisation process. Usually participant reactions immediately or soon after the training do suggest that they find it personally, as well as organisationally useful. Some studies report direct benefits to the employees' family life. But long-term follow-up studies are not available to tell about how short-lived such euphoria may be. If psychological 'self' is a deeply embedded structure in the human being a change through behavioural training may not last long. If OD intervention brings out some cultural change in the organisation in the direction of satisfying the familial 'self' it may become as effective as the recommendations of Dayal and Sinha. Application of OD with unionised employees is beginning to show up.⁶⁴ That would be an even better ground for testing the appropriateness of OD in Indian context.

So far as the spiritual aspect of Indian psyche is concerned there is one major contributor to formal management thinking in incorporating this dimension. As mentioned earlier S. K. Chakraborty is making a very vigorous effort to unearth insights from ancient Hindu thought relevant for management of modern organisations.

S. K. CHAKRABORTY

A very recent effort to develop a uniquely Indian approach to management thinking and practice is that of S. K. Chakraborty.⁶⁵ It is important to take a look at his approach because it represents the most systematic effort to resurrect the ancient Hindu wisdom for use in managing modern day organisations. It is not that the ancient Hindu wisdom available in scriptures did not have a religious dimension to their lives but so far formal academic management thought has tended to be scientific/rational as indicated by the major Indian explorers of such culture-specific terrain in the previous sections.

India can boast of a large stock of spiritual and religious scriptures. The most ancient of these have been sub-divided into two categories 'rita' and 'smritis'. The former mainly consist of the Vedas and the Upanishads. The latter are larger in number but the Puranas and the Manusmriti are the most well known. The former contain more abstract and universalistic ideas about the cosmos and human existence. The latter contain more contextual material prescribing social conduct. Chakraborty has based his exhortations on the former.⁶⁶

He, however, is not oblivious of the

realities of human behaviour in Indian organisations.⁶⁷ He acknowledges poor work ethic, poor team work, selfishness, etc., as prevalent. Vedantic philosophy also admits of such manifestations in the lower self. But there is lesser clarity, as to why Indian organisations ought to fail so badly while we can boast of the most sublime philosophy. He offers three possible explanations.

- (a) An unfortunate experience of several centuries of alien domination and political slavery which has fostered the deep rooted plant of selfishness, a common malady afflicting all politically enslaved communities, e.g., the negroes in America. The psychic ripples of this prolonged spell in the collective subconscious of our people cannot disappear in just four decades.
- (b) Planned pursuit of rapid material advancement since 1951 has further fanned the flames of selfishness—the more economically better off one, i.e., the more selfish one tends to be.
- (c) The higher the level of one's educational attainments and societal status, the stronger seems to be the right claims orientation of that individual and the weaker the spirit of duty and obligation.⁶⁸

But in his scheme of things it does not really matter as to which is the more valid explanation. Since all the ills of the manifest reality are rooted in the ignorance of the lower 'self', the reversal can be initiated by intellectual understanding and more importantly through regular practice of meditation.

Chakraborty also explores the psycho-philosophical concepts of Indian thought and suggests that some of these such as the 'guna' theory of 'Samkhya' could be more appropriate for Indian context than the ones borrowed from the West such as that of Abraham Maslow. An interesting example where his preference is consonant with the familial 'self' is that of the Vedic idea that when a human being is born he begins with a five fold debt.

This leads him to suggest a 'giving model' of motivation rather than the 'needing models' suggested by Maslow and other western psychologists. He also cites interesting even if inconclusive evidence about this.

In addition he cites three other types of evidence to suggest the feasibility of Vedantic approach to grapple with the human problems of modern Indian organisations. The first are the letters from those students and executives who start practising meditation. Positive results reported are consistent with extensive medical and psychological Western research on meditation. But less available and more crucial evidence needed to support this approach is to demonstrate that it leads to improve organisational functioning. Though as indicated earlier, Japanese organisations have integrated religious-spiritual elements

into day-to-day functioning of organisations, the significantly different psychocultural reality of Japan does not make it easy to reduce the results from there to India. Chakraborty has instead drawn from two organisations of the past and one existing organisation as examples of the feasibility of the Vedantic⁶⁹

These three organisations are (i) the 'sreni' or the guild for secular economic activities the Vedic period, (ii) the 'sangha' for the spiritual life—the Buddhist period, and (iii) the Ramakrishna Math/Mission—since the end of the 19th century. Chakraborty uses the first of these to mainly establish the existence of well managed corporate activity in the Vedic period. His citations from R. C. Majumdar's work, however give no indications that the management of these guilds was based on Vedantic philosophy.

The Buddhist 'sangha', according to Chakraborty managed itself through 'sanghakarma' process which was characterised by joint deliberation, equality of all members in decision making on matters of common concern, the rule of majority, the rejection of personal dictation, etc. The University of Nalanda with a number of resident scholars, anywhere between 3 000 to 10,000⁷⁰, is also cited as the culmination of Buddhist style of management.

Coming to the contemporary example of Ramakrishna Math/Mission Chakraborty cites extensively from the writings of its founder Swami Vivekananda. The citations show Vivekananda's awareness of the dysfunctional aspects of the social psychology of India ("Jealousy is a national sin with us"), the mixed blessing any organisation is ('organisation has its faults, no doubt, but without that nothing can be done'), and pragmatism in the midst of spiritual pursuits ('you need a little business faculty'). The profuse quotations very well establish the managerial philosophy of Vivekananda and its closeness with Vedantic philosophy. Unfortunately no scientific account of the internal dynamics of this interesting organisation is available. But my personal impressions about the working of the Ramakrishna Mission persuade me to believe that there is something interesting to learn from it as suggested by Chakraborty.

Unfortunately Chakraborty's use of the example 'sangha' and Ramakrishna Math/Mission are somewhat weak models for a modern business organisation. As Etzioni⁷⁰ has convincingly argued religious mission oriented organisations would evoke a very different motivational dynamics as compared to commercial organisations. This is where Chakraborty's consulting experience with a business firm is the closest to the problem of operationalising the exalted Vedantic philosophy into management philosophy and practices of a typical firm.⁷¹

Chakraborty provides a candid account of the educational effort made by him with the chief executive of a business firm in

Calcutta and the team of his top managers. From the description given the effort appears to have focused on cognitive inputs on Vedantic philosophy, practice of meditation and personalised counselling. Though the chief executive seems to have changed in his style his key divisional executives have generally rejected the approach. Evidence about any change in organisational dynamics is very scanty and the reading of the case has left me with the overall feeling that the effort until 1986 (starting from 1983) did not show any signs of proving the viability of the approach.

Perhaps it is too early to evaluate the potential of Chakraborty's approach rooted in the most exalted Indian philosophy. But it might benefit by looking at the real along with the cultural ideal. Alan Roland as mentioned previously has pursued the theme of spirituality and transcendence while studying the Indian psyche even though such a theme has been more often looked at in a reductionist way in all the major schools of psychoanalysis. As stated earlier Roland had found that it was impossible to progress in psychotherapy of a number of his Indian clients without accepting the spiritual aspect of their selves.

Before specifying Roland's finds let us list the varied characteristics found to characterise religions around the world. The list does not propose a 'necessary and sufficient' kind of enumeration but is found useful in the study of religions. The "religion making characteristics" are as follows:

- (i) Belief in supernatural beings (gods)
- (ii) A distinction between sacred and profane objects
- (iii) Ritual acts focused on sacred objects
- (iv) A moral code believed to be sanctioned by gods
- (v) Characteristically religious feelings (awe, sense of mystery, sense of guilt, adoration) which tend to be aroused in the presence of sacred objects and during the practice of rituals and which are connected in the idea with the gods
- (vi) Prayer and other forms of communication with gods
- (vii) A world view, or a general picture of the world as a whole and the place of the individual therein
- (viii) A more or less total organisation of one's life based on the world view
- (ix) A social group bound together by the above

With this list in mind if one looks at everyday life in India it is more than obvious that India is a very religious society though scholars like Sinha, Dayal and Pareek have ignored this aspect. Secondly it can be noticed that it is rare to find individuals who pursue the Vedantic ideals in their everyday religious life. Looking at religions in a comparative way the *Encyclopaedia of Philosophy* goes on to state that "Buddhism and philosophical Hinduism are predominantly mystical, Judaism, Islam,

and Confucianism are primarily prophetic; and popular Hinduism, in company with all polytheistic and primitive religions, is primarily sacramental."⁷² Further examining the potential conflict between modern science and religion, it finds that

Esoteric (advaita) Hinduism is probably immune from scientific criticism, since its doctrine is on such a transcendental metaphysical level that it has no contact at all with the empirical level. However, such a form of Hinduism is perhaps more a form of metaphysics than of religion. In taking part in religious observances the devotee must abandon his austere metaphysics of non duality in favour of a pluralism of god or gods and worshippers. In other words, he must return to the phenomenal level of maya.⁷⁴

Chakraborty's problem of applying the Vedantic philosophy to the conduct in a business firm begins to be visible through this brief critique of Hinduism.

Roland's preliminary peep into the psyche of his middle class Indian clients provides a grounded view of the operating religiosity in Indian psyche.⁷⁵

For him

The interrelationship between the Indian familial self and the spiritual self is psychologically far more complex and paradoxical than meets the eye. The spiritual self simultaneously encompasses both continuity with and counterpoint to various aspects of the familial self. Hindu thought recognises the psychological phenomenon or experiential duality of the phenomenological self ('jiva-atman') particularly in the everyday consciousness of I-ness ('ahamkara') versus the inner experience of spirit or atman. Further the fundamental goal of all relationships and living is the gradual self-transformation toward finer and subtler qualities and refined aspects of power in the quest for self-realisation. Thus my paradoxical assertion that the spiritual self is simultaneously on a continuum with the familial self and in counterpoint to it spells out psychologically both the Hindu monistic position and the dualistic experiential one.⁷⁶

Like Kakai⁷⁷ Roland sees the basic progression of Indian spiritual ideal as the movement from involvement in the family life to a detachment from it and attaining union with the supreme being. But his data from psychoanalysis is more consistent with the idea of popular Hinduism as suggested in the quotations from the *Encyclopaedia* cited above. Three such features found by Roland are "(1) a mythic orientation to everyday relationships, (2) a magic cosmic involvement with destiny and (3) the practice of a wide variety of rituals frequently associated with both myths and magic cosmic correspondences."⁷⁸ Looking at the clinical material one further discovers that the utilisation of such spiritual proclivities is made mostly for personal or familial gains such as knowing the destiny in personal life, knowing the prospects for marriage, making choices for personal or children's careers,

overcoming the sickness of a relative, etc. Only one patient, an engineer turned novelist, was in the process of developing and utilising his "literary-meditative or spiritual side of himself in his work"⁷⁹ with the help of a scientist-astrologer mentor.

Hence though the vedantic ideal of renunciation from the 'maya' continues to exist as an ideal for most of Indians most of their lives are spent in the form of familial-'jati' 'self', spiritual 'self' becoming a source of strength, assurance and inspiration to pursue everyday life of a family member. In other words Vivekananda and his 'gurubhais' (brother-disciples) are likely to be found only amongst those who have already renounced worldly pursuits. Such could be the obstacle in the way of Chakraborty's spirited experiment with the business firm mentioned above. Rastogi's (1988) recommendation for a spiritual-productivity culture for India has yet to find an operationalised illustration in the similar vein.

WHERE DO WE GO FROM HERE?

We have covered the ground of some basic differences in the nature of Indian psyche as contrasted with American and Indian psyche. This was done keeping Roland's psychoanalytic research as the main ground supplemented with other material. Keeping in view the focus on the context of work organisations in the paper let us summarise the main problematic features.

(1) Contrasted with Japanese, Indians have very little identification with the work organisation and the work group therein. While the American, being an individualist, would draw meaning from his own work and the Japanese from his belonging to his work group and his contribution the Indian would much more largely draw meaning from the state of his familial relationships.

(2) The problem gets compounded because while the Indian contains his aggression in familial settings, due to his non-allegiance to work organisation, displaces the suppressed aggression in the work settings outside the family, the Japanese continues to contain aggression in the work setting and the American puts it in the service of his individual achievement but the Indian would experience much less of the either. Hence there is a greater potential for sub-optimal performance, malingering, sabotage, and even outright violence in Indian work settings.

Hence the unique Indian challenge of integrating individual with the organisation is that of creating salience of relationships at work, increasing emotional identification with the work groups and work organisation. Finally it should lead to not only the containment of the aggression which does not belong to work settings but to channelise the energies for the achievement of publicly held organisational mission, purposes, goals and objectives.

Having covered the ground of some very basic differences in the structure of psyche between India and America on the one hand, and India and Japan on the other, the next substantive questions would naturally be: given the uniquenesses of Indian personality, is a uniquely Indian model for managing the human side of Indian organisations possible? What would be the directions for building such a model? But before embarking on that uncertain and daunting task let us summarise the imperatives that emerge from the foregoing analysis. I see three such major imperatives:

First is the recognition of the familial-'jati' 'self'. It basically means that in the Indian psyche the secular work organisation does not have a place of very little significance. Hence the first challenge would be to make work organisation more salient in the mind of an employee.

Second is to acknowledge the special interpersonal emotional expectations that Indians bring to the hierarchical relations in work organisation. What complicates the matter is that they bring these emotional expectations of nurturance, and even indulgence in the frame of mind in which organisation lacks salience. The imperative can be rephrased, as it has been done by Dayal and Sinha, in terms of interpersonal aspects of leadership between superiors and subordinates. The challenge is really daunting because most of the middle level superiors too carry the same expectations—fulfilling which is next to impossible and they transfer their frustration downward rather than containing it. In other words it is the challenge of containing the irrelevantly displaced aggression by superiors as well as subordinates and challenging the energies for productive purposes.

The third imperative is non-secular in character and hence not easily tenable. But its neglect, I believe, can only be at the cost of real optimisation of mobilising human potential. It is the neglect of the spiritual or transcendental dimension of the Indian psyche in the design of structure, systems and practices. As illustrated, Japanese organisations have succeeded in creating integration between the religion and work organisation; in the West also the thesis that the Protestant ethic has made major contribution to the success of capitalism has been widely held even if questioned as an insufficient explanation. Fortunately for Japan as well as America, they did not have to contend with multi-religious multi-'jati' populations with such strong affiliations as are found in India. This imperative calls for addressing those issues which have been kept out of explicit discussions on organisation design.

By now based on the foregoing analysis, it should be somewhat obvious as to why it would be impossible to replicate either the American success with American management techniques or the later Japanese success with Japanese management practices: American techniques would not give

corresponding results because for the Indian his job and work organisation does not have the same salience; and the Japanese methods, though appealing to the familial 'self' of Indians, would be very difficult to implement in their spirit because managers as well as their subordinates would be disinclined to give sufficient emotional salience to the work group and work organisation. This is not to say that there is no hope for Indian organisations. It has been shown that Indian socio-cultural reality is not antagonistic to industrialisation or modernisation.⁸⁰ But what needs emphasis is that beyond a point absence of antagonism fails to provide sufficient force for dealing with the challenges of societal development in an increasingly competitive world. Positive forces need to be generated to meet the challenge of an increasingly organisation based society.

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A Study of Rural Bihar

HETUKAR JHA

Society is a complex whole comprising of many and varied layers. Hence, understanding society can be problematic as perceptions often tend to be lopsided and incomplete. Prof. Hetukar Jha has chosen to analyse the forbiddingly complex society of rural Bihar. He bases his study not only on survey data but on historical records, particularly the 'village notes' which were prepared at the beginning of the century.

The author concentrates on the model styles of relationships constituting the 'primary level structures' of villages. These structures are constituted by such institutions as family, share-cropping, money-lending, upper class and lower class relationships and *Jajmani* relationships. The expectations typifying the roles of each of these groups have been explored and analysed. Regional variations as well as variations in the nature of villages are significantly reflected in the styles of relationships studied.

The book will be of interest to anthropologists and sociologists as also those engaged in rural development

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Roots of Present Communal Crisis

Victor S D'Souza

Due to the peculiar geographical distribution of religious minorities they on the whole do not pose a serious political threat to the majority community except in some peripheral regions. Why then has the movement for building up Hindu nationalism gained currency in recent decades?

IN order to understand the tension-laden religious situation in our country, or for that matter anywhere else in the world, we should take note of the basic dilemma in religion. The dilemma lies in the fact that what religion aims at is largely at variance with what religion is often used for.

Religion is essentially intended for personalising the spiritual experience of its founder or founders. Its purpose is to resolve fundamental problems faced by the individual such as the meaning of life, salvation after death, the causes of suffering, release from anxiety and so on, with the aim of realising inner peace and harmony. Although religious experience is essentially an individual phenomenon, its realisation calls for the building up of a religious fellowship or religious group. Now, it is in the nature of a social group that once it is brought into being, it can be used for the fulfilment of ends other than those which brought the group into being. This applies to the religious group as well. What is more, the loyalty of members in a religious group is far stronger than in many other types of groups. It is because the bond that ties members of a religious group is derived from their relationship with the same sacred object or being, it sacralises the self-identity of the members as well as the identity of their group.

That being the case, if the interests of the group members or of a section of the group were couched in a religious garb, the members could be persuaded to lay down their lives for the cause irrespective of the true nature of those interests. In this manner, religion which is a faith aimed at the fulfilment of spiritual goals can be rendered into an ideology for the fulfilment of material and political goals. Thus the dividing line between faith and politics is very thin.

In examining the historical contexts of the religious communities in India which

can be linked with their present situation attention has to be focused upon the Hindu religion which is the most ancient and has the largest following. Unlike some other major religions which are well defined by their founders, Hinduism is a syncretic and evolving religion in which several different perspectives co-exist. Because of the syncretic character of Hinduism other religions born in India have to strive hard to maintain their separate identities. Among Hinduism's different faces, two, with contradictory features, may be recognised for the present purpose. At one extreme we have the Varnashrama Dharma known simply as the Varna Dharma in ancient times, and at the other extreme we have the Manava Dharma. Whereas the Varna Dharma emphasises the principle of dominance enshrined in the caste system, Manava Dharma affirms the principle of universal brotherhood which has influenced the peculiar brand of secularism in India, which enjoins equal respect for all religions. However, in all the Hindu religious perspectives, the leadership, by and large, is derived from the upper castes, especially the Brahmins.

The religious configuration that can be seen in India today is greatly influenced by the Varna Dharma which owes its origin to the advent of the Aryans in India some 3500 years ago. Among the outsiders who came to this country such as the Aryans, Greeks, Sakas, Huns, Arabs, Turks, Afghans, Mongols and the Europeans, and who had a role in shaping the political, social and cultural destiny of the country, none held greater sway over its culture and society than the Aryans. The success of the Aryans lay in the fact that they were able to forge a social order of domination, which they sacralised by the creation of a religious ideology, both of which they were able to disseminate into the subcontinent through their political

power.

Because of their superior fighting power, the Aryan hordes coming from Central Asia defeated the people of the Indus valley even though the latter possessed a superior civilisation. But what really set the historical course of the Indian society was their establishment of a permanent dividing line between the victorious Aryans and the defeated non-Aryans, which was the basis of the Varna system.

The Varna system, as the term implies, was originally a distinction of colour or race. The manifest racial distinction, however, got diluted because the invading Aryans being short of women, forcibly married the women of their enemies who were racially different. But they preserved their identity by their patriarchal domestic system and by establishing the institution of hypergamy which reserved the privilege of marrying outsiders only to men who could even have a plurality of wives. That, in this process the status of women in the Aryan society deteriorated, was another matter.

It is well known, how, over a thousand years, the Aryans spread over the Indo-Gangetic valley, built a civilisation of their own, evolved the Vedic-Brahmanic religion, and established flourishing kingdoms. The Aryans were a pragmatic people. Nothing mattered to them more than perpetuating their supremacy. In order to make their religion and culture acceptable to others they assimilated indigenous elements. They successfully neutralised the challenges of protestant religious movements such as Buddhism and Jainism by incorporating some of their lofty ideas into the Brahmanic religion. Above all, the groups which posed a political and economic threat to their dominance were co-opted into the dvija varnas (Aryan groups regarded as twice born) of Kshatriyas and Vaishyas, the Brahmins remaining at the apex of the Varna system.

Whereas at the height of its maturity, the Brahmanic religion enunciated profound principles of ethics and spirituality, because of the concern for the Aryan dominance, it has not been able to uphold these principles as being superior to the worldly way of life, and in practice subordinated the former to the latter within the scheme of Varnashrama Dharma. In doing this, the socially exclusivist and inequalitarian Varna system was sacralised by making it an essential element of the predestination theory of Karma, and link-

ing it with one's salvation. The existing divisions in society were integrated into the rigid hierarchy of the Jati or the caste system.

Because of the dominant influence of the dvija castes, the caste system, besides forming the structural basis of the Brahmanic religion, got itself ingrained into the social, political and cultural systems, so that later on, even those who renounced Varnashrama Dharma or who came from outside the country, succumbed to the caste system. Thus social exclusivism and inequality became the accepted values in the Indian society.

The religion of Varnashrama Dharma brought about a unity in diversity in the multi-ethnic society in India, mainly through the domination of the dvija castes, but because of its commitment to the rigid caste system, it could not weld together the Indian population into one people. Originating from the fertile plains of the Ganges, Aryan influence spread throughout India, but has passed through many vicissitudes, its greatest challenges coming from the protestant religious movements of Buddhism and Jainism, and later on from Islam and other religions. The onslaught of Buddhism and Jainism came from within Hinduism itself, and from its heartland. These religions are regarded by some scholars as being essentially the revolts of the Kshatriyas and the Vaishyas among the dvija varnas themselves against the growing hegemony of the Brahmins, but because of their more egalitarian teachings the protestant religions, especially Buddhism, became counter-magnets to the lower castes who were groaning under the oppressive Varna system. However, within a few centuries, Hinduism was able to digest these new religions by incorporating within itself some of their popular beliefs and practices, and in the end a more reformed Hinduism staged a resurgence with renewed vigour.

Whereas the major protestant religions such as Buddhism and Jainism arose from within Hinduism, other major religions such as Islam and Christianity came from outside, and whereas the former category of religions occupied the strongholds of Hinduism, the latter category found its foothold in the peripheral areas. Although great religious missionaries have laboured for the spread of Islam and Christianity in India, these religions came especially as camp followers of foreign traders and invaders. The foreign rulers found it expedient to raise a community of followers of their own faith so as to create a local support base, and people who were

underprivileged in the Hindu caste system readily accepted the new faiths in order to escape from their miserable conditions of life as the new religions offered the prospect of exalted fellowship and political patronage. The spread of new religions coming from outside is a case of indistinguishable blend between faith and politics. All the same, these religions swelled their ranks with converts mainly from the western, eastern and southern regions of the country, where the dominance of the dvija castes was relatively weak. Even Islam whose rulers had an absolute political sway over the country with their capitals in northern India had only modest success in making conversions in the heartland of Hinduism.

The conversions to Islam and Christianity have had a chequered history, as they took place under the patronage and sponsorship of different ruling powers and trading companies, which were operating in different parts of India and at different points of time. These historical circumstances surrounding the conversions and the fact that their sponsors, even those who belonged to the same religion, came from different countries, sects or churches, explains why, very often, the followers of the same religion but belonging to different sects and churches, are spread in mutually exclusive regions. Thus the Muslims of the east and west coasts of India who were converted by missionaries who accompanied the Arab traders belong mostly to the Shafi'i school of Islam, and the Sunni Muslims who were converted under the patronage of Muslim rulers are widespread in the rest of the country. Similarly among the Christians, the Syrian Christians converted by the early foreign traders are concentrated in Kerala, the Roman Catholics who were converted by the Portuguese and the French are overrepresented in the east and west coasts, and Protestants who were converted especially during the British period have their pockets of concentration in the north-eastern and north-western parts of India.

Because of this historically determined pattern of distribution, people belonging to the different churches and sects even though they may belong to the same religion, rarely come face to face with each other in the same region. Interestingly, a similar situation prevails as regards the geographical location of people belonging to the different minority religious groupings. That is to say, when we consider the larger minorities such as the Muslims, Christians and the Sikhs, we find that the concentration of a particular minority in a region is mutually exclusive with the

concentration of other minorities. Even in Kerala where the Muslims and the Christians are found in large proportions, each religious category is concentrated in a different part of the State.

The peculiar geographical distribution of religious minorities has significant consequences. To indicate a few: First, even though a minority religious grouping is relatively small at the national level, because it is found in pockets of concentration, wherever it is located, it constitutes a significant cultural entity. Second, because of their mutually exclusive locations in different regions, the minorities do not have common economic interests in order to combine themselves politically at the national level, and third, in any given region the majority religious category has to deal with only one minority religious category.

Shorn of their political patronage which existed in the past, and with a geographical distribution which is hardly conducive to political mobilisation, the minorities on the whole do not pose a serious political threat to the majority religious body except in some peripheral regions where the minorities at the national level are majorities at the regional level. Why then has the movement for building up Hindu nationalism gained currency in recent decades? Further, why is this movement directed against minorities, especially in northern India, who are not secessionists?

Hindu nationalism as a positive concept aimed at bringing about solidarity in society which is fragmented with socially exclusive and inequalitarian groupings would be a welcome step in keeping with the democratic aspirations of our people. But what is advocated by the proponents of this movement is the chauvinistic idea of the empowerment of the majority community *vis a vis* the minorities. It is obvious that efforts at increasing the strength of the Hindus to take on the minorities which are already weak is like flogging a dead horse. The empowerment of the majority religious group which sanctions exclusivism and inequality, could have only one aim, and that is to perpetuate the dominance of the upper castes. The fact that the inspiration for this movement comes from some of the members of the dvija castes, who are also actively engaged in its organisation, lets the cat out of the bag. It inevitably links this movement with the traditional Aryan domination of the Indian society achieved through the ideology of Varna Dharma.

For an elaboration of this point of view it is also necessary to take into account the linguistic situation in the country, for,

the influence of the Aryans on the indigenous religions of India is paralleled by their influence upon the languages of the country. Being most successful in developing a learned tradition which they assiduously safeguarded for their own advancement, the Aryans nevertheless were able to influence many Indian languages with their Sanskrit, especially in northern India. In the region of their domination many different languages have converged in the form of Hindi, while their original differences are now regarded as dialectical peculiarities.

Having its epicentre in the fertile plains of the Ganges, the Aryan influence easily spread in the surrounding areas of the northern and central India. Its penetration into southern India was somewhat restricted by the intervening mountain ranges so that the Aryan impact on the culture, religion and languages of south India is far less. Accordingly the influence of Sanskrit upon the languages of southern part and other peripheral areas of the country has not been able to affect the separate identities of these languages.

As a result of the interaction among the racial, socio-political and cultural forces in their historical context, the social structure of India in terms of ethnic factors constitutes a peculiar geopolitical configuration which becomes meaningful when seen from the perspective of Aryan domination. We may consider the religious and linguistic patterns of this configuration.

Religionwise, although the overwhelming majority of the Indian population is referred to as Hindus, because of its syncretic character the brand of Hinduism followed in different regions varies. When Hindus of one region settle down in another, they feel the need to set up their own separate place of worship. By and large, the Hindus of northern India more influenced by Aryan culture form the central and the largest Hindu block popularly referred to as the cow belt, and the other regional groupings are peripheral to this block. This pattern indicates a centre-periphery relationship in Hinduism itself, although the growth of Hinduism at the centre was somewhat stunted by the political domination of the Muslims for a long time.

When we consider the geographical distribution of the various religions including Hinduism, we also find a centre-periphery relationship. In this case the Hindus are over-represented in the northern and central regions and the minorities are over-represented in the peripheral areas.

Corresponding to religion, there is also a linguistic differentiation between the

centre and the periphery. Whereas relatively Hindi speakers preponderate the northern and the central regions, the speakers of hundreds of other languages are scattered on the peripheral regions.

A remarkable feature of the religious and linguistic patterns of distribution is that whereas the overwhelming majority of the Hindi speakers are Hindus, the overwhelming majority of the people belonging to the non-Hindu religions speak non-Hindi languages. It is also strange but true that instead of trying to strengthen the link between Hindi and the other Indian languages, conscious efforts are made to Sanskritise Hindi even more, so as to rejuvenate its Aryan connection. At the same time, since the Hindus who speak Hindi occupy a central location in the country, there is a tendency to project their dominance beyond their region by identifying Hindi and Hinduism with Indian nationalism. Again, it is some of the members of the dvija castes who feel their dominance threatened by secular and democratic values, who are prominent among those who are trying to give a practical shape to this thesis. Understandably they are also prominent among those who advocate a more centrist approach rather than a federal one, in Indian politics.

Let I should be misunderstood on the language issue, I should like to enter a *caveat* at this point. A common language, apart from the language of the different groups, is a must for any country for its efficient functioning, irrespective of its form of government. So also our national identity calls for the adoption of an Indian language for this purpose; and no other language qualifies better than Hindi to perform this role. But what is objectionable to the present arrangement is the way in which Hindi is cultivated; instead of trying to link it with the present Indian languages, laborious efforts are made to link it with Sanskrit which is not only a language of the past but also the language of the dominant minority at that time. The preservation of the past treasures of our culture is one thing, and their imposition on the present people is another.

Hindu nationalism as it is popularised today is unmistakably a chauvinistic movement which can be sustained only by negative tactics. One of these tactics is to create an enemy of straw and then to burn it. The minorities come in quite handy for this purpose. The fact that some of them share a common religion with former foreign rulers becomes an evocative reason for making the minorities scape goats in the eyes of the unsuspecting Hindus for their frustration due to the humiliation which their ancestors might have experienced on account of foreign rule.

However, it must be said to the credit of the dvija castes that if one section among them drawing their inspiration from the traditional perspective of Hinduism is pursuing the path of dominance, some other section, in keeping with the more evolved form of the same religion is committed to the secular democratic ideal. Having been at the vanguard of the freedom struggle, the latter section was instrumental in the adoption of a secular-democratic constitution for the country after independence. It must however be admitted that for various reasons, this section has not been able to put its heart and soul into the task of bringing about a transformation of the society as envisaged in the Constitution, thus inviting upon its policy the opprobrium of pseudo-secularism. Nevertheless, the stand that it has taken has the merit of focusing on the need for a radical transformation of the Hindu society. The advocates of Hindu nationalism, on the other hand, only contribute towards obfuscating this issue.

In a country in which more than four-fifths of the population is made up of Hindus, it would be the Hindus who would always wield effective political power no matter what form of a political constitution we would have. The struggle for power cannot be between the Hindus and the non-Hindu minorities, but between groups of Hindus themselves. Therefore if we delve below the surface, it would seem that the call for Hindu nationalism is a ploy employed by one section of Hindus to dislodge another one from power. In this game of power the hapless minorities are made a pawn.

In a broader sense, the concept of nationalism is based on the idea of the unity of mankind, and in a narrower sense, it refers to the unity of a cultural group; the latter idea is derived from the former. Viewed in this light, Hindu society which is badly fragmented due to its traditional values of social exclusivism and inequality, indeed, needs a nationalist transformation. But for cultivating true nationalism in a positive way, the Hindus have to turn their zeal and energy within their own society and not outside.

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Labour Process and Characterisation of Small Industry Sector

Sucha Singh Gill

The Political Economy of Unorganised Industry: A Study of the Labour Process by Manjit Singh, Sage Publications, New Delhi, 1990, pp 234, Rs 190

THE agrarian situation in Punjab has attracted the attention of a large number of scholars in India and abroad due to the predominance of agriculture and allied activities in the economy of the State but primarily because of the fast transformation of agriculture, making the State the most important centre of green revolution in the country. The focus of scholars on the agriculture of the State has been two fold. First to understand the Punjab experience and the factors behind quick changes so that the same experience could be repeated in other parts of India and in the developing countries of South Asia. Second to understand the nature of these changes and its social and political implications. Greater stress on agrarian studies has distorted, to some extent, the picture of the State's economy and the impression has been created that there is little development in the industrial sector. In fact the rate of industrial development from 1966 the year of reorganisation of the State, has been higher than that of agriculture. The share of manufacturing in terms of employment has increased from 11.32 to 12.55 per cent between 1971 and 1981.¹ The share of this sector in State domestic product at factor cost at constant prices has increased from 8.15 per cent in 1970-71 to 11.42 per cent in 1987-88. In the context of relative paucity of studies of the industrial sector, particularly on labour processes and the level and mode of surplus extraction Manjit Singh's book is a very useful contribution. The focus of this work is to understand and characterise the stage of organisation in unorganised industrial sector its effects on the structure and composition of working class, its class consciousness and organisation of the trade union movement.

Marx's concept of labour process has been used to explore the nature of production organisation. Marx defines labour process as 'human action with a view to production of use values, appropriation of natural substances to human requirements, it is the necessary condition for affecting exchange of matter between man and nature'.² There are three elementary factors of labour process. They are (1) personal activity i.e. work itself (2) the subject of work and (3) instruments of labour. Labour process disappears in the product, which is a use value created out of nature's material adopted by a change of form to the wants of man. Products are the result as well as conditions of labour. Among the factors of labour process

instruments of labour have a special significance. These instruments not only supply a standard of the degree of development which human labour has attained but are the indicators of social conditions under which labour is carried on.³ Labour process exists under all social conditions and its nature's imposed condition of human existence. Labour process takes different forms under different social conditions.

Marx has analysed in depth the labour process under the capitalist system of production. Under these conditions labour process exhibits two characteristics. First, labour works under the control of the capitalist so that work is properly done without unnecessary waste of raw materials and wear and tear of implements. Secondly the product is the property of the capitalist and not that of the labourer.

The main concern of Manjit Singh's study is to analyse the labour process in the unorganised industrial sector of developing countries like India. It has been defined by some common features such as smaller size of production units scattered over a wide area, use of lower levels of technology with high labour absorption, prevalence of piece rate wage payment and the pivotal role played by intermediaries between workers and the ultimate employer. This sector played a very important role in the industrial revolution in Western Europe and is a prominent feature of modern Japanese industrial structure. In Western countries this created an initial basis for growth of the organised corporate industrial sector. Unorganised industrial sector emerged out of the handicraft production system in the initial phase of development of capitalism in the West. In this phase it passed through three distinct forms termed co-operation, manufacture and factory (machinofacture). Manjit Singh seeks to examine labour processes in the hosiery industry of Ludhiana in terms of Marx's concepts of 'manufacture' and factory system of organisation of production. Manufacture is characterised as detail labour on the basis of skill and separation of mental labour from manual labours. This leads to loss of control of labour process by worker to capital. Factory form of production is distinguished from manufacture in terms of tools of production. In manufacture tools are operated by hand whereas in factory tools are fitted into the body of the machine operated by an inanimate source of power. This is the reason

factory system is also called machinofacture. In this system detail labour is replaced by detail machine functions. Transition from manufacture to factory took a long time and a variety of forms. It is only from the mid 19th century that factory system began to dominate in the West.

Manjit Singh points out that capitalist growth in India in the 19th century started on two different lines. On the one hand there was the imposition of modern capitalist enterprises from above and on the other hand traditional industries struggled to grow from below. In the latter case weaving industry of Surat, metalware industry of Aligarh and coir industry of Travancore are mentioned. Here artisanal production was transformed into capitalist simple co-operation or capitalist manufacture. The transition from manufacturing to factory production was very slow and partial before independence. After independence the small industry sector came to be specially protected under the Industrial Policy Resolution (1946). This sector now accounts for nearly 50 per cent of value added and 80 per cent of the total employment in manufacturing in the country. Unorganised industries are the most important component of the small manufacturing sector in the country.

On the basis of review of studies Manjit Singh classifies unorganised industries in India into four categories. First, there are home based industries based on traditional skills and instruments of labour. This form of production is characterised as 'independent artisan' or 'small petty capitalist production'. Sandal and coir industries fall within this category. The second type of industries are owned by merchant manufacturers. This resembles typically the British putting out system/capitalist domestic industries. The lace, beedi and carpet industries belong to this category. The third type of industries assume the capitalist manufacturing form. Match sticks, fireworks and agarbati industries belong to this category. The fourth type of industries has developed production process from manufacture to factory form. The four-fold classification of these industries has led to division in the ranks of working class based on part/whole ownership of means of production, sex and geographical divisions, competition, size of units and existence of chain of intermediaries. This has implications from the point of view of organising the working class. This is the reason why with the exception of the coir industry in Kerala and the shoe industry in Calcutta there is little evidence of the emergence of organised trade union movement among the workers of these industries. Any intervention by trade union movements or by the state on behalf of workers led to capital re-organisation and dispersal of production processes in such a way that this intervention could be avoided.

The case of the coir industry in Kerala and beads industry in Nepal is a pointer in this direction

Comparing the growth of industrial capital in Punjab with the rest of India the author finds that traditional industries were almost at the same level in the matter of transformation to capitalist relations of production. While industries were trying to come up from below from handicraft to small workshop and further to small factory production the capital intensive large factory industry had not made any major dent in the industrial economy of the State before partition. The process of penetration of capitalist relations in traditional industries and their concentration in various urban centres was slow compared to certain other parts of the country.

In the post-independence period industrial development of the State has been concentrated in urban centres. Urban industrial units can be divided into two distinct categories. First, the small industrial sector which employs more than three-fourths of the total industrial workforce and produces nearly 50 per cent of the value added. In the small sector, textile employed nearly 37 per cent of the workforce followed by the cycle industry (12.6 per cent) and agricultural implements and mechanical tools (10 per cent) in 1978-79. The peculiar feature of small scale industries in the State is that most of the units have evolved from the traditional handicraftsman's small workshop to manufactures and more recently to factories. The second category of industrial units is of medium and large size. Except for the engineering industry these have been imposed from above.

Ludhiana has emerged as the biggest centre of industries in Punjab employing 37.7 per cent of workers in the small scale sector and 29.55 in large/medium sector. The respective shares in total production was 23.98 per cent and 23.44 per cent in 1979-80. Among the various industries in Ludhiana district, hosiery has emerged as the biggest industry employing 40.99 per cent of the total workers and with 34.58 per cent of the production of small scale sector in the district. The author has taken this industry for in-depth analysis to understand the level and the nature of labour process in the small sector.

Hosiery industry developed mainly in the 20th century. It faced two difficulties in the pre-independence period. First, short supply of machinery from abroad particularly during crisis/war. Second, competition from established producers from abroad. In the post-independence period both the difficulties ceased to exist with sufficient availability of domestically produced machinery and control over foreign competition under the protective mechanism.

Hosiery industry of Ludhiana was transformed from natural economy to domestic capitalist production industry in the second quarter of the 19th century. Needle knitting began to be replaced with frame knitting

from 1883. Initially frames were imported from abroad but in the early 1920s production of small knitting frames was started by local artisans. This gave a boost to the process of introduction of machinery in industry. By the late 1920s there were nearly 900 frames in operation in Ludhiana, out of which 20 were power driven while the remaining were hand driven. Industry expanded in a big way during the first and second world wars due to stimulus of protected market. After partition the industry began to grow in a big way and Ludhiana not only became biggest centre of hosiery production in Punjab but also a major centre for other industries in the State. In 1951 the industry employed 20,000 workers and had 805 units out of which 56 (6.95 per cent) were registered. The industry had acquired a complex system of production and organisational pattern. But as yet the industry was seasonal in character functioning from July to December. There was a considerable increase in the use of machinery in the industry and by 1961 there were 7,700 knitting frames/machines in use in the industry. Out of these machines more than three-fourths were hand operated. Though some factory production had come into existence manufacturing continued to predominate.

This industry got a major fillip from the early 1960s when export to East European countries, especially to the Soviet Union began. Export of hosiery to the Soviet Union takes place through 18 monopoly exporters recognised since 1972-73. Trade agreements with the Soviet Union have established not only the monopoly of 18 exporters in trade but have also implications for the type of instruments of production in this industry. Soviet Union has been purchasing goods by weight. Woollen goods of heavy weight can be knit only by manually operated knitting frames. Since export orders in volume with the given number of exporters have multiplied with stagnant technology, they have no option but to submit export orders to fabricators on contract basis.

The growth of this industry was accompanied by changes in the production system. First while capitalists have withdrawn from direct control over labour process and shifted to trade, factory type composite units have been broken into tiny units based on various production processes. This has put the burden of instruments of labour on petty capitalists or grassroots workers. Big traders get their goods manufactured by simply advancing raw material to small independent units. The author characterises this type of production as 'decentralised factory system' or 'modern putting out'.

Production units in hosiery industry can be divided into four categories: (i) units producing yarn, (ii) producers-cum hosiery exporters, (iii) units fabricating hosiery units from yarn advanced by exporters, and (iv) small independent workshops providing specialised services/processes such as buttonholing/stitching, dry cleaning, linking, etc. In this chain of units, the author has studied

only two types of units. There is no mention of yarn producers; their status and link with other types has not been investigated in the study. The small independent workshops do find mention but in a peripheral way as providing services to the fabricators. Omission of these two types of units is not only intriguing but creates a serious gap in our understanding of labour processes and surplus extraction.

The study of production organisation and composition of working class is based on empirical data collected from 15 export units and 25 fabricating units. Export units are engaged both in production of hosiery goods as well in export business. The fabricators are engaged in manufacturing output for exporters. Export units are quite big compared to fabricators both in terms of turnover as well as investment in plant and implements. The author has estimated that average investment of exporting units in plant and machinery turns out to be Rs 11.22 lakh against Rs 6.4 thousand per fabricating unit.

The central concern of the author has been to locate the stage of production organisation in both export and fabricating units. On the basis of instruments of labour used by exporting units, it is concluded that the form of production organisation is predominantly manufacture. The argument advanced is that the knitting process employs more than 55 per cent of the workers in the export units where knitting is done by hand operated knitting frames. Hand operated frames are traditional instruments and are mainly owned by the workers. The author notes the introduction of new power operated machines by the big units. He also finds introduction of linking machines, buttonholing/stitching machines, cup seaming machines and power winders in the industry displacing respectively 3,180, 570, 115 and 360 women workers. In recent years computer designing has been introduced with improved knitting machines fitted with electronic control systems. At the time of the study the machine was not popular with the producers being costly, but is now entering the industry in a big way. Ignoring these moves of the industry towards mechanisation the author insists on characterising it as the stage of manufacture. Two factors are considered important for the present structure of this industry. First, Russian trading teams purchase hosiery by weight which can be produced cheaply by hand operated knitting frame. Second, due to availability of abundant supply of cheap labour producers find it profitable to employ a large number of manual workers instead of a few automatic machines.

Fabricators occupy an important position in the production of hosiery goods. They account for 45 per cent of the total production of the hosiery export industry. Fabricators perform job work of required specifications with raw material advanced by the exporters and receive the fabrication cost including a profit margin of Rs 2-3 per piece. Fabricators get the job done through the workers

employed for the purpose. Fabricators own few tools and machinery. Simple tools like knitting flats and sewing machines are owned by workers. The major burden of owning tools falls on workers.

A significant finding of the author is the emergence of the fabricator. The fabricator as a category of producer came into existence in the mid 1970s. The fabricator has emerged from two sources. The overwhelming majority of them were previously workers. Out of 25 fabricators studied 23 had been flat workers or contractors cum workers in the hosiery industry with long experience, in some cases, of more than twenty years. The other two became fabricators directly without earlier experience in this field as workers. 20 of the fabricators started work with capital financed from savings. Three took loans to augment their savings. Only one began with completely borrowed capital while another one transferred agricultural surpluses to this business. Of the fabricators 16 own working space while nine of them have hired working space.

The author reveals the following process of manufacturing by the fabricator. Normally a fabricator is required to deposit Rs 10,000-20,000 with the exporter as a security for the yarn (raw material) advanced valued at Rs 40,000-50,000. The fabricator also normally advances Rs 10,000-20,000 to workers. Thus the fabricator arranges Rs 20,000-40,000 for advances as a security to both exporters and workers and sometimes additional Rs 20,000-30,000 for payment of wages in case of non receipt of fabricating charges in time from the exporters. The fabricators perform a host of functions in conversion of raw material (yarn) into hosiery garments such as co-ordination of their own workforce in mending and knitting. They also co-ordinate independent processes such as button-holing/stitching, linking, dry cleaning and dispatching of garments, after inspecting each individual piece, to the exporters.

Fabricators are squeezed by exporters in various ways. The fabricator is paid charges for a particular design and size of a piece of hosiery which includes labour charges and his profit margin. The fabricators complained that the percentage of their profit margin had not been revised by the exporters for the last 20 years. Exporters permit only 2 per cent wastage of wool while the actual wastage reported by the fabricators is 5 per cent. The fabricators also pay a bribe of paise 20-25 per piece to the garment checker employed by the exporters.

For the emergence of the phenomenon of fabrication two reasons are assigned. First, the collective resistance of workers against their exploitation leading to a general strike in 1972 led to a decision by hosiery producers to re-organise their capital in order to avoid labour troubles and welfare obligations to labour provided under various labour laws. Secondly, to meet fast expanding export orders to the Soviet Union exporters instead of expanding their own pro-

duction increasingly relied on fabricators.

The fabricators perform most of the processes within their workshops. But processes which are capital intensive or uneconomical are accomplished through independent small workshops set up for each individual process such as button holing/stitching, embroidery, dry cleaning and linking.

It is estimated that the average number of workers employed by an exporting unit is 376. A fabricator on the other hand employs on an average 31 workers but if domestic workers (workers working at home) are excluded then the average comes down to 25. Sex wise distribution of workers indicate that the female workforce was 29.71 per cent in fabricating units and 8.50 per cent in exporting units. Nearly 5 per cent of workers in the industry are child labourers below 14 years of age. In exporting units there are two types of employment, i.e., workers directly employed by the units and workers employed through contractors with their respective share of 56.34 per cent and 43.66 per cent. Fabricating units have three types of employment, i.e., direct employment, employment through contractors and family employment with respective shares of 85.60 per cent, 6.66 per cent and 7.94 per cent. Out of 5,637 workers employed by exporting units, 4,826 (85.61 per cent) are not considered workers either by contractors or by exporters. This is because they are either employed through contractors or they are employed on piece rate basis and workers own their tools of production. Their work is considered contract work. The remaining 811 workers (14.39 per cent) employed directly by the exporters on time rate basis are not on the regular muster roll. Thus nearly 90 per cent of workers in export units and all the workers (781) in fabricating units are not on the regular muster roll and are deprived of their legal status as workers. In case of fabricators 15.74 per cent of workers, mostly women are not even working on the workshop premises of their employers but in their own houses. The overwhelming majority of workers are deprived by the production process of their legal status as workers and consequently of benefits due to them under labour welfare legislation. They are not only subject to ruthless exploitation but have been deprived of any opportunity of putting collective resistance due to the temporary and *ad hoc* nature of their employment and scattered work places.

Data collected from 491 workers reveal that the workers employed in this industry are drawn from among the residents of Ludhiana city or from other States (mainly Bihar and UP). Workers from rural and other urban areas of the State have not been absorbed in this industry. The percentage of local and migrant labour works out to be respectively 61.9 and 38.1. There is caste division among them. The percentage share of upper castes, intermediate castes, artisan/service castes and lower castes among the workers are respectively 22.61, 27.09, 34.42 and 15.88. With some variation, this caste

division is found among both local as well as migrant workers. Local workers have an overwhelmingly urban background while migrants are mainly of rural origin. This is also reflected in differences in literacy level. Illiteracy among local labour is 3.60 per cent while it is 20.13 per cent among the migrants. Local labour is concentrated in better paid processes such as knitting, mending, tailoring and pressing while migrants have been accommodated in low paid processes such as winding, stitch opening, checking, packing and miscellaneous. Similarly a high concentration of female labour is found in winding button holing/stitching, 'tripai' and miscellaneous processes.

Wages of migrant workers are generally lower than those of local workers. Their hours of work are also longer (11 hours) compared to that of local workers (10 hours). Apart from the better skill of local labourers other factor causing difference in wage rates is the mode of employment. Most of the migrants are employed through contractors. Contractors corner a margin of 20-30 per cent of the piece rates contracted with the exporters and the rates paid to the workers. Female labour is exploited more than the male adult labour. Their monthly earnings are by and large less than one half of those of adult male workers. The worst exploited are the rural domestic women workers followed by the urban domestic women workers and aged women. Most of the women are employed by contractors who siphon off 40-50 per cent of their wages. Child labour is mainly employed in stitch-opening, mending, checking and packing. Like migrant workers, child workers are employed through contractors at the manufacturing places. They work for long hours (9-11 hours). Child labour is better placed compared to female domestic workers and aged female workers. But they are more exposed to the high handedness of contractors due to lower age. They are also subjected to occasional physical beatings. Ownership of some instruments of labour by some workers has blurred the class division between the proletariat and the capitalist employer. The tendency towards mobility of workers in various industries has weakened the stability of the working class. Both these factors have negative implications for organising workers against exploitation. In fact in the present situation it is very difficult to implement labour legislation. It is found that out of the sample of 491 workers only 14 workers (two female and 12 male workers) were being treated as regular workers and were in receipt of the various legal benefits. It is a sad commentary on the implementation of labour legislation that in hosiery, the biggest industry of Punjab, 97 per cent of the workers are deprived of their legal rights. In this context the author has furnished very interesting results by working out ratios of wages received by local, migrant and female workers to minimum wages fixed by the State labour department in various processes in the hosiery industry in the first quarter of 1984.

Out of the seven processes in which local workers were employed they received less than minimum wages in four processes. Their wages were 81.86 per cent, 88.22 per cent, 95 per cent and 95.67 per cent of minimum wages respectively in mending, linking, flat knitting and checking. Only in three processes did they receive wages higher than the minimum fixed wage rate. Migrant workers were paid wages less than the minimum wages in all the seven processes in which they were employed. Their wage rate ranged between 69.94 per cent to 96.31 per cent of minimum wages in these processes. The condition of female workers is pathetic. In three processes out of four female workers were paid wages less than 40 per cent of the minimum wages. Wages obtained as percentage of the minimum wages in all the four processes was 33.43, 37.91, 31.43 and 76.17 respectively in winding, 'tirpai' button stitching and checking. This highlights the ruthless exploitation of workers in the hosiery industry on the one hand and existence of working class as a distinct identity on the other. It is difficult to agree with the author's assessment that the working class in the hosiery industry is still in the making because workers own some instruments and have a tendency toward mobility. Existence of working class as a distinct identity is in objective reality and the factors cited by the author are inhibiting organisation of the workers in trade unions. Existence of this class in itself must not be confused with class for itself.

One full chapter is devoted to the trade union movement in Ludhiana where the hosiery industry is also covered. From historical experience the author brings out the division of workers by trade unions affiliated to different political parties and their functions, emergence of professionals in the trade union movement and lumpen repressive structure of employers as factors inhibiting the trade union movement in Ludhiana. Along with these factors the production structure of the industry does not give enough scope for the emergence and growth of a trade union movement in this industry. Interesting evidence has been collected to show how legalism has given rise to businessmen and professionals in the trade union. Each major trade union has a practising lawyer associated with the union. These lawyers are also trade union leaders who make considerable money from legal battles as part of their legal practice. Emphasis on legalism has given rise to 'basta' (bag) unions, the unions run by individuals as 'mobile shops' who carry their office in their bags with union membership forms, demand notice forms and other documents needed to file cases on behalf of workers in the courts. Another type of professionals organise strikes in a particular unit in connivance with rival producers who pay adequate money as reward. Similarly strikes are organised or disrupted for making money by such individuals. They are on the payroll of the industrialists for keeping industrial

peace. Though there are silver linings in the positive attitude of some unions, legalism has been at the cost of workers' education to enhance their class consciousness. One of the ideological barriers pointed out to working class consciousness is the bourgeois propaganda that the workers, who own small instruments, through their skills can elevate themselves to the status of the fabricator. This is, in a way, a misconception of reality by the author. It is not bourgeois propaganda but the objective reality (as brought out by the author himself) that out of 25 fabricators studied 23 of them were workers before becoming fabricators. It is a case of vertical mobility. The author suggests that to make the trade union movement strong certain demands like registration of fabricating units and implementation of labour laws should be raised. The experience of the 1972 strike indicates that collective resistance in the traditional way led to capital reorganisation and for nearly two decades there has been no struggle in the hosiery units. In the era of capital reorganisation the trade union movement has to think and act in creative ways.

Conceptually the author's insistence on characterising units producing 55 per cent of their exports themselves as exporting units is not tenable and as also their characterisation of merchant manufacture units since they deliberately decentralised their production by allocating some processes to the fabricators. The author has examined the hosiery industry within the framework of the small industry sector which has been termed unorganised industry. Without using a precise definition of small sector the author clubs large and registered units (producer cum exporters) with the small and unregistered units. How can large unit employing on an average 376 workers and with annual turnovers of crores of rupees be studied in the small unorganised framework? While analysing the size of capital the author is concerned with only value of plant and machinery and ignores building and other fixed productive assets both in case of producer cum exporting units and fabricating units.

At the empirical level two problems need to be mentioned. First the phenomenon of ruthless exploitation is well known in in-

dustries which have skirted protective labour legislation. This exploitation is shared between the subordinate and controlling units. The author could have attempted a quantification of sharing of surpluses in the form of profits of these enterprises. This has not been done. Secondly, emergence of industrial units from below is not a phenomenon strictly related only to traditional industries. The small-scale sector has proliferated in a large number of modern industries. This has been further strengthened by the policy of ancillarisation followed in the recent years. There is a major difference between the small industry sector among traditional and modern industries in terms of capital intensity. Dhar and Lydall pointed out this in their study in the late 1950s.⁵ This has consequences both for the labour process and the relationship between the small and large units. Some of the large units in the engineering industry of Ludhiana have grown in course of time from small workshops. The author has not included any study related to small/unorganised modern industry in the review of literature to point out such differences. This is to point the diverse ways in which various industries can develop relationships between the small and large units and consequently have implications for labour process. Careful editing of the work would have reduced repetitions and the factual mistake of naming Jalandhar and Ludhiana as border districts. However, the book is a welcome addition to the subject and provides valuable insights into the development of the small industrial sector under conditions of population pressure. It is hoped that this will provoke more studies in the industrial economy of Punjab.

Notes

- 1 Census of India 1971 and 1981 government of India.
- 2 Economic Adviser, *Statistical Abstract of Punjab 1981* government of Punjab 1989.
- 3 Karl Marx, *Capital* Vol I Progress Publishers, Moscow p 179.
- 4 *Ibid* pp 173-76.
- 5 P N Dhar and H F Lydall, *The Role of Small Enterprises in Indian Economic Development* Asia Publishing House, New Delhi 1961.

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Transformation in Bulsar

Suthars and Relevance of Caste

Hein Streefkerk

If capitalist transformation is accepted to be the dominant tendency during the last two decades in many parts of India, including Gujarat, how has it influenced the development of Bulsar, a town in south Gujarat and what are its sociological manifestations? How have the Suthars, who played an important role in the industrial development of Bulsar having started the first industrial workshops and factories, fared in these decades?

The author, who had studied the industrial transition in the region 16 years ago, revisited the area to investigate the changed class, power and status configurations there

AFTER a gap of 16 years I went back to Bulsar in south Gujarat where I had done my first research in 1970 and 1974. Finally, in 1990, I was able to stay in the town in February and March. My visit was to be more than only a 'sentimental journey'. I wished to check my expectation that Bulsar and its environment had changed more than the Indian and Dutch researchers expected in the seventies (Bremas and Hommes 1979: 15).¹ My expectation was based on bits of information brought home by colleagues who occasionally had visited the former research area on my own experiences in Gujarat and India, and on general empirical and theoretical knowledge about developments in different parts of South Asia. I became convinced that capitalist transformation has been the dominant tendency during the last two decades in many parts of India and certainly in Gujarat. One of the purposes of my re-visit in 1990 was to understand how Bulsar has been influenced by this development and to trace its sociological manifestations.

Furthermore, I was curious to know how the Suthars of the town had fared during the last two decades. They were part of my research in 1970 and 1974 because they played a major role in the industrial development of Bulsar and elsewhere in south Gujarat. They were among the first to start industrial workshops and small factories (Streefkerk 1985: 68-128). By studying them in 1990 I could update their history and thus cover a period of almost hundred years, or four to five generations. My interest in them also enabled me to be more specific about general sociological trends.

The constraint of time hindered a thorough and systematic investigation. I nevertheless could collect enough information to present a picture of major changes in Bulsar and its surrounding area during the last two decades. In the first part of the account I describe the overall tendencies by focusing on the changed configuration of class, status and power. The second part will be dedicated to the Suthars. In the epilogue the local findings will be related to general theoretical discussions and the actual Indian situation.

BULSAR IN 1990: A BOOMING TOWN

When I returned to Bulsar in 1990 I found a town difficult to recognise. Its skyline had changed drastically, with many new flats, eight multi-storied buildings each with 10-12 storeys and numerous TV antennas. The main streets in the centre are overcrowded with cars, scooters, motors and scooter rickshaws, annoying pedestrians. In the centre new markets and shopping centres have filled up former open spaces or replaced old buildings. The Kantibhai Desai cricket stadium and sports complex, named after a prominent Anavil who took the initiative to build them, occupy the area which was a large open marshy pond in the heart of the town. The outskirts of the town look different too. Along the roads leading out of the town residential quarters have come up. For instance, the first part of the erstwhile quiet road to the sea-side village of Tithal has become the site of opulent bungalows, luxurious stores, small restaurants, government quarters and air-conditioned offices of businessmen. In another periphery of the town, in the reclaimed Dholi talav, is the largest slum area of Bulsar called Shapurji Nagar. The place is called after Shapurji, a Parsi municipal councillor who in 1985 caused the allotment of the area to house the poor and destitute of the town. To the inhabitants of the neighbouring housing societies, the slum-dwellers are a permanent 'threat'. They believe that the slum-dwellers are criminals who are not allowed to live within the limits of the municipal area. Actually, the area is populated by labourers, servants, peons and sweepers, rickshaw drivers, by migrants from UP or Kerala and by families who were forced to vacate their hutments in order to allow the contractors to build new houses. The area also has lepers in the fringe and they have been there for more than 20 years.

The immediate rural environment of the town has also changed. More land has been brought under cultivation while some former agricultural plots have been converted into 'non-agricultural' land. This has happened, for instance, along the national highway between Bombay and Baroda, and the two State highways connecting Bulsar

with towns and villages east of Bulsar. Traffic on these roads has increased enormously. The two lanes of the national highway are too narrow for the columns of vans which drive along them day and night. Along these roads small-scale and medium-sized industries have come up. A co-operative sugar factory is one of them. It signifies the importance of the introduction of canal irrigation and the related increase in the cultivation of sugarcane in Bulsar taluka.

The Gundlav industrial estate run by the GIDC (Gujarat Industrial Development Corporation) has expanded. After 1985 a second GIDC estate was established opposite the first one, on the other side of the road. The two estates, 3 km to the east of Bulsar, also accommodate branch offices of major banks, a telephone exchange, GIDC offices and flats to house the office personnel of industrial enterprises. On both sides of the road there are tea stalls, repair-workshops, shops of traders selling foodstuff or spareparts, and houses of people who collect and sell all kinds of industrial waste. A service station for tractors and a recently opened garage are the most sophisticated establishments along the road.

One still finds the make-shift dwellings of migrant tribal labourers along these roads. They used to come to cut grass,² to work during the harvest, or in other kinds of unskilled jobs like the maintenance of roads. Now they are hired to cut sugarcane as well. To the south of the town, along the river Vanki, there is 'Vashier Valley'. It is a residential area on the banks of the river where 85 bungalows are to be built. The project has been undertaken by the two biggest estate developers of Bulsar. The sales prospectus pompously announces that it will be fully equipped with infrastructural facilities like water supply, street lights, roads, etc. and that there will be a beautiful children's park and a riverside hide-out for all age groups. The prospectus finally points to the 'famous Tithal beach, the site for lovers of sun and surf'. It refers to Western sun-bathing and surfing, though generally Indians do not either sunbathe or surf-ride.

My impressions are also supported by statistics. For instance, the number of

telephone connections increased from 650 in 1970 and 1,350 in 1980, to almost 2,130 in 1990. This is a growth rate of 138 per cent between 1970-80, and of 37 per cent between 1980 and 1990. The size and growth of the population is one of the most revealing figures. In 1971 the urban agglomeration of Bulsar, including four adjoining villages, had a population of almost 55,000 (Streeter 1985: 18). In 1981 there were almost 73,000 inhabitants (*Statistical Outline of Gujarat*: 76), which means a decennial growth rate of 32.6 per cent. The growth rate of the Gujarat population was 27.7 per cent in the same period (*Statistical Outline of Gujarat*: 5). In 1990 officials in Bulsar estimated the size of the town and a few neighbouring villages at about 1,20,000 people. Even a cautious guess of a 10,00,000 inhabitants means a growth rate of 37 per cent between 1981 and 1990. This is much more than the estimated all-India rate of 20.5 per cent (*Statistical Outline of India 1989-90*: 37).

The growth of the population after 1980 is caused by natural increase and migration: Bulsar became more and more attractive to outsiders. They are mainly from Bombay and to a lesser extent also from Surat, the fast-growing industrial and commercial city, 70 km to the north of Bulsar. Labour is cheap and the prices of land and houses are still low compared to those in cities like Bombay, Surat or Baroda. Furthermore, life in Bulsar is more comfortable and convenient. It is a small, pleasant town near the seaside, and can be reached easily by train. Houses and flats are bought as permanent residence or as a second-house. The latter is the case in the seashore village of Tithal, where many new flats are owned by Jains from Bombay. Most of the time the buildings are empty, except during some weekends and summer holidays. Bulsar's administrative importance also has brought people to the town. It is a district headquarters with a growing number of offices and civil servants.

The unusual growth of the population is one of the explanations for the boom in building construction in the eighties. The boom really started after 1985: The first of the present eight multi-storeyed buildings was completed in 1986. The enormous increase in new buildings meant the growth in the number of building contractors and real-estate developers at the same time. In 1970 there were only four or five major contractors, while in 1990 there are almost 40. Another reason for the building boom is that investment in real-estate became a lucrative means to employ black money. During the last few years there has been sharp rise in the prices of land and houses. In some cases the price of land, for instance in Tithal, increased 10 times in a few years.

Many newcomers from Bombay are owners or managers of enterprises which were brought to south Gujarat in recent years.³ They are located mostly in the huge GIDC industrial estate at Vapi, 25 km to the south of Bulsar towards the Maharashtra-Gujarat border.⁴ At present there are

almost 2,000 establishments, which is 10 times the number in 1970, when the estate was still under construction. The estate is meant for chemical industries in the first place. Due to serious pollution of water and atmosphere, and inadequate facilities in the small town of Vapi, owners and managers prefer to stay in Bulsar.

The GIDC estate of Gundlav, meant for small-scale enterprises, is another area where outsiders can establish their factories. Because Vapi accommodates them and they want to keep the area clean, chemical units are no longer allowed in Gundlav. The second estate, opposite the original one, began in 1985 and now the two estates accommodate 183 establishments; in 1974 there were only 20.

The old inhabitants have contributed quite a good deal to the growth of the town. The more affluent among them have built new houses as well. In the old quarters of the town, like Baniawad, Parsiwad or Sutharwad the inhabitants own their houses and land. Many of them demolished their old single or two-storeyed houses and built blocks of flats with four to five storeys. They now live in these new flats, and rent out flats they do not occupy. In the old part of the town an apartment of three rooms fetches a rent of Rs 1,000 per month. A similar apartment, located in a more peripheral part of the town, brings in a monthly rent of Rs 1,200-1,500.⁵

There is a spurt in all kinds of commercial and professional services and activities. Compared to 1974, there are, for instance, many more medical doctors and private hospitals now, offering specialised services. Another visible change in the town's life is the proliferation of scooter-rickshaws. Though they certainly quicken public transport within and outside the town, they are far from convenient because the roads are bumpy and the springs are bad. Their exhaust fumes and noise, and the unpredictable behaviour of the drivers are a permanent annoyance, even to local people, let alone a foreigner. To have the vehicle equipped with a cassette-player and two loudspeakers on both sides of the passenger seat, like an ear-phone, is the latest novelty. As soon as the driver turns on the ignition key, film music almost blows the passenger out of his seat.

Rickshaws replaced the Muslim owned horse-carts, which were the main means of public transport till 1976. Since 1975 the purchase of a rickshaw is facilitated by special bank loans. Many rickshaws are given on rent by the owners to drivers. Among the owners Muslims and Tandelis (fishermen) predominate. The Tandelis live outside Bulsar in coastal villages like Kosamba. Some of the other proprietors are government servants and employees of private firms, like Atul. Officially their wives or relatives own the three-wheelers.

The daily net-income of an owner-driver is not more than Rs 50. When the rickshaw is rented the driver gets $\frac{1}{4}$ of the income earned during 8 hours a day. Out of this amount he has to pay for the petrol. His net

daily income will amount to a maximum of Rs 25. The drivers are Muslims, Tandelis, Kolis and Dhodyias. Several of them are graduates and few have even a masters degree. Driving a three-wheeler is often a part-time activity, combined with another job.

Because the official records are far from reliable it was difficult to trace the exact number of three-wheelers in Bulsar. The files of the self-appointed chairman of the Bulsar Town Autorickshaw Association are perhaps the best source. Around 1970 he was one of the first to own and drive a scooter-rickshaw in Bulsar. At present he runs a shop, selling scooter-rickshaw spares, at the main rickshaw-stand near the bus station. His books show the impressive number of 2,860 rickshaws in Bulsar and adjoining villages in 1990. It is hard to believe that so many three-wheelers circulate on the roads of the town and nearby villages. Several rickshaw owners and drivers, however, mentioned the same number when asked for the number of rickshaws in the area. Even though the figures may not be correct, they do indicate a trend. When the self-evident sharp proportional increase of rickshaws in the early seventies is left out of consideration, then the largest increase in number of rickshaws is between 1985 and 1990. In those five years the number of vehicles increased from 1,186 to 2,862, or by 141 per cent, while between 1980 and 1985 the percentage was 116. Their sharp increase after 1985 parallels the expansion of the town in those years. The growing number of rickshaws during the last 10 years means that more and more people in Bulsar are willing and able to pay at least Rs 2 to 3, the minimum fare, to be driven from one place to another. It also indicates the emergence of a new transport culture by which is meant that even short distances are preferred to be covered by mechanical means of transport for prestigious reasons.

CLASS, POWER AND STATUS

Material changes often indicate changes in the configuration of class, power, and status. Collecting of empirical evidence to trace the changes was beyond the scope of my research. Still, some observations are possible, but they are of a hypothetical nature.

The first pertains to changes in the local class structure. The social composition at the top of the economic stratification changed since the early seventies. In 1971 Parsis belonged to the economic elite of the town but in 1990 they lost their economic prominence,⁶ though several families are still very rich. Furthermore, the number of prosperous 'outsiders' increased. Bantias and Anavils continue to dominate the economic life of the town, they are the wealthiest businessmen, and the richest building contractors and estate-developers. During a raid by officials of the income tax department in 1989, when black money worth many crores of rupees was unearthed, the officials caught only Anavils and Bantias. In the 1970s the economic power of Anavils was largely

based on timber trade and mango gardens. This changed during the eighties. Timber trade declined due to the policy of the government to save the forests. The traders closed their firms and became financiers or building contractors.

Owners of mango gardens earned large amounts by selling their orchards. Anavils with gardens in the area of the national highway and State highways could sell their property because land was to be converted into non agricultural land, meant for industrial development. Other Anavils sold their orchards to Kolis and even a few Dhodiyas. These people could buy the gardens because they earned considerable amounts by the sale of their own plots of land, the value of which increased due to their strategic location.

By selling their gardens the Anavils were able to further intensify their urban orientation. In the villages Kolis consolidated their economic position or took over the economic prominence of the Anavils. Their economic ascent is a consequence of the introduction of canal irrigation and the cultivation of sugarcane in the first place.

The people at the lower rungs of the economic stratification, those who only have their poorly paid labour power to survive, are still the same. They are former tribals like Naikas, Kuknas, Dhodiyas, Dublas and migrant labourers from more interior areas of south Gujarat or Maharashtra, and other poor Hindus and Muslims. They earn a little by performing all kinds of irregular jobs, either as self-employed or as casual labourers. They are the temporary and semi-permanent workers in small workshops, small and medium scale factories, domestic servants, or assistants and servants in shops, restaurants and hotels. Their labour has no legal protection and they are still personally dependent upon the whims of their customers and employers. They are the inhabitants of Shapurji Nagar, others reside in dwellings in the old part of the town. Some of their dwellings are hidden behind posh bungalows or newly erected flats, where they are not sure they can stay much longer. The casual labourers in building construction have temporary shelter in the buildings they work on.

I am unable to present detailed figures on the economic position of this large category, whether their position improved or not, and to what extent. In any case, the official minimum daily wage went up from Rs 3 to 4 in 1974 to Rs 21 in 1990. However, people are often paid less than Rs 21 per day. Even more important is the enormous rise in prices of basic necessities of life, like cooking oil, sugar, vegetables, textile, energy, medical services, accommodation, public transport and so on. Those employed in building construction probably did profit most from the enormous expansion of construction activities. Their labour is in great demand and they are among those whose daily wages are said to exceed Rs 21 per day.

The wide social and material differences between the people of Bulsar and the population of the district in 1970 was the

reason why the setting of the research area was described in terms of 'polarity' (Schenk-Sandbergen and Schenk, 1979: 18). This characterisation is still appropriate when the focus is on the extremes of the social and economic stratification of the town. However, the description would conceal several important tendencies which occurred during the last decade.

Some groups at the lower end of the stratification have been able to improve their material condition. The much debated official policy to 'reserve' places and appointments in education, government organisations and politics for scheduled castes and tribes, has even institutionalised channels of upward mobility to a certain extent. Employment in banks and government offices of fers salaries and secondary labour conditions like loans and security schemes, which compare favourably with the insecure and poorly paid work in the private sphere. Thus, for instance, the material situation of those untouchables permanently employed by the sanitation department of the town probably improved during the last 15 years. Dhodiyas and other former tribals also could profit from the social arrangements meant for them. Furthermore, the material expansion of the town and the surrounding area provided opportunities for the younger generation, like skilled or semi-skilled jobs in building construction, and better paid jobs in shops and stores in the new shopping centres, or in industrial concerns outside the town or in Vapi. Regular and more income of some of the children enables parents and other family members to better their circumstances. Their physical and social resistance increased; they could improve their houses, buy a fan, bed or gas stove.

The emergence of a middle class⁶ is the other most striking development during the last 10 years. It is a major feature of the class structure of Bulsar in 1990. This middle class is graded and made up of managers, professionals, small scale industrialists, small businessmen, shop owners, government personnel, employees of private firms, etcetera. They populate the multi storied buildings, new flats and residential quarters, and patronise the fashionable stores in the new shopping centres. They purchase goods made available through the liberalisation of the economy in the eighties, like motor cycles, scooters, cars, refrigerators, TVs and other consumer electronics (ODI 1989: 12).

Changes in the distribution of power accompany the rise of the middle class in Bulsar. For instance, the composition of the municipal council in 1990 shows a much larger proportion of 'middle groups' than in 1971. In 1971 Desais, Baniyas and Parsis occupied the majority of seats in the council. The largest single group of seats belonged to Parsis and the mayor of town was a Parsi (Thakore 1979: 300). In 1990 Anavils, Baniyas and Parsis lost their numerical prominence, though a Parsi is still the chairman of the council.⁷

Anavils and Parsis no longer dominate the municipal council but they do represent Bulsar constituency in the legislative

assembly of Gujarat State. In 1983 a Parsi from Bulsar was elected MLA on a ticket of the Congress(I). He was a former chairman of the municipal council of the town. In the state assembly elections in 1990, he was succeeded by an Anavil from Bulsar. The Anavil, who represents the Bharatiya Janata Party (BJP), defeated the Koli candidate of the Janata Dal and the Dhodiya candidate of the Congress(I). Perhaps he won the elections because of the strong opposition against the Congress(I) of Rajiv Gandhi, which suffered heavy losses in Gujarat and elsewhere in India during the State assembly elections in 1990. Yet, it remains significant that an Anavil became the BJP nominee for Bulsar constituency, and that he was able to mobilise more votes than the Koli candidate of the Janata Dal. Kolis are numerically dominant in the area and the Janata Dal was one of the ruling parties in Delhi.

When describing features of the class and power structure of Bulsar I referred to people known to be Anavil, Bania or Koli. I used social categories or rather castes which are based on other attributes than wealth and power. The latter are important determinants of individual and collective status. But prestige and respect are still largely decided by the ritual position of the group in which people are born.⁸ Caste or community and family status in particular remain major sources of identification and frame of reference of the individual.⁹ These factors largely determine life styles, perception of others, and interaction among individuals and between groups.

A growing divergence between caste, class and power components of stratification has been an important tendency since independence. It has been a result of economic developments, occupational diversification and administrative measures. The latter include franchise, land ceiling acts and tenancy laws. The Moulis (1989: 35) show the levelling of the landownership in Gujarat during the last 20 years. It shows the dwindling of upper-caste dominance and the socio-economic progress of middle and lower castes and tribal groups. They explain this tendency by the green revolution technologies and the consequent socio-political pressures to enforce land reforms and ceiling acts. In south Gujarat too levelling tendencies and the growing discrepancy between caste, class and power, can be observed. In the villages the political and economic importance of Kolis and Dhodiyas, who respectively are in the middle and at the lower end of the ritual order, has increased during the last few decades.

In Bulsar, class, status and power still tend to coincide at both ends of the ritual hierarchy. At the top there are upper castes like Baniyas and Anavils whose members are rich and influential in the political and administrative field. The lowest echelon of the hierarchy is made up of tribal groups like Dublas, Kuknas and Naikas. In the villages they are landless labourers and owners of tiny plots of land, who are marginalised in every respect. They survive by circular migra-

tion, or by finding employment in cities and towns like Bulsar. Some of these migrants eventually develop roots in this new setting.

The prominence of Banias and Anavils is rooted in the past. Members of the two castes were merchants, moneylenders, land-owners and better-placed government employees. They had a tradition of learning and monopolised higher education till the turn of the 19th century (Ghanshyam Shah 1987). According to A M Shah (1989: 22) they were 'urban and rural-cum-urban castes'.¹¹ Their members were the first to take advantage of new and lucrative opportunities in trade, industry, administration, professions and education, during British rule and after 1947. And higher castes formed a larger proportion of the population in urban than in rural areas. Those castes with the least urban component were the last in taking advantage of such opportunities.

Tribals, who constitute the majority of the rural population in south Gujarat,¹² lacked an urban component in the past. The number of Dublas, Naikas and Kuknas in towns and cities increased during the last decades. But due to their social marginality and poverty, urban tribals are unable to offer lucrative opportunities to their rural brethren. There are a great number of middle and lower castes in the town whom Shah (1989) calls 'urban castes'. They are artisan and craftsmen castes such as Sorn (goldsmith), Kansara (brazier), Bhavsar (weaver, dyer, printer), Khatri (cotton weavers), Ghanchi (oil presser), Rana (rice pounders), Darji (tailor) and Mochi (cobbler) (Streefkerk 1985: 22,23; A M Shah 1989: 9). As I did not study these caste groups I am not able to present a detailed account of the caste hierarchy in Bulsar and the changes that occurred. Neither can I be specific about divergence or overlap between the caste, class and power dimensions in the middle and lower ranges of the urban stratification. However, there are examples of castes whose members could improve their economic position. They were able, through their original occupation, to participate in the expanding and modernising economy. Ranas became owners of rice and pulse mills and well-to-do rice and grain merchants. Some Mochis own shoe-shops with large assortments of ready-made shoes, including jogging shoes. Others, like Tandels, invested money earned by their original activities in another direction. They are fishermen and carry in their boats goods smuggled from the Arabian coast into India. They bought rickshaws and, together with Muslims, Tandels became the major owners and drivers of rickshaws in and around Bulsar.

Suthars (carpenters) are another example of a group whose members have been able to participate in, and contribute to the expanding economy of south Gujarat and Bulsar. An account of their past and present will be the subject of the second part of this article.

SUTHARS GENESIS OF URBAN CASTE

In south Gujarat and Bulsar, Suthars (originally carpenters) and Luhars (originally

blacksmiths) form one single endogamous category or a caste division of the first division (A M Shah 1982: 5).¹³ There are more Suthar, than Luhar households in Bulsar. In 1971 there were at least 250 Suthar households and probably 25 Luhar households (Streefkerk 1985: 98). Names of several areas in the old part of the town, like 'Suthar Chawl' and 'Luhar Tekra', suggest a second-order division between Suthars and Luhars. However, this distinction is anything but clear. Some Suthars consider themselves to be superior to Luhars. They believe that working on iron is more crude and polluting than carpentry, that Luhars eat non-vegetarian food, and that they have the habit of drinking liquor.¹⁴ Furthermore, they maintain that Luhar women can marry Suthar men, but that the reverse is not appreciated.¹⁵ For others, the youngest generation in particular, these ideas belong to the past. At present there are 425 Suthar households. The number was given by the leaders of the 'Shree Panchal Seva Samaj'. They did not distinguish between Suthars and Luhars. The interchangeability of both occupations in villages and towns, a trait already noted by Gadgil in 1924 (1973: 173), probably contributed to the disappearance of the sharp distinction between Suthars and Luhars. Moreover, the work of carpenters and blacksmiths frequently complemented one another, as, for example, in the manufacture of agricultural tools and means of transport. At least a few Suthars are aware that their grandfathers had switched over from working on iron to wood or combined both, as for example, when making bullock-carts. The present occupational diversity among Suthars and Luhars further eroded the distinction among them. In the remaining part of the article I will follow the dominant habit in Bulsar and treat Suthars and Luhars together and call them Suthars.

At present Suthars are an 'urban caste'. Several of them reside in villages adjoining Bulsar municipality, but these villages belong to the urban agglomeration of Bulsar. Suthars claim to have no ties with their natal villages, and have long since stopped visiting them. They no longer have family property there, and there is no trace of their original houses.

Around 1900 there was a massive migration of Suthars and others from their villages in south Gujarat. It is said that this exodus was caused by an influenza epidemic and a famine during these years; a fact confirmed by Mukthiar (1930: 51) for the village of Atgam. The inadequacy of their wages, which were still paid partly in kind,¹⁶ and their declining economic position in the villages were other major reasons for the migration of Suthars and other artisans, which began even before the turn of the century (Streefkerk 1985: 75). These were inter-village or inter-regional movements depending on demographic circumstances and economic possibilities. After 1900, they, Suthars in particular, also went abroad, to East Africa and Fiji (Streefkerk 1985: 114). The third type of migration was from

villages to smaller towns like Bulsar or Navsari, and from towns to the cities of Ahmedabad and Baroda, and Bombay in particular. Their stay in these cities often was seasonal or temporary. After some time they returned to their regions. But return did not mean the severance of ties with these cities. At present almost all Suthar families in Bulsar have near or distant relatives who live and work in Bombay, and to a lesser extent in Ahmedabad or Baroda.

The Suthars who migrated to Bulsar and Bombay took up four major occupations: (i) building-construction work, (ii) furniture-making and general carpentry, (iii) metal-work in small repair workshops, and (iv) carpenters and smiths, fitters and turners employed by the railways.¹⁷ Building-construction and furniture-making were the most lucrative. Between 1930 and 1970 Suthars were the major building-contractors in the town. They built houses of the prosperous inhabitants like Banias, Parsis and Desais, in the old part of the town. They were also involved in the construction of the Railway Colony, where mostly the European employees of the British-controlled Railway Company were accommodated. After independence, in 1955, one of them built the town hall of Bulsar. Later on, in the late sixties, they undertook the construction of modern bungalows of the newly-developed co-operative housing societies. This is the first major extension of Bulsar after 1947.

Since 1930 several big furniture workshops exist in Bulsar, owned by Suthars. In at least one case, building contract and the making of furniture were combined within one family. Several Suthars and Luhars started small engineering workshops in the thirties and forties but their opportunities were restricted. Neither the town's economy nor the agriculture in the surrounding villages offered much scope for this kind of metal-work (Streefkerk 1985: 78, 79). Before independence, the Railway Company was one of the major employers in Bulsar. Anavils took hold of the 'white-collar' jobs, Suthars and Luhars worked as carpenters or performed engineering jobs in the maintenance of the wooden coaches and engines. Some became engine-drivers as well. Employment in the Railway Company meant being transferred from Bulsar to other stations along the railway line. The railways thus were a cause of migration among the Suthars. Though serving in the railways was certainly less lucrative than being a successful contractor or furniture-maker, it offered economic security and favourable secondary benefits.

Compared with their condition in the villages, the economic situation of Suthars in Bulsar improved between 1910 and the second world war. An elite emerged composed of contractors and furniture-makers. The houses they built outside the town in the thirties are still witnesses to their prosperity. Many other Suthars later settled in these areas. Some others resided in the old part of the town, where they still own houses and land. Suthar families who were really pros-

perous, however, were a small minority. Many became carpenters or workers in the firms and workshops owned by their caste fellows. Others had to be content with simple jobs, with earning modest incomes, in the railways. Many could not afford to buy land and build their own houses in the town.

In the forties some Suthars started bobbin factories. They were among the first in Bulsar to engage in an entrepreneurial form of industrial production. Between 1941 and 1965 there were about eight bobbin firms owned by them. During the second world war, the demand for wooden bobbins, used in the textile industry, in Bombay, Surat and Ahmedabad, increased. Imports from England and Japan were cut off. At the same time the production of textiles grew considerably due to the demand from the Indian Army. The local demand also increased, because imported textiles were no longer available. Between 1950 and 1960 production of wooden bobbins in Bulsar expanded further. Following the second world war, the Indian textile industry expanded with an increase in the range of textile manufactured, partly due to the introduction of synthetic fibres. The availability of wood facilitated the production of wooden bobbins in Bulsar. Traditionally the town had been a centre for timber trade, the nearby forests guaranteed a regular supply of wood. Furthermore, the relatively low capital intensive structure of bobbin production added to the transition. Capital was supplied by Banias and by Suthars themselves. They knew how to work on wood, labour was provided by family members and poor caste-fellows.¹⁸ Thus the production of bobbins became a main feature of town's economy in the fifties and sixties. Its significance is marked by the mayoralty of a Suthar. He was president of Bulsar's municipal council in the early fifties. It was during this period that a Suthar contractor was engaged to build the town hall.

The establishment in the fifties of the huge chemical complex of Atul, 7 km to the south of Bulsar, and the fact that the town became district headquarters in 1964, created new opportunities for Suthars. It meant a greater occupational range for them. More Suthars became part of the incipient middle class in Bulsar. At that time, the youngest generation was better educated compared to their fathers and uncles. Through the presence of family members in Bombay and other cities, they were able to follow higher education and special courses outside Bulsar. Some of them became graduates in chemical and civil engineering or completed other engineering courses. Several of them got responsible jobs in Atul, or were absorbed as engineers in the higher ranks of the expanding State administration in Bulsar and elsewhere in Gujarat. But still, for many the railways were an important employer.

Several Suthars profited from the new opportunities as private entrepreneurs. Suthar contractors were engaged in the construction and maintenance of the Atul complex, which included residential quarters. One of them succeeded in getting the contract to fabricate

the wooden furniture and equipment used in the Atul complex. Another opened the town's first general store, selling modern provisions to the higher personnel of Atul. The latter generally had a more cosmopolitan background than the inhabitants of Bulsar. Migration remained a salient feature. Suthars went to Bombay and other cities, where they were employed by private industrial concerns, started their own workshops, or became contractors. One of them went from Bulsar to Calcutta, where he became a successful architect.

DISAPPEARANCE OF SUTHAR INDUSTRIES BETWEEN 1970 AND 1990

In 1971 and 1974 I studied Suthars from the perspective of Bulsar's industrial development. They were an example of local craftsmen, small producers, who accomplished the transition to industrial production through the manufacture of bobbins. I compared this process which stagnated from the late sixties onwards with the developments among Suthars and other artisans in the neighbouring town of Bilimora. There the transition was far more spectacular with some of them owning modern industrial enterprises producing deep well pumps, other agricultural implements, textile machinery and other engineering products. I explained the divergent industrial development of Suthars in Bulsar and their caste fellows and members of other artisan castes in Bilimora by pointing to the political historical differences between the two towns. The second variable is the close linkage between the industrial development in Bilimora and the more fertile and prosperous agricultural surroundings of the town (Streefkerk 1985: 105-25). Recent developments among Suthars in Bulsar, which are dealt with later on, confirm the importance of this variable. First, I will discuss the fate of the bobbin industries during the last two decades.

Between 1940 and 1971 the number of producers of wooden bobbins in Bulsar increased to such an extent that for a portion of them the competition became too great. The majority of the 12 bobbin firms in 1970 were 'subsistence firms' they did not grow and prosper but subsisted (Streefkerk 1985: 87-90).

Now there are five bobbin workshops in Bulsar, two of which are owned by Suthars, two by other artisans, one is owned by a Brahmin. In 1971 they were small firms and in 1990 they are still the same. They employ about 7 to 8 workers on a daily basis. Thus the workers are kept outside the purview of labour legislation. Yet, some have been working in the same units for years as 'temporary hands'. I was recognised several times by workers with whom I talked 15 years earlier in the same workshops. Two other bobbin workshops are owned by Dhodiyas. They are former employees of a bobbin factory which was closed several years ago by its Bania owner. They took over the inventory and started doing job-work for other bobbin manufacturers in Bulsar. The

two Suthar firms are the only workshops left from the six Suthar factories in 1971. In one of the two workshops, bobbins are only one of the products manufactured. The main items are wooden handles of screwdrivers and chisels. By well-to-do Suthars, the owners and their families are described as 'not rich, not poor'. They do not have a car, nor a telephone connection. But they own their houses and have landed property in Bulsar, on which one of them had built a three-storeyed flat.

The two biggest bobbin factories in 1971, both owned by Suthars were closed in the early eighties.

Mistry Wood Works stopped its production after its 85 year old founder expired in 1982. Of the two sons, one lives in Bombay and the other in Bulsar. The son in Bombay is on bad terms with his family in Bulsar. The son in Bulsar, about 48 years old, did not want to continue the production. He closed the factory and now is living off his share of the ancestral property in Bulsar, which includes several houses given on rent. He has four daughters and a son. Two daughters are married to Suthars. One of them lives in Ahmedabad and the other migrated to the US. The third daughter will migrate to Portugal, where she will marry a Mochi from Bulsar. His family migrated to Mozambique when the country belonged to Portugal. The fourth daughter and the only son who is the youngest, are still attending the secondary school.

Vishwakarma Engineering, the oldest bobbin factory in Bulsar was closed also in the early eighties. Between 1950 and 1970 it was one of the most prosperous firms but in the seventies the manufacture of bobbins was not really profitable any longer and the owner grew old. He closed the factory which was situated in one of the main streets of the town. By selling the land he added many lakhs of rupees to his wealth. He has four sons, two of them are living in the US, one is an engineer in a textile company in Bombay and the fourth son owns a lodge in Bulsar.

The precarious position of bobbin industries in the early seventies was still further weakened by the rising prices of wood and the decreasing demand for the traditional wooden bobbins. The first was the result of the official policy to protect the forests. The second was caused by the use of synthetic bobbins by the textile industry.

Except for the few owners of small bobbin workshops and other wood-working firms, the Suthar industrial pioneers vanished from the industrial scene in Bulsar between 1980 and 1990. Their disappearance is perhaps best exemplified by the end of the engineering company 'Quality Instruments Pvt Ltd'. In the late sixties it was one of the larger engineering enterprises in Bulsar, manufacturing transformers. The company was owned by four Suthars, who were related to a prominent owner of a bobbin enterprise (Streefkerk 1985: 95, 96). From its start in 1961, the factory ran far below its capacity. The Suthars faced difficulties in procuring raw material, for which an import licence

was required, and they were unable to book sufficient orders. In 1973 the majority of the factory's shares was taken over by a family member from the neighbouring town of Bilimora. He was one of the successful Suthars in Bilimora, owning several large metal-working enterprises. The Bulsar unit was to do job-work for the Bilimora enterprises. A few years later the company was liquidated. Two of the four original partners expired, the third is an employee of one of the Suthar companies in Bilimora, and the fourth is a sales manager in a paper-manufacturing company in Bilimora. The son of one of the expired partners runs a small scooter and motorbike repair-shop in Bulsar while his brother works in an engineering company in Bombay. Their two cousins are both employees in different industrial companies in Bombay. One of them commutes daily between Bombay and Bulsar. He is the proprietor of a very small workshop, called 'Electrical Sound Industries'. A skilled worker operates the only lathe. He repairs and makes sound equipment, and transformers.

The sons of the owners of the remaining wood working enterprises do not seem to be the ones who will rejuvenate Suthar industrial entrepreneurship in Bulsar. They are salaried employees, serving as chemists, draughtsmen or engineers in industrial enterprises at Vapi, or they are partners in the firms of their fathers, helping them to keep the firms going and earn a reasonable income. But the firms will remain subsistence enterprises, which do not prosper or grow.

Segvi is one of the villages belonging to the urban agglomeration of Bulsar. It is situated along the road leading to the Tithal beach, at a distance of a few kms west of Bulsar. It accommodates several families of artisans who own workshops. Among them are a few Kumbhars (or g. potter) of whom one family runs a sawmill. Most workshops are the property of Suthars. One family owns two engineering units. According to the owners they are able to fabricate many products like chemical equipment, steel furniture, metal sheets, pipes and frames, and dies for brick manufacturers. Despite this impressive range of products, the performance of the family enterprise is rather poor at the moment.

The firms of other Suthars are certainly more prosperous. Since 30 years, one of them manufactures wooden furniture and wooden equipment used by Atul and its sister concerns. The owners of two other prosperous units both sell tractors, but of two different brands, and they both manufacture trailers and agricultural equipment. These two large families, 'Jeepwalas' and 'Panchals', as I will call them, are neighbours. The Jeepwalas live in three separate households and three houses while the Panchals live in one house and share one kitchen.

The Jeepwalas and Panchals descend from one great grandfather who was a carpenter in Segvi. Their two grandfathers were also carpenters. They made the wooden frames of the houses in Segvi and nearby villages.

In 1990 the Jeepwala family comprises two generations. The eldest generation consists of four brothers, sons of the fore-mentioned grandfather. They remained in Segvi, earning a living by making and repairing horse carts and bullock carts. Their present age is between 74 and 83. Three brothers migrated to Bombay. One of them is an engineer in the Bombay Municipal Corporation, the other is a designer and the third is an architect. The youngest generation consists of the sons—and small children—of the four Segvi-brothers and a son of one of the Bombay-brothers, their age varies between 25 and 40 years.

The Panchals are made up of three generations. The eldest in the family is the grandfather, a cousin of the expired grandfather of the Jeepwalas. He made bullock carts and horse carts, for which he was known all over south Gujarat. His present age is 81. His four brothers migrated to other towns and villages in south Gujarat. The second generation consists of the eight sons of the eldest member of the family. Three of them live in Segvi, they are between 35 and 55 years of age. Four sons migrated to Bombay where they are all employed in technical occupations. The eighth brother owns a small engineering workshop in Bilimora. The children of the brothers living in Segvi constitute the third generation. Their age varies between 14 and 35 years.

The early seventies were crucial years for the two families. Till then they manufactured and repaired traditional agricultural implements and means of conveyance, like bullock carts, horse carts and hand carts. Between 1972 and 1974, they changed over to the production of tractor trailers, iron ploughs, levellers of land and other heavy agricultural equipment. The production of trailers and implements meant a definite change in the techniques of production. Work on metal like pressing, fitting, turning and welding came to predominate. Some machines, like a metal press, were made by themselves. In each family there was, and still is, a clear division of labour between the brothers and cousins. Some are responsible for the production of trailers and equipment, others are in charge of sales. So, in the beginning, the youngest of the four brothers of the Jeepwala family travelled on motorbike throughout south Gujarat, including the prosperous Bardoli taluka, to visit the villages and convince farmers to buy their products.

In 1990, each family 'officially' employs 9 to 10 workers in its workshop. They are Kolis, Dhodiyas and Dublas from Segvi, they are trained at the work spot. Some of the Dubla workers are from families who according to the Suthars, "belong" to their families for several generations. They live in the compounds of the Jeepwalas and Panchals.

In the early eighties the third generation of Jeepwalas and Panchals entered their family enterprises. The two families began to sell tractors. Till now the Jeepwalas have been more successful in this line than the Panchals. The former became the sole

selling agents of a prominent brand of tractors in Bulsar district. They were approached by a representative of this brand, because of their access to the farmers of south Gujarat.

"Initially we sold equipment, then tractors, now we sell tractors plus equipment", said the Jeepwala who has the responsibility of the tractor agency. He is a science graduate, educated in Bombay, and the driving force of the enterprise. The head-office of the agency is in Bulsar. It has a service-station near Gundlav, opened in 1987, and a branch office in Navsari, built on land which they bought a few years ago. One of his brothers is in charge of the service-station near Gundlav. A cousin brother, son of an uncle in Bombay, runs the agency in Navsari. In the near future the Jeepwalas will open a fourth office, for which they bought the land in 1990. The sales of tractors steadily increased between 1981 and 1990. In 1982 they sold 94 tractors, in 1989-90 the number was 125. One of the Jeepwalas stressed that in order to accommodate family members and to spread financial risks, diversification of interests is a must. Thus the family also traded in building material.

The family enterprise of the Panchals expanded too. Since 1982 they also own a tractor agency in Bulsar. It has a yearly turnover of about 25 tractors. In Bilimora they started a workshop for production of trailers, ploughs and other agricultural instruments.

The example of the Jeepwalas and Panchals again shows the close relation between agricultural development and the rise of local entrepreneurship from the ranks of artisans (Saberwal 1976: 19, 136, 137; Streefkerk 1985: 124, 257). When the Jeepwalas and Panchals started producing heavy agricultural implements and began selling tractors, canal irrigation in south Gujarat expanded. In 1990 it covered almost the whole of the district. With the increase of canal irrigation the mechanisation or tractorisation of agriculture advanced and heavier agricultural equipment can be used.¹ To stimulate this development the government assists farmers financially for the purchase of tractors. Farmers who own at least 8 acres of irrigated land are eligible for government support. In short, in a mainly agrarian environment, long term entrepreneurial success of urban Suthars and other artisans seem to depend on developments in the villages.

To determine the position of Suthars within the class structure of the urban agglomeration of Bulsar, a comparative research between them and members of other castes would be required. I have been unable to conduct such a time consuming investigation. Nevertheless, there remain other means to approach the subject and to present some information about the topic. The telephone directory of Bulsar is one of these means. As a telephone connection is a luxury, the names in the telephone directory indicate a measure of prosperity. The directory can be used to describe the contours of the economic elite within a certain area, to trace the material differences bet-

ween members of different castes and to outline the economic establishment within castes. However, this is possible only when surnames are the monopoly of a specific caste. The names of Mistry, Panchal and Sanghadia, used by Suthars in Bulsar, fulfil this condition.

Formerly, particularly in the villages, little use was made of surnames. Nowadays, surnames are common and they are instrumental in claims for higher status. Kumbhars (orig potters), for instance, call themselves Prajapati, Khatri (orig cotton weavers) are known as Kapadia (cloth merchant), and Bhangis (orig sweeper) often use the surname Solanki. Some names are so widely used by members of different first order social divisions, that they do not indicate, or rather hide the social background of its bearer. The surname Patel is an example, the name is used by Patidar, Kanbi, Koli and tribal categories such as Dodiya.

Most Suthars in Bulsar call themselves Mistry, which means 'carpenter/contractor'. Sometimes the name is used by others who are in construction business. In Bulsar, Suthars also call themselves Panchal, but they are a minority. Elsewhere, for instance in Bulmora and in central Gujarat, the name Panchal is found more frequently. The name Sanghadia is used by only a few Suthar families in Bulsar. Together with some well informed Suthars I checked the list of names and telephone numbers. It appeared that only six 'Mistries' were not Suthars. They are contractors, some of them are Muslims, one is a Koli.

According to the Telephone Directory 1988 (Valsad Telecommunication District 200, 201, 203, 208), there are 44 telephone connections among the 425 Suthar households in Bulsar and the adjoining villages, a 'density' of 10.8 per cent. The 44 connections consist of residential phones and phones in private offices. The number of connections in another artisan caste, the Kumbhars—called Prajapati and Lad—is 24. The 'density' among them is probably lower than among Suthars because there are more than 250 Kumbhar households in Bulsar.

The 'telephone density' among Suthars also has to be compared with the proportion of telephones among the groups who make up the economic establishment of the town. For this purpose I will use the number of telephone connections of the Anavils.

They use the surnames Desai, Naik and Vashi. In south Gujarat the name Desai is the monopoly of the Anavils and is most common among them. The name is also used in other parts of western India like Maharashtra. If there are such Desais in Bulsar, there will only be a few of them. The names Naik and Vashi are used only by Anavils.

There are 201 connections among 1,500 Anavil households in Bulsar and the adjoining villages (Telephone Directory 1988 Valsad Telecommunication District 184 187, 202, 217); a 'density' of 13.4 per cent. If it is assumed that there are a few non-Anavil Desais among the Desais in the telephone

directory, this 'density' will be somewhat lower.

The figures must be treated carefully. Since many years the Bulsar District Telephone Exchange has not been able to meet the many demands for connections as its capacity is limited. To present a more valid picture, the number of applications of Anavils and Suthars should also have been taken into account, but these data were not available. The little difference between the proportion of telephone connections of Anavils and Suthars may indicate the socio-economic prominence of the Suthar elite in Bulsar.

In 1974 I had concluded that despite its economic prosperity there was no equality between the Suthar elite and the Banias, Anavils and Parsis who belonged to the social and economic establishment of Bulsar (Streekerk 1985: 104). For instance, Suthars were not represented in the municipal council in those years. None of them achieved membership in the Rotary Club, the pre-eminently elite association in Bulsar. They were, however, well represented in the Lions Club which was—and still is—the club for the new elite of the town.

Between 1974 and 1990 they lost their monopoly over building construction and the first generation of industrial entrepreneurs vanished. However, they did benefit from chances offered by the economic expansion during the last decade, like the Jeepwalas and Panchals. In the social and political life of the town they continue to play a minor or subordinate role. In 1990 they are still not represented in the municipal council, nor in the Rotary Club. In the Lions Club they are represented in a prominent way. For many years the association was presided by a Suthar.

Wealth is unequally distributed among Suthars, there are considerable economic differences among the 425 households. Suthars themselves distinguish between four categories: (1) "well to do" households (40/50); (2) "not rich, not poor" households (140/150); (3) households which find it "difficult to pull on" (200); and (4) "poor" household (10/20). I will use this classification, though I concentrate on the extremes of the stratification. The estimates about the number of well to do families are confirmed by the information available through the telephone directory. The 44 connections belong to 38 households.²⁰ The most prosperous of these 38 families are still those in the building trade and the two families selling tractors and manufacturing agricultural implements. The economic top also consists of two families with furniture workshops, a family owning a large general store, and two ex-manufacturers of bobbins.

Suthars who are "neither rich, nor poor", are owners of small workshops like a garage, photo studio and shops, some of them belong to the 38 families with telephones. A large number in this category are government servants, railway personnel, or employees of private companies like Atul Products and its sister concerns. They often supplement their stable incomes by extra earnings from advisory jobs and administrative

work. They are part of the growing middle-class of Bulsar. They have their own houses in "Suthar streets", built around 1940 outside the old town, or occupy apartments in the new flats of the town.

Those who "find it difficult to pull on" can best be described as "skilled workers"—carpenters, fitters, turners, welders, or electricians. Their average monthly income is between Rs 750 and Rs 900 a month. They are employed by other Suthars, or they are skilled workers and supervisors in small-scale factories located along the roads outside Bulsar and at Gundlav and Vapi industrial estates. They live in the old and poor areas of the town in rented houses or in their own, old and dilapidated homes.

Though Suthars differentiate between those "who find it difficult to pull on" and households which are really 'poor', it is not always easy to draw a sharp line between both categories. Eight households of poor widows can indeed be distinguished from other poor households. Irregularity of income, and quality and pay of work in case of permanent tenure, are perhaps the best criteria to distinguish between the two categories.

Case 1. An example of 'poor' Suthars is of three brothers in three separate rented houses made of wood, bricks and iron sheets. The houses, in one compound, were rented by their father in 1940. They are located in the newer part of the town where many Suthars settled down in the thirties and forties. Their grandfather lived in the nearby village of Segvi where he was employed by the grandfather of the Panchals in Segvi. Their father came to Bulsar in the thirties. He worked in a large furniture workshop owned by a Suthar, who also came from Segvi. He had two brothers, one was an employee of a bobbin factory which was founded in 1945; the other expired at an early age.

The youngest brother earns a living by transporting goods with a hand cart. Among his customers are other Suthars, like the owners of furniture workshops. His wife is a servant in a Bania household. They have two small daughters.

Since many years, the second brother works for more than 16 hours a day, seven days in the week. He is a servant in a restaurant from 5.30 in the morning till 7 o'clock in the evening. From 8 to 11 at night he sells peanuts in front of a cinema theatre. His two sons, however, are better off. One is a civil engineer, employed in the government department in charge of the construction of a dam in a nearby region. He lives in a small town to the south of Bulsar, his wife works in a bank. The other son is an employee in a factory at Vapi.

The eldest brother, who is 50 years of age, does all kinds of carpentry work. Sometimes he makes tables and chairs and he is occasionally asked to make frames of doors and windows. He has two daughters and a son. His eldest daughter, who runs the household, works in an embroidery shop. His son is an attendant in a general store.

Case 2. In this example, the householder,

like his father, used to make harmoniums. As 'peti' is the colloquial word for harmonium, his name is Petiwala. He is about 70 years old. Petiwala's native place is also the village of Segvi. His father, married to a sister of the Panchals from Segvi, came to Bulsar to make harmoniums. It is not known where he learned the trade. Petiwala started as a carpenter in a furniture workshop in Bulsar. A few years later, he joined his father in making harmoniums. Petiwala's only brother was a carpenter in the railways. His son lives in Bulsar's major slum area, Shapurji Nagar, where he tries to make a living as a carpenter. Since 20 years Petiwala lives in shed together with his wife, a 42 years old daughter, who is a widow and a mother of a small child, and a mentally retarded daughter. His son expired. The shed is furnished with junk, it has no water connection and it is not rain-proof. It is the property of one of the richest Anavi contractors in Bulsar, who wants them to vacate the place. Before it shifted to the present site, the family lived in a house in the compound of a bobbin factory. They had to leave the compound because the Suthar owners required the space themselves. The household lives from the income of the widow, who is a factory worker at Gundlay industrial estate. She earns about Rs 300 a month, which is too little to live on.

The Suthars in above two examples are all from the village Segvi. This is due to the fact that Suthars from Segvi settled down in the same area when they came to Bulsar in the thirties and forties. It does not mean that poor Suthars descend from certain villages. The examples do show, however, the economic differentiation that occurred among Suthars who originate from the same native village and are close or distant relatives.

It is tempting to account for the differentiation among Suthars by pointing to social or economic inequalities already existing decades ago. For instance, the grandfathers and fathers in the above examples were employed by caste fellows in Segvi or in Bulsar. The economic position of their employers enabled their offspring to be more educated, to get better jobs, or contributed to their success as entrepreneurs. The histories of Suthars who are prosperous now, however, also show fathers or grandfathers employed by other Suthars. For instance, the father of the most wealthy furniture maker in Bulsar, and the father of the three brothers in the first example, both came from Segvi and were both employees in the same furniture workshop in Bulsar. The former started his own business in the forties, the latter remained an employee in the workshop.

This example shows that to explain why some families prospered, and others remained or became poor, individual variables should also be taken into account. They are of two types. The first pertains to personal attributes like intellectual capacity, craftsmanship, entrepreneurial abilities, and other psychological characteristics. The second type of individual variables I call "vicis-

situdes of life", like illness, death, and other small and large disasters which are beyond human control.²¹ In a society without social security provided by the state, they can ruin families and marginalise them within one generation. Petiwala and his family are an example. His father expired when he was young. He has been sickly during his whole life and his eyes are bad. His brother has been unable to help him. He lost his only son, his son-in-law expired, and his second daughter is mentally retarded. In other words, there is nobody to fall back upon.

SUTHAR STATUS

The economic progress among Suthars since 1900 has been accompanied by attempts to enhance social esteem by claiming a higher ritual status. The familiar conceptualisation called 'sanskritisation' connotes the change in life style by members of lower castes, 'untouchables' and tribals. The change consists of adopting modes of behaviour, norms, values and rituals which are considered characteristic of a higher 'twice-born' caste, that is to say, a caste belonging to the category of Brahmin, Kshatriya or Vaishya.²² To validate claims for higher ritual status they have to be supported by secular attributes of wealth and power. The process of collective improvement of ritual status and enhancement of social esteem is not a recent phenomenon. One way of conceiving Indian social history is to look at it as a permanent process of groups adjusting ritual status to their material strength and political power, and others who try to emulate the life style of their superiors. The gradual incorporation of tribals into the 'higher' Hindu social order in south Gujarat is an example of such a process.

Claims for higher ritual status of the artisans are not new. Mandelbaum (1970: 459) quotes accounts hinting at them in the 17th century and in the beginning of the 19th century. Saberwal (1976: 110) writes that from Ceylon in the south to Punjab in the north, during the late 19th and 20th centuries, artisan communities everywhere asserted the great importance of their deity Visvakarma, the lord of craftsmanship, and claimed to be of Brahmin descent. He calls it one of the few caste mobility movements which took a more or less parallel course throughout the sub continent.

I don't know when Suthars in Bulsar started to claim a higher ritual status. Their temple, dedicated to the lord Visvakarma, is at least 120 years old. Visvakarma, who is the craftsman of Brahma, is the builder and architect of the heavenly realm. The administration of a temple with a Brahmin priest is a direct means to enhance ritual status. In south India, carpenters together with goldsmiths, coppersmiths, masons, and blacksmiths, claim to be Brahmins of a special kind, descended from Visvakarma (Mandelbaum, 1970: 458). In Bulsar, Suthars say they are strict vegetarians, some of them wear the sacred thread symbolising their "twice-born" status, a certain amount of

dowry is not uncommon.

The establishment of the Panchal Pragati Mandal in 1948 in Bulsar is another indication of Suthar claims for higher status. The word "Panchal" the name of the organisation and as surname of some Suthars in Bulsar expresses the same. In south India the artisan jatis appropriated the common title Panchalla. "Panch" means five, the number of groups of artisans claiming to be Brahmins. In Bulsar, Suthars explain the origin of the name Panchal in the same way. Nevertheless, only Suthars and Luhars are permitted to become members of the organisation. Sonis (silversmiths), Kansaras (braziers, coppersmiths) and Kumbhars (potters) are not welcome.

The construction of the Visvakarma Hall in 1988 was another step towards organisational strength. The large three storeyed building accommodates the shrine of Visvakarma, it replaced the old, much smaller, temple building.

The construction of the building has been financed by a donation of a rich Suthar, who had been a building contractor. He had no issue and expired several years earlier. The building is located in the old part of the town, its site also belongs to Suthars.

The shrine of Visvakarma is in the big hall on the ground floor. In one of the rooms on the first floor is an office with several personal computers and printers. It belongs to a Suthar who undertakes information processing on behalf of its clients in and around the town.

The organisation of collective marriage ceremonies and the presentation of potential brides and grooms is the most recent way to demonstrate internal unity, mutual concern and organisational power. The two events are organised in Bulsar once in a year, during one meeting on the same day, by the Panchal Sewa Samaj.

The Samaj came into existence in 1983, when the administration of the Visvakarma temple and Panchal Pragati Mandal were brought together into one organisation. The reason to unite the two organisations was efficiency, the same people were active in the two organisations. The disappearance of the older generation of prominent Suthars, who had been active in the Panchal Pragati Mandal, might be another reason. The Samaj is administered by representatives of the younger generation of leading Suthars, like an architect, a furniture maker and the owner of a large general store.

Like the former Mandal, the Samaj supports widows, helps poor Suthar students to buy books, and offers sewing and computer courses, which are conducted in the new Visvakarma Hall.

In 1989 the Samaj organised the first collective marriage ceremony in Bulsar, a year later the second one was held. In 1990 the festivities, which included a meal prepared by Brahmin cooks, took place in the cricket stadium of Bulsar. Around 2,000 Suthar men and women attended the meeting, no other people were invited. Members of poor Suthar households, described earlier, also attended the meeting.

The total expenses on the festivities amounted to Rs 50,000; Rs 40,000 was spent on food. The expenses were covered by an entrance fee of Rs 75 per person. Each Suthar household in Bulsar received one ticket free of charge. Each family of the seven couples to be married during the ceremony obtained 25 tickets, 80 tickets were distributed among the volunteers who helped to organise the festivities.

The guests came from Bulsar and from other places in south Gujarat. They arrived on scooters and motor-bikes, in private cars and in rented buses. Among the guests were representatives of Suthar organisations in Bombay, Surat, Baroda and Ahmedabad and smaller towns in south Gujarat.

During the meeting in 1990 seven Suthar couples were married. The marriage ceremony was conducted by seven Brahmin priests. The couples were given all kinds of practical gifts by the Samaj.

Late in the afternoon 25 young marriageable Suthar men and women were presented to the visitors. Their names had been given to the Samaj by their parents or other family members. They sat on the stage in two rows, the men in the first and the women in the second row. While a member of the board of the organisation read out name, native place, age, education and source of income, the candidate walked to the front of the stage. Guests who were interested to arrange a marriage between their son or daughter and one of the candidates could contact the Samaj after the ceremony. The collective marriage ceremony and the presentation of marriageable candidates are noteworthy in several respects.

First, and foremost, the wedding ceremony and presentation signify the importance of maintaining the principles of arranged marriages and caste endogamy among Suthars. Second, the ceremony involves families who are not well off. Suthars explicitly stated that it was meant for people who could not afford a lavish wedding themselves. They were less outspoken about Suthars who participated in the presentation though background and native place of the candidates suggested they were not from prosperous families either. By enabling less well off caste members to marry their children according to Brahmin ideals, Suthars validate their claims to a superior ritual status. The idea that the community cares for its unfortunate members is honoured at the same time.

Finally, the festivities emphasise unity among Suthars despite considerable economic differences. They furthermore contribute to an identity that exceeds the local level. Representatives of other Suthar associations addressed the meeting and referred to their common origin. Long ago Visvakarma was ordered by Brahma to create the world. Suthars must do it now; they are his children.

EPILOGUE

During the eighties Bulsar and its environment changed more than the Indian and,

certainly, more than the Dutch sociologists had expected in the early seventies. The physical appearance of the town altered drastically and there were important modifications in its social structure. The physical changes and social trends are part of the state-supported capitalist transformation in India which, at least, in the coastal plain between 'Bombay and Baroda' has been the dominant development during the last two decades. The first type of change includes the unusual growth of population, the apparent urban features, and the welfare of many of its inhabitants. Major changes of the second type are the changed composition of the power structure and, above all, the emergence of a middle class.

The large influx of businessmen from cities like Bombay and Surat into south Gujarat and Bulsar is a major explanation for the differences between 1971 and 1990. These people were attracted by favourable economic and social conditions, such as the presence of several industrial estates in south Gujarat, the availability of cheap labour in the area and the comparatively low prices of land and houses in and around Bulsar. The immigration contributed to the spurt in building construction and the increase in all kinds of urban services and facilities.

The transformation of agriculture in Bulsar district has been another development which changed the town and its environment. The government completed the construction of canal irrigation. Its financial support enabled farmers to adopt new technologies and to cultivate more profitable crops like sugarcane. The composition of the class and power structure in the villages changed too. Prosperity increased among farmers who owned more than a marginal piece of land. The official efforts also meant a growing number of comparatively well-paid civil servants who work and live in the district headquarters.

The rise of the middle class is the most important change that occurred in Bulsar between 1971 and 1990. This class is made up of managers, professionals, owners of small industrial firms, small businessmen, shop owners, government personnel, employees of private firms, etcetera.

There are, however, some important continuities. One of these is the extreme difference in wealth and sharp social inequalities between different groups. The other is the division of the population into many groups with different life styles and ranked hierarchically on the basis of the Hindu idea of purity and pollution. Suthars are such a group. Their economic and social history, which I started writing in 1974, has been presented in more detail in this account. By portraying them I have been able to illustrate aspects of earlier and recent processes of social transformation in south Gujarat and Bulsar. The focus on them, furthermore, enabled me to trace some long term sociological trends.

During the first half of this century Suthars became an urban caste. This process implied occupational diversification and

economic differentiation. Upward economic mobility was realised by the gradual deviation from traditional skills. At present wealthy Suthars are no longer carpenters or blacksmiths. But often their occupations, such as building-contractor, architect, or manufacturer of modern furniture or heavy agricultural implements are an extension of their traditional occupation.

The most prosperous Suthars are not the most wealthy inhabitants of Bulsar, but they certainly are part of the economic elite of the town. A larger number of them belongs to the town's ascending middle class. They either own stores and small workshops or are government servants, railway personnel or employees of private companies. In these cases too their present activities are an elaboration of their ancestral craft.

Almost half of the Suthar households are at the lower end of the economic stratification. The heads of these households are employed as carpenters, fitters, turners, welders and the like. The poorest among them lack a regular source of income, they are self-employed or casual labourers. Some of them have to combine a poorly paid regular job with other sporadic earnings. Women of these poor families, for instance, contribute to the income of their households by working as domestic servants of well-to-do families.

Around 1950 economic mobility among Suthars was accompanied by the rise to political prominence of a Suthar who became the municipal chairman. But he did not set a trend between 1960 and 1990. Suthars did not play any important role in the politics of the municipality or in the wider political arena. But in the broader social life of the town they do play a more prominent role. They take part in 'social work' and offer donations. By doing so they participate in projects which symbolise increased welfare in and prestige for the town.

Suthars satisfy their quest for more social esteem by strengthening their ritual status. It is my impression that this trend became more pronounced during the second half of the eighties, when a large new temple was built and the first collective marriage ceremonies were organised. In other words, the study of the Suthars indicates the persistent if not increased importance of caste as an ideological and organisational frame. This conclusion perhaps surprises scholars who study South Asia with "unilinear theories of social evolution" (Washbrook 1988: 58). It might even disappoint Indian sociologists who documented the decline of caste because they experienced "opportunity and mobility" in their own lives and therefore focused on similar situations of mobility and change elsewhere (Saberwal 1979: 251).²³

Anthropological and sociological information collected through fieldwork during the last 40 years support the Bulsar findings. They confirm the importance of caste, though the information is largely based on rural studies (see, e.g., Bailey 1957, Dumont 1970, Kothari 1970, Harris 1982,

Raheja, 1988). Dumont considers the caste system as a timeless phenomenon based on the all-embracing opposition between purity and pollution and the ideology of inequality. Scholars without such a holistic view on Indian society maintain that the importance of caste increased during the last 150 years and that British Raj caused this development (Cohn 1970: 46; Fuller 1989: 38). Cohn (1968: 17,18; 1987: 224-255)²⁴ argues that British administrators formalised the existence of castes by their census operations. Washbrook (1988: 85) points to the strengthening of caste tradition through the force of Anglo-Indian Brahmin law.

Before and after independence caste groups certainly did improve their economic position, extend their political power, and raise their status through the use of new opportunities. In south Gujarat Anavil Brahmins were among the first to monopolise new educational facilities and occupations before 1900. Suthars were able to profit from economic changes later on. Kolis and Dhodiyas are examples of groups which recently captured economic possibilities in the villages and exploited administrative and political chances. What is noteworthy is not so much people's ability to take advantage of new opportunities but their success as caste groups, such as Anavils, Suthars, Kolis or Dhodiyas. When people failed it was, and still is, because they belonged to underprivileged groups, like Naikas or Dublas, which were not allowed or were unable to participate. The seizure of scarce resources, administrative influence and political power happened within the ideological order and structural frame-work of caste. It developed into an institution through which groups compete with each other for power and resources.

According to Srinivas (1979) co-operation and mutual dependence between different caste groups traditionally characterised the caste system in the villages. Thus in his view competition between caste groups is a deviation of "traditional" caste in India. But the distinction is not absolute: "Traditionally competition between castes -in the villages-did occur" sometimes and "even today agricultural production requires the co-operation of several castes" (1979: 242).²⁵

The emergence of huge caste groups, or 'horizontal stretch' (Srinivas 1979: 241), is another contemporary expression of the caste structure. Caste associations are a concrete manifestation of this tendency. They are urban phenomena, at least in western India. The earliest associations were formed in Bombay in the middle of the 19th century by migrants belonging to urban, upper castes from Gujarat. They then spread to towns in the homeland and among all castes. The primarily rural and lower castes were the last to form associations and that happened mainly after independence. All associations originated in large towns, are more active in towns than in villages and are led by prominent members in towns. Some of the associations, like the Gujarat Kshatriya Sabha, adopted political functions after the establishment of democratic polity after 1947. Most associations, like the Suthar

Association in Bulsar, continued to retain their non-political character (Shah 1982: 28, 29).

The administrators and politicians of the post-colonial state also have contributed to the strengthening of the caste structure and simultaneously articulated its importance. The best example is the policy to reserve posts in the legislature, government, and educational institutions for "Scheduled Castes" and "Scheduled Tribes". Recently "Other Backward Classes" (OBC) have been added to the people eligible for special treatment by the administration. In the official, political, scientific and popular discourses the term caste has replaced class. The substitution of terms suggests the predominance of caste over class as the most meaningful social category. The recent clashes over, or rather the "twice-born riots" (Omvedt 1990) against the announcement of the central government to implement the recommendations of the Mandal Commission, reveal the force of caste consciousness as determinant of sentiments and behaviour. The reactions of the upper castes cannot be explained by the threat of losing economic, social, or other privileges alone. At stake is the Hindu ideological order and the taken-for-granted divide between those of high and low status.

There are signs of an emerging class consciousness as part of the rise of the middle class in Bulsar. One such sign is the often heard "we, middle class people, suffer most from inflation because we have to maintain our life-style and customs against rising prices; poor people don't have these problems". The developments among the Suthars during the last decades, however, reveal a much stronger tendency. Economic mobility and prosperity among a minority of Suthars is expressed by heightened caste consciousness which is shared also by Suthars whose poor material conditions are similar to those of the majority of the population of the town. The identification with their caste might be even more important for them than for more well-to-do Suthars. It enables them to distinguish themselves from others who too are poor, but are ritually inferior and belong to groups with less or no social esteem.

My hypothesis is that the rise of the urban middle class is accompanied by the growth of caste consciousness among groups that constitute this class-in-itself. The popular agitation against, and intellectual commotion over reservations for scheduled castes, tribes and other backward classes, as well as the Hinduisation of Indian politics are to be understood as manifestations of this process.

Notes

[Dr S Devadas Pillai (Bombay) and Dr Rajendra Pradhan improved the English of an earlier version considerably. I owe much to them also for their critical comments.]

1 For more than 25 years south Gujarat has been studied intensively by Indian scholars and above all by Dutch sociologists and anthropologists. In the beginning of the sixties four of them, Baks, Breman, Hommes and Van der Veen, carried out fieldwork in the

rural areas of south Gujarat. Later on they changed their perspective from "local" to "regional" level. A new project was initiated and between 1970 and 1972 a team of Indian and Dutch researchers, based in Bulsar did fieldwork in south Gujarat. They covered a variety of fields and themes in order to trace and analyse processes of social change in the town and the surrounding area. The results of the Indo-Dutch research project have been compiled and published in Pillai and Baks (1979). Other publications based on research carried out between 1970 and 1972 include studies by Loes Schenk-Sandbergen (1975) on the sweepers of Bulsar, by Van der Veen (1975) on the joint-family, by Breman (1985) on migration and rural labour, and by Streefkerk (1985) on industrial transition in the region.

2 Bulsar district is known for the cultivation of fodder grass used in the cow stables in Bombay. Pardi taluka is proverbially known for its grasslands.

3 The shifting of Bombay enterprises to Gujarat could already be observed in the early seventies (Streefkerk 1985: 53).

4 Vapi is the biggest among several industrial townships in the southern-most part of south Gujarat, which came up between 1970 and 1990.

5 The official minimum wage for unskilled and agricultural labour is Rs 21 per day (Rs 630 per month). Employees in small or large private firms earn between Rs 1,500 and Rs 3,000 per month. A deputy executive engineer in the GIDC, who is a government servant, earns about Rs 4,000.

6 Bulsar reflects the fate of Parsis in India in general who, due to a combination of social and demographic reasons, are so to say a shrinking group.

7 Kolis are the largest 'first-order division' (caste) in Gujarat (Shah 1982: 11-15). In some areas of north and central Gujarat Kolis penetrated the lower Rajput rungs and claimed Rajput status. According to *The Gazetteer of Baroda State*, Vol I (1923: 218) in the south of Gujarat, Kolis were difficult to distinguish from the "Dubla, Dhodia and other stocks with whom (they) mixed". This statement, however, needs scrutiny.

In 1974 Kolis were important landowners. In many south Gujarat villages where the traditionally dominant landowning Anavils were absent, Kolis were economically the most powerful group (Streefkerk 1985: 214).

8 I use the term in a statistical manner to describe a category of people, a class-in-itself, with roughly the same income and consumer behaviour.

9 Table A gives the distribution of seats in Bulsar municipal council in 1971 and 1990 according to background of councillors.

10 Source 1990 field data compiled by the

TABLE A
(Per cent)

| Caste Groups | 1971 | 1990 |
|-----------------------------|------|------|
| Upper: Anavils | 20 | 11 |
| Bania | 12 | 6 |
| Middle and lower | | |
| Prajapati, Rana, Ganchi | 8 | 31 |
| Scheduled castes and tribes | 28 | 26 |
| Parsi | 24 | 9 |
| Muslims | 8 | 11 |
| Christians | — | 6 |
| Total number of seats | 100 | 100 |

Source: 1971, G D Thakore 1979: 291.

author Age and gender are other determinants of people's status and someone's position in the social hierarchy Despite their importance they are not dealt with here

- 11 In his article 'The Rural-Urban Networks in India', A M Shah (1989) argues that urban growth in Gujarat since the 16th century led to a greater diversity of occupations in cities and smaller towns There were rulers, of rituals, soldiers and clerks, cultural specialists like scholars, priests or dancers, merchants, traders and bankers, artisans and craftsmen; and specialised servants The occupational diversification meant the existence of castes mainly found in towns Apart from these "urban castes" Shah distinguishes "castes found mainly in villages" and "castes found both in towns and villages" This division can also be used in studying actual phenomena
- 12 The tribal population in Bulsar district accounted for 54.5 per cent of the district's total population of 1,774,136 in 1981 (*Census of India, 1981, Part II B, General Population Tables, Primary Census Abstracts*, Ahmedabad, 1983: 118, 202)
- 13 According to A M Shah (1982: 4-6) the Hindu population should be divided in caste divisions of the first order like Brahmins, Banias, Rajputs, Kols, or Bhangis A first order can be divided into two or more second-order divisions Usually, the latter are distinguished from another by prohibitions of marital, but freedom of food, transactions
- 14 The characterisation of Luhars in the *Gazetteer of the Baroda State* (Vol 1, 1923: 208) is an example of how these ideas have been codified many years ago Luhars are said to be "strict vegetarians, except in south Gujarat where they secretly eat flesh and fish and drink liquor In blowing the bellows and in the lighter work, the Luhars are helped by the women of the family"
- 15 Elsewhere in India, for instance in the Punjab, carpenters also considered themselves superior to the blacksmiths (Saberwal 1976: 86)
- 16 Suthars, like Kumbhars (potters) which traditionally in villages belonged to the so-called 'service' castes, whose members were paid in kind (avat) for their services rendered to their 'patrons', the landowners
- 17 The railways still represent an important aspect of Bulsar's social and economic life Ever since the construction of the Bombay to Baroda railroad in 1860, the town has been an important stop on the line At the beginning of the century a loco workshop was set up, which still is in operation
- 18 Streefkerk (1985: 68-105) provides a more

detailed analysis of the transition from "handicraft to industrial production"

- 19 Mouluk and Mouluk (1989: 31) show the close relation between increased irrigation and tractorisation in Gujarat In 1961 the total number of tractors was 2,000, in 1972 14,400 and in 1982, 28,100
- 20 Table B gives occupation of Suthars with a telephone connection in Bulsar in 1988
- 21 See for e.g. Willem van Schendel (1981: 279) about 'nature and chance' as causes for short-term or long-term rise and fall of certain groups or even single families within the peasantry
- 22 See Srinivas (1962) and Mandelbaum (1970) for a more detailed treatment of Sanskritisation
- 23 Saberwal concludes his *Mobile Man* (1976) with the observation that the caste hierarchy in Punjab has softened further during the last decades (225) and that the caste system, its religious supports and caste solidarity declined in the town he studied (231)
- 24 To substantiate his argument Cohn (1987) refers to Ghurye (1969: 279) who wrote in 1932 that "(t)he total result—of the successive censuses since 1872—has been a livening up of the caste-spirit
- 25 In his article Srinivas opposes the idea of Leach (1960: 7) that "wherever caste groups are seen to be acting as corporations in competition against like groups of different castes, then they are in defiance of caste principles"

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TABLE B

| Occupation | Number |
|--|--------|
| Owners of small workshops (repair workshops, wood-working workshops, saw-mill) | 11 |
| Contractors, architects, interior decorators | 6 |
| Furniture makers | 4 |
| Owners of stores | 4 |
| Ex-bobbin manufacturers | 3 |
| Dealers in tractors, manufacturers of agricultural implements | 2 |
| Professionals (medical doctor, computer specialist) | 2 |
| Service | 2 |
| Owner of lodge | 1 |
| Unknown | 3 |
| Total | 38 |

Delhi Rent Control Act: Facts and Fallacies

Kiran Wadhwa

Diagnosis of the problems created by the Delhi Rent Control Act (DRCA) is based largely on criticism levelled against rent control acts in general while amendments to the DRCA are based on the assumed impact it has had on the rental housing market. This assumed impact has not been empirically or analytically investigated. The present paper seeks to fill this gap and examines the impact of the act and the amendments to it on Delhi's rental housing market. The paper concludes with suggestions for reforms in the act.

ON the efficacy of the Rent Control Act (RCA) opinion is generally one sided and hostile to RCA for the negative impact it has had on housing markets and local finances. Despite the noises made for their complete abolition, governments have normally responded with marginal amendments as compromise solutions. The Delhi Rent Control (Amendment) Bill 1988, (DRCB) passed to amend the Delhi Rent Control Act, 1958 (DRCA) falls in this category. The DRCB, 1988 was passed in both houses of parliament and came into effect on December, 1988. The bill, propelled by changed circumstances has been proposed to achieve the following objectives:

- (a) to rationalise the present rent control law by bringing about a balance between the interests of landlords and tenants,
- (b) to give a boost to house building activity and maintain the existing housing stock in a reasonable state of repairs,
- (c) to reduce litigation between landlords and tenants and to ensure expeditious disposal of disputes between them.

The amendments to DRCA are based on the assumed impact which DRCA has had on the rental housing market. The assumed impact has not been investigated empirically or even analytically in the special context of operation of Delhi's rental housing market (RHM). The diagnosis of the problems created by DRCA and proposed amendments are based more on general criticism which is levelled against RCA. In this paper we examine the DRCA and the impact it has had on the RHM in the city. The problem solving ability of the proposed amendments is examined in that context. The paper is in four parts. Section I outlines some salient features of DRCA. Section II is devoted to analysis of the impact of DRCA on the RHM of Delhi. Section III introduces the specific amendments made in the DRCA and critically examines them in relation to the problems created by specific provisions of the DRCA 1958. Section IV concludes and offers some suggestions relating to reforms in RCA which may help in easing the situation in the RHM of Delhi.

I

Rent Control Act in Delhi

The first Rent Control Act in Delhi came into being after the outbreak of second world war in 1939. Currently the RHM of Delhi is controlled by the Rent Control Act of 1958 which came into force on February 9, 1959. The act was amended in 1976 and

then again in 1988. The area of jurisdiction of DRCA extends to all areas of Delhi.

The major provisions of the Delhi Rent Control Act (DRCA) relate to fixation of standard rent, conditions governing eviction of tenants and rules relating to maintenance of the premises by landlords. Under the DRCA (1958) the standard rent had been defined in relation to the cost of the house and was to be fixed at 7.5 to 8.25 per cent of the cost of construction of the house and the market price of land at the time of the commencement of construction of the house. In case the premises had been let out before June 2, 1944, the standard rent was fixed in relation to the 'basic rent'. In case the basic rent exceeded Rs 600 an increase of 10 per cent of basic rent was permitted. For premises constructed between June 2, 1951 and June 9, 1955, an exemption for seven years and for premises constructed after June 1955 for a period of five years was to be granted. The standard rent in these cases was the rent mutually agreed between the landlord and the tenant at the time of first letting. This rent would be valid only for the exemption period. Under the DRCA (1958) the rents could be increased only under certain circumstances.

The second set of provisions of the DRCA relate to protection of the tenant against arbitrary eviction. Section 14 of the DRCA (1958) provides nine grounds for eviction of tenants. These are: (a) non payment of rent, (b) illegally subletting part or whole of the premises by the tenant without prior permission of the landlord, (c) use of the premises for purpose other than that for which they were let, (d) non use of the premise by tenant or his family, (e) bona fide requirement of the premises by the landlord, (f) requirements of premises by landlord for carrying out repair, (g) requirement by the landlord for purpose of building rebuilding or carrying out alterations, (h) acquisition of alternative accommodation by the tenant, (i) misuse of the premises by the tenant.

Under DRCA (1958) there is special provision for short term tenancies also. Under section 21 of the act the landlord can rent out the premises for a period of up to two years at controlled rent. On the expiry of this period the landlord can take recourse to the court for evicting the tenant.

The DRCA enjoins on the landlord to provide minimum amenities to the tenant and maintain the tenanted premises in proper condition. Other provisions of the act relate to recovery of unlawful charges, compulsory issue of rent receipt by the landlord

and summary trial of certain applications for fast disposal of eviction cases.

II

Impact on Rental Housing Market

To understand the impact of rent control act on RHM, it is important to consider three aspects of value of the property: (1) the historical value, (2) the current value and (3) the replacement cost.

The DRCA—as is true of RCAs elsewhere—is based on the historic value concept while the landlords normally calculate the rate of return (ROR) either on current value or on replacement cost. Under inflationary conditions controlled rent gives a very low value of rate of return when calculated on current value or replacement cost. In fact, the way the DRCA is formulated it does not even assure a reasonable rate of return on the landlord's original investment. This is for three reasons: (i) a static value of what a reasonable ROR consists of, (ii) failure to distinguish between gross and net ROR, and (iii) equating investment of the landlord—in all instances—with the historic cost of the house.

Under DRCA, the rent was set at a level of 7.5 to 8.25 per cent of cost of the house in 1958 and has remained stagnant for 30 years. Meanwhile, the rates of return on other investments have moved up significantly. Further, a rent calculated at 7.5 to 8.25 per cent of the cost of the house would give a much lower net rate of return when account is taken of variable cost of renting like maintenance cost, property tax and income tax on rental income from property, etc. These costs have moved up over time and reduced the net rate of return still further. The rate of return will be still lower for a landlord who happens to be the second or third buyer of the house. The landlord's investment will far exceed the historic cost and consequently net ROR will plummet still further. The low rate of return on rental housing will have a negative impact on the supply of rental housing. In the case of Delhi however the impact has been diluted by various factors—the two most important being the exclusion of a significant part of the rental housing market from the purview of the act and relative ineffectiveness of various provisions of the act.

JURISDICTION OF THE ACT

Under DRCA 1958, the following tenancies were exempted,

- (i) properties belonging to the government

(ii) any tenancy created by a grant from the government in respect of the premises taken on lease or requisitioned by the government.

In addition newly constructed properties were exempted from the provision of standard rent for a period of five to seven years from the date of construction.

Properties in the informal markets (slum and squatter settlements and unauthorised colonies) though not 'exempted' under the act, are for all practical purposes outside its purview.² Ignorance about the existence of such an act and the reluctance to make use of its provisions will render the act ineffective in case of many other tenancies also. It can be safely assumed that ignorance and reluctance will be more a feature of tenants belonging to low income groups.³

If all the above 'exemptions' and 'exclusions' are taken into account, a significant part of RHM will be outside the purview of the act.

INEFFECTIVENESS OF PROVISIONS

The situation in RHM in Delhi is quite dynamic. Over a period of time, the behaviour pattern of both buyers and suppliers of rental housing has changed. The landlords have become 'wiser' and devised various methods of avoiding/evading the law. Thus renting of the house is done under the 'Transfer of Property Act' and a contract (lease deed) is drawn with the tenant. The period of lease normally ranges from 11 to 33 months. The lease is renewed at the expiry of the contract period and a new lease drawn, quite often at a higher rent. The rents charged in the market are rarely the standard rents. Apart from the tenancies which existed at the time the RCA came into being and in tenancies where the tenant applied to the rent controller for fixation of rent, the rents fixed would be higher than the standard rent. In most of the cases the rents will be the market rents prevailing at the time of initiation of existing tenancy. This is due to the fact that under the act there is nothing illegal about charging a rent higher than the standard rent.⁴ The standard rent is fixed by the rent controller only if the tenant or the landlord approaches the rent controller for this purpose.

Another way in which the act is made ineffective is through emergence of lump sum payments at the beginning of tenancy. These payments are illegal under the DRCA (section 5) 1958. The DRCA permits only one month's advance to the landlord. In Delhi's RHM, six months' advance or a deposit equivalent to six months' rent is quite common. Even when such payments have been made, the DRCA (section 13) provides for refund of these to the tenant. However, it may not always be possible for the tenant to prove that such a payment has been made. The act provides for compulsory issue of receipt by the landlord. This provision is also used by the landlord. In case of confrontation, the case of the tenant is significantly weakened if such a receipt cannot be produced in the court. Some of the landlords use non-issue of receipt as a precondition for

renting out.

The only provision which has been relatively more effective relates to protection of tenant against arbitrary eviction. Thus, RCA has been able to provide some security of tenure to the tenant. Security is provided not only in terms of strictness of causes for which the tenant can be evicted but also by lengthy procedures which discourage a landlord to go to the court for eviction. The landlord however takes recourse to various extra-legal methods to evict the tenant:

- (i) pay reverse 'pugree' to the tenant to induce him to vacate the house. As long as the amount of this reverse 'pugree' is less than the cost of fighting the case in the court and loss in rent in the intervening period and three years from the date of eviction,⁵ the landlord would opt for this alternative;
- (ii) use of force to evict the tenant. In Delhi, organised gangs take up this job. The going rate for this operation in Delhi is around Rs 50,000. The rate can be higher for houses located in posh localities. Recourse to this method is not as common as to the first.

There are risks involved in both the methods and success is not assured. Just as it is illegal for the landlord to accept a 'pugree' so it is for the tenant to do so and he can be punished under the act for accepting any unlawful payments (up to six months' imprisonment and/or a fine which may 'exceed' the value of reverse 'pugree' by as much as Rs 5,000). The tenant may therefore hesitate to accept lump sum compensation in lieu of vacating the premises.

Another way in which the landlord minimises the 'risks' of not being able to evict the tenant is by opting for low risk tenants. Persons with transferable jobs, companies and foreigners top the list of preferred tenants. In an analysis of advertisements of 'To let' columns of the Sunday edition of *The Hindustan Times* (January-April, 1988), it was found that 30 per cent of the advertisements (total number of advertisements analysed 1,597) specified company lease, 10 per cent specified embassy or foreign diplomat and 8 per cent bank employees as the conditions for tenancy. Sixty per cent of the advertisements registered some preference or the other.

The ineffectiveness or partial ineffectiveness of provisions of RCA however does not mean that the RCA has had no impact on price or supply or maintenance of rental housing in Delhi. The impact however is not as visualised in general criticism of RCA. The exclusion of part of the market from the jurisdiction of RCA and partial ineffectiveness of some of the provisions of the RCA resulted in segmentation of the market. This can be termed as the secondary impact of RCA. The total impact of RCA should thus be viewed in terms of its impact on each of the sub-markets separately as presented below.

SEGMENTATION OF THE MARKET

The existence of RCA has segmented the RHM broadly into three categories. These

are:

- (i) controlled market;
- (ii) semi-controlled market; and
- (iii) uncontrolled market.

Sub-markets (i) and (ii) theoretically fall under the purview of the RCA whereas sub-market (iii) is exempted. The difference between (i) and (ii) lies in the fact that the landlords in sub-market (ii) have succeeded in avoiding—at least partially—the impact of RCA, whereas the landlords in the first market have not been able to do so.

CONTROLLED MARKET

The controlled market consists mainly of two categories of houses (i) old housing units which were already rented when the act came into being; and (ii) tenancies where tenants have applied for fixation of standard rent.

In the absence of time-series data from the time of enactment of RCA till present it is not possible to estimate the size of the controlled market. In 1988 it could not have been a significant part of the total housing market of the city. First, a major part of the housing stock in the market is of post-1958 origin. Secondly, a very small per cent of tenants approach the court for rent fixation. Between 1971 and 1987, 2,953 cases were instituted with the rent controller in Delhi for fixation of rent. These comprised of less than 2 per cent of total cases.

A larger part of the controlled market will therefore be composed of older areas in the city. The housing conditions in these areas are very bad, the densities very high and amenities quite deficient. Most of this area has been declared slum area and protected under the Slum Improvement and Clearance Act, 1956. If the housing conditions in the controlled market are very bad, it is reasonable to assume that the upper income groups among the existing households will move out to better areas. This will reduce the size of the controlled market since new renting will be done not at the controlled but at the market rent. This shift, however, will not take place in case of tenancies in new colonies which have become posh locations over time.

It is argued that the RCA by fixing rent at less than market price leads to a decline in supply of rental housing through withdrawal of units. Low rents also presumably discourage new investment in rental housing and also lead to excessive use of space by tenant households. These arguments do not seem to be valid in the case of the controlled segment of RHM in Delhi. The supply of rental housing in the controlled sector is more or less frozen. The reason lies not in landlords' unwillingness to withdraw units from the market but in their inability to do so. An indirect evidence of this is seen in the large percentage of rented dwellings in central Delhi. In 1987-88, 71 per cent of the dwellings were partly or fully rented in this area. For the whole of Municipal Corporation of Delhi the percentage was 33. Increase in supply of rental housing in this market is possible only when tenants approach court and get a fair rent fixed. The net impact of RCA on the supply of rental housing in this market will therefore be very insignificant.

As for excessive use of space in the controlled market, this might be true of some of the new colonies in the city but does not seem to hold true for old parts where densities are as high as 600-1,200 persons per hectare. In these parts if market rents are charged the inhabitants of the controlled market may find these houses unaffordable and shift to some housing which is even inferior to existing housing.

The most important effect of RCA in these markets is of deterioration of housing stock due to lack of maintenance. The low rate of return from renting out may not lead to a decline in number of units, until due to accelerated obsolescence, the units die a premature death. The supply of rental housing (services) however declines even in the absence of such an occurrence in two ways; (i) increasing age; and (ii) decline in flow of services which the house can offer.

SEMI-CONTROLLED MARKET

The semi-controlled segment of the market incorporates the newly constructed properties which are partially exempted from the purview of the act for a limited period and other properties which though legally under the purview of RCA, manage to avoid many of its provisions. The most important provision being evaded is that of fixation of standard rent. A rent higher than 'fair' rent is charged either on a monthly basis or in the form of key money at the beginning of tenancy. The rent will be the market rent prevalent at the time the house is being rented.

Over time, the rents of these properties became lower than the current market rents under inflationary conditions. The RCA protects the tenant against arbitrary increases in rents. The reaction of the landlord of the older tenancies is the same as that of the controlled market. A rational landlord will like to increase the rent and failing that will try to evict the tenant so that the premises can be rented out afresh at market rent. There are difficulties in achieving either of the two ends.

A sizeable proportion of Delhi's Rental Housing Market falls in the category of semi-controlled market. The exempted component itself is 19-20 per cent of the total rental housing stock.⁶

The units in the semi-controlled market may shift to the controlled segment in case the tenant applies for fixation of rent. The landlord however may escape the clutches of RCA through informal channels. Some landlords may withdraw their rental units from the market rather than adopt illegal means to raise the rate of return on their housing units. Others may not. Still others may continue to supply the unit willingly, due to their inability to opt out of the market or evict the tenant, and continue to accept a low rate of return. The impact on supply of rental housing in this segment will depend upon the composition of landlords in terms of proportion of risk-takers to risk-averse. It however, cannot be denied that the provisions of RCA are daunting enough to scare

the 'weak' landlords. On the other hand, this must also be noted that for the act to be operational it is also the tenant who has to go to court, hire a lawyer and appear every time a hearing is scheduled. The opportunity cost of time and money spent cannot be insignificant for the tenant either. The tenant also may not desire to be involved in any complications and therefore agrees to pay the market rent. Landlords will favour such tenants who cannot 'afford' to go to court.

The decline in supply of rental housing in this market comes about mainly through conversion of units from rental to ownership status. There is no direct data available on this. The number of eviction cases instituted with the rent controller and decided in landlords' favour can be a good indicator of this conversion. Between 1972 and 1978, a total of 56,908 cases were registered for eviction. Assuming that 25 per cent of these were decided in favour of the landlord⁷ a total of 14,227 houses or approximately 890 houses per year would have been withdrawn from the RHM of Delhi—if not permanently, at least for a transitional period.⁸ During the period 1971-81, approximately 1,37,544 new units or 13,754 units per year had been added to the RHM in urban Delhi. Thus, despite a withdrawal of a few units per year the net supply of rental housing has continued to increase.

As old units leave the market—and some of these also may re-enter the market after three years—new ones enter the market. It is quite possible that a larger part of the new units belong to the semi-controlled market.

UNCONTROLLED MARKET

The uncontrolled market comprises of (i) government properties, (ii) sublet government houses⁹ and (iii) low income properties, which are outside the purview of RCA due to ignorance on the part of the tenants and/or the landlords.

The size of this segment varies. Whereas both (i) and (ii) continue to be in the uncontrolled market due to legal exemption, the tenants and landlords of low income properties can take advantage of the act and shift to the controlled market. Below we attempt a rough estimate of the size of this segment in Delhi's rental housing market in 1981 based on data available in the census, and that provided by the DDA.

SIZE OF UNCONTROLLED SEGMENT

DDA has provided information on the number of households living in different types of housing, namely, squatter colonies, employer housing, unauthorised housing, etc, for the years 1961, 1971 and 1981. If we assume that the density of households per dwelling is the same for all housing types, we could interpret this data to give us distribution of dwelling types. According to the available data, 6.27 per cent of housing in Delhi in 1981 was government housing. Assuming that 50 per cent of this housing is sublet (partly or fully) it would add approximately 3 per cent to the uncontrolled

segment of the RHM. The remaining 3.27 per cent of housing was squatter settlements or inhabited by low income families. This would bring the total uncontrolled segment of the market to approximately 28 per cent of the total private sector housing market in the city which is a significant part of the total housing market. If we were to add to this housing—the unauthorised colonies, another 1.7 per cent would fall beyond the purview of the act.¹⁰

The existence of RCA in some segments of the market and consequent impact on supply would lead to higher rents in the uncontrolled sector than would be the case in the absence of RCA.

The total impact of Rent Control Act on the RHM would depend on the composition of the RHM in terms of controlled and uncontrolled segments. If a large proportion of the market is uncontrolled, the impact will be insignificant and vice versa. The present RCA in Delhi came into being in 1958 and has been in operation since 1939 in some form or other. The landlords of Delhi have had sufficient experience/expertise in devising ways and means to circumvent this act. A large part of Delhi's RHM would therefore fall in the semi-controlled category. A very small part would be controlled. As pointed out above, within the semi-controlled market, the impact depends upon the degree of perceived risk in renting out and whether the landlord is a risk averter or a risk taker.

The RCA in Delhi may not have had as significant an impact on supply of rental housing in Delhi as in creating a black market and various other distortions in the RHM. The government, however, in its conventional wisdom diagnosed the problem mainly as that of reduced supply of housing and of increased discord between landlords and tenants and introduced amendments to DRCA 1958 in May 1988. These amendments became effective from December 1988.

III

Major Amendments

In line with the diagnosis of the problem and stated objectives, the amendments have been directed towards increasing the supply of rental housing—from existing as well as new stock of housing. The amendments have also tried to tilt the balance a bit in favour of the landlord by permitting increases in rent, facilitating eviction for certain classes of population and increasing the scope of exemptions.

Believing that RCA was a major deterrent to the supply of rental housing, the DRCA (1958) exempted a few more classes of properties from the purview of the RCA. These include properties with a monthly income rental of Rs 3,500 and above and newly constructed properties for a period of ten years. For existing properties and for properties with a rent of Rs 3,500 or less the inducement to increased supply has been given in the form of increased standard rent. The

7.5-8.25 per cent to 10 per cent of the cost of the house. Further, the standard rent can be increased by 10 per cent every three years.

Under the amended bill there is an increased penalty for non payment of rent and for not vacating limited period tenancy. In case of default of rent, the tenant is now liable to pay, in addition to the rent, simple interest at the rate of 15 per cent per annum from the date on which such payment of rent is due to the date on which it is paid. Further, for not vacating a limited period vacancy the controller may award to the landlord such damages for the use or occupation of the premises at such rates as he considers proper for the period from the date of such order till the date of actual vacation by the tenant.

On the other hand, there are increased penalties in case of landlords violating the provisions of the act also. Thus, the penalty for reletting the house within three years of eviction has been increased to imprisonment up to six months from three months earlier.

Under the amended act, eviction of the tenant has been made easier for certain groups of population. Thus, for persons retiring from Central government services, Delhi administration and armed forces the amendments provide for right to recover immediate possession of premises. For other classes of landlords eviction has been made more (rather than less) difficult. One of the valid grounds for eviction under the DRCA 1958 was building of a house by the tenant. This no longer is a sufficient condition under the amended bill. Under the amended clause the tenant is permitted to continue his tenancy for a period of 10 years even after building the house. Increased penalty for reletting within three years of eviction also makes eviction more risky.

The question of amendment or even complete abolition of RCA has been hanging fire for long. The Economic Administration Reforms Commission, set up by the government under the chairmanship of L. K. Jha, came out with specific suggestions to reform the RCA in 1982. The National Commission on Urbanisation, in its interim report in 1987 also gave some concrete suggestions in this regard. In view of all this long term activity on the part of the government, it is surprising that the present DRCA 1988 falls short on so many counts. Not only do the amendments touch the mere fringes of the problem which can be explained in terms of political factors, but some of the amendments lack clarity and will lead to greater distortions in the market. The ability of these amendments to improve the situation in RHM, even in terms of stated objectives is highly suspect.

SOME ANOMALIES

The amendments which cause maximum confusion relate to the exemption of high rent (above Rs 3,500 per month) properties from the purview of the Rent Control Act. The amendments do not specify whether the rent being referred to is the rent currently

If it is the latter, what are the implications for tenancies whose market rent is greater than or equal to Rs 3,500 per month but where the tenants at present are paying a rent lower than the market rent? Presumably, the landlords of these properties can now increase the rent to the market level and/or evict the tenant under the Transfer of Property Act. The amendment is going to lead to greater discord between the landlord and the tenant. Even if it is clarified that the rent being referred to is market rent, the question is how is the market rent to be ascertained. This amendment by itself will lead to even greater litigation defeating one of the objectives of the bill.

Another amendment lacking in clarity is the one relating to the permitted increase in the rent of 10 per cent every three years. Can the increase be interpreted as 3.33 per cent increase every year or does it imply that the rent can be increased by 10 per cent only at the expiry of three years? If latter is the case then short term tenancies with a duration of less than three years tend to lose out. Assuming that the RCA is strictly adhered to with respect to controlled rent, everytime the landlord rents the house afresh, fair rent will be calculated at 10 per cent of the cost of the house and no increases will be permitted. This provision will introduce anomalies in the rent structure of similar houses in the city. Landlord of older tenancies will be better off. The tenants too under these circumstances may prefer to shift houses before three years are over and the increment becomes due.

Again there is no clarity relating to the date from which the increments are to be calculated, especially for existing tenancies: from the first year of tenancy or from the date the bill became effective? The government should issue clear guidelines in this respect to avoid confusion.

A curious feature of the bill is the partisan attitude shown to tenants who have built their own houses in permitting them to remain in the rented house for another 10 years. The rationale underlying this relaxation is beyond comprehension. Read in conjunction with the exemption granted to newly constructed properties, this clause would permit the tenant owner to have his cake and eat it too. For the first 10 years of a newly constructed house when the RCA is not applicable, the tenant can rent out his house at remunerative rent while continuing to enjoy protection of RCA in his existing tenancy. This amendment specially favours tenants who build house on or after December 1988.

The government's partisan attitude is reflected in making eviction easier for certain classes of population is not easily explainable except that it favours its own employees namely government servants.¹¹ The specific problems of government servants could have been taken care of under the existing provisions and there was no need to introduce additional clauses in this respect. Thus, section 14A of DRCA 1958 extends the right to recover immediate possession of house to

had to vacate the house allotted to them by the government. Again, the special needs of persons with transferrable jobs also could have been taken care of under the existing provisions relating to limited period tenancy by extending the applicability of this clause from two years to the period of transfer.

In permitting tenants to hold on to their existing tenancy even after building their own houses and in assuring eviction of the tenant (at least to certain classes of landlords) the government's implicit objective seems to be to encourage supply of housing by existing tenants and potential landlords. If so the government does recognise the significance of ease of eviction as a factor influencing supply of rental housing. By limiting this amendment only to a small group the impact on total supply is going to be very small. So will be the impact of other amendments.

LIKELY IMPACT OF AMENDMENTS

The amendments are not likely to have any significant impact either on the supply of rental housing, or on the maintenance of housing stock or, on relationship between the landlord and the tenant. A rent calculated at 10 per cent of the cost of the house and increasable by 10 per cent every three years is not going to improve the rate of return from housing much. Going by the protests made by the tenants over these amendments even these increments are not going to be easy to bring about in old tenancies.

The supply of rental housing in the high rental (uncontrolled) sector might increase. The demand for this kind of housing, however, is bound to be quite low for two reasons:

- (i) The low percentage of population which can afford this type of rental housing. Assuming that a household spends around 20 to 25 per cent of its income on rent, the lowest income for a household to be able to afford a rent of Rs 3,500 will have to be in the range of Rs 15,000 to Rs 17,500 per month. The number of such households in Delhi would be a minuscule proportion of the total number of households in the city.
- (ii) The low preference for rental housing by the high income groups. These groups normally go for rental housing only if they plan to stay in the city for a short period. Proportion of such households in the total population of the city can not be very high.

The increased supply in the face of stagnant demand in the segment may lead to a decline in the level of rents. This will however not benefit the lower income groups who are the major buyers of rental housing services. These groups opt for rental housing because they cannot afford ownership housing. If the assumption that RCA leads to a reduction in supply of rental housing is correct, then the situation for this section of population will continue to be as 'difficult' as before. The amendment may thus benefit a very small section of population. The amend-

most disturbing high income properties from the purview of RCA is more understandable if the objective is to reduce pressure on the rent control department. The number of such cases however cannot form a high proportion of total number of cases in court.

The exemption of new construction from RCA for the first 10 years is also directed to encourage supply of housing for renting. An analysis of the rates of return from rental housing brought out the fact that even if the landlord charges market rent, returns from renting out are very low [NIUA: 1989]. Mere exemption of properties from the RCA is not going to increase the supply of rental housing in the market. Even if supply increases, this may be only transitional and households may withdraw the unit from the RHM at the end of the exemption period.

The ultimate objective of increased supply is to lower the level of rents. It is a moot question whether the rents will really decline—even if the amendments have the desired impact. In case of supply out of new construction, it is possible that to make up for the probable loss of income when the unit enters the controlled market the rents of transitionally exempted properties may be jacked up. Further, in a given year the addition to housing stock and specially rental housing out of this stock is not going to be very significant. The impact on rentals of these meagre additions cannot be significant.¹²

High price of housing is not specific to the RHM but extends to the total housing market. The high value of houses in Delhi reflects not only the low supply in relation to demand for housing but also the high replacement cost (production) of housing. In Delhi the value of houses has increased at rates much faster than those of rents [NIUA: 1989]. If rents were to be taken as a return on investment calculated at current market value or replacement cost, a reasonable rate of return even at 10 per cent—the percentage prescribed under the DRCA 1988—would imply a high level of rent.

As for bringing a better balance between landlords and tenants, the RCA is still biased in favour of the tenant. The major irritant to the landlord is restriction on right of eviction. The provisions for eviction have become even more restrictive than earlier. The amendments are not likely to lead to any decline in litigation. If the decline occurs it will be either because the landlords increasingly take recourse to extra judicial measures or, given the inefficiency of the system they have no option but to continue the *status quo*.

IV

Reforming Rent Control Act

The Delhi Rent Control Act was conceived as a short-term measure to take care of scarcities in the housing market in the aftermath of second world war. As such, it might have been successful in the short run in controlling rents. The RCA was not intended to be a long-term measure. At the time of its imposition, it was assumed that in the long run,

as and when the supply of rental housing increased the controls would be discontinued. The supply never did improve and DRCA has continued to be operative for over 50 years now. A short-term measure like DRCA cannot be used to take care of long-term problems unless it is adjusted frequently to adopt to the changes taking place in the market. In fact, this is what accounts for the ineffectiveness of DRCA in Delhi. Over time, the market has adjusted to RCA and found its own solutions. The emergence of an effective and efficient black market in rental housing had added to distortions in the economy created by RCA in the first place. On a positive note, it is these practices which have blunted the negative impact of RCA on RHM also. The fact that RCA does not have significantly negative impact on supply of rental housing however cannot be used as an argument for its continuation. The cost to the economy, in terms of distortions created and mechanisms devised to beat the system, has been very high. The benefits, in comparison have been too small and confined to a very small segment of population. The abolition of RCA will remove these distortions. Whether it will be able to improve the situation in RHM is a moot point?

ABOLITION OF RCA

Critics of RCA all over the world have recommended abolition of the act. It is argued that abolition of RCA will improve the supply of rental housing and lead to a decline in rents in the long run. In Delhi's RHM where RCA has had only marginal impact on supply of housing, its abolition cannot increase this supply significantly nor lead to a decline in the level of rents. Whatever increases occur in supply, will originate mainly from risk-averting landlords who had held back the supply of rental housing due to RCA. Even here the impact on supply would depend upon the perception or expectation of landlords regarding probability of reimposition of RCA. In a city where RCA has been operative for the past 50 years, the psychological fear of its reimposition is going to be very high. The existing landlords (especially of old tenancies) however may make use of this expectedly transitory period to evict existing tenants and either sell the property or re-let it after taking all precautionary measures.

If RCA is abolished and the market is left to itself, the average rent in the market is going to be even higher than is the case at present. Market rents in Delhi move with the value of houses and given the high value of houses rents will be very high. The basic problem of high rents as cited above is of low supply and high cost of housing and not of scarcity of rental housing alone. Solution to the problem thus lies in increased supply of housing at reasonable cost. This however is a long-term solution. In the short-term, either one is to accept high rents or continue to have some type of rent control. An abrupt abolition—temporary or permanent—is likely to cause great dislocation in the market.

Apart from that, it is not going to be possible politically for the government to do away with RCA altogether. It should however be recognised that the current RCA has outlived its utility. The various amendments based on symptomatic diagnosis merely impose another superstructure of rules and regulations leading to more complications. What is required is a fresh look at the RCA in line with the new realities of market place. The experience with DRCA over the past 50 years can be a useful guide for formulation of a reformed RCA.¹³ In formulating such an act it is very important that there is clarity of objectives and effort is made to achieve these objectives. The existing DRCA falls short on this count. In case of DRCA 1958 the major objective was defined as protection of tenant through ensuring reasonable rent, provision and maintenance of services and guarding the tenant against arbitrary eviction. The act, however does not strictly enforce the requirement of a fair rent. Greater importance has been given to imposing restriction on eviction of the tenant.

These provisions have in fact indirectly helped in controlling rents. In fact, this has become a major irritant to the landlord as it is seen as a major obstruction in raising rents. If the policy objective of intervention in the RHM is to maintain rents at reasonable levels, then the government has to formulate an explicit policy in this regard.

Judging by the experience with RCA in Delhi's RHM it might be better if the reformed RCA gives greater emphasis to maintenance of reasonable rent and makes eviction little less difficult. The existing RCA protects the tenant but it ensures neither a fair rate of return nor, reversion of the property to the landlord as and when required. There is need to take a more balanced view of the situation. The tenant must be protected against arbitrary eviction and exorbitant rents. Meanwhile, the landlords must also be ensured a fair rate of return (taking into account all the costs of renting over a period of time). Further, if the Constitution recognises the right to ownership of property, the right of the landlord to exercise his option either to rent it out or not, or to rent it out to a particular individual should also be protected. There is however need to remove arbitrariness from these decisions. A *via media* is proposed taking into account the interests of both the tenant and the landlord.

RATIONALISING RENT CONTROL ACT

The major problem faced by the tenant is uncertainty regarding duration of tenancy and future level of rent. There may be no objection to paying the market rent if the tenant can be certain of the stability of this rent or the security of tenure at least for a few years. The landlord again may not be looking for a rate of return comparable to that earned by equity of bluechip companies, and may be agreeable to a lower rate of return if retrieval of property is assured—if not as and when required at least after a specified period. Thus, a rational solution

obligatory under a contract. The terms of tenancy, namely, the period of tenancy, the mutually agreed rent and the proposed increases in it should be clearly spelt out in the contract. The normal tenancy should be for a period between five and seven years. If the landlord wants possession of the house prior to that period, a year's notice or compensation in terms of a specified sum should be given to the tenant. This will remove any arbitrariness in eviction procedures and will give sufficient stability to the tenant. After the expiry of the contract, if both landlord and tenant are agreeable, a new contract can be drawn up. This step will not only induce the risk-averting owner to enter the rental housing market (by reducing the risk of losing the house) but also increase the supply from landlords who want to rent out for temporary periods.

The protection of the landlord (in terms of assurance of the court for eviction of the tenant) should be linked with registering the tenancy with the rent controller or rent administrators and with the charging of a fair rent.

An important issue which the government will have to tackle relates to the definition of a fair rent. Fair rent can be defined either as market rent or a rent which besides giving a 'reasonable rate of return' to the landlord also covers all the variable costs of renting. Whereas it is possible to exactly quantify the variable cost of renting, reasonable return is a very nebulous concept. The nebulousness arises due to different values which the variables determining this return can take. These variables are: (1) base on which the rate of return is to be calculated. Should the base be actual cost of the house, or replacement cost of the house or its current market value? (2) the definition of reasonable rate of return. Should it be equal to return on long-term government securities or on equity of blue chip companies or, average rate of return from other long-term investments, etc?

It is clear if the base is taken as the current market value or replacement cost of the house rents, even if a relatively low rate of return is chosen, will be very high. On the other hand, fair rents calculated on the basis of actual cost, especially of old houses will give very low return. A via media will have to be found. We suggest using actual cost of the house as base and, the rate of interest on long-term deposits as a reasonable rate of return.¹⁴ This will give fair rent for the base year—that is the year in which the house was constructed. This rent then should be inflation indexed. While inflating the rent, care should be taken that the property is well maintained, otherwise the estimation of economic base should consider depreciation of the property. The rate of return so calculated will take account of inflation but not of increase in market value of the property due to locational factors. As has been observed from the reaction of tenants to moderate permitted increases under the current amendments, it would be very difficult to put this principle into effect in case of old

tenancies. A lower rate of increase in rent in case of older tenancies might be recommended. Another alternative might be to make reformed RCA applicable only in case of post-1960 or post-1970 tenancies.

As mentioned before, rent control is not a long-term measure and cannot solve the long-term problem of rental housing. The government should have well defined long-term and short term policy. In the short-term, one can have a limited kind of rent control which should gradually give way to market forces. This should be supplemented by the long-term policy of the government directed towards increasing the supply of housing at reasonable cost. The government should take specific measures to encourage production of housing for renting.

Notes

- 1 Basic rent is defined as either rent which was fixed under the earlier Rent Control Acts or rent at which premises were let out on November 1, 1939; or rent at which premises were first let out after November, 1939 but before June 2, 1944.
- 2 Tenants living in slums are covered under the Slum Areas (Improvement and Clearance) Act for certain provisions. According to the rent controller, Delhi, tenants living in unauthorised housing can take recourse to the RCA. These groups however may not be aware of their rights.
- 3 The opportunity cost of going to court is very high and low income groups and the service class can ill-afford it. Further, legal illiteracy among the low-income groups is very high.
- 4 The DRCA 1958 recognises the rent agreed between the landlord and the tenant as legal.
- 5 If the eviction is on bona fide grounds the landlord is restricted from reletting the house till three years have elapsed.
- 6 Between 1971-81, a total of 3,84,097 new residential and residential-cum-non-residential houses were added to the existing housing stock in Delhi. Assuming an even distribution of new construction over this period, a total of 1,92,049 houses would have come up between 1976-81 which would be exempted from RCA. These make approximately 19.19 per cent of the total housing stock in 1981.
- 7 This estimate is based on number of cases decided in favour of the landlord from a sample of 173 cases, data for which was obtained from the rent controller. "Ic."
- 8 This is a very rough way of estimating the withdrawal of houses from the RHM due to RCA. The landlord may not have to take recourse to the court (every time) for evicting the tenant. Further, in some cases of eviction the unit may be relet. The ban on reletting is restricted to cases where eviction had been sought for self-use.
- 9 Even though these properties are out of the purview of RCA by being government pro-

perties, the subletting of these properties makes them part of the private sector supply of rental housing.

- 10 Even though tenants of unauthorised colonies are protected under the RCA, according to the chief rent controller, Delhi, the illegal nature of these colonies may inhibit the landlord/tenant from approaching the courts. A perusal of active files in the rent controller's office revealed an almost complete absence of cases from such colonies. There were a few cases from colonies which have been regularised by the government.
- 11 As it is government servants are doubly blessed—they enjoy government accommodation during their tenure with government at subsidised rents while continuing to rent their own house at a higher rent. In 1963, the order banning provision of government accommodation to house-owning officers was rescinded.
- 12 In a particular year new housing added accounts for approximately 2 per cent of the existing housing stock. Even if 50 per cent goes for renting, the increase in rental housing supply cannot be very high.
- 13 One should however be careful about jumping to naive conclusions. Thus, the fact that restriction of the right to evict the tenant has been a major irritant and obstruction to supply of housing by the landlord does not imply that removal of this irritant will solve the problem. What it will accomplish is making the current act completely ineffective. In that case it will be much better to abolish the RCA as such than to have the pretence of a regulatory act.
- 14 It may be argued that the bank rate on long-term deposits is not a fair rate since whereas the value of the deposit declines over time, the value of house normally increases. The landlord would thus be earning a rate much higher than the bank rate. We hold that the appreciation in the asset value of the house should not be taken into account while calculating the rate of return. This appreciation is notional till the landlord sells the house and should be taken care of at that point of time rather than reduce the rate of return for a landlord who would never sell the house.

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Indigenous Social Science

Neera Chandhoke

SARAH JOSEPH in her interrogation of indigenous social science (*EPW*, April 13) has raised certain very crucial points as regards the internal logic of the project. The argument needs to be extended and expanded because it has important theoretical, methodological and political implications of concern to political theorists as well as to those of us who are engaged in comprehending the post-colonial world. One issue that has come up repeatedly in at least my teaching and study of this world to the appropriate theoretical tools that can be employed in this enquiry; whereas there is concern, even scepticism, over 'received social science methods and their relevance to our societies', no genuine alternative seems to have emerged from the proponents of indigenous social science. This brings the entire question of universal vs particular social science to the centre of methodological debates. Theorists of indigenous social science hold that what passes off as universal social science is Western social science, born out of the specific historical experience of Europe and globalised by the colonial intervention and the structures of neo-colonialism. There is no gainsaying that the globalisation of capital has also globalised modes of enquiry originating in the West. This was the particular case with the modernisation theory that pervaded academia and the centres of decision making in the Third World in the immediate aftermath of independence. The point is, do we reject or relinquish theory because of its spatial origins? In other words, do we assume that theories possess or do not possess certain properties only because they are the products of specific historical conditions? By this logic Gandhism is peculiarly suited to be practised only in India because it arose out of the Indian experience—when most liberation movements have acknowledged not only the inspiration provided by Gandhism but also its relevance for national liberation politics and for techniques of resistance.

The point is that all societies are sites for plurality of theories, each of them arising from similar conditions and historical trajectories. Yet as systems of representation, their preoccupations, in their prescriptions they occupy different theoretical and political spaces. Each spatial setting then becomes the terrain of contestation between theories claiming to represent reality in an authentic fashion. Marxism was born out of the same conditions as Liberalism, yet it merged as an antithetical social science and rescribed antithetical political practices. Marxism could occupy a radically different

position because the questions it asked, the concerns it focused on, the problems it posed, the contradictions it brought to the centre of analysis were different; therefore, its solutions were distinctive. It interrogated and expanded existing theory and thereby effected a shift of the epistemological terrain. Theories are not distinguished solely by their spatial settings, but by their normative structures and their concerns. The location of the practitioner in the same theoretical and normative space, irrespective of his/her spatial location, makes for universality. Surely a radical feminist concerned about the triply oppressed dalit woman worker is as concerned about the woman worker in South Africa, oppressed by race, class and gender; and the Latin American woman worker similarly triply oppressed in the sweat shops of the USA. It is this shared concern, this perspective that locates a feminist in a radical tradition. Comparative political enquiry has shown us that if there is a universal human condition, it is that of domination and if there is a universal human reaction, it is that of resistance. A theoretical tradition that raises these questions to the forefront of analysis makes for relevance and thus universality.

Secondly, every theory has specific properties as well as universal properties. The commonality of the questions raised, the problems addressed gives universality; the answers make for specificity and for political practices relevant to that society. Mao, Cabral, Fanon, Machel were located in the Marxist tradition, yet the practices they prescribed for their societies were distinctive. The postulation of specific practices appropriate to their societies and their history were within the same epistemological terrain. Marx's concern for emancipatory politics transcends the European origins of Marxism and makes it relevant to the human condition.

Thirdly, the same critique that queries the spatial setting of a theory should logically be extended to the location of the practitioner of that theory. Location not in the sense of socio-economic structures, but in terms of particular theoretical traditions. Elitist intellectuals theorising their own societies from positions of distance are as far removed from the experiences of their people as are theorists in the West. Is the alternative to Western theory indigenous social science? Do we assume that one is able to theorise one's own society in a better way? The link is tenuous at best. When we get theories that pay little reference to class struggles in their own societies, that do not

take into account oppression, inequality, exploitation, all we get is theory alienated from its context. Two implications follow.

First, the privileging of an indigenous social science, where national boundaries are used to mark off intellectual boundaries, reinforces nationalist mythology at a time when nationalism is being de-fetishised as an artificial construct by poets, litterateurs and activists. When a social science project defines itself against a metropolitan one, then the central contradiction becomes national vs imperial displacing the central contradiction between capital and labour. The location of intellectuals waging war on all received concepts needs to be enquired into very carefully, before we accept indigenous theory as authentic, in terms of setting intellectual and political agendas. It can be also dangerous, as Sarah Joseph has pointed out, when it lapses into attacks on socialism, secularism and other 'universal' principles as Western and pseudo.

The other point that makes me uneasy is the following: I wonder whether by postulating a specific social science, these practitioners are not opting out of theoretical engagement with hegemonic social science altogether. Niches have been secured for 'exotic theory' coming from the so-called Third World and the process of the consolidation of a hegemonic project continues. This is indeed reverse Orientalism with a vengeance, with the difference that now it emanates from the post-colonial world. Epistemological terrains are shifted not through placement of the interrogator in other cultures, but through the process of an immanent critique, i.e., through the thematisation of the normative structures of the theory that should inform social and political practices, and through an examination of the impediments that impede the realisation of those norms. Maybe we ought to re-read Marx's critique of classical political economy to see how this can be done, if we do not want to throw out certain very precious babies with the (cultural) bath-water.

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(AT CURRENT PRICES)

| Year | GDP at Factor Cost | CFC | NDP at Factor Cost | Indirect Taxes Less Subsidies | GDP at Market Prices | NDP at Market Prices | GNP at Factor Cost | NNP at Factor Cost | GNP at Market Prices | NNP at Market Prices | PFCE in Domestic Market | GFCF | GDCF |
|------------|--------------------|-------|--------------------|-------------------------------|----------------------|----------------------|--------------------|--------------------|----------------------|----------------------|-------------------------|-------|--------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| 1950-51 | 8979 | 413 | 8566 | 387 | 9366 | 8953 | 8938 | 8525 | 9325 | 8912 | — | 526 | 954 |
| 1951-52 | 9480 | 457 | 9023 | 486 | 9966 | 9509 | 9445 | 8988 | 9931 | 9474 | — | 552 | 1188 |
| 1952-53 | 9349 | 487 | 8862 | 425 | 9774 | 9287 | 9324 | 8837 | 9749 | 9262 | — | 572 | 772 |
| 1953-54 | 10180 | 510 | 9670 | 458 | 10638 | 10128 | 10161 | 9651 | 10619 | 10109 | — | 604 | 909 |
| 1954-55 | 9563 | 560 | 9003 | 510 | 10073 | 9513 | 9534 | 8974 | 10044 | 9484 | — | 630 | 1070 |
| 1955-56 | 9717 | 601 | 9116 | 541 | 10258 | 9657 | 9707 | 9106 | 10248 | 9647 | — | 675 | 1469 |
| 1956-57 | 11600 | 668 | 10932 | 617 | 12217 | 11549 | 11583 | 10915 | 12200 | 11532 | — | 744 | 1959 |
| 1957-58 | 11859 | 725 | 11134 | 739 | 12598 | 11873 | 11839 | 11114 | 12578 | 11853 | — | 870 | 1843 |
| 1958-59 | 13266 | 845 | 12421 | 768 | 14034 | 13189 | 13231 | 12386 | 13999 | 13154 | — | 933 | 1785 |
| 1959-60 | 13934 | 917 | 13017 | 859 | 14793 | 13876 | 13877 | 12960 | 14736 | 13819 | — | 983 | 1996 |
| 1960-61 | 15234 | 1022 | 14232 | 947 | 16201 | 15179 | 15182 | 14160 | 16129 | 15107 | 13442 | 1072 | 2544 |
| 1961-62 | 16097 | 1142 | 14955 | 1080 | 17177 | 16035 | 15999 | 14857 | 17079 | 15937 | 14056 | 1190 | 2438 |
| 1962-63 | 17212 | 1260 | 15952 | 1264 | 18476 | 17216 | 17104 | 15844 | 18368 | 17108 | 14804 | 1443 | 2916 |
| 1963-64 | 19671 | 1418 | 18253 | 1566 | 21237 | 19819 | 19559 | 18141 | 21125 | 19707 | 16435 | 1859 | 3266 |
| 1964-65 | 22981 | 1591 | 21390 | 1784 | 24765 | 23174 | 22836 | 21245 | 24620 | 23029 | 19348 | 1993 | 3735 |
| 1965-66 | 24063 | 1792 | 22271 | 2082 | 26145 | 24353 | 23899 | 22107 | 25981 | 24189 | 20423 | 2290 | 4390 |
| 1966-67 | 27389 | 2094 | 25295 | 2182 | 29571 | 27477 | 27159 | 25065 | 29341 | 27247 | 23785 | 2504 | 5437 |
| 1967-68 | 32187 | 2332 | 29855 | 2424 | 34611 | 32279 | 31929 | 29597 | 34353 | 32021 | 28344 | 2792 | 5334 |
| 1968-69 | 33943 | 2528 | 31415 | 2731 | 36674 | 34146 | 33688 | 31160 | 36419 | 33891 | 28385 | 3063 | 5113 |
| 1969-70 | 37328 | 2798 | 34530 | 3059 | 40187 | 37589 | 37057 | 34259 | 40116 | 37318 | 30776 | 3442 | 6285 |
| 1970-71 | 39708 | 3062 | 36646 | 3455 | 43163 | 40101 | 39424 | 36362 | 42879 | 39817 | 32545 | 3838 | 7177 |
| 1971-72 | 42248 | 3374 | 38874 | 4009 | 46257 | 42883 | 41957 | 38583 | 45966 | 42592 | 35101 | 4458 | 7986 |
| 1972-73 | 46473 | 3789 | 42684 | 4532 | 51005 | 47216 | 46171 | 42382 | 50703 | 46914 | 38688 | 4728 | 8130 |
| 1973-74 | 56954 | 4388 | 52566 | 5053 | 62007 | 57619 | 56629 | 52241 | 61682 | 57294 | 46638 | 5156 | 11824 |
| 1974-75 | 67039 | 5554 | 61485 | 6196 | 73235 | 67681 | 66748 | 61194 | 72944 | 67390 | 56505 | 6241 | 13379 |
| 1975-76 | 71201 | 6415 | 64786 | 7560 | 78761 | 72345 | 70946 | 64531 | 78506 | 72091 | 57822 | 7381 | 14811 |
| 1976-77 | 76536 | 6895 | 69641 | 8358 | 84894 | 77999 | 76303 | 69408 | 84661 | 77766 | 60079 | 8229 | 16721 |
| 1977-78 | 87351 | 7447 | 79904 | 8716 | 96067 | 88620 | 87118 | 79671 | 95834 | 88387 | 69183 | 8759 | 18765 |
| 1978-79 | 93880 | 8469 | 85411 | 10310 | 104190 | 95721 | 93724 | 85255 | 104034 | 95565 | 75242 | 9122 | 24266 |
| 1979-80 | 102442 | 10281 | 92161 | 11914 | 114356 | 104075 | 102595 | 92314 | 114509 | 104228 | 81704 | 11165 | 25278 |
| 1980-81 | 122226 | 12087 | 110139 | 13586 | 135812 | 127257 | 122571 | 110484 | 136157 | 124070 | 99083 | 13084 | 30867 |
| 1981-82 | 142876 | 14459 | 128417 | 16544 | 159420 | 144961 | 142916 | 128457 | 159460 | 145001 | 113456 | 15355 | 36068 |
| 1982-83 | 158851 | 16886 | 141965 | 18737 | 177588 | 160702 | 158217 | 141331 | 176954 | 160068 | 124691 | 18272 | 37007 |
| 1983-84 | 185991 | 19229 | 166762 | 20866 | 206857 | 187628 | 185047 | 165818 | 205913 | 186684 | 146084 | 21141 | 42955 |
| 1984-85 | 207869 | 22091 | 185778 | 22810 | 230679 | 208588 | 206445 | 4354 | 229255 | 207164 | 161041 | 24352 | 46440 |
| 1985-86 | 234159 | 26239 | 207920 | 28444 | 262603 | 236364 | 232730 | 206491 | 261174 | 234935 | 176052 | 29174 | 59917 |
| 1986-87 | 260442 | 29929 | 230513 | 32919 | 293361 | 263432 | 258637 | 228708 | 291556 | 261627 | 197843 | 34625 | 63646 |
| 1987-88 | 294408 | 33876 | 260532 | 38145 | 312553 | 298677 | 291789 | 257913 | 329934 | 296058 | 222527 | 41034 | 72134 |
| 1988-89 PE | 351724 | 39090 | 312634 | 43268 | 394992 | 355902 | 349105 | 310015 | 392373 | 353283 | 261603 | 47203 | 94432 |
| 1989-90 QE | 395143 | 45530 | 349613 | 47626 | 442769 | 397239 | 392524 | 346994 | 440150 | 394620 | 289640 | 53067 | 106501 |

(Rs crore)

| Year | NDCF | GDS | NDS | Per Capita GNP at Factor Cost | Per Capita NNP at Factor Cost | Rate of GDS (Per Cent) | Rate of NDS (Per Cent) | Rate of GDCF (Per Cent) | Rate of NDCF (Per Cent) | Annual Growth in GNP at Factor Cost | Annual Growth in NNP at Factor Cost | Annual Growth in Per Capita NNP | Population in Millions |
|------------|-------|-------|-------|-------------------------------------|-------------------------------------|------------------------------|------------------------------|-------------------------------|-------------------------------|--|--|--|---------------------------|
| | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 1950-51 | 541 | 975 | 562 | 249.0 | 237.5 | 10.4 | 6.3 | 10.2 | 6.0 | — | — | — | 359 |
| 1951-52 | 731 | 1005 | 548 | 258.8 | 246.2 | 10.1 | 5.8 | 11.9 | 7.7 | 5.7 | 5.4 | 3.7 | 365 |
| 1952-53 | 285 | 806 | 319 | 250.6 | 237.6 | 8.2 | 3.4 | 7.9 | 3.1 | -1.3 | -1.7 | -3.5 | 372 |
| 1953-54 | 399 | 922 | 412 | 268.1 | 254.6 | 8.7 | 4.1 | 8.5 | 3.9 | 9.0 | 9.2 | 7.2 | 379 |
| 1954-55 | 510 | 1054 | 494 | 247.0 | 232.5 | 10.5 | 5.2 | 10.6 | 5.4 | -6.2 | -7.0 | -8.7 | 386 |
| 1955-56 | 868 | 1430 | 829 | 247.0 | 231.7 | 13.9 | 8.6 | 14.3 | 9.0 | 1.8 | 1.5 | -0.3 | 393 |
| 1956-57 | 1291 | 1599 | 931 | 288.9 | 272.2 | 13.1 | 8.1 | 16.0 | 11.2 | 19.3 | 19.9 | 17.5 | 401 |
| 1957-58 | 1118 | 1370 | 645 | 289.5 | 271.7 | 10.9 | 5.4 | 14.6 | 9.4 | 2.2 | 1.8 | -0.2 | 409 |
| 1958-59 | 940 | 1409 | 564 | 316.5 | 296.3 | 10.0 | 4.3 | 12.7 | 7.1 | 11.8 | 11.4 | 9.0 | 418 |
| 1959-60 | 1079 | 1765 | 848 | 325.8 | 304.2 | 11.9 | 6.1 | 13.5 | 7.8 | 4.9 | 4.6 | 2.7 | 426 |
| 1960-61 | 1522 | 2063 | 1041 | 349.8 | 326.3 | 12.7 | 6.9 | 15.7 | 10.0 | 9.4 | 9.3 | 7.2 | 434 |
| 1961-62 | 1296 | 2093 | 951 | 360.3 | 334.6 | 12.2 | 5.9 | 14.2 | 8.1 | 5.4 | 4.9 | 2.6 | 444 |
| 1962-63 | 1656 | 2476 | 1216 | 376.7 | 349.0 | 13.4 | 7.1 | 15.8 | 9.6 | 6.9 | 6.6 | 4.3 | 454 |
| 1963-64 | 1848 | 2826 | 1408 | 421.5 | 391.0 | 13.3 | 7.1 | 15.4 | 9.3 | 14.4 | 14.5 | 12.0 | 464 |
| 1964-65 | 2144 | 3135 | 1544 | 481.8 | 448.2 | 15.1 | 8.2 | 17.1 | 10.7 | 16.8 | 17.1 | 14.6 | 474 |
| 1965-66 | 2598 | 3791 | 1999 | 492.8 | 455.8 | 14.5 | 8.2 | 16.8 | 12.2 | 4.7 | 4.1 | 1.7 | 485 |
| 1966-67 | 3343 | 4514 | 2420 | 548.7 | 506.4 | 15.3 | 8.8 | 18.4 | 13.4 | 13.6 | 13.4 | 11.1 | 495 |
| 1967-68 | 3002 | 4497 | 2165 | 631.0 | 584.9 | 13.0 | 6.7 | 15.4 | 9.3 | 17.6 | 18.1 | 15.5 | 506 |
| 1968-69 | 2585 | 4697 | 2169 | 650.3 | 601.5 | 12.8 | 6.4 | 13.9 | 7.6 | 5.5 | 5.3 | 2.8 | 518 |
| 1969-70 | 3487 | 6044 | 3246 | 700.5 | 647.6 | 15.0 | 8.6 | 15.6 | 9.3 | 10.0 | 9.9 | 7.7 | 529 |
| 1970-71 | 4115 | 6783 | 3721 | 728.7 | 672.1 | 15.7 | 9.3 | 16.6 | 10.3 | 6.4 | 6.1 | 3.8 | 541 |
| 1971-72 | 4612 | 7508 | 4134 | 757.3 | 696.4 | 16.2 | 9.6 | 17.3 | 10.8 | 6.4 | 6.1 | 3.6 | 554 |
| 1972-73 | 4341 | 7833 | 4044 | 814.3 | 747.5 | 15.4 | 8.6 | 15.9 | 9.2 | 10.0 | 9.8 | 7.3 | 567 |
| 1973-74 | 7436 | 11432 | 7044 | 976.4 | 900.7 | 18.4 | 12.2 | 19.1 | 12.9 | 22.7 | 23.3 | 20.5 | 580 |
| 1974-75 | 7825 | 12726 | 7172 | 1125.6 | 1031.9 | 17.4 | 10.6 | 18.3 | 11.6 | 17.9 | 17.1 | 14.6 | 593 |
| 1975-76 | 8396 | 14928 | 8513 | 1168.8 | 1063.1 | 19.0 | 11.8 | 18.8 | 11.6 | 6.3 | 5.5 | 3.0 | 607 |
| 1976-77 | 9826 | 18030 | 11135 | 1230.7 | 1119.5 | 21.2 | 14.3 | 19.7 | 12.6 | 7.6 | 7.6 | 5.3 | 620 |
| 1977-78 | 11318 | 20230 | 12783 | 1374.1 | 1256.6 | 21.1 | 14.4 | 19.5 | 12.8 | 14.2 | 14.8 | 12.3 | 634 |
| 1978-79 | 15797 | 24138 | 15669 | 1446.4 | 1315.7 | 23.2 | 16.4 | 23.3 | 16.5 | 7.6 | 7.0 | 4.7 | 648 |
| 1979-80 | 14997 | 24698 | 14417 | 1545.1 | 1390.3 | 21.6 | 13.9 | 22.1 | 14.4 | 9.5 | 8.3 | 5.7 | 664 |
| 1980-81 | 18780 | 28773 | 16686 | 1805.2 | 1627.2 | 21.2 | 13.5 | 22.7 | 15.2 | 19.5 | 19.7 | 17.0 | 679 |
| 1981-82 | 21609 | 33457 | 18998 | 2059.3 | 1851.0 | 21.0 | 13.1 | 22.6 | 14.9 | 16.6 | 16.3 | 13.8 | 694 |
| 1982-83 | 20121 | 34441 | 17555 | 2231.6 | 1993.4 | 19.4 | 10.9 | 20.8 | 12.5 | 10.7 | 10.0 | 7.7 | 709 |
| 1983-84 | 23726 | 40438 | 21209 | 2555.9 | 2290.3 | 19.5 | 11.3 | 20.8 | 12.6 | 17.0 | 17.3 | 14.9 | 724 |
| 1984-85 | 24349 | 43148 | 21057 | 2793.6 | 2494.6 | 18.7 | 10.1 | 20.1 | 11.7 | 11.6 | 11.2 | 8.9 | 739 |
| 1985-86 | 33678 | 53683 | 27444 | 3082.5 | 2735.0 | 20.4 | 11.6 | 22.8 | 14.2 | 12.7 | 12.0 | 8.6 | 755 |
| 1986-87 | 33717 | 57291 | 27362 | 3358.9 | 2970.2 | 19.5 | 10.4 | 21.7 | 12.8 | 11.1 | 10.8 | 8.6 | 770 |
| 1987-88 | 38258 | 65309 | 31433 | 3717.1 | 3285.5 | 19.6 | 10.5 | 21.7 | 12.8 | 12.8 | 12.8 | 10.6 | 785 |
| 1988-89 PE | 55342 | 83298 | 44208 | 4363.8 | 3875.2 | 21.1 | 12.4 | 23.9 | 15.5 | 19.7 | 20.2 | 17.9 | 800 |
| 1989-90 QE | 60971 | 95917 | 50387 | 4810.3 | 4252.4 | 21.7 | 12.7 | 24.1 | 15.3 | 12.4 | 11.9 | 9.7 | 816 |

Source: Central Statistical Organisation, National Accounts Statistics, March 1989, June 1989, March 1990 and Press Notes dated February 19, 1991

CFC — Consumption of Fixed Capital
 PE — Provisional Estimate
 GDCF — Gross Domestic Capital Formation
 GFCE — Government Final Consumption Expenditure
 GFCF — Gross Fixed Capital Formation
 GDP — Gross Domestic Product
 GDS — Gross Domestic Saving
 GNP — Gross National Product
 NDCF — Net Domestic Capital Formation
 NDP — Net Domestic Product
 NDS — Net Domestic Saving
 NNP — Net National Product
 PFCE — Private Final Consumption Expenditure
 QE — Quick Estimate.

(AT 1980-81 PRICES)

(Rs. crore)

1360

PUBLIC NOTICE

POLYOLEFINS INDUSTRIES LIMITED, BOMBAY

It is hereby notified for the information of the public that Polyolefins Industries Limited Mafatlal Centre Nariman Point Bombay 400 021, proposes to make an application to the Central Government in the Department of Company Affairs New Delhi under Sub section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act 1969 for approval to the establishment of a new unit. Brief particulars of the proposal are as under:

- | 1 Name and address of the applicant Organisation | POLYOLEFINS INDUSTRIES LIMITED
Mafatlal Centre Nariman Point
Bombay 400 021 | | | | | | | | | | | | | | | | |
|---|--|--|----------------|--|-----------------------------|---------------------|---------------|--|----------------------|------------------------------------|---------------------------------------|----------------|--|--------------------|----------------------------------|--------------------------------|--|
| 2 Capital Structure of the applicant Organisation | <table border="0"> <thead> <tr> <th></th> <th style="text-align: right;">Rs</th> </tr> </thead> <tbody> <tr> <td>Equity</td> <td style="text-align: right;">19 40 28 500</td> </tr> <tr> <td>Unclassified</td> <td style="text-align: right;">69 71 500</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">20 00 00 000</td> </tr> <tr> <td>Issued & Subscribed Equity Capital</td> <td style="text-align: right;">19 40 28 500</td> </tr> </tbody> </table> | | Rs | Equity | 19 40 28 500 | Unclassified | 69 71 500 | Total | 20 00 00 000 | Issued & Subscribed Equity Capital | 19 40 28 500 | | | | | | |
| | Rs | | | | | | | | | | | | | | | | |
| Equity | 19 40 28 500 | | | | | | | | | | | | | | | | |
| Unclassified | 69 71 500 | | | | | | | | | | | | | | | | |
| Total | 20 00 00 000 | | | | | | | | | | | | | | | | |
| Issued & Subscribed Equity Capital | 19 40 28 500 | | | | | | | | | | | | | | | | |
| 3 Management structure of the applicant organisation indicating the names of the Directors including Managing/Whole time Directors and Manager if any | <table border="0"> <tbody> <tr><td>1 Mr Arvind N Mafatlal Chairman</td><td>9 Dr G V K Rao</td></tr> <tr><td>2 Mr H G Janson</td><td>10 Mr Hrishikesh A Mafatlal</td></tr> <tr><td>3 Mr D M Barrett</td><td>11 Dr F Balin</td></tr> <tr><td>4 Mr G Kremer</td><td>12 Mr M S Patwardhan</td></tr> <tr><td>5 Mr D Cron</td><td>13 Dr N M Dhuldhoya Managing Director</td></tr> <tr><td>6 Mr N M Wagle</td><td>14 Mr V I Schmidt Dy Managing Director</td></tr> <tr><td>7 Mr S Jagannathan</td><td>15 Dr S N Sur Technical Director</td></tr> <tr><td>8 Mr Balkrishna Harivallabhdas</td><td></td></tr> </tbody> </table> | 1 Mr Arvind N Mafatlal Chairman | 9 Dr G V K Rao | 2 Mr H G Janson | 10 Mr Hrishikesh A Mafatlal | 3 Mr D M Barrett | 11 Dr F Balin | 4 Mr G Kremer | 12 Mr M S Patwardhan | 5 Mr D Cron | 13 Dr N M Dhuldhoya Managing Director | 6 Mr N M Wagle | 14 Mr V I Schmidt Dy Managing Director | 7 Mr S Jagannathan | 15 Dr S N Sur Technical Director | 8 Mr Balkrishna Harivallabhdas | |
| 1 Mr Arvind N Mafatlal Chairman | 9 Dr G V K Rao | | | | | | | | | | | | | | | | |
| 2 Mr H G Janson | 10 Mr Hrishikesh A Mafatlal | | | | | | | | | | | | | | | | |
| 3 Mr D M Barrett | 11 Dr F Balin | | | | | | | | | | | | | | | | |
| 4 Mr G Kremer | 12 Mr M S Patwardhan | | | | | | | | | | | | | | | | |
| 5 Mr D Cron | 13 Dr N M Dhuldhoya Managing Director | | | | | | | | | | | | | | | | |
| 6 Mr N M Wagle | 14 Mr V I Schmidt Dy Managing Director | | | | | | | | | | | | | | | | |
| 7 Mr S Jagannathan | 15 Dr S N Sur Technical Director | | | | | | | | | | | | | | | | |
| 8 Mr Balkrishna Harivallabhdas | | | | | | | | | | | | | | | | | |
| 4 Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division | The Company has a letter of intent for manufacture of 5000 MTA of Polyacetals and 1250 MTA of Processed Polyacetal Products. The Company desires for increased capacity to 10 000 MTA of Polyacetals and 2500 MTA of Processed Polyacetal Products. | | | | | | | | | | | | | | | | |
| 5 Location of the new undertaking/unit division | Unit for the manufacture of Polyacetals will be established at Randri Zagadia Taluka Bharuch Dist Gujarat State whereas Processed Polyacetal Products will be manufactured at existing factory premises of Business Unit -Plastics Products at Akola Maharashtra State. | | | | | | | | | | | | | | | | |
| 6 Capital structure of the proposed undertaking | Not applicable | | | | | | | | | | | | | | | | |
| 7 In case the proposal relates to the production storage supply distribution marketing or control of any goods/articles indicate: | | | | | | | | | | | | | | | | | |
| i) Names of goods/articles | Manufacture of a) Polyacetals b) Processed Polyacetal Products | | | | | | | | | | | | | | | | |
| ii) Proposed Licensed Capacity | a) 10 000 MTA of Polyacetals b) 2 500 MTA of Processed Polyacetal Products | | | | | | | | | | | | | | | | |
| iii) Estimated Annual Turnover | Rs 110 Crores | | | | | | | | | | | | | | | | |
| 8 In case the proposal relates to the provision of any services state the volume of activity in terms of usual measures such as value income turnover etc | NOT APPLICABLE | | | | | | | | | | | | | | | | |
| 9 Cost of the Project | Rs 11500 lacs | | | | | | | | | | | | | | | | |
| 10 Scheme of Finance indicating the amounts to be raised from each source | <table border="0"> <tbody> <tr> <td>The company proposes to meet the project cost as under</td> <td style="text-align: right;">Rs/lacs</td> </tr> <tr> <td>Equity Capital/Partly Convertible Debentures</td> <td style="text-align: right;">7250</td> </tr> <tr> <td>Internal Generation</td> <td style="text-align: right;">4625</td> </tr> <tr> <td>Commercial Borrowings/Foreign Exchange</td> <td></td> </tr> <tr> <td>Loan/Suppliers Credit</td> <td style="text-align: right;">4625</td> </tr> <tr> <td>TOTAL</td> <td style="text-align: right;">14500</td> </tr> <tr> <td>Working Capital</td> <td style="text-align: right;">950</td> </tr> </tbody> </table> | The company proposes to meet the project cost as under | Rs/lacs | Equity Capital/Partly Convertible Debentures | 7250 | Internal Generation | 4625 | Commercial Borrowings/Foreign Exchange | | Loan/Suppliers Credit | 4625 | TOTAL | 14500 | Working Capital | 950 | | |
| The company proposes to meet the project cost as under | Rs/lacs | | | | | | | | | | | | | | | | |
| Equity Capital/Partly Convertible Debentures | 7250 | | | | | | | | | | | | | | | | |
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| Commercial Borrowings/Foreign Exchange | | | | | | | | | | | | | | | | | |
| Loan/Suppliers Credit | 4625 | | | | | | | | | | | | | | | | |
| TOTAL | 14500 | | | | | | | | | | | | | | | | |
| Working Capital | 950 | | | | | | | | | | | | | | | | |

Any person interested in the matter may make a representation in quadruplicate to the Secretary Department of Company Affairs Government of India Shastri Bhavan New Delhi within 14 days from the date of publication of this Notice intimating his views on the proposal and indicating the nature of his interest therein.

POLYOLEFINS INDUSTRIES LIMITED

Sd/

PJ DESAI

SECRETARY

Dated this 24th day of May 1991

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June 1-8, 1991

Worm's Eye View

Studies of colonial power have mostly focused on the macro-structure. Useful as these studies are, analysis of the architecture of colonial power will remain incomplete unless it is sensitised to the process of its constitution at the micro-social level, in the everyday life and mundane actions of ordinary people, below the overarching framework of the colonial state. 1399

Pilgrim as Cartographer

Though data-collection in social anthropology may seem to be a mechanical work of skill, each of its steps is conditioned by the paradigmatic axis occupied by the ethnographer. Hence the distinction between anthropologist as pilgrim and as cartographer. 1408

Prescription for Misery

Opening up the economy to international capital and competition is not the solution to India's economic problems. It is a solution which has a powerful appeal to the affluent 100 million Indians, but it is also a solution which will lead to external bankruptcy, sudden deep recession (and consequent unemployment) and misery to the rest of the 750 million Indians. 1369

Flawed Win

The Nepali Congress has won a convincing majority in the recent parliamentary elections, but its near-total debacle in the Kathmandu valley has rocked the party's collective leadership. 1375

Perverse Passions

Rajiv Gandhi's gory death is of a piece. This nation, if it can still be called that, is tearing itself apart and with a ghastly application of passion. 1373

More Than a Label?

Is the 'new world order' a euphemism for Pax Americana or a real attempt to reshape the world order towards a more equitable, more co-operative and more progressive system? 1389

NRI at Home

Non-resident Indians in business or service, while working in other countries, are second to none in efficiency, but in their own country they are usually frustrated by the 'too late, too little' syndrome. 1393

Slow Death

Seven girls have died of neglect in the last one year in the Maharashtra government's school for mentally retarded girls in Sarur, near Pune, the only such institution in the State. 1388

Expendable Tribals

The tribal village of Hadmatiya in Udaipur district in Rajasthan was the victim of a brutal police assault in April 1990. Eleven months later, in this March, the village was attacked again. These organised assaults reflect the social tensions generated by a process of development that has perpetuated the tribals' deprivation and dependence. 1379

The fate of the Koel karo project should be a lesson that the process of uprooting tribals in the name of development cannot continue for long. 1385

Women's Labour in Japan

What has been women's historical contribution to the industrialisation of Japan? How does Japanese capital elsewhere in Asia engage women to facilitate its international offensive? 1415

Poll Play

The influence of caste affiliation in the selection of candidates by the principal political parties in Bihar confirms that representative politics in the State has strengthened the caste system instead of weakening it. 1376

The sympathy wave that the assassination of Rajiv Gandhi is expected to generate is unlikely to reach the north east and, even if it does, is unlikely to substantially affect the voting pattern there. 1383

An aspect of election violence that has been ignored is the extent to which such violence is directed against the weaker sections of society and candidates who genuinely represent the aspirations of these sections. A case in point is the Karimnagar Lok Sabha constituency in Andhra Pradesh. 1378

Article 356

I HAVE read with interest S Guhan's rejoinder (May 11) to your editorial comment (April 6) on Article 356. I feel he should have paid more attention to the points at issue before getting 'dismayed' as he professes to have been. The very first paragraph of the comment nails down frequent misuses of the Article and demands that it must stop.

The main focus of the comment, as I understood it, is on the contradiction between the position of Jyoti Basu and M Karunanidhi who demand the abrogation of Article 356 and their comrades and colleagues who demand the dismissal of the Chautala government, obviously under the same Article. Guhan has chosen to overlook this discordance between the spokespersons of the same camp and, indeed, of the same party. Guhan's analogy between Chandra Shekhar and Chautala does not hold at all: while Chandra Shekhar himself tendered his resignation, Chautala refused to do so even when asked by the governor in so many words.

The points at issue arising from this imbroglio is whether the president on his own can dismiss an incumbent cabinet. The present Indian Constitution does not give this power to the president in relation to the Union government, though he has the same powers *vis-a-vis* State governments. Apart from many political and constitutional justifications for this provision that one can cite in a longer article, one submits only one paramount justification for this, namely, in view of the multiplicity of parties with diverse, sometimes perverse, political inclinations coming to hold office in different States, it is vital for the security and well-being of the people to give the president this power; otherwise there is no remedy to a situation when a State government having come to office (possibly with less than a plurality of mass votes) encourages or overlooks violent attacks on a community of people, apart from many other conceivable contingencies.

Guhan's abstract declamation about the sovereignty of the people and their representation both in parliament and the State legislature is without substance. Unlike some other historical cases, in India power was not secured by the people by asserting their sovereignty, but was handed over by the British rulers to their chosen Indian leaders and a handpicked Constituent Assembly who subsequently framed and adopted a Constitution largely modelled on the British parliament's Government of India Act of 1935.

The statement that opposition to the demand of self-determination of the States implies the Centre's right to dismiss a delinquent State government on proven charges of misdeeds is not exactly the same thing as Guhan's citation of it that "you have also suggested that unless the Centre has the powers to dismiss State governments, self-determination might have to be yielded to the States".

You had correctly said that in the case of any mala fide or misconceived use of Article 356 by the Centre, "public opinion will have to take care of that and force the Centre to make amends as was done once in the case of Andhra Pradesh".

AJIT ROY

Calcutta

Tribals Protest against Subarnarekha Dam

MAY 13 was not an ordinary day for the town Chaibasa in the Singhbhum district of Bihar. Although various political parties were organising rallies, meetings in support of their candidates in the forthcoming general elections, on this day this town witnessed a different rally. This rally was organised against the arrest of social activist, Kumar Chandra Mardi, and 450 tribals when they protested against the destructive development project, the Subarnarekha dam. Despite police repression, a crowd of 700 people, majority of them women and children, turned up in this town to protest against their threatened displacement due to the upcoming Subarnarekha dam at Icha which has been

cleared by the Planning Commission and Ministry of Environment.

The response of the local administration to the rally was negative. The authorities curtailed the people's participation in the rally by seizing all the vehicles coming from the villages. Thus all those who attended the rally travelled by foot at least 20 km in the scorching heat. A large procession was carried out in the town condemning the police arrest and shouting slogans. As the procession went past the local jail where many of arrested people were still lodged, the arrested people also raised slogans in the jail. The procession culminated at the Gandhi Maidan where a public meeting was organised. This meeting was addressed by many grassroots action groups and human rights groups and movements from the country. They include Narmada Bachao Andolan, Chatra Yuva Sangharsh Vahini, Bhartiya Jan Andolan, Visthapit Mukti Morcha, All Jharkhand Students Union, Kolhan Raksha Sangh, Lalmatia Bachao Andolan and Lok Jagrit Kendra. All the speakers condemned the illegal arrest of tribals and demanded their immediate release. They also criticised the State government for going ahead with the project without seeking the permission of the affected people whose livelihood is at stake. The people took a pledge to fight against the Subarnarekha dam project which is being carried out in the name of development to satisfy big industries and elitist consumerism.

KAVALJIT SINGH

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| | Foreign (in US \$) | | | |
|---|-----------------------|-------------|--------------|-------------|
| | Air Mail | | Surface Mail | |
| | Institutions | Individuals | Institutions | Individuals |
| Pakistan, Bangladesh & Sri Lanka | 60 | 30 | 40 | 20 |
| USA, Canada, UK, Europe, Japan, New Zealand, Australia & USSR | 125 | 80 | 70 | 40 |
| All other countries | 80 | 50 | 50 | 30 |

All remittances to Economic and Political Weekly

Dubious Exercise

OSTENSIBLY prepared "at the suggestion of the government of India", a World Bank document, *Strategy for Trade Reform, India*, has been making the rounds for the past some weeks. The document is supposed to have reviewed recent trends in India's external trade and related macro-economic policies and suggested a strategy of trade reform backed by appropriate macro-economic policy measures.

On the basis of econometric simulation exercises, the World Bank comes to the conclusion that economic liberalisation in India in the 80s led to an accelerated growth of manufacturing output and exports. However, it exonerates altogether the liberalisation of imports of all blame for the worsening of the country's balance of payments position. To quote "Econometric simulation experiments reveal that this [deterioration of the balance of payments] was largely the consequence of inconsistent macro-economic policies, specifically the appreciation of the exchange rate in the early 1980s and the rapid growth of domestic demand led by the growing fiscal deficit fuelled by the growth in government consumption expenditures".

It is not clear what exactly was the sort of information that was fed into the econometric experiments to have yielded the sort of results mentioned, but serious doubts do arise about the objectivity and veracity of these reported exercises. For, if there is one single factor that has caused the imbalance in the country's payments position, it is none other than the enormous escalation in imports, an escalation that cannot be explained by either the exchange rate or the fiscal policy changes during the period. In fact the worst phase of trade and current account gaps was witnessed only during the second half of the 80s when exchange depreciation was rapid (between 1985 and 1990 the depreciation of the rupee against the SDR was of the order of over 70 per cent). Also, the budgetary deficit as a proportion of GDP during this period was only marginally higher than in the first half of the decade. One is left with the strong impression, at the end, that the World Bank exercise was meant to take advantage of the country's difficult payments position to foist its own well known package of policy measures on the Indian government and the so-called econometric simulation experiments were a mere facade.

The package of trade reform measures which the World Bank envisages for India, whether it is carried through in two phases or at one go, concentrates particularly on freeing the import of capital and intermediate goods. If it is to be implemented in two phases, then the proposed reform programme would first eliminate non-tariff barriers (QRs) on capital and intermediate goods and reduce the average tariff on them to 30 per cent, if it is to be implemented straightaway, then the programme envisages eliminating all QRs and reducing the average tariff rate to 20 per cent. Under the phased scenario, the World Bank acknowledges, a short-term decline could take place of almost 6 per cent in output of capital goods and of 2 per cent in that of intermediate goods, the decline in output is estimated at twice as much for capital goods and thrice as much for intermediate

goods if the programme is taken up for immediate implementation. The World Bank is quite explicit that the capital and intermediate goods sectors will be adversely affected by the reform measures it proposes. Nor are any tears wasted on the sub-sectors likely to be hit the hardest, e.g. machinery, metals and chemicals, because "these sub-sectors have the greatest inefficiencies and are more protected by the existing trade regime", as the World Bank document puts it.

Let us now see what the proposed trade reform package implies for the structure of the country's economy. The capital goods sub-sector has, as the World Bank itself notes, played a central role in India's industrial development policy which "identified the sub-sector as strategic for economic self-sufficiency" and by the beginning of the 1980s "India had reached a self-sufficiency rate of 85 per cent", measured as the percentage of total investment in machinery and equipment not met out of capital goods imports. However, after the government decided to dilute its policy of planned industrialisation and to go in for the so-called liberalisation in the late 1970s, capital goods imports have been on the increase. Indeed, not only has capital goods import increased markedly as a proportion of the country's total import bill (the increase was from 15 per cent in 1980-81 to 25 per cent in 1989-90) but also the increase in annual capital goods imports during this period accounted for almost 87 per cent of the trade deficit in the terminal year. It should also be noted that capital goods imports more than doubled during a period of four years, 1986-87 to 1989-90. Of course, during same period other non-bulk imports increased by two-and-a-half times and these are mainly raw materials and components, almost half of them supposed to be export-related items and the other half accounted for by all manner of new industries catering to upper class consumerism which came up in the 80s. So what we are facing today is nothing but the direct consequence of the liberalisation policies pursued over the past 10-15 years, particularly since the mid-80s. The World Bank is being less than honest when it asserts that "relaxation of import controls has not been responsible for the deterioration of India's balance of payments during the 80s".

Far worse is the Bank's attempt to force on the country a package of measures which is a total reversal of its industrial policy of attaining self-sufficiency in certain critical areas, particularly in the capital goods sector. Indeed the Bank's own calculations clearly show that our capital goods sector will not only not expand if the reform package is accepted for implementation, but will in fact start declining, possibly much faster than the Bank has reluctantly conceded. It has to be remembered in this context that the Indian capital goods industry has been able to keep its head above water, particularly in the mechanical and electrical and allied fields, under very difficult conditions (some of which though may have been self-inflicted). But once the industry is exposed to the penetration of imports on a scale even larger than in the recent past, as the Bank's reform programme clearly envisages, the decline is bound to be precipitous.

Shades of 1984

THE hunger strike undertaken by N T Rama Rao to protest against the damage to property in Hyderabad in the immediate aftermath of Rajiv Gandhi's assassination is certainly a well timed theatrical gesture aimed at generating political support for the Telugu Desam Party (TDP), just as the Congress(I)'s engineering of the post-assassination violence was an equally well orchestrated move to seize the political initiative by physical intimidating the opposition. Within three hours of Rajiv Gandhi's killing, according to reports, truck-loads of people led by Sudhir Kumar, son of Shiv Shankar, and M Mukesh, both Congress(I) MLAs, went about damaging property, particularly that belonging to TDP members. Since, for example, cinema halls belonging to N T Rama Rao were destroyed or damaged while those belonging to T Subba Rami Reddy, a Congress(I) functionary, were left untouched, suspicion must automatically fall on the Congress even if Sudhir Kumar's claims of innocence are accepted.

Through all the violence the police appears to have done nothing and, as if to legitimise this inaction, for a full week thereafter the police failed to book a single case. And to sanction this apathy, chief minister N Janardhan Reddy claimed on May 23 that he had only 'heard' of the attacks on property. It took a memo from the director general of police to the Hyderabad police commissioner seeking an account of the action taken against the offenders before the police began to move.

Rama Rao's fast in support of the demand for full compensation for those whose property had been damaged and arrest of the culprits including Congress(I) leaders has seriously embarrassed the Janardhan Reddy government. The cabinet initially dismissed the demand for full compensation as being unreasonable and one that would set a 'bad precedent', while the issue of arresting the guilty was deemed to have been automatically taken care of by the setting up of the judicial commission to inquire into the violence, which was announced on May 29, i.e., seven days after the violence began. But as the fast continued and a team of doctors described Rama Rao's condition as 'deteriorating', the State government found itself in a quandary. With Rama Rao all set to extract the maximum mileage, the government was compelled to be seen to doing something without at the same time conceding the demands.

But even in its attempt to call Rama Rao's bluff the government quite clearly

bungled. Having accused him on the charge of attempting suicide, the government mysteriously announced his release on bail whereupon the doctors in the intensive care unit of Nizam's Institute of Medical Sciences refused to force-feed him. This compelled the government to change its mind and announce that he was still under arrest.

Whether or not any benefit accrues to the TDP on account of Rama Rao's histrionics, it is clear that the violence and the attention drawn to the Congress(I)'s role in it will have gone some way in arresting whatever incipient sympathy wave was building up. The government's lack of sincerity in the little it has done by way of corrective action is quite obvious. All that has eventually resulted is the institution of a commission of inquiry. If the fate of the earlier commission investigating the December 1990 communal riots in Hyderabad is anything to go by, judicial commission now set up is very likely to achieve nothing.

CAPITAL FLIGHT Swiss Collusion

THE Swiss embassy in Delhi has recently come out with a statement defending the country's banking system against charges that it protected 'anonymous' deposits through 'numbered accounts'. The embassy's attempts at clarifying the mysteries of one of the most well kept secrets of international underhand transactions are laudable, particularly at a time when the Bofors scandal in India has set off inquiries into its Swiss bank connections. But the clarifications are far from satisfactory.

The embassy statement (which came in the wake of some press reports about changes in Swiss banking laws) makes it clear that the "well known principle of privacy in financial matters" still remains firmly entrenched. The change that has been made—not by any legislation, but by a decision "taken by the Swiss federal banking commission"—merely makes it obligatory for the lawyer or notary who places funds of a client in a Swiss bank to disclose the identity of the client. The name of the client will be known to selected members of the bank management only. Under the prevalent norms of 'banking secrecy', Swiss banks, the embassy statement makes it clear, may not "divulge to third parties any data connected with clients and their banking transactions, unless the client himself or a competent authority acting in public interest has ordered the bank to do so".

Thus, the Swiss banks continue to maintain the secret arrangements with

their clients which prevent the unearthing of criminal proceedings against illegal transfer of funds from Third World countries to these banks. Switzerland has provided the safest haven for flight capital, with its banks offering shelter for the rich who want to evade taxes. According to one estimate, privately owned funds transferred to Switzerland from the Third World are estimated at 250 billion Swiss francs (US \$ 160 billion). This constitutes a quarter of the total amount of flight capital from the Third World, the rest presumably getting transferred in the form of secret dealings in countries such as Panama, the Cayman Islands and Luxembourg, where laws are less stringent. The major part of these privately-owned assets in the Swiss banks consist of fugitive funds (guilty of tax evasion or currency offences). Apart from providing the corrupt elite of Third World countries with a sort of life insurance in the form of these accounts abroad, the Swiss banks are doing their bit along with their Western compatriots to contributing to the increasing poverty of the population of the Third World. For, the debt crisis of the Third World is caused to a large extent by the flight of funds. According to an estimate made by Swiss NGOs, roughly half the amount of the accumulated debt of Third World countries has been transferred to foreign bank accounts which are privately owned.

While the Swiss banks protect the Third World elite, the banks themselves are protected by Swiss legislation. Swiss laws admit the acceptance of funds that may be fraudulently transferred from abroad. It is left to a voluntary agreement by the banks to take precautions. Even after funds of criminal origin are detected, Switzerland rarely grants international legal assistance for prosecution. Several conventions of the Council of Europe for the prevention of the flight of capital have not yet been signed by Switzerland. The dispute over the accounts kept by the Filipino dictator Marcos, as well as, nearer home, our futile inquiries about similar secret accounts retained in Swiss banks by Indians involved in the Bofors scandal go to show that Swiss banks and lawyers can delay procedures of legal prosecution thanks to the unlimited possibilities of appeal (by their clients) granted under Swiss legislation.

Two Swiss NGOs—the Erklarung von Bern (Declaration of Berne Group) and Aktion Finanzplatz Schweiz-Dritte Welt (Action Group Financial Centre, Switzerland-Third World)—have started a campaign demanding changes in Swiss laws to put an end to the nefarious practice of depositing fugitive funds from abroad in secret accounts in Swiss banks,

They are demanding a streamlining of the existing laws so that legal procedures in relation to such accounts do not take longer than six months and the right to appeal is restricted. They also want the banks to be bound by laws that take into account illegal flight of capital from abroad as well as changes in the banking system so that financial statements are published by the banks with regard to major transactions and administration of assets, including a list of the countries of origin of the administered assets

ELECTIONS

Avoidable Contretemps

IN keeping with its by now well established penchant for acting in excess of its competence, the Election Commission (EC) has countermanded elections to the Patna and Purnea parliamentary constituencies in Bihar. In the 33 other Lok Sabha constituencies in Bihar where elections were completed in the first round of polling, the commission has ordered repolling in 600 polling booths. Questions about the propriety of the commission's action and hence the credibility of its motives have been raised by the violation of the prescribed procedural norms.

Unquestionably, the EC is empowered to countermand elections. But in this particular instance the EC has proceeded unilaterally and, it is now evident, without the benefit of substantiating proof provided by agencies officially charged with doing so. Further, it has not escaped attention that only two constituencies in a State—or for that matter an entire belt covering several States—that has developed more and more innovative methods of rigging elections have been singled out for drastic action.

It is the EC's claim in its letter to the State election office that the decision to countermand the elections in Patna and Purnea was based on the reports received from the State government, the chief electoral officers, the returning officers and the observers. But the Bihar government has clarified that neither was its opinion sought nor had it submitted any report recommending countermanding of the polls. According to the State chief secretary, Kamla Prasad, the returning officer in Patna had suggested repolling in only 26 booths. The chief electoral officers had not submitted adverse reports while the central observers deputed by the EC had in fact expressed their 'satisfaction' with the conduct of the poll. Even the Congress(I) and the BJP had requested repoll in only 50 to 60 booths.

On the other hand, reports of wide-

Gopalganj, Siwan, Ranchi, Arrah and Jehanabad, but the EC's enthusiasm for curbing electoral malpractices does not appear to have extended to these constituencies. Arrah, which returned an IPF nominee to the ninth Lok Sabha, is reported to have been virtually overrun by the henchmen of Suraj Deo Singh, the Dhanbad Mafia chief and acknowledged crony of prime minister Chandra Shekhar, and by 'shiksha' mafia chief Ram Lakhan Singh Yadav's supporters.

The moves by the EC seem of a piece with its earlier conduct on the Home Guards issue. On that occasion too it chose to set itself above the Constitution and abrogate what little federalism still obtains under it. Law and order and deployment of the police and other forces are explicitly State subjects, but the EC chose to forbid the use of Home Guards by the Bihar government for security duties for the elections. What has lent an added edge of controversy to the EC's actions and decisions is the peculiar circumstances of the Chief Election Commissioner's appointment to the post and the fact that he has not tried particularly hard to conceal his own political preferences.

HEALTH

Farce of Drug Control

FOR sometime now, an ayurvedic drug called 'Select', which the manufacturers claim can alter the sex of the foetus, has been marketed openly. The manufacturers have given little evidence of the drug's efficacy nor of any trials which have been conducted. And yet the drug had been licensed for production by the drug control authorities. Sometime back the government withdrew permission for the manufacture of the drug but, as usual, did nothing to stop its actual sale. As has been pointed out for other drugs which have received such treatment, there can be no reason for allowing the sale of a drug which has been banned either for lack of proof of efficacy or because it has been held to be hazardous or for any other reason which the authorities have been fit to accept.

'Select' continues to be sold on the basis of marketing literature for medical professionals which contains claims such as that "it supports family planning", it contributes to "social reform of dowry system—in case of more girls in the society", it "protects women's health by preventing frequent pregnancies", it "gives satisfaction and fulfilment of lasting desire to the couple in having a male issue" because "in the absence of a son, the family's dynasty comes to a close".

parents crave for a male issue".

While the licensing, safety and efficacy of ayurvedic drugs has been a contentious issue for sometime now, surely there can be no two opinions about preventing this sort of drug-pushing?

BANGLADESH

Inevitable Intrusion

THE arrival of the US marines to facilitate relief operations in Bangladesh has, not surprisingly, given rise to protests both within Bangladesh and by the Indian government. This poses two questions: One whether, had it wanted to, Bangladesh was in a position to refuse the offer of manpower, even if clad in military uniform? Two, what could have been done to make such 'intervention', albeit for a particular purpose and for a short time, unnecessary?

With the deaths due to the cyclone now officially estimated to be 1,38,000, with some four million displaced and with the financial magnitude of the direct damage put at 300 crore taka, Bangladesh could hardly have been able to cope with the danger alone. Most importantly, several reports point to the fact that it was not only the material aid such as food, shelter, etc., which was urgently required, but also the administrative structures on the ground required to see that these were distributed where and when necessary. There have been several reports, too many to be ignored, of utter lack of organisation even to receive the material being sent to Bangladesh by various agencies, leave alone distribute them. Moreover, there is the question of transport, in a region where most or all roads have been wiped out and the geographical features have been rearranged, what is required is air transport. Bangladesh has only a depleted air strength of any kind, leave alone any multipurpose helicopters. And, most of all, there simply is no trained contingent within or outside the military to undertake the relief operations which are urgently required given that there have been widespread reports of increasing diarrhoea deaths and of starvation.

It is, of course, well within the realm of possibility that, despite the memorandum of understanding which has been made public, the arrival of the US task force in Bangladesh is attached to quite another set of agreements, technical, economic and political, which will make for a 'US foothold' in Bangladesh, as the Indian government has put it. But the point is, how could a country like Bangladesh have avoided this situation? India's contribution of Rs 10 crore, three

disasters and the promise of rice and Pakistan's similar offers, while they are no doubt badly needed can hardly make up of the lack of trained personnel in the cyclone ravaged areas. And the extent of SAARC help will probably be the release of the emergency rice quotas from the supplies set up recently.

There is obviously little that can be done to prevent or control cyclones. The solution lies in disaster preparedness and just how crucial this sort of planning is was in fact demonstrated in the recent cyclone. After the 1970 disaster, which is estimated to have caused even greater havoc than the present one, agencies working in these areas had put up cyclone shelters. The few that had been well-maintained and standing have served to save hundreds of lives. Each of these however, not only costs something like \$ 100,000 but requires close supervision during construction and good quality materials. An estimated 3,500 such structures are required. Conceivably Indian financial and technical know how can assist in evolving low cost appropriate models and in building them.

Clearly it is here that regional alliances can be of real value—in setting up mechanisms for making emergency assistance available at short notice which would include money, material and specialised and trained manpower. In addition, the cyclone disaster also points to the urgent need to view such resources as river waters more in terms of regional and not national interests. Flood control of the Ganga and the Brahmaputra in Bangladesh can be facilitated by resolving the long pending dispute over river waters between the two countries. Without the strengthening of mutually beneficial intra-regional links, third world countries like Bangladesh will always be a target of imperialist intervention in one guise or the other.

PAKISTAN

Press Pointers

LAST month prime minister Nawaz Sharif at a government-sponsored seminar on the media threatened that newspapers which sought to "sabotage" his efforts and continued to be "irresponsible and sensationalist" would have to face the withdrawal of all government advertisements. That the prime minister should think nothing of issuing such a threat is a comment on the fact that the Pakistani press is far from being 'free and independent' even in the limited sense in which these terms are used in India. At the same time, the fact that the prime minister's statement has led to a spate of criticism from the press is a sign that Sharif may not be able to make such comments with impunity in time to come.

Many commentators on the press, including some prominent newsmen have

admitted that Sharif wasn't completely off the mark with his criticism of the press but not for the reasons he based his comments on. Quite the opposite in fact. In a recent issue of *The Friday Times* they point out that there has been an increasing tendency for newspapers, especially the smaller ones, to become party or government mouthpieces. Together with this has been the other growing trend—of violence against presspersons. In March, for instance, a senior journalist of the *Dawn* group, Zafar Abbas, and his two brothers were mercilessly beaten up by goons of the Mobajir Quami Mohaz (MQM). They forced a 'boycott' of the newspaper by harassing its vendors, and distributors, leading to a temporary closing down of the paper because it could not give protection to its staff. The Sharif government limited itself to issuing telegrams to the Sindh government and sending flowers to Abbas. Publication was resumed only after a joint delegation of the Council of Newspapers Editors (CONE) and the All-Pakistan Newspapers Society (APNS) called on the MQM leader and reportedly arrived at an understanding. But even this was deliberately misreported by some newspapers as *Dawn* having apologised for its misdemeanours. Apparently violence against the press by political parties is on the increase and the government is happy not to intervene. Another phenomenon has been the spurt in newspapers which specialise in sensational, hot-selling and speculative reporting, some of the last of course being because of lack of reliable information from the government.

It is true that none of these are features of the Pakistani press exclusively. They are to be seen on the Indian press scene as well. The difference is that there is a substantial section of the 'responsible' press here which has matured as a 'free' press. This is especially true after the Emergency period. In Pakistan long years of muzzled existence has meant that the press has attracted little talent or interest. For another, it is likely that what is defined as 'interference with press freedom' may not be as rigid there as it is in, say, India.

In the meanwhile Sharif's comments have raised the question of whether there will be a reintroduction of curbs on the press. As *The Friday Times* editorial points out, this will hardly be to the advantage of Sharif. For one thing, a 'free' press is necessary to ensure the revival of democratic institutions—something which is necessary for the Sharif government if it has to maintain a posture independent of the army. Secondly, Sharif's liberalisation plans may well suffer in the absence of free access to all sorts of information which can be engendered by a 'free' press. Given this Nawaz Sharif will perhaps be looking over his shoulder when he next threatens the press with an advertisement squeeze.

TWENTY YEARS AGO

EPW, June 5, 1971

Watching the first reactions to his budget in parliament and outside, the finance minister can well argue that if, as some of his critics have averred, his tax proposals betrayed conventional thinking, much of the criticism of them has not been exactly distinguished for its freshness. One group of critics, with the spokesmen of the Leftist parties as usual vociferous, have taken the 'common man' line. It is a measure of how the finance minister has been on the whole sparing of the 'common man' this year that the proponents of this line have had to clutch at the excuse duty on maida. Whether or not this is a terrible blow at the 'common man', it is about time it was realised that no amount of soaking the 'rich' (where does one draw the line?) will yield resources on any scale necessary for development. The other line of criticism has been that the budget hits at saving and investment. This argument, again, can be carried too far. Of course, there has to be differential tax treatment of income spent and income saved. But beyond a point the erosion of the progressiveness of taxation implicit in the encouragement of saving must defeat the egalitarian ends of fiscal policy. The incentives which already exist are enough to make it possible for even those in the middle tax brackets to provide ample nest-eggs for themselves and their progeny, at the expense substantially of the government. In company taxation, encouraged by the advance indications of an upswing in corporate investment, the finance minister has in the budget moderated some of the so-called incentives available till now. The major criticism of these incentives was that they were sufficiently indiscriminating and, therefore, served to effect a more or less across-the-board lowering of the effective rate of corporate taxation to substantially below the nominal rates. However, the scaling down of the incentives proposed in the budget is equally indiscriminating and is, therefore, open to the same criticism of lack of selectivity.

★ ★ ★

In fact, this criticism is applicable not merely to the corporate taxation proposals but to the budget's tax measures as a whole. The Finance Minister does say in his budget speech that "fiscal policy is not a matter simply, or even primarily, of raising resources to meet the insatiable demands on the national exchequer", but what one misses in the budget is precisely the attempt to use fiscal instruments to selectively influence the level and direction of economic activity.

Higher Profit Despite Lower Sales

Kumaran Pola

COROMANDEL FERTILISERS' net sales were nominally down during the year ended September 30, 1990 to Rs 177.64 crore from Rs 192.63 crore during the preceding year. However, there was significant improvement in profitability as a result of various steps taken to raise efficiency in the fertiliser division and reduce losses in the cement division. The company achieved the doubling of operating profits to Rs 30.77 crore. The net loss of Rs 6.96 crore during 1988-89 was converted into a net profit of Rs 10.50 crore during the latest year.

Fertiliser production amounted to 3,61,246 tonnes in terms of nutrients N and P during 1989-90 compared to 3,26,732 tonnes in the preceding year. Sales of fertilisers were 3,59,720 tonnes as against 3,26,561 tonnes in the preceding year. In the cement division, the production of clinker was 7,24,447 tonnes in 1989-90 compared to 7,14,183 tonnes in the preceding year. The company sold 6,75,255 tonnes as against 7,58,790 tonnes in 1988-89 which included 58,000 tonnes in the levy category.

From a negative 3.29 per cent, the overall return on investment showed a substantial improvement to 5.13 per cent in 1989-90. Foremost among the factors contributing to this change was the improvement in the net profit margin on sales from a negative 3.59 per cent in 1988-89 to 5.91 per cent in the latest year. The company overcame the steep rise in the cost of inputs such as coal, bags and transportation. The assets utilisation ratio deteriorated from 0.91:1 in 1988-89 to 0.87:1 in 1989-90, but for which the return on investment could have worked out still higher. The company earned for its shareholders a return on owners' equity at 23.45 per cent compared to a negative 17.78 per cent in the preceding year.

The capital structure got tilted towards owned funds with the debt/equity ratio declining to 2.83:1 in 1989-90 from 3.80:1 in the preceding year. This was due to the fact that there were repayments of both short-term borrowings as also long-term borrowings on the one hand and addition to reserves and surplus through ploughback from the profits of the latest year. Although the current ratio declined from 4.45 in 1988-89 to 3 in 1989-90, the short-term liquidity position remained comfortable.

There was a funds-flow of Rs 30.65 crore during the year. The sources of funds consisted of increases in reserves and surpluses Rs 5.64 crore and in current liabilities and provisions Rs 9.30 crore. Decreases in various assets were the remaining sources of funds during the year: accounts receivables Rs 6.31 crore, cash and bank balances Rs 0.58 crore, miscellaneous current assets Rs 8.35 crore, investments Rs 0.27 crore and intangible assets by way of expenses not written off Rs 0.20 crore. The company utilised a major part of the funds to pay off short-term loans which decreased by Rs 19.87 crore. Long-term borrowings decreased by Rs 2.14 crore. The remaining uses of funds were increases in fixed assets by way of additions to plant and machinery Rs 0.47 crore and inventories Rs 8.18 crore.

The company entered into an agreement for the sale of the cement division to India Cements. The consideration had already been received and the effect of the sale would get reflected in the accounts of 1990-91.

HINDUSTAN DEVELOPMENT CORPORATION

Larger Sales

HINDUSTAN DEVELOPMENT CORPORATION's on net sales showed a 34 per cent growth on annualised basis during the year ended March 31, 1990 to Rs 237.22 crore. There were increases of similar order, i.e., 28 per cent in operating profits to Rs 28.27 crore and 33 per cent in net profits to Rs 12.60 crore. The company succeeded in keeping the expenses-to-sales ratio steady at 0.89:1 in 1989-90, the same as in the previous year, which explained the growth in profits. This was not converted into higher profitability ratios because of substantial additions/valuation of fixed assets during the year.

Therefore, the overall return on investment was marked down to 3.99 per cent in 1989-90 from 4.14 per cent in the preceding year. The turnover ratio (sales/assets) declined to 0.75:1 in 1989-90 from 0.78:1 in 1988-89. The net profit margin on sales too worsened marginally to 5.31 per cent from 5.33 per cent. However, the company could earn for its shareholders a higher return on owners' equity at 10.42 per cent compared to 9.30 per cent in the preceding year, mainly due

to the advantages of leverage as reflected in a higher debt/equity ratio. The borrowings of the company increased by almost Rs 60 crore during the year most of which were invested in land, building and plant and machinery. The borrowed funds pushed up the debt/equity ratio from 0.81:1 in 1988-89 to 1.15:1 in the latest year. The impressive spurt in operating profits, however, buoyed up the interest coverage ratio at 2.79 times compared to 2.20 times in the preceding year. The short-term liquidity remained comfortable with a higher current ratio of 2.52 compared to 2.11 in 1988-89.

The balance-sheet changes showed a funds-flow of Rs 97.40 crore during the year. The largest source of funds consisted of long-term borrowings in the form of convertible debentures issued during 1989-90 and bridge loans contracted. The other sources of funds were increases in share capital due to conversion of debentures into equity and rights issue Rs 1.95 crore, in reserves and surpluses due to ploughback of profits as also transfer of premium on conversion and on rights issue Rs 17.54 crore, and in current liabilities and provisions Rs 11.33 crore. Decrease in investments on the maturity and liquidation of Gujarat State loan and sale of the equity shares of Escorts held by the company aggregating Rs 8.18 crore were another source of funds during the year. The funds were used mainly to increase net fixed assets by Rs 49.59 crore, inventories by Rs 5.60 crore, receivables by Rs 8.29 crore, cash and bank balances by Rs 22.43 crore and miscellaneous current assets by Rs 10.46 crore. Decrease in short-term loans by Rs 1.01 crore represented another use of funds.

The company's composite steel plant being set up at Malanpur in Madhya Pradesh in the name of Madhya Pradesh Iron and Steel Company is proceeding as per schedule. The civil construction has started and orders for the main plant and machinery, both imported and indigenous, have been placed.

HDFC

Housing Catalyst

HOUSING DEVELOPMENT FINANCE CORPORATION's loan approvals rose to Rs 813.78 crore in 1990-91 from Rs 603.03 crore in 1989-90. Loan disbursements went up from Rs 489.26 crore to Rs 668.49 crore. HDFC's cumulative loan approvals at the end of 1990-91 were Rs 2,903.13 crore and cumulative dis-

estimated that HDFC has made possible cumulative investment of Rs 6,011.33 crore in the housing sector.

HDFC's profit before tax for the year was Rs 38.81 crore compared to Rs 30.72 crore for the previous year. After providing Rs 9 crore for tax (previous year Rs 6 crore) and transferring Rs 24.07 crore to reserves (Rs 20.72 crore), the directors have recommended a dividend of 22 per cent (pro-rata for shares issued during the year). The dividend will absorb Rs 5.74 crore. Last year, the dividend declared was 20 per cent. Total income of the corporation in 1990-91 recorded an increase of 35.5 per cent, to Rs 263.41 crore from Rs 194.35 crore in the previous year.

During the year, the equity capital of the corporation was more than doubled to Rs 45 crore through both a rights issue and a public issue. Despite depressed market conditions, the public issue was over-subscribed 6.2 times. The shareholder base of HDFC has expanded from 46,000 shareholders to over 1,86,000 shareholders.

STOCK HOLDING CORPORATION Extended Operations

STOCK HOLDING CORPORATION OF INDIA (SHCIL) has reported encouraging results for the year ended March 31, 1991 and declared a maiden dividend of 10 per cent. During the year SHCIL handled record market operations of Rs 1,022 crore. Profit before depreciation was Rs 266 lakh as against Rs 53.52 lakh during the previous year. Profit after tax amounted to Rs 108 lakh as against Rs 16.29 lakh during the previous year. The corporation now has under custody about 4 million scrips.

With a view to gradually moving towards setting up of a Central Securities Depository, the government has now extended the services of the corporation to all the public sector banks, mutual funds and to the entire banking sector, including foreign banks and urban co-operative banks and private banks. Currently, talks are going on with foreign offshore funds also to utilise SHCIL. With the entry of offshore funds, the corporation will be widening its horizon into global custody. The corporation has also submitted to the government proposals for a legislation which, other than enabling Book Entry Transfer System in the securities industry, will ultimately enable the corporation to act as a Central Securities Depository and enable offshore funds which are listed under the SEC Regulations in the USA to entrust securities to the corporation in respect of Offshore Funds for custody. The impact of the legislation will be to

promote, clearing houses, depositories and issue houses who can be participants in the corporation.

To have the National Securities Transaction System operative, the corporation has been allotted a five acre plot by the government of Maharashtra near New Bombay where SHCIL proposes to build its modern depository. The corporation has embarked on a resources plan for inviting further equity from the new participants and for offering additional capital on rights basis to the existing shareholders.

JALAN FORGINGS Ready Market

JALAN FORGINGS is coming out with an issue of 19,00,000 equity shares of Rs 10 each at par aggregating Rs 190 lakh. An application to CCI has been made and the consent is awaited. Jalan Forgings, promoted by Gopal B Jalan and Anil Kumar S Jalan, was incorporated in September 1990. The company proposes to set up facilities to manufacture steel forged products at Kanjiri in Panchmahal district in Gujarat. It will produce open die steel forgings like straight shafts up to 400 mm dia and length up to 4 mtrs, forged rounds, gear blanks, die blocks and flats. These products find applications in core sector industries like power generation, steel, cement, sugar plants, railways, defence, nuclear and space projects. The company's project is estimated to cost Rs 493 lakh. The Gujarat Industrial and Investment Corporation and GSFC have sanctioned term loans of Rs 110 lakh and Rs 48 lakh respectively. GIIC is also actively considering equity participation, under the promoters' quota, to the extent of Rs 15 lakh and its sanction is expected shortly. The present annual demand of steel forgings in the country is 1,39,000

1,39,000 tonnes by 1993-94. The aggregate demand of open die forgings of 1.98 lakh tonnes by 1993-94, the supply is anticipated as 1.70 lakh tonnes leaving a shortfall of 0.28 lakh tonnes. This would necessitate creation of additional capacity to the tune of around 0.44 lakh tonnes by 1993-94. The company intends to produce about 6,300 tonnes of open die forgings against the anticipated shortfall of 0.28 lakh tonnes. It will therefore not be difficult for the company to find markets for its production.

BENZO PETROCHEMICALS Basic Chemicals Project

BENZO PETROCHEMICALS is establishing a project for the manufacturing of Benzaldehyde and benzyl alcohol. These are basic chemicals manufactured out of toluene and find usage in pharmaceuticals, dyes and perfumery industries. This will be the largest project of this kind in the country. The company has applied for permission to the Controller of Capital Issues for the issue of 35 lakh equity shares of Rs 10 each, out of which 21 lakh shares will be offered to the public. Promoters and their friends and associates have taken up 14 lakh shares. The total project cost as per the sanction by ICICI, IDBI and IFCI works out to Rs 700 lakh and would be financed out of equity shares of Rs 350 lakh and term loan of Rs 350 lakh.

Technochim Engineering of France is providing basic know-how, designs and drawings for the project. The company has acquired the manufacturing assets of Benzo Chem Combines at GIDC Estate Nandesari, Baroda, who are also the promoters of the company. The project is promoted by D C Gami, former managing director of Gujarat State Fertiliser Company.

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India: Big World's View of 'Small World'

Arun Ghosh

Opening up the economy to international capital and competition is not the solution to India's economic problems. It is a solution which has a powerful appeal to the affluent 100 million Indians; it is also a solution which will lead to external bankruptcy, a sudden deep recession (and consequent unemployment) and misery to the rest of the 750 million Indians.

THE ECONOMIST of London has recently (May 4) come out with a survey of India's economic and political problems which, in the brief space of 16 pages, is in many ways not only revealing but devastating.

Unfortunately, the painstaking analysis of India's problems, by the economics editor Clive Crook, is flawed on two major counts. And since some Indian papers (notably *The Times of India*, New Delhi) have come out with glowing references to Crook's analysis, it is important that the record be put on the level, that the major flaws in the survey be exposed to the Indian intelligentsia generally, hoping that it will also attract the attention of at least some part of the international audience of *The Economist*.

Two points need to be emphasised at the outset. First, it is not being suggested here that the basic analysis of India's present problems, as presented in *The Economist*, is wrong; at worst, it presents only part of the picture, and that is a legitimate exercise for anybody who wishes to present a particular point of view. Secondly, and more importantly, it is never any use beating one's breasts about what might have happened if only India had adopted different policies from those actually pursued in the past. The only point of relevance—at least to Indians—is what policies should be adopted in order to get the country out of the morass into which it has got trapped.

First, one has to appreciate the immediate problems faced by the country. The fiscal deficit of the Central government last year exceeded 8.5 per cent of GDP. The latest estimates of the balance of payments are not available, but judging from the preliminary data on trade, the deficit may well have touched 4 per cent of the GDP. *The Economist* has lauded the overall growth rate achieved by the country during the period of Rajiv

Gandhi's tenure as prime minister, but apart from the fact that this growth rate was achieved largely at the cost of the fiscal and balance of payments deficits referred to earlier, several other disturbing trends have emerged. While India has achieved self sufficiency in foodgrains production, it is not realised that in many States and regions per capita availability of foodgrains has not increased since the fifties; indeed, the availability of pulses, the only source of protein for the poor, has gone down sharply. The overall growth rate of employment between 1983 and 1988 (as per the National Sample Survey) has increased by no more than 1.55 per cent per annum, when population has been growing at more than 2.1 per cent per annum. Thus, apart from the existence of underemployment and low productivity employment, open visible unemployment has increased, the NSS estimates being 6 per cent in rural areas and 9 per cent in urban areas. According to B S Minhas (former chairman of the NSS Governing Council, and Distinguished Scientist Emeritus at the Indian Statistical Institute), 42 per cent of the rural population of India was still below the poverty line as of 1987-88 (*vide* Chotu Ram Memorial Lecture, HAU, Hissar, February 1991). The growth of agriculture, though commendable, has been lopsided, only eight States accounting for more than 70 per cent of the people below the poverty line. Finally, one incidental result of the policy of liberalisation pursued by Rajiv Gandhi has been the proliferation of foreign collaboration arrangements for the manufacture of consumer items demanded by some 100 million (of India's present population of 850 million odd people), starting with the manufacture of potato chips (in collaboration with Zweifel of Switzerland), numerous soft drinks, junk (quick) foods, VCRs and VCPs, 'Barbie dolls' (and their appurtenances like dresses, bath-tubs et al), and in fact,

gadgets galore all of which require not only imported equipment but also continuing imports of components and raw materials.

According to *The Economist's* on figures, merchandise imports now are some 10 per cent of the GDP and exports some 4 per cent. (Actually, exports are nearer 6 per cent; rather, the gap between imports and exports is of the order of 4 per cent of the GDP.)

Against this background, *The Economist* feels that the only way to release the 'caged tiger' (i.e., India) would be the complete globalisation of the Indian economy, freeing of imports, making Indian industry face up to world competition, and attract foreign capital to make use of India's cheap labour for export production, for which apparently there are really no limits.

The problem that arises in this context is the total unrealism of the prescriptions, not because they are not possible to attain politically in India but because this is not the way the free market works. In fact Crook is perhaps unaware of the fact that India has (quite erroneously) been importing a lot of equipment from abroad against 'tied' aid programmes, when equivalent (sometimes better and even cheaper) equipment manufactured within India is available, but for which there is a shortage of domestic resources. Power generating equipment is but one example.

With the present skewed distribution of income, any 'freedom' of the type talked about in *The Economist* would immediately lead to a surge of foreign investment and foreign collaboration, not in areas where India may have export competitiveness but to serve a ready market for consumer goods required by a hundred million odd Indians who—by the writer's own admission—have access to large amounts of untaxed 'black' money.

And if this liberalisation process is to be sustained by general lending by international agencies (or even foreign capital inflow), the day of reckoning will come three or four years later when these debts would have to be repaid (or the capital investments serviced).

It would, of course, make sense if, like China, India were to freely allow foreign capital inflow on condition that there is always a favourable net balance of payments position, that is, if exports of the products manufactured were to exceed all import payments, whether for import of raw materials and components or payment of interest and profits. But that is

not the prescription

The analysis in *The Economist* is quite correct in regard to some of the consequences of the bureaucratic system of controls that we have managed to establish. The analysis is also correct in regard to the corruption of the body politic that the process has led to. Again, *The Economist* is quite correct in regard to the neglect of education, in particular of primary education, and the education of women, the neglect of health and sanitation and of the causes of the high infantile mortality rate, all of which have led to the high crude birth rate and the relentless growth of population, much of it underfed, suffering from malnutrition and disease. It would be idle to expect eight hours solid work from such an underfed population. *The Economist* is right in suggesting that India should spend more on the development of the 'human resource' and less on grandiose projects, both in industry and in other spheres, where a system of 'cut backs' has evolved to the detriment of efficient functioning of the industrial system but which successfully 'oils' the present system.

But, while *The Economist* cannot be faulted for the analysis of the maladies of the present system, its prescriptions are entirely inappropriate, coloured by the experience and prejudices of an economist hailing from the developed world, who (whether by oversight or by design) does not even refer to the potent obstacles to export from India to the developed world. The Multi Fibre Agreement is but one example. The US Super 301 another.

Nor does *The Economist* really go behind the economic miracle of countries like Japan and South Korea. All of them started with a minimum level of education for all and with a system of land distribution which, if not wholly egalitarian, was reasonably egalitarian. All of them went in for an export oriented industrial development but they controlled foreign collaboration very tightly (and do so even as of today). Import of technology is allowed after careful consideration with the build up of domestic R and D effort with adequate provision for the absorption, adaptation and development of technology.

The Economist's analysis is flawed in one other major respect. Most technology abroad today is labour saving and capital intensive. The type of opening up of the economy recommended would lead to a pattern of industrial investment which would *not* lead to large scale absorption of labour and the consequent growth of unemployment would lead to increased social tensions, increased divisive forces and a futile increase in government expenditure on forces for maintenance of

'internal security'

While the diagnosis of India's present ills made by *The Economist* are substantially correct, regrettably the remedies suggested are wholly wrong, arising from a lack of understanding of the basic problems of India's ailments and what needs to be done to overcome them.

II

What, then, needs to be done to solve the manifold problems which ail the Indian economy today? First, as indicated by *The Economist*, much of India's problem today stems from the large revenue deficit of the Central government, of the order of 8.5 per cent of GDP. This needs to be brought down sharply. True to tradition, *The Economist* has attacked the burgeoning subsidies given by the Centre, and the large investments made in industry by the Centre. The latter point is well taken. As to subsidies, many of them are not properly targeted—and worse, many of them are covert and not explicit—and it would in future be necessary to change their content and direction, but a reduction in the volume of subsidies may not occur. There are many other ways of reducing the budgetary deficit. *The Economist* does not speak of the unnecessarily large defence expenditure and the presently burgeoning expenditure on 'internal security'. The former goes to sustain employment in the developed world, and it is wholly unnecessary for the developing world to enter into a competitive arms race in order to protect employment in the arms industry, be it in Massachusetts or California. It is unfortunate that this signally wasteful expenditure does not evoke any comment from *The Economist*. (This, together with the focus on trade liberalisation to be discussed later, shows the major concern of the Western world.)

What we need in India today is an acceptance of the 'federal' principle, of democratic decentralisation, empowering the people to work out detailed local 'watershed area' development plans, to improve the moisture retention capacity of the soil, to evolve ways to retain the limited moisture that Nature bestows over a period of two to three months, by the construction of small weirs, check dams, ponds, et al. What is necessary is land levelling and reshaping and planting of grasses to prevent run off of the top soil with rain. What is required is the planting of trees to provide both fruit and timber (and fuel wood for the masses). What is required is larger use of organic fertilisers (easily available in most areas). What is required is better crop planning to suit the soil conditions in each area.

As indicated by *The Economist*, we need massive investments to improve the rural infrastructure. Roads are only one part of such infrastructure. There are others. What we need is a major shift in the pattern of investment in favour of the rural areas, but these—as per the Approach document for the Eighth Five Year Plan, released after approval of the NDC in October 1990—can be taken up efficiently and cost effectively only by democratically elected representatives of the local people, in each village, each mandal. There is need to instil the spirit of self-reliance in the people. The programme of local development must be worked out by the local people themselves, though they may need the assistance of experts.

The Economist spoke of the large subsidies being granted to food, fertilisers and other sectors, many of them being misdirected. That is true, though only partially. The fertiliser subsidy is partly to offset the higher cost of the feedstock (natural gas particularly, and also naphtha) as compared to, say, the opportunity cost of 'flared' associated natural gas in West Asia. Food subsidies need better targeting. It is, of course, true to say that both explicit and covert subsidies in the Indian economy are quite large. According to a study by Sudipto Mundle and Govinda Rao (see *Economic and Political Weekly*, May 4, 1991) total subsidies (as defined by them) may well be in excess of 14 per cent of GDP. In this context, *The Economist* is correct in stating that there is a wholly unnecessary subsidy on higher education as against primary education. That is all right, but the overall perspective the totality of approach of *The Economist* is *not* right.

We need a totally different pattern of subsidies. In fact, for most part, what are treated as subsidies today (for the rural sector) should really be converted into investments, by the deployment of unemployed and underemployed labour for local watershed area planning. We need, as *The Economist* says, to put in more funds for rural development. And, as a preliminary to that, we need to seriously think of the 'Right to Work', for at least eight hours daily at the *minimum wage*.

We also need to change the focus of investments from mega projects to smaller projects, financed by the savings of people directly. Before any thrust for liberalisation of imports, we need to regulate indigenous investment. The Eighth Plan Approach Paper was quite clear on this issue. We need to de-bureaucratise the functioning of the Indian economy; we need to give free play to individual enterprise and innovativeness. But the way to

achieve this is not the sudden opening up of the economy to the full blast of external competition and external capital. That could well come later, after a few years, after we have promoted free competition within the economy. Our present system of licensing and controls has favoured the giant companies and a few large business houses. The way to regulate their activities is through fiscal and financial policies. For instance, the debt:equity norms for large undertakings should be tougher than for small ones. Credit, in ample measure, should be available to the artisan, the handloom weaver, the small farmer.

Opening up the economy in the manner recommended by *The Economist*—and a lot of starry-eyed Indians—would be tantamount to pandering to the demand (for elitist consumer goods) of a 100 odd million Indians. This is a large market, almost as large as that of Western Europe (though not quite as affluent). Such a policy is likely to leave the 750 million Indians (outside of this market) in the cold. If the 'caged tiger' (to use *The Economist's* metaphor) is to be released, we need to release the energies of these 750 million Indians.

The priorities, in this context, are education, health care, care of the mother and the child, better nutrition. In order to make effective and efficient use of the limited resources, we need to de-bureaucratise the delivery of these services also. We need a 'convergence' of these services, through the people's own organisations.

We need to find employment for the presently unemployed and underemployed. This can be achieved through democratic decentralisation and the implementation of the concept of 'Right to Work', through work being found for all those seeking employment, local area development, planned by the local authorities. That would also help to protect the environment which has of late suffered steady degradation.

We need, in short, to change the priorities of the Plan effort. The Eighth Plan proposals sought to cut down public investment on large industries from 12 per cent of the total plan outlay to 7 per cent, and to raise the investment on rural development to 50 per cent, the rest being spent mainly on the development of local energy sources and other infrastructure, as well as social investments such as education, health, reduction of infant mortality, better care of the mother and child, development of small industries, and improvement of facilities which would influence people to innovate and increase economic activity generally. We need to invest on renewable sources of energy, to provide a minimum of energy (and of drinking water) to every citizen,

which will reduce human drudgery, as well as prevent ecological degradation of the countryside. These are our immediate priorities.

We also need to tone up our public sector enterprises which supply most of the infrastructure services and key inputs. That is a subject by itself, but briefly, we can do that by distancing public enterprises from government administration, by providing minority shares to workers and to the lay public (so that the annual general meetings of such enterprises can be opened up to public criticism).

But, as opposed to the view of *The Economist*, opening up the Indian economy to international capital and international competition, at this juncture, is *not* the solution. It is a solution which would attract the affluent 100 million Indians; it is also a solution which would lead to external bankruptcy, a sudden deep recession (and consequent unemployment in Indian industry), and misery to the 750 million Indians who have to be raised from their present state of ignorance, ill health and low productivity. And, as a preliminary to this effort, we need a firm acceptance of both the principle of 'federalism' and of democratic decentralisation.

Comparisons with other countries,

though occasionally helpful and useful, are illusory. They can never find the answer to the problems of any country at any time. We are constantly reminded that the world does not need India, but that India needs the world. This in itself is a reminder that we ought to learn to stand on our own feet, in the matter of internal savings to finance our development, in the matter of self-reliance in external payments. The latter does not imply either autarky or isolationism. It does mean though that we should be able to pay for our imports by our exports. That way lies our salvation, not the opening up of the economy when imports stand at around 10 per cent of the GDP and exports at around 6 per cent. Our domestic savings rate has come down from more than 23 per cent of the GDP to less than 21 per cent of late. We need to raise our own savings, be careful about inessential imports (intended to pander to the needs of a few), de-bureaucratise the functioning of the economy, and rely on fiscal and financial levers of policy to achieve a self-reliant pattern of growth.

We need an approach wholly different from that suggested by *The Economist* and starry-eyed affluent Indians who are always sucking up to the immensely more affluent West.

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Calcutta Diary

AM

It need not be the sole prerogative of the fundamentalists or the feudal overlords to issue ultimatums; once the rest of the nation has exhausted its stock of forbearance, it too will issue threats and act upon them. There will then be plenty of Hindutva, or plenty of signing of pledges of undying loyalty to the princely household, but no India. But other, more hopeful, possibilities are not to be ruled out either. Consider, for instance, what is happening in Nepal.

RAJIV GANDHI's gory death is of a piece. This nation, if it can still be called that, is tearing itself apart, and with a ghastly application of passion. Irrespective of the impact of the tragedy at Sriperumbudur on the outcome of the ongoing elections and the kind of government that assumes power at the Centre, it is bound to be a continuum of frenzy. A brightening genre of primitivism is unleashed over large chunks of the country. History has retrogressed, tribes, whose existence one thought was one of the major attributes of pre feudal societies, have emerged as the dominant political reality in Bihar, Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh. Not just the Yadavs or the Kurmis, Brahmins or Bhumihars too are behaving like tribal conglomerates. Their vision does not proceed beyond their immediate caste concerns, they are well knit and armed to the hilt, they spurn the premises of rational thinking. The rest of the nation, they genuinely believe, do not matter. Most of them are in any event not interested in the rest of the world, an obstinate insularity defines their attitude to the global processes. The laws of economics and science and technology are to them an irrelevance. It is as if the country has slipped back two or three thousand years, and the universe consists of the narrow little confines of a couple of villages. Whatever resources these villages possess must come under the command of one's own tribe alone, the others deserve liquidation. Each tribe has come to know by now of the enormous possibilities associated with the seizure of the governmental machinery. This particular paraphernalia must, by hook or crook, be commandeered by the tribe, or by its Nehruvian variant, the family. Or else there will be war, let all other considerations drown. Parochialism could not have scaled any greater heights, India, according to the vision that has gained ground with an astonishing rapidity, is of this or that family, or this or that tribe, and this or that family or tribe alone.

Every action has its equal and opposite reaction. The emerging culture therefore is of the pre-emptive kill. A single-minded targetry has for the present halted the Nehru-Gandhi line. Perhaps the outrage had inspirations beyond a purely tribal intent, and even one or two extra-territorial ones. On the other hand, the fervour with which the purveyors of Hindutva are going about is every bit a specific manifestation of tribalism. The self-styled devotees of Rama would like time not only to stop, they in fact want it to be rolled back, not just to a prehistorical epoch, but to the mythical *Treta* era, a never never millennium where justice is rough hewn, bestowed by a supposedly benign, incorrigibly autocratic, set up of demons, gods and kings. In this curious condominium, infidels do not belong, technology is treated with contempt, economics is assumed to consist of the exclusive oracles of Chanakya, and the dominant emotion is mistrust of those who are by definition excluded from the system. About one-half of the nation may still go without food every night, about one half of the nation may still be innocent of letters, basic human rights may continue to be denied

to hundreds of millions of children, many of whom nonetheless theoretically possesses the right to vote in elections described as democratic. It is a pauperised nation, with hardly any foreign exchange reserves in the kitty. Its governing elite is however not even remotely worried. Tomorrow will take care of tomorrow. For today, high on the agenda, at the very top, is the cultivation of killing fields, the infidels, those who do not recognise our household deity or conform to our religion or our tribe or our notions of civic rights and duties, have to be exterminated. Priority is priority, land may remain untitled because of lack of facilities for irrigation, factories may close in their thousands because of the shortage of, if not demand, working capital, employment-creating programmes in town and country may languish for the same reason. So what, the principal task confronting the nation is the substitution of a mosque by a temple. Those who demur with this agenda have no place in this land of the pure, the *trisulas* are out. Or perhaps the *trisulas* are not modish enough, it is only legitimate that the country must go nuclear. Alternatively, leave it to the imperial household, it knows what is best for the nation and don't you dare say otherwise. Cost is an irrelevance, absolute preference is absolute preference, whoever does not agree with our point of view will be duly taken care of. Yes, let there be elections on the basis of adult suffrage every now and then, yes, the elections must be free and fair, but all citizens must vote for either our prince or princess charming or for our version of Rama Rajya, should they refuse to do so, they do not belong to this nation, and have thus no business to exercise their franchise, they will be undone and their property will be either burnt or taken over.

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assassination have provided the opportunity of a stage rehearsal for the ultimate *dharma yuddha* the primitive tribes exercising a stranglehold on the polity are impatiently waiting for. Since Aryavarta is their principal domain, and Aryavarta by definition is India, by and large it is the ethos of the north which is impliedly to prevail; the tribal chieftains, and the rabble following them, in Amethi and Etawah and Arrah and Aurangabad, will decide who are to be shot and who are to be allowed to live, what the nation's social and economic policies are to be, what the school curricula should consist of, what obscurantist programmes the radio and the television must be made to carry.

Are they however not assuming too much? The hawkers of Hindutva may want the nation to recede into the dark corridors of irrational mythology, the votaries of a particular family may want the enforcement of norms that went defunct a thousand years ago, the entire stretch of Aryavarta these specimens may come to control by sheer muscle power, the claue of retired army brass and police chiefs currently joining in droves this or that group or tribe may temporarily provide the assurance to the rampaging crowds that, with so much of distinguished livery backing them, the fascism they love to dream of will be ushered in the country soon, very soon. But are they not bereft of the capability to look beyond their nose? They may, temporarily, have their Roman reign or their Hindu kingdom, they may, temporarily, even have their fascism, but they would still be living in a fool's paradise. They are a bunch of ignoramuses failing to realise

people's endurance, this country will cease to be. Considerable slices of the precarious jigsaw of this nation will refuse to fall in, the primitivism sought to be compulsorily imposed on the land will be rejected with derision, the threat of force will be met by counter-threat of an equal strength. India in these circumstances will shrink and shrink, Aryavarta will, temporarily, have its Hindutva and its Rama Rajya, or, alternatively, its queen from Turino, but the charade will be accompanied by bloody civil war, at the end of which Aryavarta will be left to savour its sectarian brew, while the rest of India will decide to belong to other sovereign entities. It need not be the sole prerogative of the fundamentalists or the feudal overlords to issue ultimatums; once the rest of the nation has exhausted their stock of forbearance, they too will begin to issue threats and act upon them. There will then be plenty of Hindutva, or plenty of signing of pledges of undying loyalty to the princely household, but no India.

One does not have to take into account that dark prospect alone. Other possibilities are not to be ruled out altogether. Despite the myth-makers; despite occasional stutters and occasional waywardness, the history of human civilisation—even when it is, civility be hanged, non-civilisation—is to proceed toward enlightenment; it is history's assignment to help in the evolution of the rationality of man. India is not, and cannot be, *sui generis*. The caste and communal fracas which reflect primitivism of the most dubious order could still be a passing phase. Consider, for instance, Nepal. Those itching for a Hindu kingdom of

that Nepal is quintessentially Hindu, it is, in fact, the only Hindu kingdom in the world. And yet, the Hindutva over there has failed to transform the people to the seventh heaven of bliss; the Nepalese continue to grope for a regime of justice and fairplay, a regime which will usher in a tolerably benign social order. The elections recently concluded in that country have provided the clinching confirmation, the citizenry of the only Hindu kingdom in the world are impatiently waiting to break out of the narrow, claustrophobic confines of Hindutva. The feudal reign of the Ranas is over, the Nepali Congress, the spitting image of our Congress(1), is a ramshackle coalition of disparate social categories which may collapse any day. The Nepalese people have nonetheless signalled that no tears be wasted for them, they have an alternative choice, available on tap. The obscurantism to which they had been condemned for so long has failed to impress; they have awakened to social reality; they are now actually ready to endorse the economic and social programme of the communist party. Historical determinism, in other words, has asserted itself. But if Nepal can have a tomorrow, why not Bihar and Uttar Pradesh? The obscurantists and the feudal overlords, notwithstanding their designs, may yet fail to break up the nation, the Left could yet vindicate their reputation as the truest patriots. Rajiv Gandhi's horrible ending may obscure the general picture for a few weeks. At the end of it, though, economics may well be in full command, with Nepal, the pigmy country, showing the way to its huge, lugubrious southern neighbour.

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Nepali Election Results and Their Implications

Anirudha Gupta

While the Nepali Congress has won a convincing majority in the recent parliamentary elections, its near-total debacle in the Kathmandu valley has rocked the party's collective leadership.

DESPITE its humiliating defeat in the Kathmandu valley, the Nepali Congress (NC) managed to establish a convincing lead over other parties in Nepal's first post-panchayat elections. It bagged 110 of the 205 seats in the Pratinidhi Sabha and, thereby, secured the mandate to form the kingdom's next government. Its nearest rival, the United Communist Marxist-Leninist Party (UCML) emerged as a formidable opposition with 69—that is, just one-third of the total seats in parliament. Of the 42 other parties which contested the elections, only six could survive, with the United People's Front (UPF), an extremist Leftist outfit, gaining nine of the 26 remaining seats (See table).

In some ways, these results are doubly welcome. For, in the first place, they have ensured the formation of a stable government without giving it an assurance of numbers to become unduly harsh or intolerant towards its opponents. The results have denied the Congress the kind of one-party dominance it wanted (a clear two-thirds majority) in order to amend some parts of the Constitution it had itself drafted in association with its Communist partners in the interim government in last November. For exactly the same reason, the opposition headed by the 69-member UCML would not find itself in the wilderness or wholly ineffective in parliament. On many substantial issues, such as constitutional monarchy, secularism and foreign policy, the NC and UCML hold more or less similar views, though with varying emphasis. There are also indications that the top leaders of these two parties wish to avoid, at this juncture, any direct confrontation. The UCML leader, Madan Bhandari, had in a post-election interview expressed a readiness to be "accommodating", a gesture which the outgoing prime minister, Krishna Prasad Bhattarai, amply reciprocated by stressing the need for the ruling party (NC) to work in "close co-operation with the opposition for stability and consolidation of parliamentary democracy".¹

Bhattarai's brief stint as head of an interim government has made him acutely

aware of the pitfalls any popularly elected government would face in view of the opposition from an entrenched bureaucracy and its powerful patrons in quarters close to the royal palace. At times these elements tried and nearly succeeded in rocking his coalition ministry; at other times they spared no efforts to frustrate the all-party consensus for the adoption of a new constitution. Besides, the top echelons of the Nepali bureaucracy are bound by a code of 'chakrigiri', which is but a misnomer for a vassalage system that binds prominent families and clans on a feudal basis. This system gives due importance to community and caste origins: 80 per cent posts in the civil service, army and police are held by the hill Brahmins and Chhetris, while the Newars constituting just 3 per cent of the population, hold 13 per cent of government jobs.²

It is most unlikely that this feudal-cum-caste structure of administration would give way under the pressure of a new democratic system. On the contrary, it may even corrupt such a system—and perhaps sooner than one anticipates. The Nepali army and police, on the other hand, remain ferociously loyal to the palace. In May last year, when law and order totally collapsed in Kathmandu, the army intervened because the king ordered it to do so and, thus, save Bhattarai's fledgling ministry. Such a situation may again arise in future and unless the peoples' elected representatives achieve a measure of unity to override such a crisis, their experiment in parliamentary democracy may prove short-lived. This is the aspect to which Bhattarai drew attention when he stressed the need for the ruling party and the opposition to adopt a flexible policy.

Yet, in view of the formal split between the Congress and the United Left Front (ULF), which together composed the coalition ministry, this flexibility in party attitudes may not be forthcoming. The newly elected Congress chief and prime minister, G P Koirala, does not share the mild-mannered pragmatism of Bhattarai.

He is known to be bitterly anti-communist and his strong views on policy matters may yet add a new dimension to the kingdom's fractious politics.

What is most significant in this connection is the near-total debacle of the NC in the Kathmandu valley elections. Of the total 10 seats in the valley, the NC managed to win only two, with narrow margins. But the significance of the results does not lie in either the communist victory or the Congress defeat, it lies in the manner in which these results may affect the fortunes of the two parties. First, the defeat of Bhattarai as well as those of the wife and son of Ganesman Singh, the Nepali Congress 'supremo', have rocked the collective or the triumvirate which held the Congress together since the death of B P Koirala. There have been many rifts and tensions within this triumvirate (of Singh, Bhattarai and Koirala) and at one point, during the 1986 elections, it was even rumoured that G P Koirala, then general secretary, was all set to quit the party and contest the elections.³ The crisis passed and, despite personal differences between Bhattarai and Koirala, Singh managed to keep the triumvirate intact because of his undeniable record of a man of great courage and self-sacrifice. But the electoral defeat of his relatives has sullied Singh's reputation. In fact, the Kathmandu electorate reacted strongly against what it suspected to be an attempt to foist Singh's family rule in the country. Similarly, the electorate frustrated Bhattarai's bid to retain NC leadership, not so much because he wanted to perpetuate his own brand of leadership as because he was seen to be too soft towards India and the Indian Establishment.

This means that the triumvirate in the NC may cave in and, thereby, cause an imbalance both at the leadership and rank levels of the ruling party. The followers of Singh and Bhattarai may not easily reconcile to the idea of taking orders from

TABLE: FINAL PARTY POSITION

| | |
|---|-----|
| Total seats | 205 |
| Results declared | 205 |
| Nepali Congress | 110 |
| United Communist Party (Marxist-Leninist) | 69 |
| United Peoples' Front | 9 |
| Nepal Sadbhavana Party | 6 |
| National Democratic Party (Chand) | 3 |
| Nepal Mazdoor Kisan Party | 2 |
| Communist Party of Nepal (Democratic) | 2 |
| National Democratic Party (Thapa) | 1 |
| Independents | 3 |

Source: *The Statesman*, Delhi, May 24, 1991.

far muted, may escalate on such issues as party policies and composition of the new ministry. If the past is any pointer, one may recall the 1952 split when Matrika Prasad Koirala headed a Congress government and his dynamic half-brother, B P Koirala, led the party.⁴ The undercurrents of personal and group rivalries may again erupt in case a new equation fails to evolve among members of the triumvirate.

The Kathmandu results may, on the other hand, cement the bond between two Left groups—the Nepal Communist Party (Marxist) and the Nepal Communist Party (Marxist-Leninist)—which merged three months before the elections to form the UCML. The leaders of both groups in the new politburo have won handsomely, thus giving boost to a collective leadership just when the NC triumvirate threatens to collapse. This is a highly significant development in the history of the Nepali communist movement which has experienced frequent fragmentation since the mid-1960s. Should this process of fragmentation halt, the Left movement in Nepal may gain strength and attract smaller factions such as the Mazdoor Kisan Party and the Democratic Communist Party, which together account for four members in the elected parliament.

What may upset this comfortable scenario is the attitude the UPF members in parliament may adopt in future. Like the UCML, the Front too represents a combination of Leftist factions—Masal, Unity Centre and Communist League—which stayed outside the democratic movement and ridiculed both Congress and ULF members of the coalition cabinet for going soft on the issue of monarchy and Indo-Nepalese relations. They see a nexus between “feudal forces in Nepal and Indian imperialism”, which in their reading must be broken to bring about genuine revolutionary changes in a poor, agrarian-based economy.⁵ It is most likely that the UPF would remorselessly focus on this nexus to discredit both the NC government and UCML opposition. It is also likely that, pressed by such attacks, both the NC and UCML would progressively adopt a rhetoric which would be less complimentary to either the monarchy or India. Would such rhetoric also involve a change in policies in substance?

This new phase in Nepali politics could thus witness a fresh round of India-baiting. The ruling and opposition parties would freely indulge in this exercise, more to score points against each other than against India. But this should not unduly disturb us. It has to be recognised that, like the Nepali Congress which has close

socialist groups of the Chandra Shekhar variety, the Nepali communists too have their contacts in India. The merger of the two communist groups to form the UCML had the blessings of CPI(M) leaders: H K Surjeet attended the politburo meeting of the Nepal Communist Party (Marxist) last December. Similarly, the West Bengal chief minister, Jyoti Basu, has kept himself in close touch with the leaders of the Sahana-Adhikari faction.

All this means that the new political formations in Nepal would not like to lose their contact with India. But there would be differences; unlike the Nepali Congress which tried to extract maximum mileage from Chandra Shekhar's official visit to Nepal in February, the communists would try to develop an independent approach to tackling national problems on their own. They would not go over to China even while they speak against India. How one wishes our mission in Kathmandu, or any other capital in South Asia, stops patronising political grouping according to the single standard of which of them is more vocal in mouthing pro-India slogans than others. Such tactics have not fetched much diplomatic gains for India, but those elements dubbed as ‘pro-India’

non-entities in no time. Part of the Nepali Congress reverses in Kathmandu and elsewhere in the elections must be analysed in this light. In an earlier article in this journal, I warned against our politicians and MP getting personally too involved in Nepal's movement for democracy. Whatever kudos they obtained, they left the Nepali masses guessing as to when they would be free from interference by ‘Big Brother’ to attend to their own problems.

Notes

- 1 *The Times of India*, Delhi, May 21, 1991.
- 2 *Nepal Press Digest*, Kathmandu, January 7, 1991.
- 3 During a personal interview with G P Koirala, I gathered the impression that he was bitterly resentful of the party decision to boycott the 1986 elections. “We have missed the bus”, he said, “and in politics this could even mean suicide.” Interview, Kathmandu, June 6, 1986.
- 4 For details see my *Politics in Nepal*, Allied, Bombay, 1964, chapter III.
- 5 Though not well drafted, one may find the basic ideas of UPF in Baburam Bhattarai's *Nepal: A Marxist View*, Kathmandu, 1990.
- 6 See ‘MPs Brigade at Kathmandu’, *EPW* March 10, 1990.

Caste and Candidate Selection Lok Sabha Poll in Bihar

Ravindra Kumar Verma
Nihora Prasad Yadav

The manifest influence of caste affiliations in the selection of candidates by the principal parties for the Lok Sabha election bears out the proposition that representative politics in Bihar has strengthened the caste system instead of weakening it.

THERE are numerous parties in the fray in the Lok Sabha poll in Bihar, but we have analysed candidate selection by five parties, namely, Congress, Janata Dal, Samajwadi Janata Party, Bharatiya Janata Party and Communist Party of India (CPI). These parties have fielded 205 candidates in all.

If we take first the caste clusters, it is found that 34.1 per cent of the tickets have gone to the forward castes against their total share of 15.9 per cent in the population of Bihar. The other backward castes (OBC) have 33.8 per cent share of candidates against 48.9 per cent share in population. The scheduled castes have secured 14.1 per cent of these parties' tickets against their 14.5 per cent share in population. Similarly, the scheduled tribes account for 8.3 per cent of the candidates

against their share of 8.4 per cent in the population. The minorities, mainly Muslims, have 9.7 per cent share in candidates against their 13.3 per cent share in population.

Caste-wise examination of the candidates shows that the largest share for any single caste is that of the Yadavas followed by Rajputs. Of the candidates of these parties 17.5 per cent belong to the Yadava caste and 13.6 per cent to the Rajput caste. These two castes account for nearly half the candidates of their respective caste clusters or groups. The population of Yadavas in Bihar is 14.6 per cent and that of Rajputs 5.9 per cent. Of the total candidates belonging to the forward castes group, Brahmins constitute 8.7 per cent, Bhumihars 7.8 per cent and Kayasthas 3.9 per cent compared to the

TABLE 1: CLASSIFICATION OF CANDIDATES OF MAJOR POLITICAL PARTIES BY CASTE

| Caste | Congress | Janata Dal | BJP | SJP | CPI | Total |
|-----------------------------|----------|------------|----------|----------|---------|----------|
| Brahmin | 6(11.1) | — | 8(14.8) | 2(3.8) | 2(25.0) | 18(8.7) |
| Bhumihar | 7(13.0) | 1(2.7) | 7(13.0) | 1(1.9) | — | 16(7.8) |
| Rajput | 7(13.0) | 5(13.5) | 6(11.1) | 10(19.0) | — | 28(13.6) |
| Kayastha | 1(1.8) | — | 3(5.5) | 4(7.7) | — | 8(3.9) |
| Total forward castes | 21(38.9) | 6(16.2) | 24(44.4) | 17(32.6) | 2(25.0) | 70(34.1) |
| Yadava | 5(9.3) | 9(24.3) | 8(14.8) | 8(15.4) | 5(62.5) | 35(17.5) |
| Koiri | — | 3(8.1) | 3(5.5) | 2(3.8) | 1(12.5) | 9(4.3) |
| Kurmi | 9(16.6) | 3(8.1) | 1(1.9) | — | — | 4(2.0) |
| Bania | — | — | 4(7.4) | 7(13.4) | — | — |
| Others (Mallah) | — | — | 1(1.9) | — | — | — |
| Total other backward castes | 14(25.9) | 15(40.5) | 17(31.5) | 17(32.6) | 6(75.0) | 69(33.8) |
| Scheduled castes | 8(14.8) | 6(16.2) | 8(14.8) | 7(13.5) | — | 29(14.1) |
| Scheduled tribes | 5(9.3) | 2(5.4) | 5(9.3) | 5(9.7) | — | 17(8.3) |
| Muslims | 6(11.1) | 8(21.7) | — | 6(11.6) | — | 20(9.7) |
| Grand total | 54(100) | 37(100) | 54(100) | 52(100) | 8(100) | 205(100) |

Note: Figures in parentheses are percentages

TABLE 2 DISTRIBUTION OF TICKETS TO WOMEN

| Castes 1 | Congress 2 | SJP 3 | BJP 4 | JD 5 | Total 6 |
|-------------|---------------|----------|----------|---------|------------|
| Bhumihar | 2(22.2) | — | 1(25.0) | 1(100) | 4(21.1) |
| Rajput | 3(33.4) | — | — | — | 3(15.7) |
| Kayastha | — | — | 3(75.0) | — | 3(15.7) |
| Total FC | 5 | — | 4 | 1 | 10 |
| Yadava | 1(11.1) | — | — | — | 1(5.3) |
| Bania | — | 1(20.0) | — | — | 1(5.3) |
| Total OBC | 1 | 1 | — | — | 2 |
| SC | 2(22.2) | 2(40.0) | — | — | 4(21.1) |
| ST | 1(11.1) | 1(20.0) | — | — | 2(10.5) |
| Muslims | — | 1 | — | — | 1(5.3) |
| Grand total | 9(100) | 5(100) | 4(100) | 1(100) | 19(100) |

Note: Figures in parentheses are percentages

13.6 per cent share of Rajputs. Among the other backward castes group, other than Yadavas, Kurmis, Koiri, Bania, Mallah, etc. are the major constituents. Thus the OBC group can be divided into two sub-groups—Yadavas and non-Yadavas—with the Yadavas' share being 17.5 per cent and that of the non-Yadavas 16.3 per cent. The caste break-up of scheduled caste, scheduled tribe and Muslim candidates is not available for analysis. However, it may be mentioned that all the candidates among scheduled castes belong to the Pasi, Dusadh, Chamar and Dhobi castes.

The Congress has allotted 38.9 per cent of its tickets to the forward castes, of which 11.1 per cent has gone to Brahmins, 13 per cent to Bhumihars, 13 per cent to Rajputs and 1.8 per cent to Kayasthas. It has provided 25.9 per cent of tickets to the OBC group, of which 9.3 per cent has gone to Yadavas and 16.6 per cent to Kurmis, Koiris and Banias. The Congress has provided 14.8 per cent tickets to scheduled castes and 9.3 per cent to scheduled tribes. The Congress Party has given 11.1 per cent of its tickets to Muslims. A big chunk of Congress nominees are thus from the forward

castes, mainly Brahmins, Bhumihars and Rajputs. At the same time, the party could not avoid giving a substantial share to the Yadavas.

The Janata Dal has allotted only 16.6 per cent of its tickets to the forward castes, comprising Bhumihars (2.7 per cent) and Rajputs (13.5 per cent). Of the total candidates of the Janata Dal 40.5 per cent are drawn from the OBC group. Among the OBC group, Yadavas have secured 24.3 per cent of the tickets, compared to Koiris (8.1 per cent) and Kurmis (8.1 per cent). The politically viable OBC group caste Bania

has not been provided any ticket by the Janata Dal. However, as part of the seat adjustments, JMM has fielded one Bania from a constituency where the JD has not fielded any candidate. The Dal has provided 16.2 per cent tickets to scheduled castes and 5.4 per cent to scheduled tribes. A remarkable fact is that the Janata Dal has provided the second largest share of party tickets, after the Yadavas, to the Muslims amounting to 21.7 per cent. Yadavas and Muslims together constitute 46 per cent of total JD candidates.

Like the Congress, the BJP has provided the largest chunk of tickets to the forward castes (44.4 per cent). Out of this, 14.8 per cent tickets have gone to Brahmins, 13 per cent to Bhumihars, 11.1 per cent to Rajputs and 5.5 per cent to Kayasthas. The share of the OBC group in BJP candidates amounts to 31.5 per cent, the largest share of which has gone to Yadavas (14.8 per cent) followed by Banias (7.4 per cent), Koiris (5.5 per cent) and Kurmis and Mallahs (1.9 per cent each). The BJP has allotted 14.8 per cent seats to the scheduled castes and 9.3 per cent to the scheduled tribes. It is notable that the BJP has not provided any ticket to the Muslim community, though the party has given one ticket to a Christian nominee.

The Samajwadi Janata Party has provided 32.6 per cent tickets each to the forward castes and the OBC. However, among the forward castes, the SJP has given the largest share (19 per cent) to the Rajputs compared to 7.7 per cent to Kayasthas, 3.8 per cent to Brahmins and 1.9 per cent to Bhumihars. Among the OBC group, the SJP has provided 15.4 per cent tickets to Yadavas, 3.8 per cent to Koiris and 13.4 per cent to Kurmis, Banias and Mallahs together. The SJP has provided 13.5 per cent tickets to the scheduled castes and 9.7 per cent to the scheduled tribes. In the Congress fashion, the SJP has provided 11.6 per cent tickets to Muslims. The party is apparently dominated by Yadavas and Rajputs.

The CPI has seat adjustments with the

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Janata Dal and so has fielded only eight candidates. It has allotted 25 per cent of its tickets to the forward castes and the rest to the OBC. Among the OBC the CPI has given 12.5 per cent tickets to Yadavas and the rest 12.5 per cent to Koiris. The CPI has not provided any ticket to SC, ST and Muslims.

As for the Lok Sabha elections in Bihar, Congress's participation again remains poor. The total number of women contestants was 12 each in 1967 and 1971, 9 in 1977, 19 in 1980, 16 in 1984 and 10 in 1989. For the parties under review here the total number of women candidates is 12, amounting to merely 9.2 per cent of the total number of candidates. Congress has provided relatively more tickets to women than the other parties. The Congress has allotted 9 tickets to women compared to BJP 5, BJP 4 and JD one. Of all women candidates 21.1 per cent each are Bhumihsars and Scheduled Castes and 14.7 per cent each belong to Rajputs and Kayasthas. Women from Yadava and Bania castes and Muslims constitute 5.3 per cent each among total women candidates. Of total women tickets 10.5 per cent have gone to the scheduled tribes.

The Congress Party has allotted tickets to women belonging to Bhumihsar, Rajput, Yadava, scheduled castes and scheduled tribes. The BJP has distributed its tickets to women confined to the forward castes (Bhumihsar one and Kayastha three). The Janata Dal has given its single women's ticket to a Bhumihsar woman. The BJP has provided tickets to women belonging to OBC, ST and Muslims (20 per cent each) and SC (40 per cent).

The caste factor, it should be clear from the above, has a great bearing on politics in Bihar. Though political parties cannot entirely confine themselves to caste or social groups for their ideology and support, the weightage given by particular parties to particular castes is evident. Parties which promise social justice, sharing of power and protection of depressed classes (JD and CPI) have largely concentrated on the OBC, SC, ST and minorities. Parties like Congress and BJP have, on the other hand, concentrated on the forward castes, followed by the stronger among the OBC. The BJP has distributed its tickets more or less evenly among all the caste clusters.

It may be concluded, following M N Srinivas, that the caste system is strengthened rather than weakened by representative politics in India. No doubt there has been some shift in dominant status from the upper castes to the intermediary castes (OBC), but the caste system has not been disrupted. Also, the

behaviour of castes in India is akin to that of status groups in other societies. While polarisation of castes has taken place, this cannot be regarded as synonymous with economic polarisation in society. The essence of this polarisation is social status based on political power and authority.

Finally, in the given pattern of sharing of political power certain groups are bound to be denied political power, at least relatively speaking. Even parties that champion social justice have thought of advancement of such justice on the basis of caste groups, ignoring intra-group

social justice; in other words, they have provided a disproportionate share of political representation to one or the other caste at the cost of other castes of the same group. As such the emergence of new deprived castes is inevitable with these castes expressing their discontent and fighting back in the near future.

Most important, we have seen, the political parties do not care for women's participation and women's share in political power and thus perpetuate established social traditions against women.

Elections: Violence against Poor

Bharat Dogra

Candidates who represent the poor are a particular focus of violence which even the police encourage.

THE reports of widespread election-related violence from various parts of the country have tended to ignore one important aspect: the extent to which this violence is directed against the weaker sections of society and the candidates who genuinely represent the aspirations of these sections in the elections. Due to a host of factors there are not many constituencies in which such candidates are strong enough to become serious contenders for electoral victory. But where they have managed to acquire a strong presence, after a difficult and prolonged struggle involving many sacrifices, well-organised and cruel efforts are set in motion days before the election to hinder their efforts and hound them out of a possible victory.

This can be seen clearly in the pre-election scene in the Karimnagar Lok Sabha Constituency of Andhra Pradesh. Here a CPI(ML) (Resistance) candidate N V Krishnaiah, who had earlier been elected to the State assembly, is seeking election for the Lok Sabha. He has a strong base to damage which arrests and torture have been unleashed by the police against his supporters.

To quote from a letter written to the chief electoral officer, Andhra Pradesh, by C Kondapi, convenor of Election Watch, a citizens' committee to oversee the conduct of the elections and to educate the voters on their rights, "The police machinery in the district (of Karimnagar) has openly taken up the political task of defeating the CPI(ML) candidate N V Krishnaiah. Obstruction of canvassers, disruption of election meetings by preventing people from attending them, arrests and torture of supporters and openly

threatening people that they would be liquidated if they vote for the CPI(ML) are being routinely and openly done by the police. Repeated representations to the administration and election authorities in the district have yielded no positive result."

'Election Watch' has also forwarded a list of 60 incidents of arrests, tortures, extortions and insults of a serious nature. In a most revolting incident reported from Gangadhara police station, three women activists of CPI(ML) were stripped and beaten by women police, in front of male policemen who threatened to rape them. These 60 incidents incidentally only cover the period up to May 15. Since then there have been further assaults on the activists of the party. According to CPI(ML) sources in Karimnagar, two activists Sanjeeva and Gangaia have been arrested and killed.

Nishant Natya Manch, a Delhi based street theatre group which visited Karimnagar to mobilise support for the CPI(ML) electoral effort, was hindered time and again by the police and their programmes disrupted. The police have openly threatened the artistes saying that they would be killed if they continued to stage plays there. The functioning of the party's election office has also been disrupted as have been the election meetings. Leading political parties appear to be supporting the terror tactics of the police. Somewhat similar obstructions have been put in the way of the party's candidate in Nalgonda constituency.

If this is the treatment representatives of the poor receive during elections what sort of equal opportunities are available to them in the sort of democracy that exists in India?

Story of Hadmatiya

Adivasi Struggles in South Rajasthan

On April 2, 1990, the tribal village of Hadmatiya in south Udaipur district was subjected to a brutal police assault. Nearly a year later this village was attacked yet again and destroyed. These organised attacks reflect the social tensions generated in the course of a process of development that perpetuated conditions of deprivation and dependence for large sections of tribals in this region.

HADMATIYA is an adivasi village situated in Salumbar tehsil of south Udaipur. The village was settled about two generations ago when adivasis migrating down from the hills cleared the open scrub forests and began cultivating the land. At present there are about 200 households living in the village. Rainfed agriculture is the basis of the village economy. Maize is the main crop but when the rains are good a second crop of wheat and gram can also be sown. The moist tankbed has traditionally been used for sowing winter crops in the dry season. Even though the individual holding of about seven bighas does not seem meagre, the cultivator is rarely able to eke out a subsistence from such a holding. In Normal years the adivasi household has enough only for three four months subsistence. In better years the household stocks could last for about seven or eight months. Only one-third of the cultivated area receives irrigation.

The Madar-ka-nala is the main source of irrigation. A new tank was built after the last drought two years ago. The village well is used mainly for drinking water and the *charas* (persian wheel) is in a state of disrepair. A few years back large sums were sanctioned for tubewells under the Jeewandhara Scheme of the LIC. These sanctions were largely under false names. At present all the four wells (costing between Rs 1,500 to Rs 1,800 each) are lying incomplete. In any case, tubewells are useless since the village has no electricity connections. Moreover, the overriding need in this region is not additional expenditure on tubewells but on bunding and levelling operations (*medhbandi*) since better land and water management are crucial for the development of agriculture in this dry, inhospitable tract.

The forest provides some possibility of self-provisioning. While the village itself does not have any forest, the adjoining village of Ghatet has about 105 ha of forest land. Timber that can be used for house-building is not available in this forest, but the adivasis are able to collect up to eight to 10 bundles of fuelwood in a month. A headload of fuelwood can be

sold in the adjoining *vyapari qasba* (market village) of Bhabrana for about Rs 10-12. But this source of income depends on the whims and vagaries of the forest officials. With the depletion of forests the tribals are forced to go longer and longer distances even for their own requirements of fuelwood. Unlike the forests in the adjoining tehsils minor produce like gum and *katha* are not available in these forests. The cumulative impact of successive years of drought and the dearth of pastures and grazing land has told on the livestock of the tribals. Ever since green fodder has become practically non-existent, milch cattle have stopped yielding milk.

With the livelihood traditionally derived from land, forests and livestock becoming increasingly insecure, the adivasi is forced to seek employment elsewhere. The possibility of finding work as agricultural labour is limited. Further very few industries have been set up in the area. So the adivasis generally seek casual employment, locally through contractors, in public works, construction sites or hotels and *dhabas*. Such casual labour is insecure, uncertain and grossly underpaid. Daily wages for both men and women are about Rs 10-12 in the region, i.e., about half the legislated minimum daily wage of Rs 22. The villagers also go to Aspur, Salumbar and Jhallara after the rains to cut grass, and to Udaipur for casual employment as construction workers. The Sanjela soapstone mines are not very popular but many have gone to Ahmedabad and even Vadod to seek employment as loaders, or in *dhabas* and hotels. Such migration is usually of a couple of months duration, in the course of which they normally collect about Rs 300-400.

Over the years the adivasis of Hadmatiya have become indebted to a money-lending-trading family based in Salumbar. Starting with a small trade in cloth this family has grown to control the bulk of the land in Hadmatiya and has gained control over the bulk of the village land. At the time of the land reform settlement of the fifties, 278 bighas in the village were allotted to the moneylender (573 bighas

if we include the area in the adjoining villages). After the implementation of Land Ceiling Act in the 70s, 90 bighas were transferred to the villagers. However, they were not aware of this until recently and have been paying a one-fifth share of their harvest as rent. Those whose fields have been mortgaged to the moneylender part with half their harvest. He has also taken over the cultivable land of the tankbed which has traditionally been cultivated by nine adivasi families. A large number of the adivasis are bound by the growing burden of debt to work as *sagars* (bonded labour) on the moneylenders' fields. They are forced to borrow bullocks against the payment of a bag of grain at harvest. (That is, after a harvest of about six bags of grain from the mortgaged field, the adivasi is left with only two to subsist on, after paying the dues of four bags of grain to the moneylender.)

Every bit of protective legislation that has been promulgated to safeguard the interests of the tribals against such exploitative practices has been flouted. Conditions in terms of infrastructure and community services in the village are abysmal. Drinking water is brought from the village well and hand-pumps. Electricity poles have been put up but the wiring has not been completed for more than two years. There is a primary school three km away but classes are rarely held despite the appointment of five teachers. The nearest primary health centre is at Matasula, nearly 10 km away. The hospital is at Salumbar 35 km away, but there is no public transport available to take a patient to the hospital. The State's developmental and welfare efforts have apparently left the lives of the tribals untouched.

ATTACKS ON HADMATIYA

Tensions had been brewing in Hadmatiya for sometime with the continual harassment and extortion the villagers were facing at the hands of the Salumbar-based moneylender, Tasdukh Hussain. Villagers from Hadmatiya contacted the activists of Rajasthan Kisan Sangathan, sometime in the beginning of 1990. The immediate issue was that of cultivation rights of the village tankbed traditionally with the adivasis.

On March 2, some villagers commenced the cultivation of *moong* in the tankbed. On March 5, 1990 an FIR had been lodged by the moneylender accusing 37 adivasis of theft and trespassing (the case is still pending). At 11 am the same morning the SHO Jhallara (Mohammad Sharif) and the SHO Salumbar (Narain Singh), along with nine other constables reached the village. Some women were manhandled. The provoked villagers retaliated by throwing stones and a few

retreated and promptly filed cases of assault and attempt to murder against the villagers. The police vendetta was, however, not limited to registering such cases. The sangathan leaders had met the district administration and an impartial enquiry by the administration into moneylending and land-ownership in Hadmatiya had been ordered. But the police went on a rampage even before this investigation, scheduled for April 4, could commence.

On April 2, 14 jeeps, 4 trucks and a bus load of policemen and some henchmen of the moneylender arrived at the village temple. The village was surrounded and the villagers were chased and herded forcibly in a field near Dhavda. Indiscriminate firing followed. Women were stripped and beaten up.

There was no authorisation for this firing which caused injury to 35 adivasis. The police claimed provocation and lodged cases of attempt to murder against 47 villagers. The case has been commuted to that of assault and is currently pending against 30 villagers. The false cases and the firing are part of the attempt to intimidate and terrorise the villagers who had begun organising against the exploitative practices of Tasdukh Hussain. Despite the fact that many of these practices should have come under the purview of the protective legislation for tribals, police assistance was made available to the money lender and this brutal attack was launched.

After last year's firing the villagers of Hadmatiya refused to pay Tasdukh Hussain any rent and began resisting his extortionate demands. Even in the face of police reprisal cases were filed against the SHO Salumbar and the SHO Jhallara. The activities of the Rajasthan Kisan Sangathan began antagonising a range of people. The *patwari* was forced to return bribe money and to explain to the villagers the status of their land rights. They opposed the unfair practices and hoarding activities of traders in Bhabrana and adjoining villages (including the Sahkari Samiti retailer Abhay Singh of Badatalab). The forest officials and the associated interests who had been getting rich on the fat of the land found themselves increasingly unable to continue the illegal trade in forest produce. The activists of the sangathan in Hadmatiya had put a virtual stop to illegal felling. Truckloads of wood were not allowed to be removed from the forest. The sangathan even lodged a case against the forester Shambhu Singh and a trader from Bhabrana, Bhawarlal Somani, for assaulting tribals of the village. Worse than the loss of income was the fact that the tribals were somehow "being given the impression that the forest belongs to them".

and trading interests, the police and the forest mafia, the sangathan also antagonised sections of the tribal population. They have posed a challenge to the traditional leadership in the village communities. Tejiya, the *gamethi* of the nearby village of Jhadap, was one such tribal chief who had begun feeling increasingly threatened by the growing base of the sangathan in his village. About 20 families in Jhadap support the sangathan. The *gamethi* traditionally has the absolute authority over the lives of the other adivasis. Tejiya had prescribed a code of conduct for the villagers. This had to do with ritual offerings at marriages and feasts apart from allowing him the right to levy fines for any disregard of the code.

It is therefore not entirely accidental that the recent attack on Hadmatiya was precipitated by an altercation between two of its villagers and an adivasi truck driver from Jhadap on February 28, 1991. The form in which these smouldering tensions manifested themselves subsequent to this skirmish has allowed the real issues to get obscured.

On the day after this incident some persons from Hadmatiya went to Jhadap to settle the issue. They were attacked and two of the group were detained forcibly. A group of about 25-30 persons had to rescue them. The next day two groups from the two adivasi villages congregated near Bhabrana in a tense confrontation, but there were no clashes. By the time the police reached the spot the crowd had dispersed.

At eight the same evening four persons from Hadmatiya informed the Jhallara *thana* of their fears of an attack. By 11 the same night police reinforcements had been sent by the superintendent of police, Udaipur to the *thana*. The patrolling police discovered 'nothing untoward' but the Hadmatiya villagers assert that meetings and plans were afoot that evening for the next day's attack. Bhawarlal Somani, Avtar Singh and Lakshman Singh of Bhabrana, Abhay Singh of Badatalab, Tej Singh of Bhopalpura and Sarup Singh of Kothar and Shambhu Singh the forest officer and other powerful persons of the region are reported to have been involved in this meeting. Their antagonism to the growing activism of the tribals has been brewing for a long time. In any case, it seems unlikely that a minor altercation would lead to such mob violence without more powerful backing.

Around 11.30 on the morning of March 3, an armed mob of about 400 to 500 persons had collected near Hadmatiya. They consisted of people from Jhadap, Bhabrana, Manpur, Matasula, Bhopalpura, Badatalab, Kothar and Lohagarh. The first house to be attacked was that of Mangilal (Sanjela village), the

The attackers systematically looted and burnt houses in those *phallas* of Hadmatiya where the sangathan activists lived—Dhadawada, Sagdawada, Gamethi, Gaddha and Phutatalab. Most of the villagers escaped to the nearby fields. Those who could not were badly beaten. Goats were slaughtered and burnt. Seventy houses were destroyed. All that remains in the wreckage of the gutted dwellings are charred and crumbling walls, broken tiles, broken *chakkis* and grain bins, charred remnants of the wooden doors and scattered ash.

The police arrived too late to prevent the carnage or round up the attackers. This despite the fact that four persons

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from the village had gone to the *thana* the previous night and requested police protection for the village. They were detained that night for 'their own security' but no one from the *thana* thought it necessary to accompany them to the village the next morning. We were told that a few villagers had returned twice on the morning of the third to the *thana* to report the congregation of an armed mob near Hadmatiya but no assistance was sent. According to the SP, Udaipur, a police contingent was sent as soon as the patrolling police saw smoke arising from the village. Whatever the point of time or circumstances in which the police arrived, it is clear that the attackers had a field day and that no serious attempts were made either to prevent or restrain the attack. For, it is difficult to believe that an armed mob of 500 persons could become invisible to the patrolling police on duty explicitly to prevent a confrontation at Hadmatiya. Also, if the terrorised villagers could go a number of times from the village to the *thana* on foot, that morning, why couldn't the police with better transport facilities make it on time to the village? The contrast with the police forces' prompt assistance to the moneylender Tasdukh Hussain, last year, is a stark reflection of the insidiously partisan role of the local police.

The first arrests were made only the next morning after the SP, Feroz Khan, arrived on the spot and surveyed the village. The Hadmatiya villagers were understandably wary of police interventions, given their bitter experience of police 'protection', and initially refused to file FIRs. (This refusal is now being held against them.) Six persons were arrested. They are all adivasis belonging to the Dayma tribe. (The Daymas are listed as a criminal tribe. More relevantly, many of them work on the fields of the Rajputs in Manpur.) The main perpetrators of the attack according to the sangathan activists continue to remain outside the purview of legal action.

The estimated loss is more than Rs 4 lakh. Rs 2 lakh have been sanctioned by the government in addition to Rs 1,500 per family under a group insurance scheme. This amount is yet to reach the villagers. In the meantime provisions for food for about seven days were made. Only there are no stoves or fuel to cook with and nothing with which to grind the grain. Blankets have been distributed to those families with more than five members, that is 50 blankets for the 365 affected persons.

The government has promised supplies of *kelu* (clay tiles) to repair their roofs. But the charred wreckage of what was once the home of the adivasis needs much more than a roof. The wooden structure that supports the mud walls has to be built

again. Timber for house construction can be collected free of charge by the villagers but there are no forests nearby which have the right kind of wood. More important, the requirements of rebuilding 70 houses cannot be met without a major felling operation. The normal cost of building houses is about Rs 8,000. House building is normally something that is planned at least two years in advance. Labour for building is normally provided by the community. But to rebuild 70 houses together requires more labour than the village can provide collectively. The attempts at granting relief to the adivasis who have lost their homes are apparently as far removed from their struggle for survival as the process of development that has denied them the right to a decent life and livelihood.

The role of the local politicians in the aftermath of the attack is revealing. The Congress ex-MLA Kamalabhai (Lasadiya constituency) threw caution and the constraints of pre-electoral appearances to the wind and campaigned vociferously against the grant of relief to the villagers. The fact that he lost the last elections by a narrow margin of 800 votes may be partly due to the influence of the sangathan. The stand of the State president of the Congress, H P Prabhakar, was more politic. Relief, according to him, should be given to any victimised party, be it an expropriated *jagirdar* in need of rehabilitation or an impoverished adivasi who has lost his home and all his assets. The local BJP MLA, Narayanbhai, was less visible despite his covert support to the demand for the release of the arrested attackers. Even though Narayanbhai did not visit the village after the attack, the BJP-affiliated organisation, Vanvasi Kalyan Parishad (VKP), surveyed the area and issued a variety of unsubstantiated charges (*Rajasthan Patrika*, March 19, 1991) against the sangathan, including a ridiculous claim that the sangathan was forcing religious conversions. Among the most vicious of these charges was the threat allegedly issued by the Sangathan to the *sarpanch* of Bhabrana that they would kidnap "women of five Jain families" if he failed to pay Rs 50,000. The adivasis of Hadmatiya are conscious of the VKP's hostility to their democratic struggles and refused to accept the *lotas* and *thalis* sent to them by way of relief after the attack.

The attack on Hadmatiya is clearly an attack on the sangathan. The houses that were burnt were all those of sangathan supporters. Repeated demonstrations led by the ex-MLA Kamalabhai demanding the release of the arrested persons took place in the area. More startling was the opposition to the grant of any relief to the affected villagers. A few days later (March 9) a PUCL (Rajasthan) team in-

vestigating into the incident was attacked when they entered Bhabrana by a group of 50 people which included Sarup Singh and Bhawarlal Somani (both are merchant moneylenders). The RKS activist accompanying them was seriously injured and had to be hospitalised.

The fact that the attackers were predominantly adivasis has led to the obscuring of the root cause of the growing tensions in the region. The administration is projecting the incident as an inter-adivasi conflict. Such a projection is convenient to those opposed to the struggles being spearheaded by the sangathan. The sangathan is being charged with being high-handed and intimidatory in drawing its membership, and of increasingly taking the law into its own hands. From such a viewpoint, the attack on the village is the result of naxalite 'extremism'. These charges of 'extremism' are apparently merited by the growing ability of the adivasis to assert and enforce democratic rights that have been denied to them not only through the subversion of legal processes but, more pervasively, even through its actual implementation.

The violent and unrestrained hostility of certain sections to the RKS is beyond dispute. The attack and the events unfolding in its aftermath bear testimony to the range and power of such hostile forces. These forces, be it the local police, local forest rangers, traders of Bhabrana, the *gamethi* of Jhadap or the moneylender Tasdukh Hussain, found their hegemony being challenged by the growing influence of the sangathan. It is precisely this hegemony that led to the tensions in Hadmatiya in the first place.

Both the attacks took place under the regime of the BJP government. The change from Congress to BJP has apparently made little difference to the pattern and strategy of development that was marginalising large sections of the adivasis. Under the BJP, however, this economic strategy is sought to be reinforced by a dangerous revivalist ideology. The BJP has been attempting to make inroads among the adivasis, virtually all of whom are Hindus, both through its 'philanthropic' organisation, the Vanvasi Kalyan Parishad, and through its recent rathayatra that passed through Rajasthan. The attempt to bring adivasis into the fold of the agitation for the disputed Ram Janmabhoomi temple at Ayodhya is not without its ironies in this region. For the rathayatra was particularly well received in Aspur where the Rajputs have been trying, for a long time, to gain control of the Bijwa Mata temple belonging to the adivasis. The most ominous aspect of the BJP-VKP campaign is the offensive they have launched against the democratic struggles of the adivasis. These struggles are resisting the continuous harassment

and extortions suffered at the hands of moneylenders, traders, forest officials, *patwaris*, contractors and middlemen whose intervention is integral to the 'development' of tribal regions. Political parties and the processes of electoral democracy in this reserved constituency have evidently served to strengthen the power of the forces that precipitate incidents like that witnessed in Hadmatiya.

The civil society of the tribal communities is already being eroded by the development process which was displacing communities and creating gradations within them. The tribal community is far from being a homogeneous collective. The collusion of sections with the vested interests responsible for the deprivation and oppression inflicted on the adivasis creates oppositions to any democratic struggles even within the community. Added to this is the electoral process in reserved constituencies that strengthens and legitimises such collusions with exploitative mechanisms. While the constituency of the elected representatives of the people is derived largely from the adivasis (a constituency that is mustered through the crucial intervention of the *gameithi*) the clinching support in terms of muscle and money power is derived from precisely those sections that are responsible for unleashing these processes.

Last year's attack was clearly and starkly a response to the resistance of the Hadmatiya adivasis to a moneylender's usurpation of their land. If a year later the conflict and its focus are less defined it is because the dimensions of the conflict have become more complex. More importantly the range of interests antagonised by the *sangathan* have also become more organised. What remains unchanged however are the privations and pressures the adivasi faces and the violence of the reprisal against any struggle to change this exploitative structure or even to fight for constitutionally guaranteed rights. The right of the people to organise and struggle against oppressive forces, through movements like that launched by the Rajasthan Kisan Sangathan has to be defended by all democratic sections of society.

There is nothing remarkable in the story of this tribal village in Salumbar tehsil. The same processes are at work in different ways across the tribal belt in Udaipur, Dungarpur and Banswara districts of south Rajasthan. But the experience of Hadmatiya is important in that it reveals with stark brutality the repercussions of the organised attempt of the villagers to resist these processes.

[This article is excerpted from a report of the PUDR team which investigated the violent incidents.]

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COMPANY SECRETARY

Registered Office
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Assassination and After in North-East

Kamarupee

With the stakes in the present elections, especially those to the State assembly, being very high, and with every section of the people very highly politicised, it is unlikely that the 'sympathy vote' will be a major factor in Assam.

THE assassination of Rajiv Gandhi and the 'sympathy wave' that it is expected to generate in favour of the Congress(I) in the rest of the country is unlikely to reach the north-east region or even if it does is unlikely to substantially affect the voting pattern in the region. The only exception is likely to be Meghalaya where the Congress(I), normally always poised to do well, is at present rather shaky because of several local factors like the unexpectedly notable impact that the Bharatiya Janata Party candidate has been having in the Shillong (ST) seat and the disaffection within the Congress(I) over the failure of the party high command to renominate the candidate who had won the Tura (ST) seat in November 1989 and instead bring back Purno A Sangma after he had been manoeuvred out of the chief ministership of the State. Sanford Marak who had won the Tura (ST) seat in November 1989 has resigned from the party and is campaigning along with several other notable Congressmen for the candidate of the united opposition, I K Sangma. In these constituencies the death of Rajiv Gandhi and the anticipated 'sympathy wave' might be a factor. In the other constituencies of the north-east, the generally favourable position that the Congress(I) always enjoyed and which had ensured the party candidates' victories again and again will continue to prevail and the death in tragic circumstances of Rajiv Gandhi will neither add to nor take away from what has been the party's traditional areas of strength in the region.

Far difficult as it may be to believe, the Congress(I) in general and Rajiv Gandhi in particular (as indeed the Nehru-Gandhi family members) have always exerted some fascination in the north-east, especially in the peripheral States of the region predominantly inhabited by the tribal people. For one thing, the apparent ease and absence of inhibitions and of hectoring moralising with which these leaders from the Gandhi-Nehru family have generally conducted themselves in public in these regions have made a favourable impression. Secondly, the superficial symbols of 'westernisation' with which these leaders used to cover

themselves, almost ostentatiously as it were, when they were in these regions, further predisposed the people of the region, so avidly attached to the most superficial and ersatz symbols of such 'westernisation', in their favour. The undoubted fascination that Rajiv Gandhi had and the genuine affection in which he was held in the region had more to do with his, and even more so with his family members', personability than with any deeper understanding of the social factors that had contributed to these superficial features.

The sympathy factor is likely to work the least in Assam where even otherwise the politically dominant sections of the Assamese-speaking people have generally cherished anti-Congress, especially anti-Congress(I), views, though even among these sections the personality of Rajiv Gandhi and his near relations roused mixed feelings. This has been evident in the genuine grief that the assassination of Rajiv Gandhi has evoked even among those sections who in October 1984 had gloated over the killing of Indira Gandhi as deserved divine retribution. But the stakes in the present elections, especially to the State assembly, being very high, and with every section of the people very highly politicised, it is unlikely that the 'sympathy vote' will ever be a factor in the

cold calculations already going on. The suspicion that the dismissal of the AGP government (which, despite its many grave failures, was still seen as 'our own' government by these sections whose overthrow should have legitimately been accomplished by the people of the State and not by a caretaker government playing proxy to the Congress(I)) was engineered by the Congress(I) is still too strongly held for the party to make any headway on the so-called sympathy factor.

Above all, there is the ULFA factor, formally committed to a policy of total non-intervention and non-involvement in the election process, though its partiality for the regional parties (whose leaders it constantly denounces in its polemical interventions in the local press) is no great secret. While the organisation is formally banned and its leaders are not able to function with the kind of openness with which they used to before the dismissal of the AGP government, its total antipathy to the Congress(I) (along with the BJP) has been constantly reiterated. Indeed, the directive the ULFA issued some months ago asking members of all-India political parties to formally dissociate themselves from certain parties, or else face condign punishment, explicitly excluded from its ambit parties like the CPI and the IPF while keeping up pressure against the Congress(I) and to a lesser extent the BJP, in the former case going to the extent of killing in broad daylight one of the most non-controversial and popular leaders of the party. With ULFA's views on the Congress(I) being thus so widely known, and with the kind of clout that ULFA has repeatedly demonstrated in the State, it would require something much more than the killing of the president of the Congress(I) for any sympathy wave on behalf of the party to be generated in Assam.

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Bihar's Dams, Tribals' Woes

Indu Bharti

Sustained people's protest may well result in the stalling of the Koel-Karo project. But several other similar projects continue to be constructed in the State with little concern for the oustees, who are mostly tribals.

THE ministry of environment is reported to have asked the National Hydroelectric Power Corporation (NHPC) to prepare and submit a comprehensive rehabilitation package for the tribals who stand to be displaced by the controversial Koel-Karo project in Bihar. This may well prove to be what the newspapers in Patna have described as 'The Last Nail in Koel-Karo's Coffin'.

The Koel-Karo Project is just one of a number of such projects which are either stalled or are progressing at a snail's pace due to the resistance of those who will be displaced. These include big projects like the Subarnarekha Hydrel Power Project, smaller ones like the Tenughat Power Project and minor ones like the Bhera Water Reservoir Project. Little has been done to rehabilitate the displaced people even economically, let alone socially or culturally. For instance, the Koel-Karo Project. Formulated by the Bihar State Electricity Board (BSEB) in 1973, the project was designed to generate 710 MW of hydel power by damming the waters of the South Koel river and its tributary, North Karo, with a 44-metre high dam near Besia and a 55-metre high dam near Lohajimi. The two reservoirs were to be connected by a 34.7 km canal and giant hydel power stations were to be established in Ranchi and Singhbhum districts. The cost of the project was initially estimated to be Rs 390.4 crore. And considering that the government's own estimates had put the annual cost spiral to be of the order of 10 per cent, the cost of the project would have shot up to Rs 1,000 crore today. According to one estimate, the cost of the project has been increasing by at least Rs 25 lakh per day.

When completed the two dams would have inundated 112 villages in Ranchi, Gumla and Singhbhum districts affecting around 50,000 people from 10,739 families who would have lost 50,000 acres of land, 25-30,000 acres of which belong to cultivators. On the rest exist forests and the 'sarana' (place of worship) and 'sasidiri' (place of cremation) over which the local tribals have traditional and legal rights. According to the Bihar Sampurna Kranti Manch 85 to 90 per cent of those who were affected are tribals. It is this threat of displacement and loss of access

to 'sacred' forest land which has made the tribals oppose the project.

When the project was formulated by the BSEB in 1973 the tribals were kept entirely in the dark. But with the arrival of government officials to begin the process of land acquisition, the tribals rose in spontaneous protest. To give their protest an organised form the tribals of the Karo region formed the 'Jan Sanyojan Samiti' and those of Koel region the 'Jan Sangharsh Samiti'. In 1976 the two organisations merged to form the 'Koel-Karo Jan Sangathan'. The sangathan is not against the project as such. Indeed the memorandum submitted by the sangathan to the government in 1977 states that the tribals are willing to welcome the project provided it is turned into a 'people's project' which is possible only if the displaced are provided 'land-for-land'. But the government was not willing to concede this demand.

Left with no option, the tribals launched a 'Kam Roko Abhiyan' in 1977. Following this a tripartite meeting was

held between the government officials and representatives of the government, and it was decided to undertake a joint socio-economic survey of the displaced. The survey was carried out in two or three villages but later on all the questionnaires disappeared from the government offices. Following this the sangathan submitted a 16-point charter of demands highlighting various facets of the problem of the displaced and their rehabilitation. It demanded total rehabilitation—economic, social and cultural. But rather than talking to the tribals on these demands, the government unilaterally announced the rates of compensation. In 1983 the sangathan proposed to rehabilitate the displaced of two villages as an example. This was also rejected by the administration and the government which were not willing to even consider the question of social and cultural rehabilitation. In July 1984 the Bihar government called out armed police to help the NHPC acquire land and begin work on the project. But the determined opposition of the tribals, particularly the women, forced the government to recall the police.

In the same year the affected tribals filed a writ petition in the Supreme Court against construction of the project without rehabilitating the displaced. The Supreme Court granted a stay on further construction unless adequate rehabilitation measures were announced. At that time the government's rehabilitation

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package was worth Rs 150 crore involving a rehabilitation cost of Rs 5,000 per family which was grossly inadequate. Now the authorities are ready to pay Rs 20,000 per acre for the best land, which is three times the initial rates announced in 1974.

The tribals' stand was that mere cash compensation was hardly enough to make up for the loss of land, the only source of their livelihood. What was more important for the tribals was that the project proposal involved the inundation of their 'sarani' and 'sasidin' to which they attach great importance. In the meantime, the tribals cut off the road to Lohajimi where work was in progress before the Supreme Court ordered a stay. The tribals did not allow government officials to enter Lohajimi. Outsiders were first screened to check if they were government officials before being allowed to enter Lohajimi.

The case dragged on till 1989 when a revised rehabilitation package was prepared which envisages 'in toto rehabilitation' of the displaced, land and jobs for all, vocational training and financial assistance for those who wanted to be self-employed and afforestation of about 30,000 of the 90,000 hectares of land which comprise the project's catchment area. The Koel-Karo Jan Sangathan has rejected this revised package as it does not deal with the cultural rehabilitation of the displaced.

The environment ministry has directed the authorities to mould the rehabilitation package on the lines of the one approved for Sagar Sarovar Project in Gujarat with the added stipulation that a fresh environment clearance has to be obtained before work begins on the project. This remodeling of the rehabilitation package would involve, according to officials, "an additional burden of Rs 900 crore, which cannot be taken on." And it is this which has made the NHPC lose interest in executing the project.

SUBARNAREKHA PROJECT

But those displaced by other big projects have not been as fortunate as those in the Koel-Karo region. Not only they have been displaced from their land and thus divorced from their only source of livelihood but the implementation of even the meagre rehabilitation schemes announced by the government has been shamefully tardy. And every move of the displaced to seek justice has been met with brute force by the government. The plight of those displaced by the Subarnarekha Multipurpose Project (SMP) is a case in point. Faced with the threat of displacement the tribals of Singhbhum district, have been raising their voice against the project right from its inception. But unlike the protests of the Koel-Karo Jan

Sangathan, protests here have been suppressed with a heavy hand on more than one occasion. On April 30, 1978, the police, in an unprecedented action of firing on the tribals who were on fast, had killed four and arrested 180 others. Four years later, the police arrested the tribal leader Ganga Ram Kajundia who was leading a demonstration of the tribals against the SMP at Challama in Singhbhum district and shot him dead. Cases of beating up of the agitating tribals by the police are of course numerous. Considering that the tribal region of Bihar suffers from endemic water scarcity and droughts, it may appear rather strange that the tribals of Singhbhum district are protesting against the Subarnarekha project which when completed is projected to irrigate large tracts of agricultural land. But on a closer look it becomes clear that the tribals have every reason to oppose the project.

Formulated in 1974 and sanctioned in 1977, the Rs 129 crore World Bank-aided project envisages the building of a dam across the Subarnarekha river at Chandil, and another across its tributary Teha near Kharkai, two barrages near Ganjia and Kharkai, 342 km of canal in Bihar and three attendant reservoirs across the border in Orissa. When completed it was claimed that the Subarnarekha project would solve the twin problems of floods and water scarcity by irrigating 1.6 lakh hectares cultivable land in Singhbhum district of Bihar, 90,000 hectares in Orissa and another 5,000 hectares in West Bengal. From this it would appear, as has been repeatedly claimed by the government officials, that the tribals of Singhbhum district would be the major beneficiary of the Subarnarekha project.

But according to tribal leaders and environmentalists the intensive irrigation being planned through the Subarnarekha project is not suitable for the soil in the Chhotanagpur region. This, they say, would turn the fertile land of Singhbhum into a swamp. What is required, according to them, is a resurrection of the traditional indigenous irrigation system of the region consisting of numerous 'joria', 'talabs', 'bhatar', and 'mahakaiya' which are falling into disuse due to lack of maintenance on the one hand and decreasing rainfall due to depletion of forests on the other. It was with this indigenous system of irrigation that Singhbhum district was able to grow its food requirement even during the disastrous droughts of 1866. But today the same region has become a foodgrain deficit area, though as a government memorandum submitted to the Centre states: "the 17 lakh acre land of Singhbhum should be able to cultivate 7 lakh tonnes of foodgrains going by the

NOTICE

It is hereby notified for the information of the public that The Raymond Woollen Mills Limited proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval to the establishment of a new undertaking. Brief particulars of the proposal are as under:

- 1 Name & Address of the Applicant: The Raymond Woollen Mills Limited, Plot No 156/H No 2, Zadgaon Village, Ratnagiri 415 612 (Maharashtra)
- 2 Capital Structure of the Applicant Organisation: Authorised Capital Rs 9000 lacs. Issued and subscribed Capital Rs 3308.25 lacs.
- 3 Management Structure of the Applicant Organisation indicating the names of the Directors including Managing/Wholetime Director and Manager, if any. The Board of Directors consists of: Shri Vijaypat Singhania (Chairman & Managing Director), Shri N J Jhaveri (Nominated of I.C.I.C.I.), Shri Madhupati Singhania, Shri J P Thacker, Shri Devkumar G Aggarwal, Shri Minoo R Shroff, Shri Nana Chudasama, Shri A R Prabhu (Nominated of U.T.), Shri V S Natarajan, Shri Gautam Hari Singhania (Wholetime Director).
- 4 Indicate whether the proposal relates to establishment of a new undertaking or a new unit/division. Proposal relates to establishment of a new undertaking.
- 5 Location of the new undertaking/unit/division: Kakinada East Godavari District Andhra Pradesh.
- 6 Capital structure of proposed undertaking: Not applicable.
- 7 In case the proposal relates to the production, storage, supply, marketing or control of any goods/articles, indicate: i) Names of goods/articles: Hot Briquetted Iron ii) Proposed licensed capacity: 750 000 tons per annum iii) Estimated annual turnover etc.: Rs 375 crores on full operation.
- 8 In case the proposal relates to the provision of any service, state the volume of activity in terms of usual measures, such as value, income, turnover, etc.: Not applicable.
- 9 Cost of the Project: Rs 600 crores (Approx).
- 10 Scheme of finance indicating the amounts to be raised from: Cost of the Project will be met by equity capital, loans from Financial Institutions/Banks/Debentures/Bonds, etc.

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi within 14 days from the date of publication of this Notice, intimating his views on the proposal and indicating the nature of his interest therein.

For THE RAYMOND WOOLLEN MILLS LIMITED

Registered Office
Plot No 156/H No 2,
Zadgaon
RATNAGIRI 415 612

A.M BHAI
SECRETARY

Dated 28th May, 1991

State's average yield rate which is sufficient to meet the requirement of the people of Singhbhum." Again, tribal leaders cite various government statistics which show that not only has the irrigated area, both in absolute as well as in percentage terms, declined sharply over the years but the cultivable area and foodgrains production have also gone down (Tables 1 and 2). Despite that till the end of the Sixth Plan as many as 41 irrigation projects had been completed in the Chhotanagpur-Santal Parganas region of Bihar at a cost of Rs 191.8 crore. Most of these projects have failed to serve their purpose because they are not suited to the requirements of the hilly terrain here. Whether it is the Roro Canal irrigation project of the Chaibasa district or the Kolabira dam in Gumla district or for that matter the Tapkara dam in the same district, all have failed to provide irrigation for the simple reason that they lie at a level lower than the targeted fields, and the surface is not plain. The Subarnarekha project is going to be another enlarged version of these projects.

All these projects envisage the carriage of water from lower to higher levels whereas the indigenous system of Chhotanagpur comprises storage of rain water in numerous small ponds at places where it falls and then channelling this water to the dam level fields. Because of the thick layers of granite and nites in the surface of these small ponds water is prevented from being absorbed by the pond surface and thus the farmers are able to grow multiple crops—foodgrains, pulses and spices.

To what extent the Subarnarekha pro-

TABLE 1 IRRIGATED AREA IN SINGHBHUM

| Year | Net Irrigated Area (in Acres) | Irrigated Area as Percentage to Total Area |
|------|-------------------------------|--|
| 1931 | 102244 | 15 |
| 1981 | 58530 | 15 |

TABLE 2 CULTIVABLE AREA AND FOODGRAIN PRODUCTION IN SINGHBHUM

| Year | Cultivable Area (in Lakh Acres) | Foodgrain Production (in Lakh Metric Tonnes) |
|---------|---------------------------------|--|
| 1975-76 | 17.68 | 16.43 |
| 1981-82 | 16.39 | 10.57 |

TABLE 3 CULTIVATORS AND AGRICULTURAL LABOURERS IN SINGHBHUM

| Year | Cultivators | Agricultural Labourers |
|------|-------------|------------------------|
| 1961 | 618257 | 130375 |
| 1981 | 383623 | 202393 |

ject will be able to meet the irrigation requirement of the Singhbhum district remains to be seen. What is beyond doubt, however, is the fact that the project will alter the course of the river in such a way that the Santhals, Bhumij, Munda, Bhuiyan, Gond, Kharin and other tribals of the Kolhan region who have been using the river waters will no longer be able to do so even as industrial units in and around Jamshedpur and its inhabitant will have access to a daily supply of 40 lakh litres of water. The project is also expected to lead to the establishment of a 10 MW hydel power station near Chandil to cater to the needs of the industries. According to a souvenir published by the 'Teha-Kharkai Bandh Visthapit Sangh', 65.4 crore cubic metre of water out of the 196.3 crore cubic metre dammed at Chandil and 7.3 crore cubic metre out of the 104.3 crore cubic metre dammed at Teha will be supplied to the industrial units in and around Jamshedpur.

When completed, the Subarnarekha project will submerge, as per official figures, 16,980 hectares land at Chandil and another 12,750 hectares near Teha. The Chandil dam will submerge 32 villages fully and 84 villages partially and thus would displace 6,773 families living in the villages of Chandil block. The dam at Teha will submerge 21 villages completely and another 41 partially displacing around 5,600 families. In all, around 70,000 people will be displaced. Further the three reservoirs to be built in Orissa will submerge 21 villages completely and 36 villages partially and will displace 3,247 families in Mayurbhanj district.

Faced with this displacement the tribals have no option but to migrate to different areas of Bihar, Assam and Orissa in search of work in the brick kilns and stone quarries where they are not only exploited in more ways than one but also have to face the wrath of the local goons, an instance of which was the two successive mass rapes of migrant tribal women working in the brick kilns of Jehanabad early last year to scare them away.

OUSTEES' PLIGHT

Though the government makes tall claims about the rehabilitation of the displaced it is a well known fact that implementation of these schemes remains shamefully tardy. In the case of the displaced in the Subarnarekha project, the government has announced that adequate compensation will be given for the land and employment will be provided to at least one member from each displaced family. But as late as 1988, an enquiry committee of the Bihar legislative council found that at least 30 per cent of the displaced had not received any thing by

way of compensation. The committee categorically held that the statistics supplied by the concerned officials about rehabilitation of the displaced was unreliable. It also detected gross irregularities and corruption in the implementation of rehabilitation schemes for the tribals.

The team's report apart, numerous instances of such discrepancies can be cited. Shrawan Bhuiyan of Harsundpur village in Nimdih block of Singhbhum district was given only Rs 7,000 for two tile-roofed houses. He also has a big family consisting of five brothers. Similarly Basudeo Mahapatra of village Kashipur in Nimdih block received just Rs 10,000 for a big tile-roofed house. But a Congress(I) MLA Prabhat Kumar Aditya got an astounding Rs one lakh for a dilapidated house which was lying abandoned for 20 years.

As for providing employment to the displaced, the Xavier Labour Research Institute, Jamshedpur, recently found that the displaced comprised less than 10 per cent of the project's total workforce. Fifty per cent of the posts of lower division clerks in grade III were to be given to displaced persons, but it was found that in only 5 per cent of such jobs were the displaced employed.

The displaced of the Subarnarekha Project are not an exception. Most oustees are condemned to the same plight. Sikadari power project was completed 12 years ago but the oustees are yet to get the promised employment; in Tapkara village of Gumla district a widow has received just Rs 1,200 for five acres of land; another villager could get just Rs 10 though his two-and-a-half acres of land was submerged. A fertiliser plant was established at Sindri 40 years ago but the 28 families who lived in Rohrabandh where Sindri town now exists after having been rehabilitated in the neighbouring Manohartand are again facing the threat of displacement because they have not been given the title deeds to the land. Many among the displaced are yet to get the compensation amount.

Similarly, work began in 1978 at Paraiyhat village in Godda district for the construction of a reservoir and 355 families living in the village were to be displaced by it. But the government list showed only 55 families among the displaced. Agitated at this the tribals stopped work which till date has not been resumed. In some cases the tribals have been given 'land for land'. But mostly the land given has been found to be uncultivable. The displaced families of Palua, Ruani, Dillong, Keshtapur and Kashipur who had been cultivating at least three crops on their land have been given uncultivable land on which they cannot

grow even a single crop, let alone three, and have become paupers.

Though the government has been acquiring land from the tribals for a pittance, it has been filling its coffers by selling or leasing out land in the same locality and in cases even the same land at high prices. For instance, the tribals displaced by the Tenughat Power Project were given compensation at the rate of only Rs 1,200 per acre but the same land was leased out for 90 years at the rate of Rs 20,000 per acre. Similarly, the displaced of the coal mining project of the Central Coal fields (CCL) in Bermo were paid at the rate of Rs 17,000 per acre by the CCL whereas it paid Rs 1.10 lakh per acre for the government land, which it needed to acquire. These are only a few instances of how the tribals are being uprooted in the name of development without being rehabilitated. But as the example of the Koel-Karo project shows, this cannot continue for long.

In this connection the demands of the organisations leading the displaced

people's movement against the big dams in Bihar assumes importance. These organisations had asked the National Front government to formulate a national policy for such projects which would provide for (a) obtaining and incorporating local people's views in the formulation of the project; (b) obtaining people's acceptance of the final project proposal; (c) informing the affected people on various aspects of the project proposal; and (d) for monitoring of the project by the local people. The organisations have also asked the government to formulate a national rehabilitation policy which should provide for (a) the completion of the process of rehabilitation before displacement; (b) the formulation of a rehabilitation package to the satisfaction of the displaced; (c) not only economic but also social and cultural rehabilitation; and, lastly, (d) land-for-land and in addition jobs to at least one member of every displaced family. Needless to say, there has been little progress in these directions either at the Centre or in the State.

members comprising one superintendent, three clerks for office work, three male and three female guards, a cook and a sweeper—which means that there is only one female guard for 57 girls at any given time. According to a report in the *Sakal*, when the reporter visited the school, one of the mentally retarded inmates was preparing chapatis for the evening meal. The official cook comes only in the mornings and hence the evening meal has to be prepared by the girls. Formerly the school used to be in total darkness because the electrical connections were faulty. Now at least the lighting has improved.

Almost every girl in the school has some skin disease. The girls wore soiled clothes. Most of them had close-cropped hair. Some were lying on torn bedsheets; some had defecated on the door of the living room. Many girls had scabies and bad teeth. Right now the condition of four girls is so bad that if they do not get medical aid they will die.

The report of the superintendent about the death of the seven inmates is pitiful. She said that two girls were too weak to be shifted to the government general hospital at Pune while four were shifted to the hospital. The death of these four girls was reported to the local municipal authorities. Suvarna Walvekar died on July 2, 1990 in the general hospital. Anu alias Mukti died on May 30, 1990. Thereafter 19-year old Baby Enake died of heart disease in the school. Ranjana Pandit who had the habit of eating grass and rags and suffered from heart trouble died on December 19, 1990. Her parents did not come to claim her body. Arati was refused admission in the general hospital and she died on January 8, 1991. Nalini Sukhdeo who died on December 3, 1990 was a mongoloid child and had multiple deformities.

Two years back in 1988, one girl had been raped by a male guard who was suspended from services. The Sirur taluka Janata Dal claims that another girl too had been raped, but the superintendent denies this. Though all the above referred girls died on different dates, only the four deaths of Baby, Ranjana, Nalini and Arati were reported to the local municipality and all of them on one day, January 30, 1991.

No women's organisation has cared to enquire into the condition of these hapless mentally retarded girls. The Lions and the Rotarians send sweets on festivals, but beyond that nobody comes to the institution—not even the parents who have not cared to ask for any remedial measures. Who should be held responsible for the pitiful condition of these mentally retarded girls?

Slow Death for Mentally Retarded

Wishvas Rane

A report on the appalling conditions in the Maharashtra government-run school for mentally-retarded girls in Sirur near Pune.

SEVEN girls have died in the last one year in the Maharashtra government's school for mentally retarded girls in Sirur. The school with 57 inmates is managed by the social welfare department of the government since 1965. This is the only registered school for mentally retarded girls in Maharashtra. Sirur is about 35 km from Pune and the school is situated on a four-acre plot about 2 km away from the village. The girls live in two large rooms.

The Sirur taluka Janata Dal has asked for an enquiry into conditions in the school. Even the superintendent of the school agrees that these are pathetic.

Water supply to the school is limited to one hour a day. It is not that Sirur does not have good water supply, but this school, hardly two kilometres away, does not get adequate water. The girls are bathed once in three or four days and that too only after the coming of a nurse in December 1990. Before that the girls were simply herded to the Moti Nallah (a stream) on the Sirur-Bhimashankar Road and bathed in the open. This stream is

also used by truckers to wash their vehicles.

The post of the nurse had remained vacant for nine years, though mentally retarded girls definitely need the help of a qualified nurse. Even the post of a lady medical officer was filled only in December 1990 and the lady doctor comes once or twice a week and examines the girls. No psychiatrist has been appointed since 1970. The school also needs trained teachers to teach the mentally retarded girls but none has been appointed.

The lone doctor who had been working in an honorary capacity for last 21 years resigned in desperation recently. The medicines prescribed were never supplied. His demand that the girls be bathed at least once a week was not heeded. He had thus to remove worms from the infected wounds of the girls. Without a psychiatrist there is hardly any chance of improvement in the mental condition of the inmates. The quality of food supplied is terrible.

The superintendent admitted that seven girls had died during the last year and two had run away. There are eleven staff

A New World Order?

S Nanjundan

Is the 'new world order' a euphemism for Pax Americana or a real attempt to reshape the world order towards a more equitable, more co-operative and more progressive system?

THREE months have passed since the capitulation of Iraq to the Allied forces at the end of February, signifying the nominal completion of Operation Desert Storm. And yet a new world order in the Middle East—not to speak of the rest of the world—is as far away as, or even farther away than, it was before the Gulf war. What is this new world order, touted mainly by Bush and the Americans? What have been the immediate effects of the war? What are the longer-term implications for the Middle East, for the Western world together with its new allies in former communist Eastern Europe, for the developing countries in general and for the United Nations? Finally, is the new world order just a mirage, an euphemism for Pax Americana or a real effort to reshape the world order, towards a more equitable, a more co-operative and a more progressive system, subserving the world's best interests?

WHAT IT IS AND WHAT IT IS NOT

The term itself is not new. Some trace it to Woodrow Wilson at the end of World War I and Winston Churchill at the end of World War II. It is not necessary to go back that far. Certainly the United Nations moved in the mid-seventies—at the peak of non-aligned unity, and Group of 77, plus second world cohesion—from talking about economic development of underdeveloped/developing countries to agreement on international co-operation for implementing a New International Economic Order (NIEO) calling for a more equitable distribution of and access to world resources of capital, technology and raw materials and an accelerated rate of growth of developing countries. Flow of investment resources and transfer of technology on favourable terms, guaranteeing prices of commodities and ensuring markets for them and redistribution of global industrial capacities so that developing countries attained a 25 per cent share in world industrial output by the year 2000 (the so-called Lima Target) were essential elements of NIEO. The Western world, except mainly the Netherlands and Scandinavia, fought hard to concede as little as possible, and no sooner had the cohesion of developing countries and the power of oil and OPEC dissipated by the end of the seventies, the West under the dominant and aggressive

leadership of the United States backtracked successfully, pooh-poohed the NIEO and stalled the North-South dialogue.

Since the beginning of the Reagan era, the United States has asserted vigorously its national interests in the pursuit of its foreign policy bilaterally and in the world fora. This approach has continued throughout the eighties and into the nineties. The benevolence and egalitarianism of the Kennedy-Johnson and Roosevelt era, whether in foreign or in domestic policy, were given up for the rigours and inequities of supply-side economics, the market mechanism, free enterprise and the private sector. American interests were pursued through international agencies controlled by the United States: World Bank/IMF and GATT, rather than those, e.g. UNCTAD, or the United Nations itself, perceived to be dominated by the majority, i.e. the developing countries. The lever of the United States' mandatory contribution to the United Nations and its agencies (assessed at 25 per cent of the budget) was successfully used to exercise *de facto* dominance in the UN and its agencies overtly controlled for a decade and a half by the Group of 77 with the often tacit support of the USSR and the Eastern bloc. To be fair to the United States, its stance was necessitated by its own retrogression in the world economy and the demands of the US Congress for a *quid pro quo* for its large contributions. Since the late eighties, the deterioration in the position of the Soviet bloc, the disruption in the non-aligned bloc, and the inefficiency, nepotism and the lack of independent leadership in the Secretariats of the United Nations and its agencies, have facilitated the new United States approach to the world order.

The domination approach which the USA has practised throughout the eighties reached its zenith in the conduct of policy leading to, during and after the Gulf war. The United Nations Security Council was successfully hijacked and used as an instrument of US policy, because of a combination of unique circumstances which may rarely recur: the precedence accorded to the Russian and Chinese national interests of improving relations with USA over the objective of a more peaceful solution of the Kuwait-Iraq

dispute and the arrogance and tooniness of Saddam Hussein in spurning the good offices of the secretary-general of the UN. President George Bush's new world order is thus the logical outcome of the success of US policy.

While announcing hostilities with Iraq on January 16, Bush outlined the opportunity for building a new world order, where the rule of law governs the conduct of nations and in which a credible United Nations can use its peacekeeping role to fulfil the promise and the vision of the UN's founders. In his 1991 State of the Union message, he called upon the world to fulfil the long-held promise of a new world order, where brutality will go unrewarded and aggression will meet collective resistance. The new world order was more narrowly defined in Bush's speech to the US Congress (March 6) at its invitation to celebrate the total victory over Iraq and the liberation of Kuwait. Here he pleaded for a continuation in peacetime, particularly in the Middle East, of the Allied coalition's co-operative endeavours in the pursuit of war. Four ingredients of the new world order were outlined: (i) settlement of the Arab-Israeli conflict; (ii) collective security arrangements in the region, (iii) arms control, and (iv) reconstruction and development. Though nowhere stated as such, commentators extend the concept of the new world order to settlement of disputes in other parts of the world through the same methods and mechanisms of the US-dominated allied coalition co-operating through the UN. No one, of course dares speak about the NIEO or the North-South dialogue.

OH! WHAT A FOUL WAR

The euphoria over the total and complete victory of the Allies has led not unnaturally to considerable floating about the intrinsic superiority of Western strategy and tactics and belittled the hitherto overestimated capacity of Iraq. The censorship and the propaganda blitz made it possible for the audience in the West to forget the serious misgivings of the Western media even five days before the war ended, i.e. even just before the ground war commenced, about the extent of success of the air blitz which had lasted for more than five weeks and the apprehension that the ground war may be protracted and could inflict heavy losses on both sides. A quagmire, such as in Vietnam, had been feared by some. That the allies had a walk over need not be entirely attributed to their superiority, luck and the absence of enemy strategy should also be given due credit. The fact of the matter is that this was a unique war, like no other war, and unlikely to be replicated in the same manner.

The uniqueness of this war emerges only ex-post and does not detract from the credit due to the Americans for the strategic planning reported to have been begun even before the Iraqi march into Kuwait on August 2, for the mobilisation of the support of the coalition numbering 38 countries, for detailed and painstaking diplomatic legwork and negotiations to obtain support of all the five permanent members of the UN Security Council and a majority of the other 10, for making skilful use of the UN Secretariat in peripheral matters, leaving military strategy and tactics and war policy and conduct of operations almost solely to the USA, for having succeeded in logistics—transporting and putting in place all the equipment, supplies and communications gimmickry needed for the war, including of course 500,000 American and 100,000 other troops and personnel—and for implementing the war plan thoroughly and efficiently, i.e. fighting the textbook war/communications war to photo-finish and ticker-tape victory. This American achievement constitutes in itself the first and major uniqueness of Operation Desert Storm.

That the Americans had almost total support of a large majority of the governments of the world and the Iraqis found themselves severely alone (i.e. no government supported them over Kuwait) is itself unique and unparalleled. Cataclysmic political and economic changes in several parts of the world during the last two years left the United States at this time as the sole superpower. There were nominally 38 members in the allied coalition, but it was principally the United States, the United Kingdom playing a close second fiddle, France participating almost as the Free French did during the second world war. The show was very much Bush (1) and Major (2), similar to Churchill (1) and Roosevelt (2) in the second world war. Germany and Japan, not having yet got over the trauma of the defeat in the second world war even after 45 years played the role of paymasters for the war (in addition to Saudi Arabia and Kuwait).

That the principal victors, USA and UK, could possibly make a financial profit from the war—apart from all the glory—is certainly exceptional, reminding one of the war booties of the colonial era and the middle ages. The American taxpayer may profit to the extent of \$10 billion, the cost to the US being estimated at \$40-45 billion against pledges of contributions from allies of \$50 to \$55 billion. Similar is the case with UK, with of course much smaller sums involved. The first instalments of the contributions to the USA made in January has already resulted in increasing its foreign reserves by \$15.1 billion in the month to reach

\$87.4 billion pitching US to the top of the world forex reserves league next only to Japan, and overtaking Germany and Taiwan, for the first time in several years. No wonder the US dollar is rising over the yen and the mark. Is this an extension of the concept of the mercenary wars fought in Africa not so long ago? The success of the United States this time may well generate competition next time, perhaps the belligerent(s) engaging the Chinese or the Russians to fight for them! India could as well charge full cost plus whenever neighbours, e.g. Maldives (1989), Sri Lanka (1971) request Indian military help to quell internal revolt or attempted *coup d'états*!

The last unique feature of the war which will be mentioned here is its blatant one-sidedness. It was like David and Goliath. Instead of the stone David had all the sophisticated and futuristic weaponry of the computer-communications-space age. Goliath was certainly not taken unawares, but he did not seem to have a strategy at all, not a military strategy at any rate. Iraq's sole dependence on tactics and political deception contributed to its sudden but total defeat within a period of 100 hours after the start of ground fighting. The arrogance and stupidity displayed by the Iraqi leader is unlikely to be repeated in future conflagrations. An enemy without a military strategy, who spurns opportunities provided over a period of six months for a political settlement and who delays tactical withdrawal until too late and who refuses to engage in ground fighting should be rare indeed! Conclusions on the success or validity of allied military strategy and tactics would have to take into account this limitation of unmatched enemy participation in fighting (despite its assessed strength).

IMPACT AND INCIDENCE OF WAR

The impact of the war has been described as apocalypse in Iraq and environmental disaster in Kuwait. Much of the destruction in Iraq is attributed to allied bombing, whose results were not apparent in satellite pictures or purposely not publicised. Some of the destruction is due to Saddam Hussein's scorched earth tactics and mining in the perimeters and deliberate pollution of the seas and setting fire to the oilwells in Kuwait. Apart from Iraq and Kuwait, Jordan has been seriously affected for having borne the brunt of the large refugee movement through the country and for supporting Saddam. No country in the Middle East—except perhaps Iran, Oman and Yemen—has escaped serious financial losses and decline in production and trade. While the oil revenues of Saudi Arabia (UAE and Qatar) increased for a short

period the costs of the war and of payments to the allies increased substantially more. Besides the middle east, the oil importing countries and the countries supplying manpower to Kuwait and Iraq (notably the Indian subcontinent and the Philippines) have suffered severe balance of payment problems.

The effects of the war are still unravelling. The permanent ceasefire is not in place and over 100,000 allied troops are extant in the area south of Basra (at the time of writing, end of March). Rebel groups have been fighting Saddam Hussein; Kurds in the north and Shias in the south. In Kuwait the returning government has met with a hostile opposition and has unsuccessfully tried to contain it by victimising Palestinians. Public services—water, power, sanitation—have not yet been restored in either of the countries. Added to it the food availability situation is severe in Iraq and the burning of 600 oil wells in Kuwait is causing environmental damage over an area extending from the Gulf to the Himalayas (Kashmir).

Some comments may be in order on the factors that may influence the longer-term effects and the shape of the new world order.

Middle East

(a) The region may never be the same again. While Saddam's belated motive of focusing on the Palestine issue did not on the one hand create disruption in the allied ranks, allied success on the other hand may have disadvantaged the Palestinian cause. Even though Bush has given top priority to reaching a lasting solution of the Arab-Israeli question, Israel is not buying the land-for-peace deal, Kuwait and some of the other Arab allies in the coalition display less fervour for the cause because of PLO's open support to Iraq, Syria may do a deal (similar to the Saadat-Begin one on Sinai) with Israel over the Golan Heights, etc. Apart from some lukewarmness from the Arabs who sent troops to fight Iraq, the other Arabs appear to be solidly behind the Palestinians represented by the PLO. The attitude of Iran may be crucial since it could use the lever of release of American and British hostages held in Lebanon for securing solid concessions on Palestine.

(b) As regards continuing military presence in the middle east to ensure collective security, it would appear that the Americans do not want a quagmire, as in Vietnam, and are genuinely anxious for most of their troops to return home as soon as possible. America will have a base in Bahrain with staff officers only, as part of the Central Command headquarters in Florida. Naval presence in the Gulf would continue. A field force for

policing the region would probably be composed of Egyptians, Syrians and Saudis. The Gulf Co-operation Council (GCC) may have a role to play.

(c) Arms supplies to the region (and to other developing countries) will be subject to stricter regulation. Further supplies to five West Asian allies, principally, Israel, Egypt and Saudi Arabia, are taking place under a \$18 billion authorisation. The Soviet Union and China—besides the USA, UK and France—are major armament exporters and their co-operation would be sought in regard to equipment involving application of nuclear, missile and space technology. International agreement to ban chemical warfare and to monitor implementation will be sought.

(d) The hawks in Washington—as an afterthought—would have liked to carry forward the war to annihilate Saddam Hussein and instal a new (military) government. Having achieved a spectacular, if unexpected, victory, Bush rightly called a halt, since the UN had authorised the liberation of Kuwait rather than the elimination of Saddam Hussein or the 'Lebanonisation' of Iraq. US attitude is ambivalent: It would like Saddam to go eventually, after he defeats the rebellions and re-establishes the unity of Iraq. The United States cannot countenance Iranian hegemony over the region; a see-saw between Iran and Iraq would suit Western interests. Back to balance of power than the new world order!

(e) Reconstruction of Kuwait alone is expected to cost \$50 to 100 billion; Kuwait will pay for it with assets and investment income; a grateful country will no doubt award most of the contracts to US firms; subservient Western allies and a humble Japan will be initially content with subcontracts and supply orders. The costs of rebuilding Iraq will be even higher: perhaps China, USSR, Korea, Taiwan, etc, and—after a respectable lapse of time—Japan and Germany and even the UK, will come in. Iraq's reconstruction will be complicated if the onerous terms of reparation and compensation proposed to be exacted by channelling (confiscating?) its oil revenues to a reparation fund are approved and implemented.

Western World

The Gulf war has at one stroke re-established US domination over the OECD group, despite its economic inferiority to Japan and Germany. The latter two are openly chastised for not having taken an active part in the hot war. It is not appreciated that both the countries cannot under their constitutions (not uninfluenced in the past by the US) participate in military conflicts, (in the case of Germany outside NATO region). Had they engaged in physical combat with

any degree of success the media might well have recalled their fighting abilities during 1940-45 and embarrassed them! Japan for instance has not forgotten Hiroshima and Nagasaki, and Kurosawa's latest movie ('Rhapsody in August') is evidence that the nuclear bombing of Japan has not been forgotten, even though the Americans may have been forgiven. Germany is preoccupied with the enormous problems consequent on the merger of its eastern part into the Federal Republic, and Britain is riding high. Nevertheless the common European market will come about by the end of 1992 and the European Monetary Union (EMU) and an European central bank by 1994. What may be delayed considerably is political union, with a central foreign and defence policy. The Gulf War will not mitigate in any way problems between EEC and USA on agricultural subsidies and protection to European industry, transport, services, etc. Problems arising from the liberation of East European countries and possible democratisation of USSR will take at least till the end of this century to sort out. What is clear is that Western European countries will be more involved in assisting in the development of East Europe than in participating actively with the United States in the new world order for collective security in West Asia and the rest of the world.

Third World

The non-aligned movement, already weakened by the break-up of the Second World, has possibly suffered a deathblow through its ineffectiveness in the Gulf crisis. It has not been able to take a unified stand in the UN Security Council, and its attempts to prevent the war were feeble and inconsequential. India and Yugoslavia have been preoccupied with serious internal problems, Egypt and Iraq found themselves on opposite sides. Algeria, Cuba, Oman and Yemen perhaps played a more active role than the other pillars of non-alignment! There is no doubt that the Third World has lost considerable ground, which will affect its cohesion and ability to exercise influence and help itself even in international economic fora, e.g. GATT, UN Agencies. South-south trade and investment have much potential, but *real politik* confines such co-operation to the poorer countries, the oil rich and NICs (first and second generation) looking more to the developed world than to their poorer cousins!

FUTURE OF UNITED NATIONS

Not since Trygve Lie, the first secretary-general of the UN, succumbed to McCarthyism in the fifties, has the UN come under virtual subjugation of the United States, as it did during the Gulf

war. The first reaction of Pérez de Cuellar, when Iraq invaded Kuwait on August 2 was, as reported by the media, that it was a regional problem to be tackled by the Arab League. It was undoubtedly an off-the-cuff remark and the secretary-general did undertake active negotiations in Baghdad. Nevertheless, the fact of the matter is that the UN Secretariat as such was sidelined, the US taking over as the leader of the permanent five of the Security Council. Even the mundane information and public relations functions were not assigned to the UN, not to speak of the more important monitoring function. It is stated in extenuation that the UN provided the legal basis for the war, through its resolutions, and that, in any case, the UN has no teeth—the Military Staff Committee is dormant or nonexistent and the UN has no forces or funds of its own. No one recalls the active and positive role of the UN in Korea (1950-51) and Congo (1960-61); but that was in a bipolar or multipolar world. The UN perhaps should henceforth be engaged only in post-peacekeeping and humanitarian work, at the behest of the sole superpower!

It is not argued here that the UN was in a fit state of capability to play an active role. Dag Hammarskjöld was perhaps the only secretary-general who had a concept of the independent role of the secretariat. But until recently there was a kind of balance within the organs of the UN provided by the countervailing interests of the First, Second and the Third Worlds, and the secretariat was made use of as a sort of impartial instrument for action. It is now recognised that the UN Charter, organisation and operating methods need considerable revision and restructuring to ensure effectiveness and a useful role for it in the emerging new world. This is a large and complicated subject in itself. However, it is worth mentioning that the reforms being suggested include: (a) expanding membership of the Security Council from the present 15 to 25—10 permanent and 15 others, to be more representative of the enlarged membership and relative economic strength of members, compared to 1945, when the present structure was adopted. Max Jakobson, a Finnish diplomat with long experience of the UN from the time the Charter was signed in 1945, suggests the addition of Germany, Japan, India, Brazil and Nigeria to the current permanent membership of the USA, the USSR, the UK, China and France, and of course the periodic election of the remaining 15 by the UN General Assembly; (b) Reconstitution of the Military Staff Committee and a permanent UN force pledged by permanent members of Security Council and kept in

a state of preparedness, (c) Criteria and procedures to ensure selection and appointment of an outstanding individual of high calibre and unimpeachable integrity as UN secretary-general for a single term of 7 to 8 years, (d) placing a substantial trust fund at the disposal of the secretary-general to enable speedy action on peacekeeping activities, (e) Strengthening regional collective security bodies (e.g. ECOWAS action in Liberia), (f) Ruthlessly weeding out so-called specialised agencies and relying increasingly on regional and subregional groupings—already existing—directly linked to UN regional commissions and the United Nations Development Programme. Some existing specialised agencies, e.g. on population, environment, industry shipping, etc. could be converted to non intergovernmental bodies, working as research and development institutes financed by grants and consultant services provided by them.

US HEGEMONY UNLIKELY

Despite the facade of sanctions and repeated ultimatums to prevent the hot war, it would appear that the Americans had decided quite early on in August or even before that (USA UAE military exercises in the region) to take decisive military action to curb Saddam Hussein's growing dominance. That aggression against an independent country and violation of its sovereignty should not go unpunished and a likely threat to Saudi Arabia prevented were certainly important considerations. While sanctions and negotiations could conceivably solve these problems, they would leave Iraq's military machine virtually intact. However, the US was as much to blame as the USSR earlier for having wooed and encouraged Saddam Hussein and having armed the country, against the perceived menace of Shia fundamentalism represented by Iran. As the evidence to Congress of the then US ambassador to Iraq makes it clear, at least the State Department felt even a week before August 2 that the Iraq Kuwait dispute was an Arab Arab problem to be solved by the Arabs themselves and not through Iraqi aggression. While Saudi Arabia—one power which has the US ear—might have suggested military action to finish off or reduce the might of Iraq, Bush and his closest foreign and defence policy advisers clearly perceived that American interests necessitated planning of military action to ensure a significant victory for America. What were these American interests? Most important, of course, was to ensure US influence and control over oil supplies and prices. Two-thirds of global oil reserves are in the Gulf, and the US imports half its oil requirements increasingly from the Gulf region.

(The moves towards US-Canada-Mexico free trade area and proposals for a tax on imports of oil from outside the continent are also meant to promote self-reliance). Other motivations in the pursuit of the war were to exorcise the Vietnam syndrome of defeatism, to establish American dominance despite its international economic retrogression, and to provide an escapism from tackling head-on serious domestic problems of the economy, budget balance of payments, crime, drugs, education, health and poverty. The US has been remarkably successful in achieving its immediate aims: the US appears as the only superpower dominating the international scenario, the recession has been halted and the dollar has been gaining over the mark and the yen, Bush can look forward to the 1992 election with confidence, etc. The Vietnam syndrome has been replaced by the Iraq euphoria and, despite the paranoia all around Bush, he is unlikely to get involved in an Iraqi quagmire. It is important for his election campaign that the remaining 100,000 or so American troops return home alive and soon.

The hawks and some of the media are already accusing Bush of a 'reversal' in not coming to the help of the Kurds and Shias, and in not overthrowing Saddam Hussein. Bush is no doubt influenced by the Saudi fears of Iranian and Shia domination of the Gulf. But he also has American interests very much in mind. Domestically further involvement (and American casualties) will strengthen the peace movement and the Democrats, the allies will not continue to be paymasters for the war (note the opposition and difficulties in Japan and Germany to the contributions already made). Moreover the American tradition since its own civil war of over 100 years ago is not to countenance dismemberment and secession in sovereign countries, be it Iraq or Yugoslavia or the USSR. (This tradition largely accounted for US hostility to India over Bangladesh in 1971. For this reason the US is unlikely to encourage S S Mann over Punjab.)

The limits to American 'superpowerdom' are becoming apparent even a month after the great victory. Not only that, military power has to be backed by economic power. The US does not have the 'stomach' to be an imperialistic, hegemonistic power. It is too moralistic, too democratic, too freedom loving (for itself and for others), too naive, too open (qualities which have endeared it to the rest of the world, as no other country has endeared itself), to be ruthless in the pursuit of hegemonism. What then is to become of the new world order?

The likely scenario in the medium term or even the short term might be one of

changing balance of power rather than Bush's new world order. Except for the ever-loyal British under the Conservatives, the other middle powers and potential superpowers are unlikely to tolerate a permanent leadership or domination of the US. Besides the US itself the principal actors in a shifting power balance would be: the European economic community (co-ordinated foreign and defence policy worked out largely by Germany, France and Britain), the Soviet Union, China and Japan. The Third World is unlikely to have any significant influence, except by individual countries or regional/subregional groups combining with one or more of the principal actors. *Plus ça change, plus c'est la même chose!*

INDIA AND NEW WORLD ORDER

That India played no part whatsoever in the discussions and negotiations before, during and after the Gulf war (except for the consular function of taking care of its nationals in the affected areas) reflects not only the petty minded squabbles in Delhi (ignoring national interest), but also the country's retrogression as a political and economic power. Moreover the mediocrity (and the premature gerontocracy) of the Indian foreign service establishment is in sharp contrast to the scintillating dynamism displayed in particular by young Arab diplomats representing countries in the allied coalition and against it.

There is, however, no getting away from the fact that India is a country large enough to matter, it cannot be wished away its positive and dynamic role in international affairs from the fifties to the seventies have ensured for it a potential role an opportunity which needs to be grappled and used wisely to serve its permanent interests. It will not be an easy task, it will have to be preceded and accompanied by genuinely directed efforts to bring the internal house in order, to concentrate on domestic measures (constitutional, political, economic and social), to promote self-reliance and to display positive leadership in the region. If the Gulf war has a lesson for India it is 'not to put all the eggs in one basket' and not to neglect to continuously monitor and take timely corrective action to secure its interests. Most importantly, in this writer's view, India has increasingly to look east—towards China, Japan, south-east Asia and the Far East—rather than be obsessed by its West—i.e. not only Europe (including USSR), and the USA, but also West Asia. It will be a difficult turnaround, in view of past links and obsessions, but it will have to be made to serve its interests. Such approaches need long term planning and systematic implementation and not *ad hocism* and day-to-day decisions.

'Too Late, Too Little'

S R Sen

Non-resident Indians in business or service, while working in other countries, are second to none in efficiency, but in their own country they are usually frustrated by the 'too late, too little' syndrome. Why?

RECENTLY there was a news report that a leading Indian company lost a Rs 2,000 crore joint venture bid in a foreign country because the government of India's sanction required for it came too late and was too little. The chairman of the company lamented "the loss of the project was that of the country and not the company's alone".

Another respected Indian industrialist complained that while it took him only six months to set up factories in East Asian countries, it usually took three to four years to do the same in India.

Non-resident Indians in business or service are second to none in efficiency while working in other countries but in their mother country they are usually frustrated with the 'too late, too little' syndrome.

Some years back a South Korean minister came to India to study Indian economic policy and planning. At the end of his visit when he was asked what he had learnt his reply was devastating. "I learnt what not to do." He went on to say "in India you use the rein too much to control the horse which is ready to gallop. In South Korea we also use the rein but mainly to guide the horse gently in the desired direction. 'Too late, too little' were the very words that he had also used to describe the Indian decision making process."

This observation seems to be true not only of India and South Korea but also of the comparative situation in South Asian countries and Pacific Asian countries in general, of course in varying degrees.

A visiting Japanese businessman made a similar observation and added "To businessmen, time lost is money lost. But to government and trade union officials in South Asia, time lost does not appear to be money lost."

Some commentators have ascribed this to differences in work ethics. But as mentioned above, Indians or Pakistanis working abroad do not compare unfavourably with Chinese or Koreans.

Others have cited relative per capita foreign aid, but that to India or Pakistan does not compare unfavourably with that to China or South Korea respectively.

Some have sought to make it an issue of command economy versus market

economy. But in spite of all the recent liberalisation, there is still much more of a command economy in China than in India. In South Korea, Taiwan, Thailand and even Japan, there is a large element of state guidance or regulation. All of these are really mixed economies of one sort or the other. Certainly not text book *laissez faire* economies.

Why is it then that the phenomenon of 'too late, too little' is so much stronger in South Asia as compared to the Pacific Asia region?

BUREAUCRATIC SYSTEM

One important reason seems to be that the bureaucratic system common to the South Asian countries is significantly different from that obtaining in the Pacific Asian countries. It is just not the size of the bureaucracy. There are large bureaucracies, of indigenous origin, in some of the Pacific Asian countries also. The Mandarin system of China abolished during the revolution seems to be coming back again in a different form. In Japan and South Korea the bureaucratic system is undoubtedly different from China and Taiwan, but is quite important.

In Hong Kong and Singapore, the system of bureaucracy owes its origin to the British but is significantly different from that obtaining in India, Pakistan and Bangladesh and closer to that obtaining in Britain than in the former British empire in the sub-continent and is significantly less rule bound, structured and rigid. The bureaucracies of some other Pacific Asian countries are even less so.

There is an important historical reason for these differences. In Singapore and Hong Kong the system that obtained in Britain was largely replicated because these were relatively small countries, it included a larger proportion of British officials even in junior posts and the discretionary powers and flexibility which characterised the British bureaucracy were introduced in these former colonies also.

But the Indian sub-continent was a quite different matter. The British ruled the teeming millions of this vast region with only a small number of highly paid British ICS and other officers. They had to manage with the help of hundreds of

thousands of low paid locally recruited subordinate staff, whom they basically distrusted, especially after the Sepoy War of 1857. So they made a basic departure from the system that obtained in Britain. The British bureaucracy was based on mutual trust between the senior and junior officers and had more discretionary powers and flexibility. The British Indian bureaucracy was based, on the one hand, on close comradeship among the British officers but, on the other, on considerable distance and distrust between the senior British and junior Indian officers. The system devised was such that if there was a need for a change from the *status quo* in a special situation, several Indian officers had to say 'yes' before it could be implemented. But it was sufficient for only one Indian officer to say 'no' for the proposal to be stalled. Only a senior British officer (or trusted Indian member of the ICS in the later years) could over-rule him. The British officers could take bold and prompt decisions, firstly because they could consult their other concerned compatriots very informally and quickly, if necessary, and secondly because they were confident of support from their political boss, the British governor or viceroy. But the subordinate Indian officers did not have that advantage. Therefore, whenever an innovative action was called for they tended to delay decision or opt for minimum change.

This system was economic, quite efficient and free of corruption (except for the equivalent of tips at the lowest levels) and worked reasonably well in normal times and so long as maintenance of the *status quo* (mainly law and order) was the main task. But when it came to changing the *status quo* or economic development, it was found wanting even when the British were here.

WORLD WAR II

During World War II, especially after the Japanese attack and the 1943 famine, emerging compulsions of the situation led to a rapid multiplication of various controls. But most of these were introduced in *ad hoc* manner without careful consideration of the pros and cons and long-term consequences on the ground that these were only temporary measures to be terminated soon after the end of the war.

But this did not happen partly because the shortages and inflation continued even after the war was over. Gandhiji was strongly opposed to the continuation of most of these controls because they were being misused by some vested interests among both officials and businessmen, resulting in widespread corruption.

When Rajendra Prasad became

minister of food and agriculture, Gandhiji requested him to dismantle or at least to simplify the system of controls so far as his own ministry was concerned. But by that time prime minister Nehru had made up his mind to introduce planning for rapid and balanced development of the economy. He decided that as controls were essential for planned development, the system of controls which already existed should be continued. Rajendra Prasad failed to carry out Gandhiji's mandate. Shortly before his death, Gandhiji wrote a brief letter to Rajendra Prasad expressing great disappointment at his failure. Later several senior ministers like Sardar Patel, Rajagopalachari, K M Munshi and Rafi Ahmed Kidwai tried to follow up Gandhiji's mandate and relax, if not remove, some of these controls.

REGIME OF PLANNING

But by that time planning and controls had received enthusiastic support from parliament. Unwittingly, this played into the hands of those politicians and officials who enjoyed the power that controls gave them and those businessmen who benefited from these controls. If the haphazard system of war-time controls had been replaced by a new system of purposefully designed controls needed for planned development, it might have better served the objectives of the Plans. But that kind of rationalisation did not happen. The base of war-time controls was retained and on top of that were piled up additional layers of new controls as fresh problems arose, without significantly changing, not to speak of weeding out, unnecessary or counter-productive controls. The jungle became increasingly full of obstructive bushes and creepers.

Pandit Nehru himself and some of his successors later expressed their unhappiness at this turn of events. Several committees and commissions, starting with the Krishnamurthi Committee of 1951, were appointed to rationalise and simplify the mounting number of controls but in vain. Only the less important of their recommendations, which did not adversely affect the powerful vested interests of politicians, officials and businessmen, got accepted and implemented. But the more important recommendations which sought to curb these vested interests were either not accepted or, if accepted, were not implemented. Like the mythological Hydra which grew a new limb whenever an old limb was cut off, when one of the controls having support of powerful vested interests was abolished as per these recommendations, a replacement in a new garb was soon introduced to take its place.

To deal with this kind of situation, the Sarkaria Commission made *inter alia* the following recommendations: "As a mandatory legal requirement, there should be periodical review, say, every three years,

to determine whether in respect of any of the industries the Union's control should be continued or relaxed or lifted. Such a review may be undertaken by a committee of experts... In the context of undue delays in industrial approvals, a useful corrective may be to appoint an 'Empowered Committee' for taking a final decision, subject to a sort of 'sun-set' rule that if any link or agency does not give its comments by the due date, the committee will take a decision without waiting for it."

More than 3½ years have passed, but even such a modest recommendation is still gathering dust. This is cited only to show how difficult it is to bring about any simplification or rationalisation, not to speak of clearing, of the jungle of controls, relevant rules and dilatory practices that have grown up in India over the last five decades. If this jungle is to be prevented from further entrapping the economy and gradually cleared to become a productive garden, it is urgent to implement the above noted recommendations of the Sarkaria Commission and, further, to legislate that all controls, related rules, etc, not specifically recommended for continuation by the committee of experts will automatically lapse at the end of three years.

CORRUPTION

Today the maze of controls and related rules, etc, have become so complex and some of them even contradictory that transparency has been lost. Very few people know what is the latest correct position.

A corrupt official often takes advantage of this and delays decision by citing some sub-rule when so-called 'speed money' or 'consideration money' is not paid and expedites decision by citing some other sub-rule, if necessary, when such money is paid. This is often responsible for the 'too late' phenomenon.

Further, to safeguard his position against a possible charge that he has not been careful enough in giving approval, he sometimes makes an arbitrary cut in the sanction asked for. This is partly the reason for the 'too little' phenomenon.

In view of the growing need for huge amounts of money needed to contest elections, the political bosses sometimes not only connive at this but even instigate this. And as an Indian proverb says: if the king takes by unfair means a cup of milk, his officials take a tank full.

TRADE UNIONS

As the Japanese businessman quoted earlier pointed out, the inefficiency of the sub-continent's economy has been aggravated by another legacy of the British, namely, the 'trade union' system which is quite different from the Japanese 'company union' system. The Japanese workers

are not basically less particular about their rights and dues than their counterparts in India. But in the company union system that obtains in Japan, there is no introduction of extraneous politics, the sole focus is on the income of the company, the workers' share in it and their terms of service and working conditions. But in the trade union system that obtains in India, considerations like the income of the company, the workers' share in it, etc, are often over-shadowed by extraneous politics introduced by the union officials, sometimes oblivious of the direct interests of the company and its employees, and this often creates counter-productive conflict and loss of valuable time and income.

Now that the trade union system has been extended from companies to government offices in some States in India, the situation has become much worse. The 'soft state' or 'soft society' that Gunnar Myrdal had written about two decades back has been further extended, leading to growing inefficiency.

TWO MINIMUM REFORMS NEEDED

Pandit Nehru had the fond hope that a mixed economy, a mixture of a command economy and a market economy, will enable India to avoid the excesses of capitalism and communism, somewhat like Gunnar Myrdal's own country, Sweden.

There are several reasons why it did not work out that way. Unfortunately, it is not possible to go into all of them in a short article.

But one basic fact can no longer be ignored—the counter-productive combination of bureaucratic and trade union systems, originally introduced by the former British rulers and continued unreformed even after Independence, has made a major contribution to the failure of our experiment with mixed economy in a social democracy.

There is now an urgent need to recognise clearly this fact and take comprehensive reform measures after careful analysis. But pending that, at least two bold but relatively simple measures for dealing with the evil of 'too late, too little' syndrome need to be taken immediately. These are

(i) to enforce mandatory review and rationalisation of all controls and an effective 'sun-set' rule every three years as suggested above; and

(ii) to replace our trade union law borrowed from Britain by a company union law somewhat on the Japanese model, if possible with the one-company one-union rule.

It is only thereafter that the economy of India will be able to reach the efficiency of Pacific Asian countries and generate sufficient income to emulate the equitable social democracy of the Scandinavian countries.

Multinational Affiliates in India

Why Are They Different from Indian Firms?

Sebastian Morris

Multinational Enterprises in India—Industrial Distribution, Characteristics and Performance by Nagesh Kumar, Routledge, London and New York, 1990, pp x + 141

THIS study is conceived within the 'eclectic' paradigm of Kindleberger, Dunning and others. It shows that transnational affiliates in India may not be intrinsically better performers than indigenous firms, but that their niche is altogether different, which perhaps helps them to earn at higher rates of profit. It also attempts to uphold the 'eclectic' paradigm by showing that the industry pattern of foreign direct investment and licensing intensities, in the private corporate sector, are as expected. A rather close adherence to this mainstream paradigm severely limits the scope of the study, and also makes the results, even when they are clothed with much statistical rigour, rather tenuous.

The book addresses itself to the behavioural and other differences between transnational affiliated and local firms and is timely. It is a revised version of the author's doctoral dissertation. After a brief discussion of government policy towards Foreign Direct Investment (FDI) (since independence up to 1987 or so) and a summary presentation of the overall and sectoral shares of FDI, it goes on to: (1) Explain the inter industry variation in FDI and in licensing of technology from abroad, in the process testing the 'eclectic' paradigm which owes its origin to Stephen Hymer¹ for and to further refinements and extensions by Kindleberger,² Cavus³ and Dunning⁴; (2) Identify the characteristics that discriminate between INC affiliates and Indian firms; (3) Explain the higher profitability of INC affiliates in terms of their strategic difference; (4) Explain the export propensities of the two groups of firms. In the analysis for (1), (3) and (4), multiple regression techniques with defined proxy variables to represent the factors required by the theory are used. For (2), besides the analysis of discriminating variables one at a time, a discriminant score function is also used. In much of the analysis the logarithms of the variables are used. As we shall see the analysis though done rather competently and systematically does suffer from the usual problems with statistical analysis and the use of proxy variables. The data pertains to over 1,300 medium and large manufacturing firms⁵ reduced to about 49-odd industries at a near-three-digit level of aggregation. We will also, briefly, bring out the limitations in this study that arise due to an uncritical adherence to the 'eclectic' paradigm. There is little justification provided for the acceptance of the paradigm.

It must also be mentioned that the author seems to be simultaneously testing the paradigm and using it as well.

In chapter I the changing policy towards FDI is discussed and related to the trends in FDI. The source wise diversification of FDI that started with independence and observed for the period till the early seventies by Chandra,⁶ continued into the seventies. Similarly, the increasing importance of the manufacturing sector. The chapter explains the time trend in FDI entirely in terms of changing government policy. Early phase of liberal policy up to 1967, a policy of restriction between 1968 and 1979 and the liberal policies again in the eighties. But we must remember that these periods also correspond to the periods of higher industrial growth up to 1964-65, a period of slow growth or (relative) stagnation up to 1979 and again high growth in the eighties. Empirical evidence particularly in the context of the post war European recovery and fast growth would indicate as Scrivan Schreiber⁸ observed that FDI rather than being an engine of growth may very well be attracted by growth. If the very inward force for FDI in the form of good growth was lacking in India since the mid sixties right up to 1979 then a discussion which is entirely restricted to policies that narrowly relate to FDI, which can at best control and channel the direction of this force and only partly contribute to it, would necessarily be incomplete.

Chapter II of the book tests the 'eclectic' theory through two multiple regressions. In the first the logarithm of the share of foreign affiliates averaged over a three year period (1978-79 to 1980-81) in total industry sales (FS) is regressed on the logarithm of several variables, which ought to according to the theory explain FDI viz. the several intangible assets such as product differentiation and the associated goodwill (ADS: advertising expenditure/sales), knowledge embodied in machinery (PMS: gross value of plant and machinery to net sales ratio), access to capital (AKR: total capital employed per firm in the industry, averaged over three years), and locational factors such as import substitution prospects (ISP: Imports to local production ratios in 1960-61), effective protection rates (LRP: effective rates of protection, for the year 1979-80, by Corden method), whether or not the industry belongs to the consumer goods sector (DCON: dummy), whether or not the in-

dustry was included in Schedule I of the Industrial Policy of the government of India (Decisions), 1973, (DCORE: dummy) and technological intensity/innovativeness (RDS: R and D expenditure as proportion of sales).

The same factors were considered for the second regression which seeks to explain the variation in the licensing intensity (LS) across industries. Licensing intensity is represented by the total royalties, technical and other professional fees paid abroad as a proportion of the net industry sales averaged over the same three year period. Proxy variables are used to represent the factors. Thus technological intensity/innovativeness is represented by RDS, or the possession of knowledge embodied in skills is represented by non-production workers as a proportion of total workforce (SKILL 1) and by earnings of high salaried employees (i.e. those receiving Rs 3,000 per month) as a proportion of the total wages and salaries bill (SKILL 2), the choice between the two being determined at the level of the regression in the step-wise selection so as to give higher R², and similarly for other factors. The factors are themselves selected on the basis of an a priori understanding derived from the theory. The intangible assets are classified into those with higher transaction costs such as goodwill, knowledge embodied in skills, and those with low transactions cost such as knowledge embodied in capital goods, and access to sources of capital. The expectation is that the latter factors would be positively related to licensing and the former to FDI intensity. The obtained R²s range from about 0.45 to 0.60 and the F-statistic for the models from 5.75 to 10.17.

The following models are arrived at with a 90 per cent level of significance or better. (The signs show the nature of dependence, and the figures the significance level)

- FS: ADS (+, .95 per cent), SKILL 2 (+, .99 per cent), RDS (-, .99 per cent), DCON (-, .99 per cent)
 ADS (+, .90 per cent), SKILL 2 (+, .99 per cent), RDS (-, .99 per cent), DCON (-, .99 per cent)
 ADS (+, .95 per cent), SKILL 1 (+, .90 per cent), RDS (-, .95 per cent), ISP (+, .95 per cent)
 LS: RDS (+, .99 per cent), DCORE (+, .99 per cent)
 PMS (+, .95 per cent), RDS (+, .99 per cent), DCORE (+, .99 per cent)

A preliminary correlation matrix of all the variables revealed that the correlation coefficient between FS and LS was low, and the conclusion is drawn that the phenomenon of FDI and pure technology import (licensing) are independent, thereby justifying independent regressions (and models) for these variables.

From the obtained models the author concludes that the 'eclectic' paradigm is upheld

intangible assets such as goodwill built up through advertising, and knowledge embodied in human skills (what the author calls idiosyncratic knowledge), which are not easily commercialised, while licensing is explained by knowledge embodied in plant and machinery (PMS), an intangible asset that is easily transferred along with the plant and machinery; and the locational factor whether or not the industry is included in the set of 'core' or priority industries (DCORE).

The unexpected negative relationship between FDI intensity and research and development expenditure (RDS) is rationalised by reference to Desai's⁹ finding that the R and D expenditure in much of Indian industry is adaptive rather than of a more basic type, hence RDS according to the author does not reflect technological sophistication, nay increasing RDS implies decreasing technological sophistication!

Similarly, the negative coefficient of DCON (whether or not the industry produces consumer goods), is explained by the governments' policy which discouraged investments in consumer goods industries. It is difficult not to feel that the interpretations are more in the nature of ex post rationalisations of the obtained models. Thus, while it may very well be true that some or much of the R and D is of an adaptive type, it does not warrant the author's statement that as the complexity of the technology increases, the tendency to adapt decreases.

We would, instead of ascribing any perverse relationship between technological sophistication and R and D intensity, simply accept the finding of lower R and D intensity for foreign firms. This is hardly unexpected: Briefly R and D is an activity that demands great centrality within organisations and is typically located at or near the headquarters of a firm or at a location under the direct control of the corporate office. In other words it is very much the type I activity of Stephen Hymer¹⁰ and there is little reason to expect transnational affiliates in LDCs, which are much more in the nature of branch/sub-branch offices or plant/sub-plants to house an important higher order function like R and D.¹¹

We would claim that the negative coefficient of RDS neither supports nor questions the 'eclectic' paradigm. It merely confirms that R and D is very much a type I activity and necessarily gets concentrated in the parent firms' country of origin.

The negative coefficient of DCON (dummy whether or not an industry producing consumer goods) is explained by the government policy that sought to avoid foreign investment in areas where local skills and technology was available and the high overlap between these and the consumer goods sector. This could very well be true but the assumption of the high overlap between consumer goods and sectors with local availability of skills and technology needs to be proved. More importantly given the fact that the barriers due to product differen-

tened in consumer goods, particularly in life style associated products, the variable ADS X DCON should have been used in the regression. Then, the hypothesis of product differentiation as an intangible asset creating entry barriers for local firms could have been tested. This is particularly important in the context of Western direct investment in an LDC.

In an LDC given the social process of Westernisation, Western brand names have an advantage that is intrinsic to its origin, independent of advertising intensities. This is because Westernisation implies *inter alia* the imitation of life styles of Western people by the urbanised upper classes in LDCs, who in turn constitute models for the rest of the population. The desire to acquire and use Western products does transcend the product as such and becomes one of using and acquiring certain brands, since these are perceived to be of higher quality and the 'real thing'. The advantage is particularly strong in life style-associated products. Indirect tentative evidence that this is so is provided by the fact that the advertising and promotion intensity of life styles associated products and other products like drugs and pharmaceuticals is high for successful Indian firms compared to transnational affiliated firms with similar market shares and catering to the same market segments. Apparently they have to overcome this social disadvantage. It is remarkable that the 'eclectic' theory has not recognised this special advantage that Western firms enjoy, which is entirely external to the firm.

The variables that most explain the variation in FDI intensity are SKILL 1 and SKILL 2 which are themselves highly correlated so that the models use only one of them. This is argued to support the 'eclectic' paradigm which explains FDI intensity in terms of the possession of intangible assets that are transacted, if at all with only high cost. While the 'eclectic' theory could very well be true, the nature of the proxy variables used to represent skills embodied in people viz, SKILL 1 and SKILL 2 are problematic. It is important to remember that statistical analysis does not lead us to an understanding of causation. It is only the a priori acceptance of SKILL 1 and SKILL 2 as representing skills and knowledge embodied in people that the author is able to claim the validity of the 'eclectic' theory. But given a different understanding of the behaviour of transnational affiliates in India the causation could very well be from the 'dependent' variable to the 'independent', i.e. SKILL 1 and SKILL 2.

HIGH INCOMES IN TNCs

From this book as well as from the earlier literature¹² we do know that the transnational affiliates make profits much larger than that of Indian firms, whatever the reasons. We also know that in foreign firms in India, as also in some of the large highly

the former, wage rates for the same jobs are high. Indeed if one were to go through the annual reports of these firms then in the appendix to the same, one cannot escape noticing that among the highly paid employees are a great number of stenotypists, secretaries, drivers and other workers, who in other (Indian) companies could be earning much less.¹³ In other words TNC affiliates may be paying more simply because they can afford to do so. Nevertheless the question 'How do TNC affiliates maintain these high profits and wage rates?' remains, and the author has rightly made the determinants of profitability an important focus of his analysis.

Of all the characteristics of market structure, as a priori obtained from the industrial economics' structure-conduct-performance paradigm, and from a prior knowledge of the particular aspect of the industrial environment in India, (viz, scale, advertising intensity, R and D intensity, profit margins, and growth rate of the industry), only larger scale of operations (measured by average net sales per firm) and higher profits margins (on sales), and the use of highly paid labour were found to distinguish between the two groups.

The fact that advertising intensity is not as per expectations is explained away by saying that 'they might, however, still enjoy an edge over their counterparts [local firms] in this respect, on account of the advertising generated by the associate companies and of the economies of scale in advertising'.¹⁴ While the reason that there may be economies of scale in advertising is quite possible, why should significant benefits emerge from the parent company's advertising in other countries? More likely, the environmental advantage of Westernisation in LDCs which we have stressed earlier explains the fact that the local firms have higher advertising intensity than foreign affiliates which helps them to overcome the same. The only other significant difference the author finds is the liquidity ratio which is better for TNC affiliates.

The major factors in the discrimination appears to be the same that explained the FDI intensity, viz, proportion of high income employees HIE (same as SKILL 2 of the earlier analysis of FS and LS), which is in turn highly correlated with SKILL 1 and FS. Through a further two-stage regression the major discriminator ultimately reduces to SKILL 1. This finding is again explained: 'The proportion of high income employees in the case of [affiliates of transnationals] thus appears to be on account of their tendency to employ qualitatively superior personnel than their local counterparts... [which] may be an aspect of the non-price rivalry and may lend them a formidable competitive advantage in skill intensive industries and can be a source of contrived entry barrier'.¹⁵ But as suggested earlier, it is most likely that the cause of this use of highly paid labour is their high profitabili-

ty and the ability to maintain the same. Furthermore the 'explanation' of the differential profits again in terms of essentially the same variables used in the discriminant analysis and again the emergence of 'skill' as the principal factor explaining profit levels makes the total explanation circular:

In chapter V an attempt is made to regress profit levels on variables which include some of those already used in the earlier analysis the product of advertising intensity and whether or not the country purchases consumer goods (ADS X DCON), technological intensity which is the R and D intensity and the cost of imported technology, SKILL 1 and SKILL 2, total capital employed per firm, value added/sales, four firm concentration ratios, growth rate of sales, size (represented by net sales per firm), capital intensity, and effective protection rates. The attempt is to arrive at functions for the profit margins of local and TNC affiliates separately and then test whether and in what form they are different. The analysis leads to the rejection of the hypothesis that TNCs have superior ability (because the intercepts of the regression equations are not significantly different). The competing hypothesis, that they belong to different strategic groups as represented by the varying coefficients of discriminating characteristics is upheld. That TNCs and local affiliates show different behavioural characteristics (whether or not one demarcates them into different strategic groups) is an important conclusion arrived at. Yet the further elaboration offered: 'In knowledge intensive industries FCEs [transnational affiliates] appear to enjoy special advantages over the local counterparts',¹⁶ is not really substantiated.

In the next chapter an attempt is made to determine the export performance of local firms and TNC affiliates in terms of variables already considered for the profit margin analysis, and profit margin itself! Only SKILL 1, size, and profit margins are again the significant factors for foreign firms. The interpretations are rather forced as the following example would support: The capital employed/sales ratio is found to have negative sign and is significant at a 10 per cent level for FCEs, and not significant for local firms. Similarly SKILL 1, has a negative sign for TNC affiliates but is significant at a 10 per cent level only, and not at all significant for local firms. On this slender basis the author concludes that it confirms the hypothesis that Indian firms do not have a comparative advantage in either capital intensive industries or in skill intensive industries, and thus the 'technology factor' is not important for Indian firms! There is little one can learn about the TNC affiliates from this chapter. Earlier studies¹⁷ had found that the export propensity of transnationals was significantly lower than that of comparable Indian firms, particularly in manufactured products, and the chapter is hardly able to explain this fact.

The use of the 49-odd industries (at a near

three-digit level of disaggregation) for the explanation of the FDI intensity and discriminate analysis is acceptable, but for the profitability and export propensity it may have been better to use the data for firms individually setting up models for the two sets of firms, with the industry variables as the independent variables and a dummy characterising the ownership aspect. This would have rightly avoided the circularity that is there in the explanations of profitability and the export propensity. Another problem is that the same proxies have been used for different factors, as for instance in the case of skill intensity and employee compensation behaviour, which makes the interpretation tenuous.

One of the problems with this kind of empirical work is the very method of analysis once the sample or the home/host country is selected. The 'explanation' then is really one of the averages in terms of a set of factors sometimes quite tenuously represented by independent variables. What is precisely missed are the non-average firms, whose difference is seen more as a problem rather than as a poser or a lead to explore further, bringing in other factors and variables to arrive at a few archetypes of behaviour different organically (or in terms of the pattern) from each other; rather than in terms of individual or multiple associations. This comment about the methodology is particularly relevant here since the data often painstakingly gathered do typically end up supporting the principal hypotheses one starts with. The study under review is no exception despite the technical rigour and the more than usual care taken in the specification of the model and the variables.

The empirical work in the dominant paradigm has been carried out with the belief in its universal validity. Particular associations obtained between (proxy) variables representing certain factors and characteristics and other variables (which are sought to be explained), when they do not contradict, the paradigm are taken to support it. But when they do, are not necessarily seen as such but are rationalised on the basis of some home or host country peculiarities. The attempt to relate a particular association obtained say, in India to a similar one in Canada and another to a similar one say in Brazil, and so on, *rather than the totality of the associations* does violence to the idea of comparative studies. This study too is profuse with references to similar particular associations found elsewhere even when other associations are different.

We do know that firms from different home countries show differing propensities to set up production in host country markets even in the same product. Then there are differences between home countries (the firms) in terms of degree of vertical integration and the industry composition. It is not at all certain that the pronounced propensity of Germans to licence their technologies or of the reverse propensity of the Japanese to invest in the third world even in low technology

areas such as textiles and light engineering is explainable in terms of the difference in the industry composition alone. A possible analysis of the behavioral differences between different nationality groups of transnational affiliates could have been a valuable contribution.¹⁸

Leaving aside the 'eclectic' paradigm within which the study is situated, the facts, lend themselves perhaps to a different interpretation. The low or indifferent export propensity of TNCs in LDCs is by now well known despite the expectations that TNCs are well endowed (market linkages, global brand names, etc) to export from third world economies. The empirical work of Deepak Nayyar¹⁹ in answer to G K Hellenier²⁰ shows this clearly. Similarly studies²¹ which have sought to empirically understand export of manufactured goods from TNC affiliates in the LDCs, within the conceptualisation of the product-cycle thesis and its variants, have found that TNCs, despite working in old industries and with standardised technologies, have hardly ever used LDCs as a base for export to advanced countries. In other words the much talked about relocation of production under the aegis of the TNCs is more a hope than a reality. The export zone industries are the few exceptions, but even here their extent does not amount to a significant portion of the total manufacturing exports of LDCs.²² They are concentrated in a few countries with political considerations having primarily determined their particular locations. Manufactured exports from LDCs have been primarily brought about by local firms often times supplying for (foreign) firms and agencies located in advanced capitalist countries.

Similarly, the fact of high profit rates of TNC affiliates in the third world is hardly surprising. Furthermore, in the light of Vaitos²³ critique of the product cycle thesis: that it is 'essentially a theory of monopoly cycles'; and his further finding that TNCs demand a high rate of protection (and hence profits) to set up production in LDCs; and that their first choice is to export to LDCs, we must conceptualise manufacturing FDI in LDCs as having an essential anti-export bias. Indeed if it were not so, we should have seen large relocation of industry from the advanced capitalist countries to the third world with the TNCs playing a major role in the phenomenon, relocated industries being characterised by exports to advanced countries. And capital the world over should have widened rather than deepened. Even if we leave aside the more underdeveloped economies as unworthy of relocation given their poorly developed infrastructure, the large Latin American countries, India and much of South-east Asia are quite all right for hosting relocated industries on a large scale, if costs alone²⁴ were to determine the flow of capital and enterprise. Remember also that hardly any country discourages FDI, which seeks to use that country as a base for export of manufactures to the rich countries. Mainstream theory has side step-

risk: When LDCs are seen by TNCs as hosts to earn very high returns (often the true pay-back period for the actual inflows is less than 18 months) and not as places to hold large stocks of capital, then the answer implicit is that the perceived risk is too high. This is a statement that is not subject to the falsifiability criteria since the idea of risk is hardly independently conceived and so amounts to a tautology.

The particular reasons why TNC affiliates are able to maintain higher profit levels throughout the post-independence period is a question that has yet to be answered. The author's conclusion that the TNCs and the local firms belong to different strategic groups is certainly a step in the right direction, but the analysis is unable to show specific ways in which they are different. Once this question is answered satisfactorily then we may see many of the other associations (such as use of highly paid labour, better debt equity ratio, better liquidity, higher value added by sales ratio) as arising more out of high profit margins along with a low propensity to invest.

The additional contribution of this book in helping to understand the phenomenon of transnational affiliates in India is quite minimal. This is so because the methodology and the chosen paradigm within which the study is cast, have been elevated above the problem at hand. Moreover there is at best only a formal attempt to relate the phenomenon to the economic and policy environment in India.

Notes

[I would like to thank R. Nagaraj for his comments.]

- 1 Stephen Hymer (1960) 'The International Operations of National Firms: A Study of Direct Investment' Ph.D. dissertation, MIT, Cambridge, quoted in Sanjaya Lall and Paul Streeten (1977) *Foreign Investment Transnationals and Developing Countries* Macmillan.
- 2 C. P. Kindleberger (1969) *American Business Abroad: Six Lectures on Direct Investment* Yale University Press.
- 3 Richard L. Davies (1971) 'International Corporations: The Industrial Economics of Foreign Investment' *Economica* V 38 pp 1-27.
- 4 C. F. John Dunning (1988) *Explaining International Production* Unwin.
- 5 These are the medium and large firms surveyed by the Reserve Bank of India, and obtained at the firm level. Of these about 19.6 per cent are foreign affiliates.
- 6 N. K. Chandra (1973) 'Western Imperialism and India Today' *Economic and Political Weekly*, Part I Annual Number (Nos 4, 5 and 6) and Part II No 7 February.
- 7 R. Nagaraj (1989) 'Growth in Manufacturing Output since 1980: Some Preliminary Findings', *Economic and Political Weekly* July 1, pp 1481-84.
- 8 J. J. Schreier (1968), *The American Challenge*, Penguin.
- 9 Ashok Desai (1980), 'The Origin and Direc-

tion of Investment in India' in *Research Policy*, Vol 9, pp 74-96.

- 10 Stephen Hymer (1960), 'The Multinational Corporation and the Law of Uneven Development' in Hugo Radice (ed) (1975), *International Firms and Modern Imperialism* Penguin.
- 11 There are exceptions as for instance when a TNC affiliate carries out specific parts of a research task, the more labour intensive mundane, and those that can be partitioned off from the rest of the activities that constitute R and D without affecting their integration mainly to take advantage of lower costs. A good example of this would be the R and D activities of Ciba Geigy in India before their suspension. The increasing R and D activities of British affiliates of American transnationals is of a somewhat different kind, yet its links with the local host economy or even the local affiliate principal activities are marginal. In any case this kind of R and D by advanced country transnationals is almost entirely absent in the Third World.
- 12 K. K. Subrahmanian (1972) *Import of Capital and Technology: A Study of Foreign Collaborations in India* People's Publishing House, New Delhi.
- 13 Indian business houses, particularly the ones closely managed by the family members pay their key personnel usually trusted account 'ant' key managers, liaison officers and a few highly skilled personnel, but not the employees generally, very well. Here high salaries and wages are hardly universal. And the high salaries to a few employees may be recognised as a premium on loyalty.
- 14 Nagesh Kumar (1990), under review, p 770.
- 15 Ibid, p 74.
- 16 Ibid, p 94.

- 17 C. I. Rajan Saxena and M. C. Kapur (1969), 'Transnational Firms and Indian Exports: A Case Study of the Engineering Industry in India', *Foreign Trade Review*, October-December, Vol XV, No 3.
- 18 That there are important and systematic differences owing to the nationality of firms, has been generally ignored in the mainstream theories. For some of these differences at the turn of the century see Mira Wilkins (1988), 'European and North American Multinationals (1870-1914) Comparisons and Contrasts' *Business History*, Vol XX, No 1, January, pp 8-45.
- 19 Deepak Nayyar (1978), 'Transnational Corporations and Manufactured Exports from Poor Countries', *Economic Journal*, Vol 88, March.
- 20 G. K. Helleiner (1973) 'Manufactured Exports from Less Developed Countries and Multinational Firms' *Economic Journal*, March pp 21-47.
- 21 C. I. Ben Dankbaar (1984) 'Maturity and Relocation in the Car Industry', *Development and Change*, vol 15, pp 223-50.
- 22 Thus the EPZs house less than a million of the workforce in the entire Third World, 1978. See Table IV 6 in UNCTAD (1983), *Transnational Corporations in World Development (Third Survey)*, United Nations Centre for Transnational Corporations, United Nations.
- 23 C. V. Vaitos (1974) *Inter Country Income Distribution and Transnational Corporations* Clarendon Press, Oxford.
- 24 The technology factor theories are no exception, their difference being that they point towards cost of intangibles such as the need to be near markets in the case of product cycle theory, rather than of production alone.

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Colonial Power and Micro-Social Interactions

Nineteenth Century India

Sabyasachi Bhattacharya

Theorising and historical narrativising have concentrated on the apparatuses and activities of the colonial Indian government and on the 'state derivation' question in terms of the mode of production and the world capitalist system. This paper contends that analysis of the architecture of colonial power will remain incomplete unless it is sensitised to the process of its constitution at the micro-social level, in everyday life and the mundane actions of ordinary people, below the over-arching framework of the colonial state. An associated question that arises relates to how an agenda of micro-social investigation articulates with the study of the macro-structure.

THE study of colonial power has been focused on the macro-structure.¹ Theorising as well as historical narrativisation—often delinked from each other, to the detriment of both—have concentrated almost exclusively, in the empirical mode, on the apparatuses and activities of the colonial Indian government, and at a rarefied theoretical level on the 'state derivation' question in terms of the mode of production and the world capitalist system. Useful as these studies are, insofar as the theoretical formulations offer us some testable propositions,² there remains a doubt about the sufficiency of that enterprise. It is my argument in this paper that analysis of the architecture of colonial power will remain incomplete unless it is sensitised to the process of its constitution at the micro-social level, in quotidian life and the most mundane actions of ordinary people, below the overarching framework we call the colonial state. How such an agenda of micro-social investigation articulates with the study, both empirical and theoretical, of the macro-structure is also a question that we must address, however tentatively.

It is necessary to put my argument in a larger context in terms of some simple propositions, though it will not be possible to elaborate on them in this paper. How was colonial authority made perceptible to the subject race, once coercion had achieved subjection? Perhaps two processes, interactively drawing strength from each other, were at work: on the one hand what I propose to call the *delegitimation* of pre-colonial authority in political life, and, the obverse of the process, the *appropriation* of the insignia of authority by the colonial state from the pre-existing indigenous inventory. The delegitimation process was instantiated in innumerable displacements of individuals and institutions empowered by pre-colonial history. The most significant instance was the trial of the Mughal emperor Bahadur Shah II at his own palace in Delhi in 1858. The significant thing about the trial was not only the symbolism and visibility of a trial, by junior English army officers, of the 11th successor to the throne after Aurangzeb, but

also that the chief charge against Bahadur Shah was that of treason: "he being a subject to the British government in India, and not regarding the duty of allegiance did... proclaim and declare himself the reigning king of sovereign of India..."³ Such acts of delegitimation were accompanied by parallel displacements in authority structure at lower levels *vis-a-vis* the 'country powers' (i.e., the princely states), the chiefs, zamindars, etc. The obverse of this process is exemplified by the Delhi Durbar of 1877 to proclaim Victoria the empress of India—an inspired act of the symbolic-cultural construction of new colonial authority which Bernard S Cohn has so insightfully studied in his essay on the significance of the Durbar in 'representing authority in Victorian India'.⁴

A doubt: how much of the delegitimation process at the top (e.g., the constitutional niceties of the sovereignty issue in the Mughal emperor's trial) and the rituals of empire (at Delhi in 1877 or re-enactments at the viceroy's levee, etc., from time to time) was accessible to the vast majority of the subject race? To the latter, was the colonial state any more than the totalisation of their life experience insofar as their life was touched by the remote extremities of the limbs of the state—the 'daroga' and his minions, the 'sheristadar' and the like in the collector's cutchery, the small causes court, and so forth? How was the supremacy of colonial authority brought home to ordinary people in their daily life? Given the macro-structure of colonial power, how are its messages translated into micro-social practices in daily life? How is an abstract notion of authority transmitted to the recipient people in concrete mundane interactions with the possessors of authority? Are certain stereotyped social gestures adapted or created by the coloniser to signal superordinate-subordinate relationships in everyday interactions with the colonised people? What are the means used to 'stage' interactions between Englishmen and natives in a manner appropriate to the representation of the superordinate position of the English? These are questions which may help us explore the history of the constitution of colonial power

in quotidian practices below the overhanging framework defined in terms of theoretical constructs and symbolised in terms of a spectacular event like the Delhi Durbar from time to time.

RITUALS OF COLONIAL POWER IN EVERYDAY LIFE

"There can be no society that does not feel the need at regular intervals to maintain and strengthen the collective sentiments and collective ideas which constitute its unity and personality... Hence there arise ceremonies that in their purpose, in the results that they produce and the procedure employed in them, are no different from religious ceremonies proper. What essential difference is there between an assembly of Christians celebrating the principal dates in the life of Christ, or Jews celebrating the exodus from Egypt or the handing down of the ten commandments, and a meeting of citizens commemorating the institution of a new charter of morality or some great event of national life?"⁵ Thus Emile Durkheim.

This seminal idea of political rituals as a vehicle for the representation of the "collective sentiments" of a society, and thus the construction of a political culture, has been a fruitful line of historical investigation. In particular such investigations readily come to mind in the area of the study of medieval European kingship⁶ and more recently, the study of the rituals and other symbolic-cultural means of legitimation in medieval India.⁷ The Durkheimian perspective on ritual was significantly extended by Erving Goffman in microsociological studies.⁸ Distinct from the tradition of symbolic interactionists and 'role theorists' and pre-dating recent ethno-methodologists' work, Goffman framed an agenda of research that seems to have one central theme which is of interest to us—how ritual permeates daily life and commonest interactions. There is probably in Goffman's work an affinity with Durkheim, as Collins suggests. Whether or not that is true—for Goffman has been reticent on the question of locating his approach in relation to recognised 'schools of thought'—his approach addresses the kind

blem. However, one may only get certain insights from Goffman's and related investigations of the micro-social genre. Apart from the obvious difference between the sort of data they deploy in analysis and the quality and texture of historical evidence, there are differences between the colonial context and that to which Goffman applied his mind. The specificities of the 'colonial situation' are, of course, widely ramified,⁹ but we have in mind only three immediately relevant features.

First, and most obviously, the social situations to which originally micro social analysis was applied (e.g. contemporary Western middle-class Goffmanland) offer a contrast to the colonial ones (e.g. 19th century Anglo-Indiand), because in the latter a schism between the ruling race and the ruled structured social interactions between members of these two categories. This applies in various degrees even to routine everyday social encounters in the colonial context. Secondly, representation of authority is more readily legible in societies where the superordinate and the subordinate share the same set of signifiers in a culture. Contrariwise, in a colonial society, in the absence of common signifiers of authority, messages across an ethnic and cultural divide are not received, or at least not with their full import. Anxiety about this (of the 'what do the natives think' variety) is a constant refrain of British Indian bureaucratic discourse in the 19th century. Thirdly it follows that the British would have to appropriate bits and pieces out of the pre-colonial Indic cultural and social practice to refashion signifiers of authority to suit their own ends. As I have said earlier, this process accompanies the process of delegitimation of pre-colonial authority. In the colonial context there coexist two (at least two, there may be more) sets of signifiers and there develops a subset which is the locale of a process of development of elements common between those two sets. One can visualise it as two circles which overlap and between the two points where they intersect is the subset common between the two circles or sets. At this hermeneutic intersection as I propose to call it, there develops a stock of signifiers interpreted in a manner common to both the English rulers and the natives ruled. In the beginning of English Indian encounter this stock was small and signs were misread (e.g. what was prestatory gift as a deference indicator to a 17th century Mughal noble, meant to the British a bribe for favours). As colonialism settled in to its grooves signs were interpreted better. As the foreign power prevailed over the indigene, one meaning tended to countervail another (e.g. the honorific meaning of medallions bearing Victoria's portrait in late 19th century prevail over prejudices against the idolatrous meanings perceived by Muslim ruling princes).¹⁰ The most effective cultural interventions by colonial power would be at the hermeneutic intersection

into old symbols, institutions and even routinised actions (e.g. taking off one's shoes to show deference).

Thus, while the micro-social theoretical literature (specially Goffman's empirical work) is of use in generating and framing questions, in setting up an approach to the process of construction of colonial authority, one has to depart from the received theoretical approach.¹¹ We have to build upon the specificities of the colonial situation and when we so ground ourselves (as will be hopefully evident from the empirical portion of this paper—which is meant to be indicative of the quality of evidence available, and not a comprehensive inventory) the need for a reorientation of theory with regard to the specificities of colonial societies becomes clear.

The questions that we have raised earlier about the constitution of colonial power in everyday social interactions are not easy to answer. Any one who has handled sources relating to British India of, say the 19th century, will realise that I propose to make a beginning by examining a simple act that of taking off one's shoes.

There is an apparently trivial incident described in great detail, in the memoirs of field marshal Lord Roberts of Kandahar *Forty one years in India: From Subaltern to Commander in Chief*. During the uprising of 1857, he says, the British were so pleased with the support given to them by the Kapurthala army, among others, that in order to pay a compliment to the officers and the principal men with the Kapurthala troops, Edward John Lake (1823-77) the commissioner of Jalandhar in 1857 invited them to his house to meet them. The officer who organised the affair was John Nicholson (1821-57), an officer famous in Punjab as a soldier (Nikkul Sevi Sahib) and a fierce administrator—he died at the storming of Delhi soon after this incident. Roberts was then a young subaltern under Nicholson and the point of his narrative is to extol the merits of that famous empire builder. The event witnessed by Roberts at the close of Lake's meeting with the Kapurthala officers was as follows:¹

At the close of the ceremony Mehtab Singh a general officer in the Kapurthala Army took his leave, and, as the senior in rank at the durbar, was walking out of the room first when I observed Nicholson stalk to the door put himself in front of Mehtab Singh and waving him back with an authoritative air prevent him from leaving the room. The rest of the company then passed out and when they had gone, Nicholson said to Lake: "Do you see that General Mehtab Singh has his shoes on?"

Lest the English reader back home should miss the significance of these momentous words, Roberts adds here a footnote: "No native, in native dress, keeps his shoes on when he enters a room, unless he intends disrespect."

Lake replied that he had noticed the fact, but

ing in Hindustani, said: "There is no possible excuse for such an act of gross impertinence, Mehtab Singh knows perfectly well that he would not venture to step on his own father's carpet save barefooted, and he has only committed this breach of etiquette today because he thinks we are not in a position to resent the insult, and that he can treat us as he would not have dared to do a month ago."

Eventually Mehtab Singh was compelled to take off his shoes and carry them out of the room in his own hands. One may note that Nicholson spoke to Lake in Hindustani to convey to the third person, Mehtab Singh, the Indian rules of etiquette. Two points need attention. First, the breach of etiquette is a political act. Second, the etiquette in question is explicitly derived from 'native' rules of proper behaviour.

The event was staged and the dramaturgical dimension of the interaction between the actors, British and Indian, was of crucial importance. The stage craft begins with 'framing' the interaction as a levee demanding certain stereotyped gestures and rituals of everyday life, it culminates in staging an act of repentance by the native who failed to make the ritual signal of subservience or at least, respect. The presentation of Nicholson's self is, of course, dictated by a collective British conception (about themselves in relation to the natives) and may or may not have been a manifestation of his individual personality. Lake did not react initially the way Nicholson did, but he was brought in line soon enough and behaved as the collective British self conception in this context demanded.

It is well known that Goffman owed to Durkheim the idea that individuals possess an inventory of shared orientations of a 'collective' kind. The twist in the colonial context is the appropriation by the colonisers of some of the orientations, often objectified in pattern of behaviour or even artefacts, belonging to the subordinated people and in the process imparting a different meaning to things pre-dating the colonial regime. This is what makes the establishment of rituals of quotidian interaction of a complicated affair. I have used some of Goffman's analytical insights into everyday social encounters to understand an episode minutely observed in detail by a knowledgeable participant to show how a stereotyped action (taken from the 'native' stock of such actions) was being re-created in the colonial context to sustain in day-to-day, face-to-face interactions the superiority of one set of actors, British, over another set of actors, native. Taking off one's shoes as a mark of deference is one of the many items in the inventory of social rituals accumulating under British auspices.

A question often raised in the theoretical debates on micro sociological approach is about the weightage to be given to fragments of interaction or discursive practices. In other words, the methodological question is, how much do such fragments tell us about

the macro-structures, entities such as the state or class or caste and so on and in this instance, power? Evidently the weightage to be given to evidence like the one reported by Roberts on an incident in 1857 at Jalandhar would depend on the extent to which one can establish the observed piece of micro-social interaction as a part of *recurring pattern*. Otherwise, as Cicourel¹³ has put it, it is difficult to establish how 'a few fragments of a conversation or even several pages of discourse can presume to stand for the complex social structures identified in macro-theory, such as large-scale political, economic, demographic and stratificational patterns'. In short, *regularities* in discourse and practice need to be established to enable us to read the meaning of micro-social evidence.

AN EMERGING PATTERN

In the early 1830s an old Indian hand, F J Shore, wrote of the Indian custom of taking off one's shoes, without getting unduly exercised about it. In his essay on 'The Behaviour of the English towards the Natives' he writes 'on the point of taking off one's shoes, it may be observed that this, like any other mode of testifying respect, means nothing in itself beyond the idea that is attached to it—it is no more than taking off our hats'.¹⁴ Likewise we find Sir Richard Temple taking off his shoes without any fuss about any damage to his dignity in the palace of Nizam of Hyderabad. "On arriving at the threshold of the Nizam's room of audience I took off my boots (which was easily done in a moment) and walked forward". This was the right etiquette. It was taken for granted in the late 18th and even in the early years of the 19th century that this would be done. C. F. Harvey of the Indian Civil Service who served in Burma for decades pointed out that 'English officers were accustomed to kneel unshod in the presence of Indian kings'.¹⁵ (The problem with the Burmese was that they not only demanded that shoes be taken off before entering the palace but also required the English envoys to the court of Ava to 'prostrate themselves at gateways and spires' and their virtual incarceration in 'a scavengers' island'.) Similarly Europeans who did not want to unshoe themselves Bishop Heber had recommended with his usual ecclesiastical tact, should not enter temples and mosques.

But this customary gesture of respect by taking off one's shoes was increasingly unacceptably to the majority of Englishmen, particularly in the latter half of the 19th century. It was, of course, well known, even to civilian and army officers, with or without a smattering of an Indian language, that taking off one's shoes was a token of respect in the Indic culture. It particularly applied to meetings with high dignitaries. Emperor Bahadur Shah II had gone to the length of including this as evidence in his defence statement at his trial in the Red Fort in

1858.¹⁶ "As regards the rebellious army it may be stated that they never saluted me even, nor showed any mark of respect. They used to walk into the Hall of Special Audience (i.e., the Diwan-i-Khas) and the Hall of Devotion with their shoes on". If they came into the imperial presence with their shoes on, how could Bahadur Shah be accused of exercising sovereignty over or accepting the allegiance of these soldiers? Thus the arguments of the prosecution attributing to Bahadur Shah the leadership of the rebellious soldiers, according to the accused, could not be sustained. That was the defence put up by Bahadur Shah. This is one of numerous examples of the significance attached to the removal of shoes as a mark of respect.

The recognition of the value attached in Indian culture, both Hindu and Muslim, to the simple act of taking off one's shoes had two consequences on the behaviour of the Englishmen serving in India. First, natives were required to show respect to Englishmen in authority by taking off their shoes. Second, for Englishmen to take off their shoes in deference to an Indian was derogatory to the prestige of the ruling race and, therefore, to be avoided. As for the first, we have already seen the 1857 episode at Jalandhar recounted by Lord Roberts—a kind of richly detailed description of how such things happened which is much more effective than statements of a general kind.

To illustrate the other principle, not to jeopardise British dignity by taking off shoes in deference to a native, we may look at a minor event in Hyderabad in 1869. C. B. Saunders was recently appointed the resident at Hyderabad. For the past several decades the British residents had followed the custom of taking off their shoes before coming in to the Nizam's presence—an old etiquette of the court. Saunders declined to do so. An opportunity to make his point presented itself: the old Nizam Afzal ud-Daula died in early 1869 and his successor was a minor. Saunders thought that the application of the custom of taking off one's shoes was derogatory to him and to other Englishmen who might visit the Nizam with him on the occasion of the new Nizam's installation or for that matter on other occasions like calling upon the Nizam to express condolence on his father's death. 'The minister and the Amir-i-Kabir (the chief noble family of Hyderabad and hereditary head of the royal household forces) did not quite relish the idea and gave way somewhat reluctantly'.¹⁷ At the time of the resident's visit of condolence to the Nizam the Indians divested themselves of their shoes, while the British party sat on chairs of European manufacture with their boots on. After a few days, at the more formal durbār installing the new Nizam, the same procedure was followed. Thus, 'a practice which was not considered consistent with the British position in India and with the dignity due to a paramount power, was quietly dropped'.¹⁸ The English

resident had acted with 'most commendable promptitude'.¹⁹

It was a famous victory. The Nizam accepted the departure from an old custom. His age was two years and eight months. The local nobles' demurrals were brushed aside. The event may appear trivial in this day and age but great importance was attached to it by the British policy makers. The viceroy wrote personally to the secretary of state in England about it. Resident Saunders had behaved 'with great firmness' to save Britons from 'a humiliating ceremony', wrote Lord Mayo to Lord Argyll.²⁰

In the 1830s a civil servant in Bengal presidency noted that the custom of showing respect by taking off one's shoes was dying in Calcutta. But then, the Bengalees were 'lowest in habits and principles of all the people of India, and of the Bengalees, the inhabitants of Calcutta are, perhaps, the worst'.²¹ What began to happen was that natives who were habitually in western dress in public began to give up this custom and they were tacitly allowed to do so by the English. Shore did not approve of it and noted that this contagion was spreading so that 'natives of rank' were beginning to 'walk into our rooms with their shoes on their feet'.²² He surmises that 'among themselves they will boast of having been permitted to do so, and speak contemptuously of the English for allowing it'—though 'they sometimes affect to tell us, that it is a matter of little consequence'.²³

The latter point, the Englishmen thinking about 'what the natives think' is an important element in the process of micro-level interaction—as important as it is in imperial policy making at the higher levels. This is not only because of a natural concern of the rulers as to how the ruled are reacting to their actions. It is also because a complicity of the 'native' mind is needed to constitute colonial power, insofar as it is a cultural project.

THE MACRO LEVEL ORDER

We have isolated for analysis only one of a large inventory of stereotyped actions, in face to face interactions, denoting deference in Indic culture and appropriated and suitably valorised by the British rulers in India. What have been called 'deference entitlements'²⁴ were varied in Indic society and included (as in many other societies elsewhere) entitlement on the basis of birth in a certain caste or kinship ties with, say, a princely family or dominant lineages in a region. Thus, the claim of the British to deference on the basis of birth in a particular racial stock was not altogether foreign to a tradition in this country where deference-entitlement could be acquired by birth.²⁵ However, Indian compliance to this privilege could not be secured on that basis alone. Its real basis was an Englishman's proximity, real or imagined, to those who wielded power derived from the colonial state. The presentation of this kind of deference entitle-

ment demanded that the English present a common front *vis-à-vis* the indigenous population. As the maharaja of Scindia, speaking of the English as a race, put it in 1867 'you are not popular', but 'your prestige fills men's minds', in part, because of 'the unity of feeling and loyalty to one another which exists amongst you'.²⁶ A possible threat to this network binding together Englishmen, often physically isolated in the district or a princely state residency, was miscegenation. If the ethnic boundary becomes indistinct the deference due to the ruling race would diminish. Hence the great concern for preservation of that boundary which Kenneth Ballhatchet has documented.²⁷ As the British raj prospered and consolidated itself as a territorial power, the Eurasian became an embarrassment and in 1791 the court of directors resolved to exclude them from superior civil, military and marine services, i.e. from coveted service and army commissions. The rationale for this was that 'to admit persons of half blood to higher situations' would detract from the prestige of the official elite, 'for the native gentry of the country would look upon them with no respect'.²⁸ By the end of the 19th century the prejudice against miscegenation was so strong in high decision making circles of British India that many at that level argued that if European bachelor officers must seek the company of native women (e.g. in Burma where there were few European women about) let their liaison be secret and illegitimate. The secretary of state Lord George Hamilton was of opinion that 'a legal marriage (with native women) would put the Europeans into a lower position in the estimation of the native, than if he kept the woman as his concubine'.²⁹ Viceroy Curzon was equally strong in his view that inter-racial marriage must be discountenanced as strongly as possible. That was in 1901, at the height of 'Victorian puritanism'.

We have concentrated attention on one type of deference indicator, unshocking oneself, as a representative instance. Such examples can be multiplied to show how similar rituals pervaded various interactive contexts. Hon'ble F. J. Shore, a civil servant in the NW Province and Central Provinces wrote a great deal in the 1830s on how British rule in India might be 'facilitated by adopting a mode of behaviour which will influence the natives to regard us with respect and favour'.³⁰

The main point made by Shore was that 'The acts of government, even if they are unjust, often affect comparatively few but the behaviour of individuals is felt by all in their daily and hourly intercourse with us. And 'It ought to be the object not only of every government servant but of every Englishman in India, to strengthen stability of our rule, for dreadful indeed would be the state of the country were the British authority suddenly to be withdrawn'.³¹ It was the political import of everyday interactions between the British and the Indians which Shore sought to emphasise.

Between these truly micro-social processes of everyday life we have been talking about, and the rituals and pageant of, say, the imperial durbar in 1877 at the symbolic centre of the Indian political order, there were a whole series of intermediate range symbolic representations and rituals of imperial power. For example, the rituals of the British courts of law, it seems, deeply impressed the large numbers who attended the court. Along with many spaces for enacting power relations in Indian British transactions—the collector's *cutchery*, the district police chief's office, the parade ground of the local commandant in the army cantonment—the court of law was a stage and it had more than usually impressive rites.³²

BETWEEN MICRO AND MACRO

Beyond the intermediate range of British Indian transactional spaces like the court of law, the collector's *cutchery*, etc., was the apex arena at the centre of the political system. The thrust of our argument has been that an exclusive concentration on the latter provides a very inadequate picture of the process of the constitution of colonial authority. Historiographic tradition is heavily weighted in favour of that apex centred approach. And to the extent there has been any theoretical thinking about the colonial state and its formation it has been locked into a cross wire focused on the central processes in building the colonial political order. Scenarios with the colonial state as the actor are all too familiar and while the inherent reductionism has gone unquestioned, contestation has centred around the attributes of the entity called colonial state. As distinct from this approach the 'micro translation' of the macro order conceptualisation and explanation may be useful.³³

That is not to say that micro social political phenomena alone constitutes the reality. The position of some theorists of micro sociology [e.g. Randall Collins and Jon Harre] push the argument to an untenable point in virtually refusing to recognise macro phenomena as real except as an aggregation of micro phenomena.³⁴ This is a position close to methodological individualism in a way and takes us back to an old agency structure debate. One recalls Max Weber on the need to 'exorcise the spectre of collective conceptions so that social study can proceed from the actions of one or more separate individuals'.³⁵ Likewise F. A. Hayek on individual actions as the route towards understanding social phenomena.

Here a caveat is in order. Does a research strategy centred upon social interactions, ultimately of individuals in the colonial context as a means of studying the construction of colonial authority assume the premises of methodological individualism? Not necessarily. Admittedly our approach concedes centrality at this level of analysis, to the individual as the agent. But can we push the point farther and say that their dispositions and actions alone constitute small- and

large-scale social-political phenomena, that structural explanations are to be dismissed as imperfect compared to the explanations at the level of individual action? Some questions expose the untenability of such a position. Are the actions of individuals a product of their beliefs or, to use Bourdieu's phrase, 'dispositions'?³⁶ Where do these beliefs and dispositions come from? Do they not come from collectivities of various orders? Does not explanation of macro-social phenomena exclusively in terms of individual actions and dispositions only relocate the explicandum from one level to another?

If then we reject, with Steven Lukes among others, methodological individualism as 'truistic' at one level and untrue to social reality at another, where does it lead us?³⁷ It leads to a middle ground. The articulation between the micro-level and macro-level, different aspects of reality, needs to be recognised. It has been pointed out that Braudel's massive enterprise of capturing the evolution of capitalism in 16th-18th century Europe at the everyday material existence level is an exemplar in this respect.³⁸ He identifies several economies in parallel evolution, for example, below the highly visible level of the market transactions which economic historians have been chiefly concerned with, there was a distinctly different province of practice in the routine, infra-economy of the rural grassroots level. And yet these levels draw strength from each other, the formal and informal sectors interact with each other to build an overall capitalistic structure. More directly addressing the problem of so called micro macro and agency-structure differentiation, Giddens provides a very useful construct, 'structuration'. Structure is "the medium and outcome of the conduct it recursively organises, the structural properties of social systems do not exist outside of action but are chronically implicated in its production and reproductions". Thus structure is continually in the process of being formed and itself forming action in a dialectical relationship. "The 'dialogue between structure and conjuncture' which Braudel wants to capture is parallel", Giddens writes, "to that which I seek to represent in a more detailed way in structuration theory".³⁹ Such an approach may help us conceptualise the connection we have posited between everyday micro social interactions and the colonial state.

Notes

1 This paper forms a part of a forthcoming work on the 'Colonial State: Theory and History'. I would like to thank the members of the History Faculty at Calcutta University for their comments on the theme of this paper (March 1991).

2 Some of the important studies of this category are: H. Alavi, 'The State in Post Colonial Societies: Pakistan and Bangladesh' in K. Gough and H. P. Sharma (eds), *Imperialism and Revolution in South Asia* (New York, 1973); B. K. Bhadra, *The Mode*

- of Production, Social Classes and the State (Delhi, 1989); Bipan Chandra, 'Colonialism, Stages of Colonialism, and the Colonial State', *Journal of Contemporary Asia*, 10(1980), 272-85, Sudipta Kaviraj, 'On the Construction of Colonial Power Structure, Discourse, Hegemony' (mimeo, IMWOO, the Hague, 1989), Peter Meyer, 'A Poverty of Theory. Conceptions of the Colonial State' (mimeo, Asian Studies Association of Australia, Sydney, 1989)
- 3 Major F J Harriott, deputy judge-advocate general and government prosecutor's speech, January 27, 1858, framing charges, and his final statement of prosecution, March 9, 1858 K C Yadav, *Delhi in 1857*, (transcript of trial of Bahadur Shah), Gurgaon, 1980
 - 4 B S Cohn 'Representing Authority in Victorian India' in E J Hobsbawm and T Ranger (eds), *The Invention of Tradition* (Cambridge, 1983) Cf M H Fisher, *A Clash of Cultures Awadh, the British and the Mughals*, (Delhi, 1987)
 - 5 Durkheim's scattered writings on the state are now available in a consolidated collection in Anthony Giddens (ed), *Durkheim on Politics and the State* (Cambridge, 1986), p 162
 - 6 Perhaps the most influential was E H Kantorowicz, *The King's Two Bodies A Study in Mediaeval Political Theology* (Princeton, 1957), Jacques Le Goff 'Is Politics Still the Backbone of History?' *Daedalus* (Winter, 1971) provides a review of connected literature
 - 7 J F Richards (ed) *Kingship and Authority in South Asia* (Madison 1978), Komila Thapar, *Ancient Indian Social History Some Interpretations* (Delhi 1978), B D Chattopadhyay, *Political Processes and Structure of Polity in Early Mediaeval India*, presidential address IIC 1983 on power validation processes including performance of rituals
 - 8 Erving Goffman, *Interaction Ritual* (London, 1972), *Frame Analysis* (New York, 1974) and, of course, the classic work in the area *The Presentation of Self in Everyday Life* (New York, 1959) laid down the basics of his approach which has been reflected in two studies of contemporary Indian society, G D Berreman, *Caste and Other Inequalities* (Meerut Folklore Institute, 1979) and a perceptive study by T K Oommen 'Erving Goffman and the Study of Everyday Protest' in S H Riggins (ed) *Beyond Goffman Studies on Communication Institution and Social Interaction* (New York, 1990) Among the critiques of Goffman in the last decade, the most incisive was Randall Collins, 'On the Micro foundations of Macro sociology', *American Journal of Sociology*, vol 86 1981, in a broader framework of micro sociological method, K Knorr-Cetina and A V Cicourel (eds), *Advances in Social Theory and Methodology* (London, 1981) and Nigel G Fielding (ed), *Actions and Structure Research Methods and Social Theory*, (London, 1988)
 - 9 I have borrowed the term 'colonial situation' from Georges Balandier, *The Sociology of Black Africa* (London, 1970) ch I, to indicate the wide social, political and

economic ramifications of colonialism, an alternate heavy weight candidate is 'colonial social formation' Unfortunately Balandier had little to say about micro social processes

- 10 The 'usage and religion' of the Muslim princes of India stood in the way of 'wearing of any effigy' This view of the nizam and his court (backed by the people of Hyderabad who put up protest placards in the Persian language) has been discussed by Bharati Ray, *Hyderabad and British Paramountcy 1858 1883* (Delhi, 1988), pp 34 35, on the basis of the residency records Also see B S Cohn, op cit, on prestatory gifts
- 11 Goffman seems to be aware that his scene was the Anglo American society, generally his preference for discussing particularities obscured the universalities that others later elicited from his work See J H Turner, *A Theory of Social Interaction* (Oxford 1988), pp 90-95
- 12 Lord Roberts, *Forty-One Years in India From Subaltern to Commander in Chief* (London 1896), p 75
- 13 A V Cicourel 'Notes on the Integration of Micro and Macro Levels of Analysis' in K Knorr-Cetina and A V Cicourel (eds), op cit, p 54
- 14 Frederick John Shore *Notes on Indian Affairs* (London, 1837), vol I, p 14
- 15 G E Harvey, 'Burma 1782 1852' in *Cambridge History of India*, vol V (Cambridge, 1929) p 559 Richard Temple, *Political Diary*, April 20 1867, Temple Collection 81, cited in Bharati Ray, op cit ch II, fn 141
- 16 Bahadur Shah's defence statement on March 9 1858 K C Yadav, op cit, p 346
- 17 Bharati Ray, op cit, p 59
- 18 Ibid
- 19 Ibid
- 20 Mayo to Argyll, March 2 and 10, 1869, Argyll Papers cited in B Ray, fn 146, ch II
- 21 F J Shore, op cit, pp 79 81
- 22 Ibid B S Cohn op cit, notes that 'if an Indian habitually wore European clothes in public he would be allowed to wear shoes in the presence of the English at a levee or a ball or a drawing room conversation'
- 23 F J Shore, op cit, pp 79-81
- 24 This very useful term was first introduced by Edward Shils, 'Defence' in John A Jackson (ed), *Social Stratification* (Cambridge, 1968), pp 104 32
- 25 Vivekananda as well as Bankim Chatterjee noted this fact the point made by them being the indefensible social discrimination within Indian society, cf T Raychaudhuri 'Europe reconsidered perceptions of the West in 19th Century Bengal' (Delhi 1988) pp 183 314
- 26 A record of conversation between Scindia and general Daly, resident in Gwalior in 1867 in H Daly, *Memoirs of General Sir Henry Dermot Daly* (London, 1905), p 270
- 27 Kenneth Ballhatchet, *Race Sex and Class under the Raj* (Delhi, 1979)
- 28 Ibid, p 98
- 29 Hamilton to Curzon, 15 8 1901 cited ibid, fn 31, p 151
- 30 F J Shore, op cit, p 82
- 31 Ibid p 17 p 23
- 32 For example the representation of courts of law in early Bengali fiction, beginning from the first novel in Bengali by Peary Chand

the Colonial Economy' (mimeo, Centre for the Study of Social Sciences, Calcutta, 1991)

- 33 R Collins, 'Micro-Translation as a Theory-Building Strategy' in K Knorr-Cetina and A V Cicourel (eds), op cit, pp 81-108
- 34 R Harre, 'Philosophical Aspects of the Micro Macro Problem' in ibid
- 35 Max Weber, *Economy and Society* (1978), vol I, p 13 and W Mommsen, 'Max Weber's Political Sociology', *International Social Science Journal*, vol 17, 1965, p 25 cited by A Giddens, *The Constitution of Society: Outline of the Theory of Structuration* (Cambridge, 1984), pp 213-14
- 36 Pierre Bourdieu, 'Menn and Machines' in K Knorr-Cetina, op cit, pp 308-12 on 'positions and dispositions'
- 37 Steven Lukes, 'Methodological Individualism Reconsidered', *British Journal of Sociology*, xix, 1968, pp 119-29
- 38 Knorr Cetina's elucidation of the theoretical implications of Braudel's approach has been followed here, 'The Micro Social Order' in Nigel G Fielding (ed), *Actions and Structure Research Methods and Social Theory* (London, 1988), pp 23 53, Likewise Giddens below
- 39 Anthony Giddens, op cit, p 374, 362 Pierre Bourdieu goes further down the line in rejecting the distinction between actor and structure in Knorr-Cetina (ed), op cit, pp 304 17 His observations on the 'Ontological Complicity' between a consciousness and a milieu is of great value in understanding the role of the individual actor in a power apparatus (e.g. Fielding in *Passage to India* or Orwell, 'Shooting an Elephant' *Collected Essays*, London, 1968, vol I, p 235

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| 9 900 000 | 1. Capital Face Value of Securities deposited with Reserve Bank of India under Section 11(2) of the Banking Regulation Act 1949 | | 16 400 000 00 | 445 437 993 | 1. Cash In hand and with Reserve Bank and with State Bank of India (including Foreign Currency Notes) | | 705 740 593 49 |
| | 2. Reserve Fund and Other Reserves: | | | 159 969 798 | 2. Balances with Other Banks (A) On Current Account | | |
| 44 195 637 | a. Head Office Reserve (Amount remitted in DM from H.O. - See Note 2) | 90 475 647 41 | | 54 245 007 | (i) In India | 84 228 983 01 | |
| 8 855 178 | b. Retained Profits Reserve under section 11(2)(b)(ii) of the Banking Regulation Act 1949 | 22 207 339 00 | 112 682 976 41 | 407 730 | (ii) Outside India | 1 945 721 24 | |
| 42 050 815 | | | | 0 | (B) On Deposit Account | | |
| | 3. Deposits and Other Accounts: | | | 150 000 000 | (i) In India | 0 00 | |
| 0 | Fixed Deposits | | | | (ii) Outside India | 0 00 | 88 164 704 24 |
| 192 746 263 | (i) From Banks | 0 00 | | | 3. Money at Call and Short Notice | | 0 00 |
| 40 279 912 | (ii) From Others | 2 641 180 409 15 | | 672 828 957 | 4. Investments At Lower of Cost and Market Value | | |
| 8 504 356 | Savings Bank Deposits | 40 711 873 66 | | 556 000 | (i) Securities of the Central and State Governments and other Trustees | | |
| 999 191 559 | Current Accounts and Contingency Accounts etc. | | | 0 | Securities including Treasury Bills of the Central and State Governments | 919 507 791 60 | |
| 840 714 090 | (i) From Banks | 26 897 257 47 | 5 408 486 028 75 | 4 624 410 | (ii) Shares - Fully paid equity shares | 1 508 000 00 | |
| | (ii) From Others | 679 697 207 57 | | 0 | (iii) Debentures or Bonds | 0 00 | |
| | 4. Borrowings from Other Banking Companies, Agents, etc: | | | 0 | (iv) Other Investments - Units of Unit Trust of India | 157 153 507 72 | |
| 456 442 113 | (i) In India | 424 200 000 00 | | 0 | (v) Gold | 0 00 | 1 080 169 299 32 |
| 0 | (ii) Outside India | 0 00 | 421 200 000 00 | 678 009 367 | 5. Advances (Other than Bad and Doubtful debts for which provision has been made to the satisfaction of the Auditors) | | |
| 456 442 113 | Particulars | | | | (i) Loans Cash credits (Overdrafts etc.) | | |
| | Secured 1991 Nil | | | 1 550 658 085 | (i) In India | 1 700 590 497 21 | |
| | Secured 1990 Nil | | | 0 | (ii) Outside India | 0 00 | |
| | Unsecured 1991 424 200 000 00 | | | | (ii) Bills Discounted and Purchased (including Treasury Bills of the Central and State Governments) | | |
| 228 981 198 | Unsecured 1990 456 442 113 00 | | 242 790 480 52 | | (i) Payable in India | 63 573 562 75 | |
| | 6. Bills for Collection being Bills Receivable as per contra: | | | | (ii) Payable outside India | 268 316 177 70 | |
| 108 110 482 | (i) Payable in India | 204 270 545 24 | | 406 810 185 | (Particulars of advances appear in an appended statement) | | 2,032 480 137 66 |
| 39,684 848 | (ii) Payable outside India | 49 127 823 55 | 243 398 368 78 | 85 918 904 | 6. Bills Receivables being Bills for Collection as Per Contra | | |
| 147,795 330 | | | | 1 943 387 174 | (i) Payable in India | 204 270 545 24 | |
| | 7. Other Liabilities: | | | | (ii) Payable outside India | 39 127 823 55 | 243,398 368 78 |
| 63,470,967 | (i) Head Office & Branches | | | | 7. Constituents' Liabilities for Acceptances, Endorsements and Other Obligations per contra | | |
| 1,08,736,548 | Outside India - Net | 117 148 547 55 | 279 428 696 29 | 108 110 482 | | | |
| 302,227,515 | (ii) Others | 162 180 148 74 | 1 915 618 442 46 | 39 684 848 | | | |
| | 8. Acceptances & Endorsements and Other Obligations per contra | | | 147 795 330 | | | |
| 128,223 001 | | | | | | | |
| 146,834,462 | Carried Forward | 6 574 511 593 21 | 4 597 475 400 | Carried Forward | | | 6 064,571 545 95 |

Deutsche Bank AG



(INCORPORATED IN THE FEDERAL-REPUBLIC OF GERMANY WITH LIMITED LIABILITY)

BALANCE SHEET OF INDIAN BRANCHES AS AT 31ST MARCH 1991

| 31 3 1990 Rs | CAPITAL & LIABILITIES | Rs P | Total Rs P | 31 3 1990 Rs | PROPERTY & ASSETS | Rs P | Total Rs P |
|-----------------|---|------------------------|------------------|-----------------|---|----------------|------------------|
| 4 946 034 462 | Brought Forward | | 6 574 511 594 21 | 1 597 475 400 | Brought Forward | | 6 061 571 945 99 |
| | 9 Profit and Loss Account | | | | 8 Premises Less Depreciation: | | |
| 8 637 507 | Balance brought forward 26 784 254 57 | | | 15 450 969 | Cost as at 1st April 1990 | 21 173 408 74 | |
| | Add Profit for the period as per Profit and Loss Account 66 760 806 05 | | | 6 057 000 | Add Additions during the year | 7 879 560 00 | |
| 33 479 069 | | | | 21 507 969 | | 29 052 968 74 | |
| 42 116 576 | | 91 514 060 62 | | 344 560 | Less Deductions | 0 00 | |
| | Less Transferred to Head Office Account 26 784 254 57 | | | 21 173 409 | Less Depreciation Written Off to date | 2 474 649 70 | 26 578 319 04 |
| 8 637 507 | Transferred to Retained Profits Reserve under Section 11(2)(b)(ii) of the Banking Regulation Act 1949 14 352 161 00 | | | 1 708 170 | | | |
| 6 695 814 | | | | 19 365 249 | | | |
| 15 353 521 | | 10 155 15 57 | | 16 612 902 | 9 Furniture and Fixtures Equipment Vehicles etc. Less Depreciation | | |
| 26,388,899 | | | 51 408 645 05 | 17 616 877 | Cost as at 1st April 1990 | 34 229 779 41 | |
| | | | | 34 229 779 | Add Additions during the year | 10 077 777 37 | |
| | | | | 0 | | 44 307 556 78 | |
| | | | | 44 229 779 | Less Deductions during the year | 476 868 35 | |
| | | | | 12 225 121 | Less Depreciation Written Off to date | 13 840 688 43 | |
| | | | | 22 004 658 | | 19 480 228 15 | 24 350 460 90 |
| | 10 Contingent Liabilities: | | | | 10 Other Assets | | |
| 0 | (i) Claims against the Bank not acknowledged as debts (ii) Outstanding Forward Exchange Contracts (iii) Outstanding Guarantees given on behalf of Customers (including Guarantees given on behalf of officers Rs 81 206 Previous Year Rs 1 661 206) (iv) Bills of Exchange Rediscounted | (iii) 1 748 733 535 70 | | 13 917 446 | (i) Interest accrued but not due on Government Securities (net) | 22 952 761 30 | |
| 2 696 710 236 | | | | 32 555 | (ii) Stamps and Stamped documents | 16 641 48 | |
| | | | | 41 242 265 | (iii) Interest Accrued | 28 939 488 30 | |
| | | | | 23 055 216 | (iv) Prepaid Expenses | 40 221 326 02 | |
| 1 231 697 750 | | 2 049 522 612 83 | | 263 851 958 | (v) sundry Advances | 420 261 695 87 | |
| 1 721 500 000 | | 2 279 429 116 00 | | 1 753 000 | (vi) Deposits under the Companies Deposits (Surcharge on I I) Scheme | 1 028 000 00 | 51,419 912 97 |
| | | | | 433 872 120 | | | |
| | | | | 0 | 11 Non Banking Assets Acquired in Satisfaction of Claims: | | 0 00 |
| | | | | 0 | 12 Profit and Loss Account | | 0 00 |
| 4,972,817 717 | TOTAL | | 6 627 920 238 26 | 4 972 817 717 | TOTAL | | 6 627 920 238 26 |

See Notes appended

Per our attached report

For A. F. FRIGUSON & CO
Chartered Accountants

F N RAWLI
Partner

H FRISF
Chief Executive Officer (India)

B KRISHNAN
Controller

Mumbai, 30th Mar 1991

Deutsche Bank AG



(INCORPORATED IN THE FEDERAL REPUBLIC OF GERMANY WITH LIMITED LIABILITY)

PROFIT AND LOSS ACCOUNT OF INDIAN BRANCHES FOR THE YEAR ENDED 31ST MARCH, 1991

| Year Ended 31st March 1990 Rs. | EXPENDITURE | Rs. | Year Ended 31st March 1990 Rs. | INCOME (Less provision made during the year for Bad and Doubtful Debts and other usual or necessary provisions) | Total Rs. P. |
|--------------------------------------|--|----------------|--------------------------------------|---|-----------------|
| 177 042 113 | 1 Interest paid on deposits borrowings etc. | 254 015 750 85 | 240 468 799 | 1 Interest and discount | 480 893 047 30 |
| 18 545 656 | 2 Salaries allowances provident fund etc. | 25 851 258 51 | 55 421 375 | 2 Commission, exchange and brokerage | 59 304 804 00 |
| 12 000 | 3 Directors and Local Committee Members fees and allowances | 21 000 00 | 0 | 3 Rents | 0 00 |
| 14 928 220 | 4 Rent taxes insurance lighting etc. | 24 770 177 | | 4 Net profit on sale of investments gold and silver land premises and other assets (not credited to reserves or any particular fund or account) | 0 00 |
| 0 | 5 Law charges | 150 000 00 | | 5 Net profit on revaluation of investments gold and silver land premises and other assets (not credited to reserves or any particular fund or account) | 0 00 |
| 5 401 871 | 6 Postages telegram and stamps | 1 705 558 17 | 19 350 953 | 6 Income from non banking assets | 0 00 |
| 75 000 | 7 Auditors fees | 81 500 00 | 0 | 7 Other receipts | 785 640 00 |
| 6 717 407 | 8 Depreciation on and repairs to the banking company's property | 8 812 555 | 79 514 | 8 Loss | 0 00 |
| 4 177 864 | 9 Stationery printing advertisement etc. | 5 177 651 87 | 0 | | |
| 0 | 10 Loss from sale of or dealing with non banking assets | 0 00 | 0 | | |
| 48 844 538 | 11 Other expenditure (including proportion of Head Office expenses) | 52 458 154 12 | 0 | | |
| 44 479 069 | 12 Balance of profit | 66 760 806 05 | 0 | | |
| 405 921 640 | | 440 586 087 71 | 305 921 640 | | 440 482 082 21 |

See Notes annexed

Remuneration paid to the Chief Executive Officer (India)

| | For the year ended 31st March 1991 | For the year ended 31st March 1990 |
|---|--|--|
| Salary | 994 999 00 | 985 280 00 |
| Estimated monetary value of benefits or perquisites | 608 688 15* | 215 340 00 |

* Includes Rs 15 314 89 for which the RBI approval is being sought

NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 1991

PRINCIPAL ACCOUNTING POLICIES

General

These accounts have been prepared according to the historical cost convention and in accordance with statutory requirements prescribed under the Banking Regulation Act 1949 and practices prevailing in the country

Currency Translation

- Assets and liabilities in foreign currencies are translated at the rates notified by FEMA as at 31st March 1991 and Contingent liabilities in respect of outstanding forward exchange contracts are included at the contracted rates
- Outstanding forward exchange contracts are revalued at the rates notified by FEMA as at 31st March 1991 and resulting losses on revaluation are charged to income

Investments

Investments are valued at cost or market value whichever is lower

Advances

- Provision for doubtful advances: The Management reviews the advances/loan portfolio each year in addition to periodic reviews and based on their judgement sets aside specific provision for doubtful advances. The provision for doubtful advances is made to the satisfaction of the auditor after considering present value of realisable security held by the Bank in respect of such advances and other related factors
- Advances are stated net of bills of exchange rediscounted and specific provision in respect of doubtful debts. The general loan loss provision has been included under 'Current Accounts and Contingency Accounts' etc.

Premises, Furniture and Fixtures etc.

Premises, furniture and fixtures including vehicles and equipment have been valued at cost less depreciation. Depreciation has been provided on straight line method at the rates specified by Head Office

I) Income Recognition

- Interest income is recognised on accrual basis and in the case of non performing advances the same is recognised on recovery and settlement
- Commission and fees are treated on accrual basis except front ended commission on letters of credit which is fully accounted as income on receipt

G) Staff Benefits

Liabilities in respect of retiral benefits to employees are provided for by payments to duly recognised Gratuity Fund, Pension Fund and Provident Fund. The amounts of payment to the funds except for Provident Fund are determined on the basis of actuarial valuation

H) Net Profit

- The net profit disclosed in the profit and loss account is after
- (i) Provision for taxes on income in accordance with statutory requirements
- (ii) Provision for doubtful advances
- (iii) Adjustments so as to value investments at lower of cost and market value,
- (iv) Other usual and necessary provisions

2 HEAD OFFICE RESERVE ACCOUNT

Head Office Reserve Account comprises of

- Capital amount of Rs 2 000 000 00 brought in from Head Office in compliance of Section 11(2)(a) of the Banking Regulation Act 1949 and
- The funds remitted by Head Office in DM equivalent of Rs 86 322 178 41 together with a portion of approved irremittable surplus for the year 1987 amounting to Rs 2 153 459 00 retained by the Bank to meet the cost of acquisition of residential and bank premises at Bombay and to meet the deposit advance rent of bank premises at Delhi as per the Reserve Bank of India's guidelines

4 The previous year's figures have been regrouped/rearranged wherever necessary

See our report attached to the Balance Sheet

For A. F. FERGUSON & CO.

Chartered Accountants

F. N. INVERI

Partner

Mumbai, 30th May, 1991

H. PRESE
Chief Executive Officer (India)

B. KRISHNAN
Controller

Deutsche Bank AG



(INCORPORATED IN THE FEDERAL REPUBLIC OF GERMANY WITH LIMITED LIABILITY)

Schedule of particulars of advances annexed to and forming part of the Balance Sheet as at 31st March, 1991

| 31.3.90 Rs. | 31.3.91 Rs. | | |
|----------------|--|--|--|
| 917 144 985* | (i) Debts considered good in respect of which the Banking Company is fully secured 1 238 494 542.21 | (v) Debts due by the Directors or Officers of the Banking Company or any of them either severally or jointly with any other persons 4 172 941.94 | |
| 572 286 494 | (ii) Debts considered good for which the Banking Company holds no other security other than the debtors' personal security 438 097 868.51 | (vi) Debts due by companies or firms in which the Directors of the Banking Company are interested as directors, partners or managing agents or in the case of private companies as members NIL | |
| 454 955 695 | (iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors 55* 887 727.0 | (vii) Maximum total amount of advances including temporary advances made at any time during the year to Directors or Managers or Officers of the Banking Company or any of them either severally or jointly with any other persons 4 348 762.10 | |
| 0.00 | (iv) Debts considered doubtful or bad not provided for 0.00 | (viii) Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the Directors of the Banking Company are interested as directors, partners or managing agents or in the case of private companies as members NIL | |
| | | (ix) Due from Banking Company NIL | |
| 1 944 387 174 | 115 480 117.0 | | |

* (Includes Rs. 223 054 351.79 (Previous year Rs. 227 109 725.70) in respect of which charges are to be created)

Auditors' Report on the Accounts of the Indian Branches of Deutsche Bank, A.G., Under Section 30 of the Banking Regulation Act, 1949

We have audited the attached Balance Sheet of the Indian branches of Deutsche Bank A.G. (Incorporated in the Federal Republic of Germany with limited liability) as at 31st March 1991 and the Profit and Loss Account of the Indian branches of the Bank for the year ended 31st March 1991 annexed thereto.

The Balance Sheet and Profit and Loss Account have been drawn up in accordance with the provisions of section 29 of the Banking Regulation Act 1949 read with provisions of section 211 of the Companies Act 1956.

We report that:

- (1) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit and have found them to be satisfactory;
- (2) the transactions which have come to our notice have been in our opinion within the powers of the Indian branches of the Bank.

Bombay 30th May, 1991

- (3) in our opinion proper books of account as required by law have been kept by the Indian branches of the Bank so far as appears from our examination of these books;
- (4) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
- (5) in our opinion and to the best of our information and according to the explanations given to us the accounts together with the notes thereon give the information required by the Companies Act 1956 in the manner so required for banking companies and on such basis the Balance Sheet gives a true and fair view of the state of affairs of the Indian branches of the Bank as on 31st March 1991 and the Profit and Loss Account gives a true and fair view of the profit of the Indian branches of the Bank for the year ended on that date.

For A. F. HARGISON & CO
Chartered Accountants

F. N. PAVRI
Partner

The Ethnographer and the People

Reflections on Field Work

Vinay Kumar Srivastava

Once it is agreed that a society should be studied as a whole for contextualising a specific problem, field work for the ethnographer becomes an experience of undergoing nativisation in a different culture, with a different set of people. In such situations an episodic narration of encounters with respondents and the actions they carry out 'naturally' is a matter of anthropological reflexivity which an ethnographer should undertake in order to identify the impediments in the process of doing field work, to describe the strategies adopted for establishing relations with the people and, above all, to outline the process in which the self is comprehended in the background of the other. This paper is such a narrative reflection on field work in Baiga Chak in the Satpura region of Madhya Pradesh

[This paper is published in two parts. The second part will appear next week. References are appended to part two.]

CLIFFORD GEERTZ [1988: 82] makes a distinction between 'anthropologist as pilgrim and as cartographer'. As pilgrim, he journeys through, invariably for more than a year, the nuances and matrices of a culture, usually different from his own. Imbibition of the 'other culture' is an experience—a conscious experience of being enculturated—and a key to comprehend an emic view of the people. As cartographer, the anthropologist's task is to 'collect data', which, after being sifted and analysed, yield the picture of a society the way it is organised and endures over time.

The distinction between these two roles—of pilgrim and cartographer—is heuristic, because the ethnographer, both in the field setting and outside, oscillates between them [Geertz, 1988: 82]. Experiences of pilgrimage in the 'other culture' are recapitulated to effectively support a case [Carrithers, 1988: 20], and they have implications for the cartographic work, of data-collection, and for an adequate explanation of the facts.

Though data-collection seems to be a mechanical work of skill—identifying the variables of study, formulating an interview guide and observation schedule, preparing a questionnaire and administering it, if the situation demands, as a schedule, collecting case studies, preferably of extended variety, each of its steps is conditioned by the paradigmatic axis occupied by the ethnographer. Is the culture under study treated as a soulless entity? Are the people 'subjects of study', very much like the subject matter of other positive sciences? Does the ethnographer take a humanistic stance in approaching the people, involving them fully in the enterprise of learning? Does he take up the role of an interventionist, educating the people, distributing the efficacious modern medicines, helping them in their dealings with bureaucracy, or taking up their cause with the local government?

All these questions pertaining to the intellectual stance the ethnographer takes in the field, and the paradigmatic position he adheres to, are of alarming significance in intensive field works; they may not be of such significance in survey researches. Intensive field work, notwithstanding the specific problem it aims to investigate, is all-

encompassing in the sense that each piece of information is gathered by the ethnographer, although it may not deserve a respectable place in a problem-oriented ethnographic writing.

Once it is agreed that a society (or a community, as the case may be) should be studied as a whole—where holistic ethnography occupies a frontal place—for contextualising (or locating) a specific problem, the responsibility of the ethnographer increases. Since there is no substitute to observation, he is required to stay for a considerable time with the people. More than data-collection, field work becomes an experience of undergoing nativisation in a different culture, with a different set of people.¹ Personal accounts of such experiences are recorded in the ethnographer's diary, which may be called for substantiating a case or observation. At a higher level, the ethnographer comprehends his self by wayfaring the 'other culture'—we come to understand our culture ('us') much better by detouring that of the others ('them').²

Each field work is an array of encounters with respondents, and the actions they carry out 'naturally'. These encounters are not simple interview and observation sessions, as they are described in standard texts on research methodology; often, they place the ethnographer in embarrassing and delicate situations, often, they impose a structure of demands on him, and often the roles are reversed. The people may desire the ethnographer to tell them how marriages are arranged in his society, or how conflicts are arbitrated. The ethnographer, in such situations, is expected to approximate the role of 'good' informant to his 'people'.

An episodic narration of these encounters is a matter of anthropological reflexivity which an ethnographer should undertake to identify the impediments in the process of doing field work, to describe the strategies adopted for establishing relations (often life-long) with the people, and above all, to outline the process in which the self is comprehended in the background of the other. A field diary is no substitute to the accounts of reflexivity, and so is the meshing up (or, messing up) of the diary—a highly privatised account of one's likes and dislikes not

documented with the intention of publication⁴—with the field notes—the primary material on the basis of which relations between social and cultural facts are drawn.

In line with anthropological reflexivity, this paper is a reflection of a field work, consisting of a sequence of encounters with the key respondents and the 'officials' of the field area. The anthropological implications of each encounter have been briefly discussed. No pseudonyms have been used in the text.

II

In November 1987, I accompanied the MSc final anthropology class for a field work, carried out as part of the curriculum, to Baiga Chak, a reserved forest area of the Satpura range, in Mandala district of Madhya Pradesh.⁵ Baiga Chak is famous in the history of Indian anthropology. It was for the people of this region that Verrier Elwin [1939: 511-21] proposed his—what some would call notorious—thesis of physically isolating the tribal communities so that their interests could be safeguarded against the exploitative and nefarious interests of the landlords, missionaries, and other itinerants.

The suggestion for selecting this area, and its predominant inhabitants called the Baigas, came from an official of the Tribal Development and Training Institute, Bhopal. Notwithstanding the promising growth of urban and industrial anthropology and a strong movement to study one's own cultural milieu [Jackson (ed), 1987], anthropological work seems to be at home in the study of 'other cultures', in the romanticised exoticism of cultural practices surviving in some remote corner of the world [Levi-Strauss, 1984: 12-13; Stocking, Jr, 1983]. The Baigas, a primitive tribe of Madhya Pradesh, were presented to us as conforming to the anthropological ideal: we were told that since the Baigas enjoyed the reputation of 'medicine-men', 'witch doctors' and healers, one would witness 'inspirational' and 'non-inspirational' divination in them, the fast disappearing lore, and before their funeral odes are sung, they must be textualised with the minutiae of details.

Our desire to know something about the people before the 'Voyage of Beagle', remained frustrated as nothing substantial existed in print on these people, besides the oft-quoted Elwin's [1939] book. But in a span of 48 years, qualitative changes must have occurred in the life-style of these people, we argued, because of development programmes promoted and executed by the agencies especially founded to look after the interests and welfare of primitive tribes.⁶ Could a study of change, by comparing the contemporary situation of the Baigas with that of Elwin's work, with emphasis on products of change, if not processes, by resorting to dual synchronism, be an underlying theme of the study? We agreed on this, thus endeavoured to study the Baigas from 1932 to 1939.⁷ The concerned official, on whose advice we were visiting this anthropological laboratory, had promised to make all arrangements for us to stay right in the heart of the forest.

III

The relation between the self and the other characterises all anthropological field works and the analyses are presented in the least subjective and predominantly objective terms. In this 'construction' of anthropological knowledge, the self immerses in the other with a raincoat; it may get wet at places, but is largely as dry as it was. Thus the other has been 'fully' seen; the self has remained 'unaffected', and from this strategy, it is believed that objectivity can come in analysis. And this approach—which I may call 'although I'm-in-the-world-I'm-not-its-lover'—is inculcated in every neophyte under the lesson of participant observation: if an investigator, newly wedded to participant observation, complains of the inbuilt paradox of the method, he is advised to 'minimise subjectivity and maximise objectivity', as if subjectivity and objectivity were items on the family budget.

Against the utopianism of participant observation, much experienced from the experience of an inability to keep the self in a water-proof dress, in some writings there is an explicit confession that the self, rather than distancing itself from the other, becomes other-icised. The experience of experiencing the other—the process also called 'nativisation of the anthropologist'—proves to the self the existence of universal predicaments, exigencies, life-passages, and emotivities [see, Rabinow, 1977; Danforth, 1982]. To be true to scientism, the self may hide the other-ness in it, refusing to acquaint its readers of its other-isation. In the edifice of ethnography, the big hall, where the self's other is jailed, is kept sealed; if the jinn of the other is allowed to escape, it would spread the notoriety of emotions/sentiments in a scientific work, thus mushrooming its merit.

The other-ness of the self principally increases with 'I was there' facts, and is directly proportional to the time spent with the people [Geertz, 1988: 1-24]. But the condi-

tioning role of extraneous variables should not be lost sight of. Who introduces the ethnographer to the people? Who arranges his meetings with the 'key informants'? Does not the ethnographer seek permission from the local bodies of power to conduct long-term enquiry? Does not he have a file of letters from his institution/organisation certifying his credentials? Does not the ethnographer, chiefly looking for the fountain-heads of knowledge and local information, pay more respect to the chief, school teacher, policeman, village level social worker, doctor, etc, not often realising that in a community some or most occupants of these roles may be outsiders, nurturing different kinds of conceptions and prejudices about the people? One may concede that the anthropologist is a powerless 'humble' learner of society [Evans-Pritchard, 1951], but the 'functionaries' who introduce him to the field, who care for him, who supply the 'background information', howsoever jaundiced it may be, allocate the anthropologist with 'influence' (if not 'power'), which makes him 'superior' to the people. Moreover, the cultural universe he transports to the field is equally a source of 'influence': he is white, reads and writes, wears denim, a terricot shirt, coat, hat, sun-glasses, shoes, carries a medicine kit, has equipment which dissociate voice from the self, or looks from the body, and, above all, is healthy.

Thus, in every field work, there is an asymmetrical relationship between the ethnographer and the people. And a likelihood exists that these 'specialities' of the anthropologist in terms of his connections may be urged upon by the people, who may desire him to take up their individual or collective cause, mediating with the police, or revenue official, or requesting the doctor to give them 'good' or 'more' medicines, or injecting them intravenously rather than prescribing oral medicines, or helping the locals to seek jobs. The anthropologist bears the 'hardships' of asymmetry, despite being placed on a 'superior' pedestal. A defiance of these relations mars the smoothness of data-collection. Aggressively the controversial diary may be churned out, or the incidents of 'using people' and 'being used' may be kept well-cloistered in memory. The self and the other cannot remain divorced ('raincoat approach') and at the same time, the self does not merge with the other mainly because of the fact that it is discovered in the company of the other ('communion approach'). But there persists an incessant struggle between the self and the other, where the former is defined and redefined as the latter unfolds its complexities. All this is rooted in a stratified situation, where 'structural visibility' of the anthropologist's stratum is highly vulnerable to the local demand situations.

IV

The field party—half fear-stricken, half dreamy—was received at Jabalpur railway

station (before noon) after a journey of sixteen hours, by the boisterous and energetic go-between, the official from the tribal institute, and his entourage. We were told of our appointment with the commissioner, Jabalpur division, who happened to be an anthropologist, having earned a doctoral degree by writing a text on Abuj Marias, another primitive tribe of Madhya Pradesh (Bastar district) and another hunting ground of Verrier Elwin. The students in the field-party, were given respite for an hour to freshen themselves, while the field supervisors were taken to meet the commissioner.

The commissioner, being an anthropologist, had a dutiful fascination with ethnographic specimens. As his earlier training was in geology, he loved fossils. The colonial architecture of his bungalow was here and there decorated with material cultural equipment and fossils. Truly committed to anthropology, he said that then existed more than four hundred scheduled tribes in India, each falling in one or the other development scheme, but it was ironical that a significant number of them had never been studied, and those studied—mostly from an ethnological perspective—in the colonial times by the British and Indian anthropologists were not touched upon after the independence. He was right for the Baigas our text was of 1939. Ethnographic traditions waned especially with the emergence of problem-oriented studies (touching smaller spheres of socio-cultural life), and so did the tradition of traversing far-off areas, often involving a difficult journey, in search of the people.

The commissioner talked about his experiences with the Baigas: he remembered a traditional healer (*gunia*)—named Ghoru—in Dadar Tola of Charha village.⁸ Like any anthropologist, he was picking oddments of the Baiga culture and society. "The Baiga males never chop off or cut their hair they keep tangled hair, forming some kind of a bun, on their occiput. If they ever cut their hair in traditional times, their marital chances were heavily jeopardised. Even now such a prohibition against cutting of hair continues." It was the scantily-clad Baiga, we had seen in Elwin's book, barely covering his genitals with a mud-impregnated *dhoti* and adorning his scalp with a jet-black bun that we had come to see. "Are they similar to what Elwin's monograph shows?" came an inquisitive question. "Yes! Some educated ones, whose number is very small, have changed; others are the same." Surely, socio-cultural life of the people tends to change at a lesser pace than their material apparatuses.

The students, waiting for their initiation ceremony to the ritual of field work, arrived to meet the commissioner and listen to a preliminary introduction to the Baigas and the agency established for their upliftment. The commissioner was a little disappointed to know that out of seventeen students only

being 'hard core scientists' for whom details of socio-cultural life had a peripheral meaning. The commissioner introduced the Baigas, almost in the same way he had rehearsed with us. But in this discourse, he added that every tribal community in India believed in what he called 'deluge theory', according to which the entire world was destroyed, then with 'supernatural intervention' it was re-created, and every tribe believed (and believes) that they were the first ones to have been created on the face of this world after the great catastrophe. This, perhaps, justified their claim to the physical area and resources (land, forest, water, etc.), and equally supported the anthropological label 'aboriginal' for them. The commissioner's generalisation of 'deluge theory' was yet to be tested. Perhaps he was relying on inductive logic—the Baiga theory of their emergence applied to every tribe.

V

Well before dusk, the field party left for Dindori, one hundred and sixty kilometres from Jabalpur town. The 'officials'—our 'go-between' from the Tribal Institute, the assistant project officer of the Baiga Development Agency, the research officer who had a cyclostyled manuscript on the Baigas in Hindi to his credit, an artist and a photographer—accompanied us, for they were to introduce us to the local community. The research officer had travelled the area several times, knew the local people and the key informants. With the jeeps and the bus plying on winding, steepish and sloppy roads, the weariness of field expedition was visible on our dusty faces. In the jeep carrying the 'crucial' and 'important' people, the discussion was on "Why Indian anthropologists do not carry out field work in these virgin zones, which offer immense potentiality of checking and cross checking their grand theories."

After a couple of hours of journey, I started having nausea and headache, thus temporarily withdrawing from the discussion, and was eagerly waiting to reach Dindori. As soon as we reached our destination, I jumped out of the jeep to look for a chemist's shop where I could buy a Metoclopramide tablet for arresting the symptoms, as our medicine kit was locked up in one of the equipment boxes. At the shop, like the general informality of Indian society, a man talking to the chemist asked me about the purpose of my visit. Since informational channels are closely knitted in small towns, it is difficult to either evade a question, or tell a lie. When the purpose of visit was disclosed in exceedingly simple expressions, making use of local categories and phrases, this man gave what he thought to be genuine and practical advice. "Why go to Charha? It is very cold there. Nothing is available. You should speak to the Patwari. He will send a message to the Baiga villages. Five-six of them will come here, and you ask

at every piece of advice, I was preparing to leave the shop as soon as he stopped talking. It was difficult for me to introduce him to our aim of 'studying' people in their 'natural' setting. Although it was night, quite a few had come to know about our arrival. Our roles were variously interpreted: we were likened to the medical research people from the ICMR (Indian Council of Medical Research) who periodically visited Baiga Chak to conduct health surveys.

Anthropological field work is always a matter of 'pub' meetings: every field worker, after accomplishing the 'crusade', ceaselessly repeats what it meant to be with the people. And 'oddments' of culture are picked—like, my people are polyandrous, or, drink soup of toad's limbs, or the women in my community are unusually lax about sex norms, or, the human skulls hunted by the people at one time are now kept in the local museum, or the women sing wedding songs in closed rooms and these songs have intense sexual reference. There may often be, in these conversations, scientifically inexplicable stories of black magic, primitive nosology, and cases of possession—to be narrated, with or without analysis. Hardships are romanticised, if an ethnographer does not fall ill in his field work expedition, the audience may doubt its veracity. "How could it be possible that if the people were infected with guinea worms, you did not contact them?" Since the neophytes had to be introduced to the essence of anthropological discourse, and also to help them gather the otherness that might form their contribution to the 'pub' talks, it was imperative for the teachers not to yield to their request of studying the town of Dindori. We were looking for the other and its otherness—something which came in Elwin's celebration of 1939.

VI

After a suitable rest at Dindori, the field party left for Charha, the first electrified village with some urban-like facilities, the beginning of the Baiga abode. Eighty kilometres from Dindori was the township of Bajar, administratively falling in Dindori tehsil. The officials in the block development office of Bajar were waiting to receive us, as a message about our trip had reached them. It was on the lawns outside this office that we had our first sight of Baiga men, who squatted in a circle and were talking softly. After the entire party had settled down in the office, I came out on the lawns to talk to the Baigas. One of the people working in this office, thinking that I—the 'sahib'—might be looking for something, came with me. "Sir, they are all Baigas. And those sitting there," he pointed towards another group of men sitting in the other corner, "are the Gonds. In some villages, the Baigas and the Gonds live together", he said as we walked towards the Baiga group, "but the Baigas have their own hamlet, generally

with their Gond neighbours. The Gonds are *kusan* (peasant), they are rich, they have progressed, but the Baigas are where they were earlier."

We reached the place where the Baigas squatted. They all stood up, greeting us with the Sanskrit salutation, which cuts across diverse socio-cultural situations, 'Ram Ram'. I needed them more than the official folding my hands, I responded to their salutation. The official—displaying the 'power' he had by working at the seat of power of that township which had under its control many Baiga and Gond villages—did not care to repeat the godly name. It was condescending for him to fold his palms before his 'subordinates'. A display of power is that when people salute you, you remain indifferent to both their salutation and their presence, at best, if you have a 'soft heart', or you know the people well, or they serve your needs or get you votes, you may recognise their presence. Your palms are eternally folded, or are clasped with arms stretched out and set below your navel, before your seniors, because they decide your *locus standi* in bureaucratic hierarchy, or your transfer to 'wretched places' away from your family. This 'official', like most others in tribal zones, considered the people *jungly*—holding the thick and involuted bun of one of the Baigas, he told me, "This is their characteristic mark." Out of the great humanism all anthropologists acquire by internalising the thesis of cultural relativism I reprimanded him for doing that and requested him to leave us. He had no option but to apologise for his action, leaving the scene a disappointed man.

A sign of relief did come after the departure of the interfering radical, but I immediately realised that I was not being looked at as a 'common ordinary man'. I was block development officer (BDO)'s 'man', perhaps 'superior' to him in certain respects because I enjoy the patronage of officials who determine his positional fate. The BDO shakes hands with me, he offers me a seat in his office, and when I have taken my seat he makes himself comfortable, his 'powerful' assistants serve me with tea and biscuits. And, moreover, I am different from the people in terms of ethnic group and dress. I speak the language of domination—bureaucratic and official language—and I hail from the centre of domination, which decides the lot of the peripheries.

"Why have you come here, sahib?" I found it extremely hard to answer this question, except for saying, with as much humility as possible, "I have come to live with you, to know how you live, how you have a family, how you worship your gods, how you settle disputes, etc." The Baigas were quizzically looking at me. The sorcery of anthropological work, presented in simple terms, aroused no conviction in them.

"From which village do you come?" My question was too general. They all came

from different villages of Baiga Chak and Bilaspur. In Bajag, Thursday was the market day. Being the only nearby township to Baiga Chak, the market was a big one with a large number of merchants coming from different areas, and it attracted a large 'colourful' crowd of buyers and visitors.⁹ On Friday, the crowd of the 'sellers', 'buyers', and 'visitors' assembled at Charha, 18 km from Bajag, the heartland of Baiga Chak. Saturday was the market day at Dhurkuta, ten kilometres from Charha, and on Sunday, it was at Pandaripani that they met. It is not that the crowd of 'buyers', 'sellers' and 'visitors' remained the same on all the market days, as spatial distance conditioned the movement of the people. One would find fewer people from Dhurkuta, for example, in the Bajag market, but the fact that the market provides one of the strongest information channels and a mechanism of transmission of messages is undisputed.

The Baigas with whom I was sitting had come to the market not especially to buy or sell any commodity—at the most they purchased a few bundles of *bidis*, some sweets (*Jalebi*), combs (*kakai*), etc. They came with the sole purpose of visiting the market—almost a fair—and if they met their relatives and friends, they exchanged news pertaining to their and neighbouring villages. Feeling that I might have intruded on the privacy of their conversation, I got up, saluted them and left, promising to meet them again in Baiga Chak. When I returned to the BDO's room, an 'official' of our party cut short my enthusiasm, "You seem to be in a hurry. In Baiga Chak you'll see hundreds of them, to the extent that you would be fed up of their presence." I was instantaneously reminded of Malinowski's *Diary*.

VII

Eighteen kilometres from Bajag was Charha, where we were to be stationed. Passing through the sandy levelled, motorable road, through the thick forests of Madhya Pradesh, it was a pleasant journey. The 'gate' to the Satpura forest range was aptly embellished with a large stone tablet on which certain stanzas from Bhawanji Shankar Misra's Hindi poem titled *Satpura ke lungal* ('The Forests of Satpura') were enshrined. These stanzas stressed the importance of forests in our economic, social, cultural, and aesthetic life, and vehemently condemned their destruction. The extraneity which gives birth to poetry is nature, the extraneity with which human beings seek relationships of dependence, subordination, and supremacy is nature. "From here it seems that this is a dense forest, but when you go inside you find that massive deforestation has taken place. Illegal felling of the trees has gone on under the nose of the forest officials. Laws must be made stricter to deal with the situation of deforestation," came the much-voiced suggestion from one of the 'officials'. But should not one try to combat the rat-race of consumerism which

is plaguing the Indian society, especially in the background of an endemic shortage of resources? To blame the tribals for destroying forests as a result of shifting cultivation is a naive and myopic way of looking at the problem of deforestation. The consumer patterns, generated in urban contexts, recklessly demand the resources, concentrated in tribal and rural areas, which denude the forests, on the one hand, and precariously expose its dwellers to several strands of exploitation, oppression, and proletarianisation, on the other.

VIII

It was around five in the evening that our bus and the jeeps reached Charha. Various 'functionaries' of the State government in this area, were well prepared to receive us. With concrete structures discreetly spread in the landscape, the area hardly gave the impression of an Indian village, generally an indisciplined conglomeration of mud and thatch habitations. We quickly learnt that Charha village, and its Dadar Tola—where the Baigas live—was up on the hills. At the foothills was the complex of facilities that the government had planned for the benefit and 'upliftment' of the people, and for the care and preservation of the forest.

To begin with, there were primary, middle, and secondary schools, with a hostel for the boys. In front of the big hall of the school complex, there was a wide, uneven ground with a net fixed on one of its corners for volleyball game, and to its right was a big pole with a swing—a characteristic of Baiga villages—and this was believed to ward off all villainous spirits. On the left side of the road, there were concrete houses for the teachers. The school complex was electrified, but not the teachers' accommodation. As we proceeded further, there were some houses for the deputy ranger (forests) and the guards working under him. The village had a dispensary, and was supposed to have a doctor, a pharmacist (locally called 'compounder'), and a nurse. But we learnt that the doctor had resigned, because he was not being transferred to a better place, and the new incumbent had not come for quite some time. The pharmacist was on leave, away to his native place and the dispensary was being looked after by a nurse, who lived in one of its parts with her less-than-a-year-old son. Her husband worked in a different town.

Moving further, there stood a beautiful model of a Baiga hut, with attached toilets to its room. Alas, the yawning gulf between the 'model' and the 'reality' the Baiga could not have afforded the luxury of such a hut. Close to it was the road, built by the forest department, leading to Dadar Tola. And then came the forest guest house. In front of this complex, across the road, lay the *maidan* where the Friday market fair took place. We could see stilted structures with canvas coverings, giving an idea of how the shops would be dispersed when the traders arrived. Near the road was the nullah of

Burmer river—here the people bathed and washed their clothes. Around a hundred yards from the market place, on the right, was the village well, and the people were advised to draw drinking water from it, rather than from the river. On the right of the market site, there stood an old dilapidated temple of Lord Shiva.

The functionaries in these areas, who generally belong to petty levels of hierarchy, have two duties to perform—firstly, the skill for which they have been selected to work in bureaucracy, and secondly, but most importantly, to 'look after' the visitors, who generally are 'big' officers, professionals, and, sometimes, the anthropologists. The last cannot have access to people in Reserved and Protected areas unless they are filtered through the bureaucratic apparatus; the approach—I pitched my tent in the centre of the village¹⁰—ideally to be adopted by the anthropologists, may not be feasible in most field situations. It is not always the case that the anthropologist comes with the 'officials' who settle him locally, but may bring with him a string of letters, or some phone calls may precede his arrival, which do the same magic of determining his station in the hierarchy, and also 'whose side he will be on'.

These 'functionaries' in remote tribal regions are generally the outsiders: the principal of the school was from Allahabad, the headmaster was from a town in Madhya Pradesh, the husband of the young nurse worked in a different town, the doctor was too attached to his native place to leave it for a tribal posting. And they all wanted to leave, they wanted posting to their home town, or 'better' places. Transfer to a tribal place, that too far-off, is interpreted as some sort of a 'punishment', to some it is a kind of demotion. How can they get a transfer to 'better' places? By boot-licking all kinds of officers, not necessarily of their own department, and the anthropologists are constrained to fall into the latter category.

In a country, where primordialities of caste, religion, region, language, kinship, and friendship affect the system of formal organisation, the most effective way to get things done through bureaucracy is to invoke one or the other primordial loyalty. Along with this, it is also believed that the officers are 'pleased' not by your work, but by the quantum of devotion rendered to them linguistically (by calling them 'Sir' or 'Madam', as the case may be, at the beginning and the end of a sentence), economically (by looking after them, serving them non-vegetarian food—particularly chicken—and arranging to give them a gift, often individually, when they leave), and socially (by giving them a patient listening, standing in the most obedient posture, never contradicting them, praising them even when they make common, and often stupid, conversations). Therefore, it was not surprising that when we had supper with the 'officials', the principal was trying his best to serve us there.



STATE BANK OF HYDERABAD

ABRIDGED BALANCE SHEET AS AT 31ST MARCH 1991

| CAPITAL & LIABILITIES | | 1989-90 | 1990-91 | PROPERTY & ASSETS | | 1989-90 | 1990-91 |
|---|--|-----------------|-----------------|--|--|-----------------|-----------------|
| 1. Capital: Authorised | | 50,00,00,000 | 50,00,00,000 | 1. Cash | | 284,84,73,373 | 425,13,31,632 |
| Issued, Subscribed and Paid up | | 17,25,00,000 | 17,25,00,000 | 2. Balances with other Banks | | 11,82,95,584 | 12,23,55,269 |
| 2. Reserve Fund & Other Reserves | | 19,34,00,000 | 30,45,00,000 | 3. Money at call and short notice | | 150,00,00,000 | 125,00,00,000 |
| 3. Deposits & Other Accounts | | 24,33,56,21,982 | 28,35,24,59,053 | 4. Investments | | 841,55,92,463 | 951,58,63,713 |
| 4. Borrowings from other Banks' Agents etc | | 83,97,74,753 | 119,90,72,051 | 5. Advances | | 1393,58,69,915 | *1627,14,94,130 |
| 5. Bills Payable | | 123,65,22,091 | 127,31,37,642 | 6. Bills receivable being bills for collection per contra | | 129,99,448 | 102,50,71,611 |
| 6. Bills for collection being bills receivable per contra | | 129,99,95,448 | 102,50,71,611 | 7. Constituents Liabilities for Acceptances, Endorsements & Other obligations per contra | | 393,27,45,641 | 224,28,96,982 |
| 7. Other Liabilities | | 189,04,00,433 | 192,23,95,316 | 8. Premises Less Depreciation | | 4,58,93,846 | 5,26,66,288 |
| 8. Acceptances, Endorsements and other obligations per contra | | 393,27,45,642 | 224,28,96,982 | 9. Furniture & Fixtures Less Depreciation | | 4,90,52,482 | 5,99,19,972 |
| 9. PROFIT & LOSS. | | | | 10. Other Assets | | 175,44,20,714 | 169,98,05,634 |
| Balance B/F from last year | | 31,035 | 69,853 | 11. Non-Banking Assets | | 6,90,736 | 6,73,210 |
| Profit for the year | | 5,80,38,818 | 8,50,75,933 | | | | |
| Amount transferred to Reserve Fund & Other Reserves | | 5,80,69,853 | 8,51,45,786 | | | | |
| | | 5,80,00,000 | 8,51,00,000 | | | | |
| | | 69,853 | 45,786 | | | | |
| TOTAL | | 3,390,10,30,202 | 3649,20,78,441 | | | 3,390,10,30,202 | 3649,20,78,441 |

* excludes advances of Rs 23.50 crores shared out and includes advances of Rs 10.00 crores shared in with other banks by way of Participation Certificates.

is another belief in the Indian culture, if the officers (or the guests) 'over-eat', they may turn favourable. In spite of the warning signals issued by our stomach, the principal and other hosts were begging us to 'devour' more and more. One of us said, "Please don't insist, we may get an upset stomach." There came a ready-made reply, "Please don't worry, the entire jungle is 'available'." Alas, the forest was reduced to a defecational site. A few days later, my other colleague and I were approached by the local 'functionaries' to help them in getting a transfer from the 'lonely' Charha—the Charha devoid of 'facilities', the 'poor' Charha, 'undeveloped', 'lacking the glamour of a town', and, above all, 'inhabited by the primitives'.

IX

At night, there came a revelation. The research officer, who had travelled in the area earlier and prepared a 'shred and patches' kind of a monograph on the Baigas in Hindi, said that one of the people who worked with Verrier Elwin, when he again went to Baiga Chak in 1939 after the publication of his *The Baiga*, lived in Dhurkuta village. We were advised to engage him as guide and interpreter on a regular payment basis in case we faltered in understanding the Chattisgarhi dialect. Besides sucking his help when the need arose, I thought it would be profitable to interview those locals who had worked with the anthropologists, for this might throw light on how the data were actually collected: how the anthropologist behaved in the field; how was he looked at by the people; what kinds of weaknesses he had; what was his relationship with local men and women where he actually lived. All these facts have bearing on data collection and writing of an ethnographic report. Particularly I thought, it would be fascinating in Elwin's case, since we had found a person who was Elwin's companion in his sojourns.¹¹ Elwin's love for the tribals of India was undisputed. He wrote detailed monographs on various tribal societies after having adopted them,¹² he also married a local tribal girl, Kosi of Karanjia and after the tragic divorce, he married a Pradhan girl, Ila of Patangarh [Elwin 1964: 138].

The first item for the next day's agenda was to visit Dhurkuta, and engage Raghunath Das Panka, Elwin's informant, for our field work. Lest Raghu left for his field or became involved in some other work, it was imperative for us to leave for his village—about 10 km from Charha—early in the morning. Kudos to the forest department which had constructed a jeepable road, but the local characteristics in terms of gradients and climbs could not be altered significantly, the maximum speed a jeep could pick up was about 10 km an hour.

On the left side of the road, about four kilometres from Charha, lay the Baiga village Tantar. Close to the roadside entry point to this village, some forest guards were

making payment to the local men for their services to the forest department. Installed therein was a handpump where some women were waiting for their turn to fill their utensils with water. The 'officials' thought to halt there for a while. "Are they all Baigas?" an 'official' asked the forest guards. "Yes sir, they are all Baigas. Notice their tangled hair. The Gonds don't keep long hair, tied like this", the Baiga hood was reduced to 'keeping the bun'. The 'official' in a hurry to perform the harrowing initiation ceremony to field work, asked one of my students to take their pictures. "Stand up, come together", the forest guard ordered the Baigas. Young and old all stood up, there was no respect for the age, or the people, the Baiga hood was caught in colour roll. Like museum specimens, where dorsal and profile views are equally important, the Baiga men who had already offered their frontal view were ordered to 'turn about', so that their backs showing the tangled hair could be captured with our cameras for our museums and discourses, and slide shows. For the students the initiation ritual was horrifying. For those critical of the guinea pig treatment of people for anthropological, scientific and quasi-scientific works, it was shocking. It was a display of extraordinary power the 'officials' had on the people. The people remained silent sufferers of humiliation and abject disrespect that was meted out to them just because they were poor tribals, depending on the doles given to them by forest department and the government. The villages they lived in were 'forest villages', and not the revenue ones, and thus, were at the mercy of the forest officials.¹³

I was silent. The only *zweckrationalitat* that struck me was that in case I protested—in favour of the people—I would be spoiling our relations with the 'officials', and if they turned away, they might become nasty to the extent of turning the people against us. After all the people eked out their livelihood by remaining dependent on the 'officials' what could we anthropologists give them in terms of material aspects of life?

Along with this, we are taught that an anthropologist observes the natural behaviour of people, he is not an 'interventionist'. His role is to observe and record (as meticulously as possible) the human behaviour and cultural apparatuses the people have. An implication of this is if the forest officer beats the people by tying them to the trunk of a tree, you please do not stop him, but record why he is being beaten, with what is he being beaten, what kinds of abuses are being hurled at him, how the victims are weepingly apologising, who are the people witnessing this 'coercive display', etc. And if the people are suffering from diarrhoea and are singularly dependent on shamanistic treatments with no effects, this is the right time for you to make an extended case study of the sick. In case you suffer, god forbid, from the same ailment, very quietly consume a couple of furazolidone and metranidazole tablets, you are perpetually healthy because

you have done a detailed course on 'how to survive in the field', and after the training you emerge in charge of your body. Why not such courses—how to survive in field—be given to the people who actually constitute the field so that they know how to survive in it? And in case you intervene, either by challenging the authority of the forest officer, or by generously distributing anti-diarrhoeal drugs, you antagonise the seat of power, or change the course of 'natural' processes and events. As an interventionist, you cease to be an anthropologist, you become 'something' else—a 'social worker', a 'revolutionary', the 'leader of the people'. My quietness when the Baigas were being caught by the camera aperture was painful to me, I was helpless.

But when we came back to the jeep, I conveyed my protest—worded mildly—to the senior most official. He quickly understood my point and tendered an apology. "This will not happen in the future." Apology was not enough: what happened before us was simply the blade of a leaf of the thousand-year old banyan tree. I do not remember the journey from Tantar to Dhurkuta, the thoughts which strike every anthropologist—perhaps temporarily—about human inequality were enfolding me. If, today, we write about how people are being treated by the 'officials', and what they think about these seats of power, and if the 'officials' come to read our accounts, they might tighten their noose around the people's throats. Are we not exposing the 'powerless' people through anthropological work? The thought of meeting Elwin's informant returned to me as we reached Dhurkuta.

The message of our proposed visit had reached the village much before we arrived. At its outskirts was the school, an appropriate place both for the 'officials' (to display their power) and the anthropologists (to effectively communicate the aim of their visit). We were greeted with a welcome song, one of the teachers—the first Baiga of Baiga Chak (Dhurkuta village) to have been educated and absorbed in the education department—guarded us to a small rostrum, having chairs and benches, perhaps prepared to welcome 'officials' and visitors. The other teacher (a woman of Panka—the weaver caste) went to a small hut in front of the school to prepare tea for us. Budh Singh Maravi—the Baiga teacher—started telling the 'officials', with boundless humility, about the school, the performance of his students, the non-existence of various facilities, in a nutshell, about the hard circumstances in which the school functioned, nevertheless it produced promising results.

The message for Raghunath Das Panka was sent. And there came a thin man clad in a soiled *dhoti* and banian. He seemed to resemble the medieval poet of Bhakti cult, Kabir. What a coincidence—Raghu belonged to the Kabirpanthi (followers of the cult of Kabir) branch of the weaver (Panka) caste. He was old, but definitely not as old as we thought him to be. Speaking chaste Hindi,

ornamenting his expressions with Sanskrit words, he definitely looked educated. Yes, he was educated till fourth standard; had visited quite a few small and large towns of Madhya Pradesh; and besides Elwin, he had also worked with one P C Ray of the Anthropological Survey of India for six months from February 7, 1956. He started his discourse with the following reminiscences:

"P C Ray reached Dhurkuta on February 6, 1956. He came on foot from Bajag. His luggage was brought by some labourers. In those days, the daily wage of a male labourer was twelve annas (seventy-five paise); the women were paid eight annas (fifty paise).

The next day, he called me. I went to meet him at the forest guest house. Everyone was afraid of the forest employees in those days... He started asking me about Elwin... He gave me a letter written for me by Pal, the ranger at Dindori, which said that I was to do whatever work Ray and his team expected from me, and I would be paid Rs 25 per month. I happily accepted the offer. From the next day, I would sit with Ray Sahib from morning, eight O'clock, help him in taking to the Baigas—translating the Baiga language into Hindi, and vice versa. A few days later, Ray Sahib asked me to collect the healing and exorcising procedures (*guniyai*) of the Baigas. I took some notebooks from Ray Sahib, and went to Gotam Baiga of Dhurkuta. Gotam was also called by the name Vandara. He was very old, 80 years or so. Gotam was not prepared to tell me the *guniyai* spells. I spent my own money and bought a bottle of liquor (*daru, sarab*) for him. These Baigas, you will come to know, do not tell anything unless you offer them *daru*. Because I neither drink nor ferment liquor, I had no option but to buy a bottle for Gotam... I spent eight days in writing the *guniyai* rituals... in total, they covered six notebooks... then I read them out for Ray Sahib... It took three days, three hours each day, for a complete recital. Ray Sahib was very happy and he gave me an *inam* (prize) of Rs 25. Ray Sahib wanted to see the tattooing rituals. I took him to Sukhiya Baigin, who told him everything about tattooing. He was also keen to observe a Baiga marriage. We arranged the marriage of Chikhu Baiga for which Ray Sahib offered Rs 500. Ray Sahib was very pleased with me... My salary was raised to Rs 120... Was not Raghu an anthropologist in the making? He told me, "If you want anything to be written on these Baigas, I shall write it for you. I know their whole life. I have lived with them".

Raghu was the chairman of the Baiga Chak Samiti (Association of Baiga Chak). He lived in a village which was predominantly of the Baigas. Being the chairman he was called by the people to settle their disputes, mainly arising out of elopement and extra-marital sex. Having worked with two anthropologists, he had an idea of the sort of information we people needed. "Sahib, please write down. These Baigas are divided into twelve *gotra* (clans) and thirty-two

joti (castes)", his ethnographic lecture began with a systematic note. I explained to him that what we wanted was not what Raghu knew about them. "We want to live with the Baigas of Dadar Tola, and talk to them. We would highly appreciate your joining us if you are not too busy and you may leave us whenever you want." Since Raghu had entrusted his sons with agricultural duties, he was happy to be with us, and was ready to leave his village that very day. While returning, Raghu was sitting next to me, and I was smoking *bidis*, abandoning my cigarette packet for the rest of stay in Baiga Chak. The 'officials' directed us to pay Rs 10 per day to him, as per the wages of the daily labourers. But Raghu was not a 'labourer': he was the 'comrade-in-arms' of the anthropologists.

The 'officials' were preparing to leave, and we had started heaving sighs of relief. But, we were told that since it was the forest area, various forest officers might visit it: so, our liaison between the 'people' and the 'officials' would remain ceaseless. The senior-most official, who had realised my sentiments in Tantar, repeated his apology, "I am extremely sorry for the Tantar incident. As an anthropologist, I subscribe to the truth that all human beings are equal, and we have no right to humiliate people just because we happen to be advantageously placed. I have done my field work with the Kamars (of Raipur district, Madhya Pradesh) and I have seen their poverty. Their number is decreasing. In lean periods, they have nothing to eat, not even rats. But, you know, if, on the one hand, I am with the 'people' as an anthropologist, on the other, I am a bureaucrat. Sometimes the bureaucrat in me and its 'power intoxication' manifests itself. But it will not happen again." The anthropologist realises the notion of equality; the anthropologist-administrator has to combine, often paradoxically, two roles. But 'power' emerging from an alliance with bureaucracy and/or urbanity of the anthropologist runs through the entire field work. The anthropologist is 'superior' to the people, if not in anything, at least in the 'power' of discourse.

(To be concluded)

Notes

[I am thankful to Caroline Humphrey, my supervisor, Christopher Pinney, Stephen Hugh-Jones, Piers Vitebesky, and Declan Quigley for going through this paper, and making valuable suggestions. I acknowledge the help of Surinder Nath and my students, Poonam, Priti and Sreedevi, during our stay at Baiga Chak. I am indebted to Kumkum Srivastava for editing the manuscript.]

1 Malinowski (1922). In recent writings also, 'total immersion in the community' of study is described as cardinal to anthropological work; Gellner (1988: 26), for example, writes: "The future (of anthropology) seems to me to lie in a frank return to the old theoretical issues, pursued with a determination to maintain that high level of empirical co-scientiousness established by the Bap-

tist (total immersion in the community) school of fieldwork".

2 See, Rabinow (1977: 5).

3 What I have in mind here is the usual, culturally constituted behaviour, unaffected by the 'reactivity syndrome'.

4 The famous diary of Malinowski (1967), which created furor in anthropology, was not written to be published. An unfortunate consequence of its publication can be envisaged here: ethnographers might not express their sentiments and experiences and some delicate events of the field work, frankly in their diaries.

5 Baiga Chak is the name of an area which lies on the southern forest range of Mandala district. Also called Chogan Chak (the word Chogan means *maidan*), it consists of fifty-two villages, having 1,195 Baiga families with 6,943 people: the average size of a family being 5.8.

The team to Baiga Chak was sponsored by the Department of Anthropology, University of Delhi. It consisted of a teacher (Surinder Nath) and fourteen students of physical anthropology. For the physical anthropological work, a laboratory assistant was also sent. I was the field supervisor of social anthropology students, who numbered three. The latter were to collect data for their dissertations on family and kinship, women, and ethnomedicine respectively.

6 In the Fifth and the Sixth Five-Year Plans, seventy-two communities were identified as having problems like declining, or stagnant, population; pre-agricultural level; low literacy; and backwardness. They were separated from the main list of the scheduled tribes for specific programmes of development, alleviation of poverty, and safeguarding of their interests. These communities are called 'Primitive Tribes'.

7 Elwin's *The Baiga* was a result of seven years association with the people [1939: lxviii]; I would not call it 'field work', because Elwin wrote, "For me anthropology did not mean 'field work': it meant my whole life. My method was to settle down among the people, live with them, share their life as far as an outsider could, and generally do several books together. My Baiga book took me seven years, *The Agaria* ten" [1964: 142].

8 An encounter with Ghoran Baiga is described later in this article. His picture has been reproduced in a booklet titled 'Baiga' (in Hindi, on page 2), published on November 12, 1982 by the government of Madhya Pradesh, on the occasion of late prime minister Indira Gandhi's visit to Amarkantak.

9 I was reminded of the description of African markets, see, Bohannan and Dalton (ed) [1968].

10 After Malinowski's Trobriand field work (1922).

11 The name of this man—Raghnath Das Panka—does not occur in any of the twenty-six monographs written by Elwin.

12 For Elwin's publications and an appraisal of his works, see, Pradhan et al (eds) [1969]; Misra [1973]; Rustomji [1988, 1989].

13 Out of 52 villages in Baiga Chak, thirty-nine were forest villages (*vanagram*). The total population of these villages was 16,849, out of which, as mentioned before, 6,943 were the Baigas.

Women's Labour in Japanese Economy

Peter Custers

Japan has for long prided itself on, and has been praised for, maintaining a system of life-long employment with security of jobs and steadily increasing incomes. This paper, based on a month-long tour of factories and workshops, finds a systematic approach to exploitation of women's labour in Japanese capital's international offensive and the Japanese government's policies relating to women labourers.

SEXUAL DIVISION OF LABOUR IN A TOBACCO COMPANY

"I WORK eight hours per day, five days per week. The hours of my domestic labour? Those I have never calculated." Kawanosan is employed by the Japanese tobacco processing company which markets the brand-name Cabin 85. Contrary to the vast majority of women in Japan she has got a fixed job, having worked for the same company for the last 25 years. Like all other female labourers, she too carries a double burden of labour. When she returns home at 6 o'clock in the evening, after completion of a day's work in the factory, she continues to toil, until she retires to bed by 11 o'clock at night. At dawn, she gets up before 6, and by the time she leaves home to go to the factory, she has already toiled for an hour and a half. The total labouring burden of Kawanosan thus amounts to 15 hours per day.

Japan Tobacco is a company with a long history of government control. From its founding in 1904, the company for decades was ruled directly by the state. It enjoyed a monopoly on the Japanese market. And although the enterprise was privatised in 1985, its shares are still held by the Japanese government. During a guided tour of the factory, we, two Dutch journalists, are struck by the high level of mechanisation. It is only in the section where quality control of the cigarette packets takes place that work is somewhat labour intensive. Here the work force predominantly consists of women. In all other sections automation is complete.¹

The management of Japan Tobacco grants us an interview with female employees. It turns out to be a peculiar event. The men of the personnel department who are present, constantly push their own opinions, when we pose questions to the female labourers about health problems, labour conditions, etc. When questioned why women workers frequently suffer from muscular pains, Iiatsan who is the factory's nurse, responds that these are caused by "thin clothes, lack of sleep, and women's physique". When we continue prodding, she explains that the pains are due to the fact that women in the packing department need to "continuously repeat the same movements".

The atmosphere becomes heated when we table the theme of the sexual division of labour and domestic work inside the company. Kamibetsunawa draws up balance sheets at the financial department. What is her first task when she enters her office in

the morning? "Preparing tea, even before the official start of the working day. Every day I serve tea to my colleagues three to four times, and I am also in charge of cleaning the cups. In other departments too, women are solely responsible for preparing tea." Are women being paid for this? A male guide responds: "No!" One of the men gets up, and a short while later he returns with a pot of fresh tea. He says: "Tea made by women, after all, tastes better".

I will discuss the role of women's labour in the development of Japan as an economic superpower. The expansion of capital investments by Japanese multinationals abroad has been phenomenal in recent decades. Increasingly, also, the multinationals are looking towards south Asia for profits. What has been women's historical contribution to the industrialisation of Japan? How does Japanese capital elsewhere in Asia engage women to facilitate its international offensive? And what place does the Japanese government reserve for women in the country's economy? A review regarding a systematic approach to exploiting women's labour, on the basis of a one month tour of factories and workshops inside Japan.

ELECTRONIC COMPANIES POLARISATION BETWEEN WOMEN AND MEN

Let us first discuss the position of women in the electronics sector. Before travelling to Kyushu, an island in the south renowned to be Japan's 'Silicon Island', we are given details about the sector's international expansion at the headquarters of *Denki Roren*, the national trade union federation of company unions in electronics. The comprehensive government figures cited by the representative of *Denki Roren*'s research department speak for themselves. In the period from 1982 to 1988, the number of investments by Japanese electronic companies abroad has doubled, while the value of these investments has increased *five fold*. Consequently, the share of foreign production in the output of the electronics' giants has significantly expanded during the 1980s.

The external drive, further, was preceded by a 'flight', from the late 60s, to Kyushu, which island until then had been marginal to the Japanese economy. Companies like Mitsubishi and National Electronics Corporation (NEC) opened their first factory premises for the manufacturing of integrated circuits (ICs) near Kumamoto city, in 1967 and 1969 respectively. Other electronic giants followed suit. Kyushu developed into a replica of the United States' Silicon Valley,

which for years has been seen as the Mecca of international entrepreneurship. According to the study of the Japanese researcher, Fujita Kuniko, published in 1988, 44 per cent of all integrated circuits in Japan are produced on the mentioned island.² The same author states that companies prefer to employ female high school graduates in the Kumamoto prefecture, for example, they made up 95 per cent of the whole labour force of electronic companies in the early 1970s. Exploitation of female labour ensured that companies manufacturing semi-conductors could rapidly accumulate

This picture, however, has changed, and Fujita Kuniko uses the terms 'polarisation' and 'the marginalising of women' to describe recent developments in Kyushu. According to her, the sexual composition of factory personnel is no longer the same. The data she uses show that the percentage of female workers had declined to 50 per cent in 1986, the basic reason being the fact that the number of newly recruited male employees by far exceeds that of new women employees. In fact, the latter probably only applies to companies which occupy a top position in the hierarchy within the electronics sector. Still, the picture sketched by Kuniko for Kyushu largely concurs with what is known about electronic companies elsewhere. The situation in factories in Scotland where wafers are manufactured, for example, is similarly polarised. In both wafer producing factories and assembly-plants for chips, a sharp polarisation exists between technically highly skilled male personnel taking care of machine maintenance and repairs—and women performing labour-intensive, semi-skilled tasks.³

A striking example of the above is the division of labour at the factory compound of Fujitsu Electronics near the city of Kagoshima, where 600 men and 400 women are employed. The managers in blue uniforms who accompany us during our tour of the factory, openly talk about the strict division between men's and women's tasks. Cutting wafers is exclusively done by men, as is the maintenance of machines. Quality control of the chips, on the contrary, is performed by women, in a dust-proof room. Wrapped in synthetic dresses, anonymous figures stare through microscopes, checking whether the thin threads have been properly attached to tiny plates. Observed from behind a glass window, the spectre seems surrealistic. But why is controlling the quality of chips through microscopes exclusively a woman's task? The response is stereotype. One of the

uniformed bosses says: "This work is very suitable for women, since they are used to do stitching and embroidery. The work requires enormous concentration, and men are not fit for such monotonous labour." For Fujitsu's bosses, the sexual division of labour is a reality imposed by nature, fixed.

LABOUR GROUPS AT FUJITSU MINIMISING PRODUCTION ERRORS

Five women are brought into the managers' well-furnished room. Four of them work in the dust-proof space which we have just passed a few minutes ago. We are allowed to briefly interview them during the break, under the watchful eyes of the bosses in blue. After posing our regular questions about their labouring burden—30 hours of overwork per month appears to be quite normal—we cautiously try to introduce the theme of occupational hazards. What kind of diseases do women suffer from as a consequence of the monotonous work? "Sitting is most tiresome, I wish I could move. Because I am constantly chained to my chair, my shoulders are tense", says one of the women. With a smile, she adds a complaint about the work pressure: "If I want to visit the toilet during working hours, it's considered an impermissible interruption. Women are forced to wait until the break, which is both physically and mentally exhausting."

Does not the peering through microscopes day after day, cause eye diseases? One of the women denies: "I have worked here for ten years without problems. If the microscope is adjusted well it's all right, otherwise it hurts. In the morning, however, it takes some time before one's eyes get used to the apparatus." At international seminars where the working conditions faced by women in the electronics sector have been discussed, it has been stated that the job of peering daylong through a microscope, leads to a deterioration of eyesight, generally within less than two years.⁴ Within Fujitsu company there seems to be an ongoing controversy over the question. Says one of the women workers: "Just recently, the director has assured me that if the microscope is adjusted well, it can do no harm to my eyes."

The managers relax when, after the women are sent off, the topic shifts to 'labour groups'. A structure of small labour groups is common to all major automobile and electronics companies in Japan, and is used to promote production efficiency. "In 1985, Fujitsu introduced a 'small group structure' as a consequence of which the number of chips showing defects has been reduced to an absolute minimum." The system, so the managers admit, engenders mutual distrust and competition between labourers. Yet in contravention to the just stated historicity, they assign the system a status of permanency: "It is a feature of Japanese culture", they insist.

SILK AND TEXTILE PRODUCTION: THE BASIS OF INDUSTRIALISATION

Today's widespread employment of women in the electronics sector in Japan has its pre-history. Ever since the early start of industrial development, Japanese companies showed a definite preference for females. From 1868 onwards, the country underwent a rapid process of modernisation—the 'Meiji Restoration'. The first silk factory arose in 1872, a decade later the first cotton spinners, and by the turn of the century Japan had already become a fierce competitor in textile commodities on the world market. These exports enabled Japan to import machinery for the founding of other enterprises. It would take more than 50 years before sectors like steel and chemicals were to elbow out textiles as the leading sector of Japanese industrialisation. The factory owners, further, used agents to recruit young peasant daughters as labourers. As famine prevailed in the countryside, the agents could easily find heads of peasant families willing to temporarily surrender their daughters. Often the agents acted as moneylenders, providing hungry peasants with loans to be repaid from the wages of their daughters. Until the 1930s, young village women constituted 80 to 90 per cent of the workforce of Japanese textile mills.⁵

The working conditions in the early silk and cotton spinneries were not essentially different from the miserable conditions prevailing in European industries in the 19th century. Like here, the working day was inhumanly long. Female labourers of silk factories had to toil 14 hours per day. The first strike erupted in Japan when an attempt was made to extend the working day, from 14 to 14½ hours! Labouring times of women in cotton spinneries were comparatively shorter—each shift lasted 11 to 12 hours—but women were frequently forced to be on the job for 25 hours continuously. The situation remained unchanged until 1929, when nightwork was prohibited by law.⁶ The health requirements of the women workers, moreover, were badly ignored by the mill-owners. Particularly notorious was the lack of fresh air inside cotton weaving factories. The owners held it necessary for the quality of the cotton clothes, that the air inside the mills was moist. The dark factory halls with machines were filled with steam, water would drip down from the ceiling, and the windows were kept tightly locked. Female labourers had to endure such conditions for 12 long hours each day!

Given the lack of rest, the long working hours and the unhealthy environment, it should not surprise anyone that the incidence of illness was very high. Many female textile workers—just like their sisters in Germany and England—died of tuberculosis. According to a governmental investigation conducted around the turn of the century, a quarter of all deaths in dormitories of textile mills was caused by tuberculosis. The disease frequently induced

women to return to their villages. And it is not surprising either that many women tried to, literally, *escape* from their inhuman existence as labourers. An official investigation into one company located near Osaka—brought out that over half of the women labourers employed here in the year 1900 escaped. Statistics about other companies also show a large turn-over. The female labourers knew they were taking large risks by trying to flee. In case they were caught, they were not just beaten up, but forced to march nude through the factory-premises, by way of punishment. Yet apparently, many saw escape as the only possible road towards freedom from enslavement.⁷

A historical retrospect further reveals that methods to control the workforce which today are standard practice in Japanese companies were tested rather early. Take for instance the group-competition we encountered at Fujitsu Electronics. According to a publication of the American Cornell University, which cites the report written by a labourer of a cotton factory in the beginning of this century, group competition was commonly promoted in the early textile mills. Informal games were held, pitting one group of women hailing from the same district against those hailing from another district. The factory management also stimulated production competition. Paltry prizes—flags, towels, cosmetics, etc—were offered to the victors.

A second idea still in vogue is that of forced savings. Below we will see that the idea presently is being exported to other Asian countries, where Japanese companies build new factories. The forced savings-system too can be traced back to the learning phase of the Japanese capitalists. As today, the mill-owners used to pose as surrogate parents. Ostensibly to help their families, and partly to acquiesce the parents of the village girls, the women workers were obliged to save a fixed amount of money each month. In reality, the savings system primarily served to tie the female labour force to the factory.

The structure of dormitories was a third pioneering idea which contemporary multinationals like Toyota have borrowed from their grandparents. It illustrates well the 'benevolence' of the fatherly owners towards their daughter-workers. The dormitories where the young women from the villages were brought together, were generally located inside or near the factory compound, and they were constructed in a manner as to make escaping very difficult. Thus, many mills were surrounded by walls beyond which broken glass, bamboo sticks and barbed wire were placed as extra barriers. "Anyone who dared to jump over the fence not only risked bodily injury, but usually was caught immediately and brought back!"⁸ Half of the backyards of the dormitories faced a river or some other waterbarrier. Inside, supervisors kept a close watch of the girls' doings. In short group competition, forced savings and fenced dormitories are all key concepts

M-CURVE: OFFICIAL VIEW ON WOMEN'S LABOUR

Let us now resume our story about Japanese women's labour today. In official statistics, the employment of women of various ages is depicted like an M-shaped curve. Millions of young women after graduating from high school are for several years employed in banks and offices as full-timers. When they marry or bear their first child most of them disappear from the labour market, and only return once their children have grown up. Many middle-aged women in Japan are part-time labourers—they constitute the second peak in women's employment. The number of female part-timers has grown phenomenally since the 1960s. It now stands at about 8 million.

Several critical comments may be about the so-called 'M-curve'. First it ignores the fact that aside from the mentioned categories there is a significant and increasing number of women who are engaged as 'temporary labourers', via so-called *manpower agencies*. The expansion of manpower agencies is promoted by the government. Thanks to a law introduced in 1985, the number of such agencies within one single year has more than tripled—from 2000 to over 7000. The law exempts employers from any responsibility for people they recruit via the manpower agencies. An investigation carried out by trade unions has concluded that women engaged as 'temporary workers' in the service sector—two-thirds of the workforce in the sector are women—are deprived of any supplementary allowances. They do not even receive a bonus, though the length of their working time hardly differs from that of full-timers.⁹

Nor does the M-curve properly highlight the wage-labour which many Japanese women continue to perform as homeworkers. The number of outworkers sewing for an entrepreneur, assembling electronic components or doing packing jobs, seems to have tumbled during the last 20 years. Estimates of their numbers today range from 1 to 2 million women. Homeworkers, however, do constitute a separate age category, for the group is largely composed of women with small children, i.e. those whose age forms the down-turn in the M-curve. Homeworkers' wages, moreover, are undoubtedly the lowest of all categories of female labourers in Japan. According to a woman professor we spoke to in Fukuoka city, Hayashisan, the average is 357 yen per hour, i.e. merely a quarter of the wage drawn by a male employee in fixed service.¹⁰

The M-shaped curve thus provides an incomplete picture. And yet it does give us a first indication of the secondary position held by women in the Japanese hierarchy of wage-labour. Japan has for decades prided itself on, and is praised for, maintaining a system of life-long employment, with securi-

The above-cited facts demonstrate that the story about the 'life-long employment system' is highly propagandistic: it applies to a section of male labourers only, while excluding almost all women labourers! To repeat—when young women marry, they are generally induced to leave their office-jobs, or if necessary are forced to resign. And when, after raising children for 10 or 15 years, they wish to rejoin a paid job outside the home, they have got no other choice but poorly-paid labour as a part-timers.

PART-TIME LABOUR AS POLICY

Some analytical points may be added about the position occupied by part-time labourers. I have already mentioned their high number, and the fact that the occurrence of part-time labour is a rather recent phenomenon in Japan. Now, the rise of part-time work is no coincidence, but the result of government policy. From several interviews conducted in Japan, it emerges that the growth was specifically promoted from the early 1970s onwards. At the time, companies had to cope with the circumstance that fewer and fewer high school graduates were available as new recruits. The capitalists started to look for fresh source of cheap labour, and they found the solution in the form of part-time labour by middle-aged women.

The expansion in the number of part-timers was hardly spontaneous. In 1960 already—we are informed by a booklet about discrimination against Japanese women¹¹—the Economic Council of the government in Tokyo devised a plan in which the employment of women "who constitute half of the national population" was advocated. The plan emphasised the need to utilise the capacities of middle-aged women who "wished to work again". Moreover, the authors of the plan opined that women should resign from their jobs when marrying or at the birth of the first child. Clearly, the Economic Council devised the M-curve for the entrepreneurs, in order to guarantee the availability of a flexible reserve of female workers.

The same thinking has since been enshrined in official laws and amendments implemented by the Japanese government, as in the so-called 'Equal Opportunities Law' which became operative in April 1986. This new law was a necessary outcome of the signing, by the Japanese government, of the United Nations Convention about equal opportunities between women and men. The Convention, amongst other things, contains clauses about 'equal remuneration' and the 'equal valuation of labour of equal value'. Japanese women's groups, however, argue that the 1986 law sharply *contrasts* with the UN-Convention. Instead of the abolition of inequality between women and men it leads to more discrimination against women. One of their criticisms is that the law prohibits discrimination at the moment people are

ding promotions and the allocation of functions within enterprises. Thus, it is considered to legitimise the use of women as cheap part-time labourers.

In order to gather a more concrete understanding about the position of part-time workers in Japan, we had prolonged discussion with Tamura Katsuko, who for 15 years has been a salaried employee of the retail-trading company Sunny. At present, she is responsible for the training of cashiers at the company's headquarter in Fukuoka city. Katsukosan herself is not a part-time labourer. She enjoys a full-time job with a decent salary—net 170 to 180 thousand yen per month (roughly \$ 900). Yet she is very conscious of the unjust, secondary economic position of most Japanese women. To make her own husband who holds 'very stereotyped ideas about male and female roles' share in the burden of household tasks, she waged a long struggle inside the family. Proudly smiling, she tells us that at one time she simply forced him to wash and cook like hers, by refusing to do any of the chores. Her level of consciousness has been influenced both by her own family background—her father was married into her mother's family—and by her membership of a women's group, called Agora.

Tamura Katsuko explains that Sunny consists of some 60 supermarkets spread across the island of Kyushu. Out of a total number of 1,500 staff members and personnel—a majority of them are salespersons and cashiers—no less than 1,200 are part-timers. Our interviewee could not give us precise figures about the company's profits. Katsukosan: "Just like other Japanese retail traders, Sunny does not disclose profit figures. Whereas the company of course has to report to the tax office, the workers are not informed. My own estimates are 50 billion yen for the total yearly turn-over, and some 20 per cent for the average profit margin."

What about the wages and the working hours of part-time labourers? "The wages of the part-timers clearly differ from those of full-timers, but there also exist differences between part-timers themselves. For example, the wages of cashiers who are on their jobs in the morning are lower than those of cashiers who work in the evening. Part-timers who have to serve fish and meat receive more money than part-timers serving ordinary food. For a new part-timer, the average wage lies between 490 and 620 yen per hour (2½ to 3 dollars). The wage-level of an experienced part-timer lies slightly higher. After one year, wages rise by 15 yen ... Eighty per cent receive less than 550 yen per hour."

Characteristic of the position of part-timers in Sunny as in other enterprises is not just the fact that their wages are relatively low and that only they are paid on an hourly basis. They are also deprived of most supplementary payments received by regular

OSWAL AGRO FURANE LIMITED

Regd. Office:

434, Sector - 37A, Chandigarh - 160 037

FORM IIA

NOTICE

It is hereby notified for the information of the public that OSWAL AGRO FURANE LIMITED proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under Sub-Section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969, for approval to the establishment of a new undertaking/unit/division. Brief particulars of the proposal are as under:-

1. Name and Address of the Applicant : OSWAL AGRO FURANE LIMITED
Regd Office: 434, Sector 37-A,
Chandigarh - 160 037
2. Capital Structure of the applicant organisation : Capital Structure as at 31.3.1990:-
(Rs)
Authorised Capital
2,00,00,000 Equity Shares of
Rs 10/- each 20,00,00,000
Issued, Subscribed and paid-up
1,80,00,000 Equity Shares of
Rs 10/- each fully paid-up 18,00,00,000
3. Management structure of the applicant Organisation indicating the names of the Directors, including Managing/Whole time Directors and Managers, if any : Mr T K A Nair, Chairman
Mr P S Bajwa, Director
Mr Gurcharan Singh, Director
Mr B K Taparia, Director
Mr P K Ahuja, Director
Mr Anil Bhalla, Director
Mr R K Singhania, Director
Mr Abhey Oswal, Managing Director
4. Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division : The proposal relates to the establishment of a New Unit
5. Location of the new undertaking/unit/division : Village Bhasaur, Tehsil Dhuri,
Distt Sangrur,
Punjab
6. Capital structure of the proposed undertaking : Not applicable
7. In case the proposal relates to the production storage, supply, distribution, marketing or control of any goods/articles, indicate :

| Name of goods/articles | Proposed Licensed Capacity (M.T) | Estimated Annual Turnover (Rs in Lacs) |
|---------------------------|----------------------------------|--|
| i) Vegetable Oil | | |
| Product Vanaspati | 22812 | 9124.80 |
| ii) Acid Oil—(By product) | 617 | 64.78 |
| iii) Soap—(By product) | 333 | 33.30 |
8. In case the proposal relates to the provision of any service, state the volume of activity in terms of usual measure such as, value, income turnover etc : Not applicable
9. Cost of the Project : Rs 10 crores
10. Scheme of finance, indicating the amounts to be raised from each source :

| | |
|---|---------------|
| i) Equity Capital through Rights Issue | —Rs. 8 crores |
| ii) Loans from Financial Institutions/Banks | —Rs. 2 crores |
| Total | Rs. 10 crores |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhawan, New Delhi, within 14 days from the date of publication of this notice, intimating us his views on the proposal and indicating the nature of his interest, therein.

For OSWAL AGRO FURANE LIMITED

Place: New Delhi
Dated: 11th May, 1991

R K SINGHANIA
DIRECTOR

wage is rather complicated. It consists, except for a basic wage, of a whole series of allowances—a holiday allowance, a family allowance, etc. Part-time labourers are only paid a bonus, which is paltry. In Sunny's supermarkets "it mostly amounts to 1,000 yen after one year's service, 1,200 yen after 10 years! Besides, women part-timers are entitled to a small summer-bonus. Those whose service has not yet lasted a full year are handed out a small present at the year's end."

The working hours of women part-timers in Japan, further, are extremely long. Often, they toil merely half an hour shorter than full-timers, and their working week generally is equally long. At Sunny, the working hours of various categories of part-timers vary greatly. Katsukosan: "Part-time women labourers work under a contract which is valid for one year. Each contract is signed on an individual basis, via negotiations at the moment of entering service, between the management and each woman individually. Most of the women work four hours per day, but some do as much as eight hours. Those with the longest working hours serve 22 to 25 days per month, five to six days per week."

Has an attempt ever been made to negotiate the labour contracts collectively? What is the role of the trade union, does it fight for improvements. "Within the trade union of Sunny, there indeed exists a section of part-time labourers. Those whose service period exceeds one year, automatically become members. The union is a company union and it closely co-operates with management. The fact that women part-timers are admitted is a consequence of a rumour which earlier circulated to the effect that *Sohyo* (the trade union centre linked to the Socialist Party of Japan) were to float a trade union of part-timers. Sunny's management then got frightened and decided to allow part-timers join the company union."

We, lastly, broach the subject of the large turn-over in personnel. Part-time labourers, Katsukosan states, mostly do not stay with Sunny for more than one or two years. They then leave one by one. The reasons? Katsukosan first opines "They find better jobs or it happens that they drop out due to human conflicts, because of frictions with other women labourers. Strong and weak characters tend to clash." Only when we pose more questions, about the work pressure put by management, the truth comes out. Says Katsukosan: "Cashiers are trained so as to be able to handle customers. The instruction guidebook contains detailed prescriptions about how to address customers, how to hand over money, how to behave when a customer passes the counter, etc. The management has calculated everything—even the number of seconds a cashier is to devote to one customer, and the work schemes are arranged in accordance with these data.

it probably is one of the reasons why so many of them leave." Even human communication has been mechanised in Sunny's supermarkets.

Women in Japan form one large, elastic labour reserve. They exactly fulfil those two criteria which Marx cites in *Capital* for the industrial reserve. Women part-time labourers can be shifted between various sectors of the economy. They are, in the words of a Japanese newspaper, like 'disposable chopsticks': they can be laid off at any time. Part-timers also fulfil the second criterion, namely, a negative impact on the overall level of wages. Because part-timers are paid such low wages—according to the inflated figures of the ministry of labour it is 70 per cent of that of regular female workers¹²—their employment exerts a downward pressure on the general level of wages in Japan.

WORKERS AS HOUSEWIVES

During the interviewing of women in Japan, household labour was a frequently recurring theme, alongside that of the work pressure faced by women on the shop floor. To the question 'How many hours a day do you perform household tasks?' we got the routine answer "Those I have never calculated." Apparently, women labourers themselves discount a part of their work. That labour which they are not paid for, is not recognised even by them. Once we clarified our question, women set out calculating. At what time does a mother of small children, performing wage labour, rise at dawn to prepare the family's breakfast? At 5 o'clock, at 5.30? In most cases, she would devote 1½ to 2 hours to the household before factory or office-time. And after returning home, exhausted by a day's work at the assembly-line, she generally has another four to five hours to go. The work of women who combine a double task never ends.

The total labouring burden of Kawanosan who is a full-time employee in the cigarette-producing company Japan Tobacco is above 15 hours per day. That of Ombesan, one of the women earlier engaged as a part-timer by an electronics firm named Shin Shirasuna, 6½ hours plus 6 hours of waged work plus household work. If weekend days when cooking, washing, cleaning and child care continue unabated, be added, the average working week of female labourers in Japan easily reaches 90 hours.

Several lessons, then, may be drawn from our discussions on women's labour in Japan. It is only by calculating the two-fold labouring burden of women that their contribution to creating social wealth can be properly measured. Secondly patriarchal ideology often leads women to disregard the value of their manual work. Thirdly, we also learned from our Japanese experience that the calculation of women's comprehensive labouring time is a crucial element in the

or more per week, millions of women in Japan contribute indispensably to the profits of Japanese multinationals. An initial step towards changing the system is that her work be fully recognised.

GOVERNMENT AND DAY-CARE CENTRES

The Japanese government ever since the 1960s has actively promoted the employment of middle-aged women as a cheap workforce, and its legal policy, under the signboard of 'equal opportunity', has been negatively received by women's groups. More recently, attempts are underway to undermine one of the most significant achievements in the history of the Japanese women's movement. During the 1980s, the government has repeatedly sliced the budget for social welfare, which has notably affected day-care centres.

After the second world war—in particular during the 1950s and 1960s—a movement arose in Japan, demanding the establishment of public nurseries, financed by the state. In some cities, women with crying children on their backs, staged action in front of municipal buildings. Elsewhere mothers hung diapers to dry in the town hall. When possible, negotiations were held with irritated bureaucrats, and where the mayor refused to talk to the protesters, sit-down strikes were held. This movement, under the motto "The day-care centres should number as large as the mailing boxes", forced the government to contribute its share to the operating of day-care centres. The state took responsibility for paying 80 per cent of their costs.

This concrete result was specially important for women working outside the home. It signified that a part of the burden of reproducing labour power was henceforth carried by the state instead of by women. In particular for mothers with small children it meant that their taking jobs outside the home was facilitated. As in other industrialised countries, the Japanese government accepted partial responsibility for reproduction, under the pressure of a movement from below.

In recent years, this achievement of the women's movement is slowly being eroded. On the one hand, military expenses are continuously on the rise while a declining amount of money is available for social welfare and for child care centres in particular. Under its slogan 'payment by the user', the government has twice reduced its contribution to running the centres—from 80 to 70 per cent in 1985, and to 50 per cent in 1986. And although the change presumably is temporary in nature, there are no signs that the downward trend will be reversed.¹³

EXTERNAL EXPANSION AND EXPLOITATION OF WOMEN

Before discussing a possible perspective of struggle, there rests the task of briefly

elaborating on the role of women's labour in the international capital accumulation of Japanese companies. In external expansion Japanese companies make happy use of historically proven concepts. Let us shortly review the case of Shin Shirasuna, a middle-sized electronics company which closed its main premises in Nagoya city eight years ago, to be chased in court by its former part-time women labourers ever since.

The company's base inside Japan, in the years preceding the closure, had steadily contracted. Women who were employed in the satellite factories in the surroundings of Nagoya were laid off first, and ultimately the regular workers and part-timers at the firm's main premises were summarily dismissed too. Meanwhile, Shin Shirasuna had firmly entrenched itself in the Kaohsiung Free Trade Zone in Taiwan. The first factory for the production of radios, with 100 female labourers, started operating in 1964. According to the Japanese investigative writer, Tono Harui, Taiwan Shin Shirasuna, by 1980-81, had grown into the island's second largest enterprise within its own branch. The yearly volume of business then stood at 10 billion yen.¹⁴

At the moment Shin Shirasuna arrived, large-scale unemployment prevailed in the Taiwanese countryside. The excess labour force was one million people. The female workers hired by the company were young village women who had just graduated from high school. They were herded together in fenced dormitories, built by the company or by the Taiwanese government. According to a staff member of the sales' department interviewed by Haruisan, the production costs at Taiwan Shin Shirasuna are only 60 per cent of those in Japan, since female labourers earn only a third to a quarter of their Japanese sisters. Shin Shirasuna is merely one example out of a whole series of Japanese firms which have shifted investments to other Asian countries, and which are constantly on the move, in search of higher profits. And whatever the size, whichever the sector, and whichever the country they move to, Japanese companies invariably prefer to tap young women as a cheap source of labour. Invariably also, they apply those three concepts which have historically been tested by Japan's textile mills: mutual competition between small labour groups, forced savings, and virtual imprisonment in fenced dormitories.

HUNGERSTRIKE OF SOUTH KOREAN WOMEN

Yayori Matsui is an exceptional woman journalist at the daily *Asahi Shimbun*, a newspaper with a circulation of one million, holding office in a modern palace in Tokyo. While we wait for her arrival, we feel quite lost in the gigantic reception hall, where gentlemen in spotless suits walk constantly in and out. Yayori storms into the hall, drags us into the refreshment room, and immediately pours out a welter of militant facts over a cup of coffee. She is full of the

recent events surrounding the arrival of South Korean women workers in Japan:

"A controversy has erupted over three Japanese companies with investments in South Korea. Delegations of Korean women workers are presently visiting Japan to demand justice from all three enterprises, each of which has decided to withdraw from South Korea. The first company is Sumida, an electronics firm which fabricated coils. Last September, the closure of Sumida's factory in South Korea was announced through a simple fax message. The trade union which is pretty strong refused to agree to the decision, and a large number of women initiated a full-scale occupation of the factory. After a period of one month, a delegation of four girls flew to Japan to demand negotiations with the company's directors."

"Initially, the directors of Sumida refused to talk. However, towards the end of December, the four girls went on hunger-strike, announcing 'If you wish to carry away our dead bodies—Go ahead!' The directors then got frightened and ultimately agreed to receive the girls. Only recently, the four have temporarily returned to Korea, to report back."

"The second company, Tanashin Denki, is an enterprise where components for cassette tape recorders are fabricated. Here again—as in the case of Sumida—things are complicated by the fact that the company is a rather small one. The protest of Tanashin's women labourers too is directed against factory closure. A further complication is that the closure has legally been handled well. Seventy women have occupied the factory, and on December 9, they sent their own delegation to Japan to arouse sympathy for their cause. The third delegation consists of women workers of Suani,—a factory where gloves for skiing were manufactured, located in a free trade zone. They have the support of radical trade unions in Osaka and of the Burakumin movement."¹⁵

According to reports of the solidarity committee set up for the Korean women in Tokyo, both Tanashin and Suani, after 10 rounds of negotiations, agreed to apologise for closing down their Korean plants without prior notification. Tanashin also agreed to compensate the workers with a total amount of US \$ 4,40,000. Suani agreed to compensate the women workers with 10 months of their wages, and moreover promised to give financial support to union members until they find new jobs. Both also agreed to send letters to the South Korean government, requesting the release of union leaders arrested during the struggle. The conclusion drawn by Matsuisan from her observations about South Korean women labourers: "If you are really interested in women's labour, you should definitely study the Korean labour movement which is led by women!"

What are the prospects for resistance by women part-timers in Japan? First, very lit-

tle is to be expected from the big trade union federations when it comes to defending the interests of part-time labourers. The organisations target, primarily, males working as regular employees for companies towering high in the Japanese economy. Representatives of various official unions we spoke to were quite outspoken about this. Nor did they hide the fact that their unions 'harmoniously' co-ordinate their strategies with management.

The situation moreover has deteriorated since Sohyo, the trade union centre oriented towards the Socialist Party, forged links of intimate co-operation with the other, more right wing centre, which is tied to the Liberal Democratic Party. The new umbrella organisation called Rengo pursue—according to researchers and activists interviewed—an openly imperialist policy. During the short period of its existence, Rengo has not left any doubt that it wholeheartedly supports Japanese capital's external expansion. In India for instance, Rengo has already conducted a seminar in order to advertise the Japanese model of co-operation between management and labour.

Secondly, the *autonomous* organisation of female part-timers and of other women combining waged with unpaid, household labour, is still in its infancy. Women initially also bore the brunt of the struggle against capitalist exploitation. The first strike erupted in 1886 in a silk-spinning mill. Women, in protest against an extension of the labour-time locked themselves in a temple. The action reportedly sparked off a wave of strikes in textile factories throughout Japan, heralding the awakening of a new class. When however towards the end of the 19th century the organised labour movement arose, it was completely dominated by men. The trade unions, according to the historian Tsusuki Yuko, targeted skilled, male labourers and proposed to exclude women from factory jobs!¹⁶

The history of the Japanese trade union movement has known its own distinct periods of bloom. It has seen tenacious and massive forms of resistance, such as after world war two, when the American occupation authorities temporarily respected the right of workers to organise. In the wake of the defeat of fascism, when Japanese soldiers returned from the war front, the government sought to replace female workers with males. In some companies women fiercely resisted. There were massive strikes, e.g. in the railways, against the government plan to dismiss 80,000 female employees, but these did not result in an autonomous structure.

TOWARDS AN AUTONOMOUS MOVEMENT OF WOMEN PART-TIMERS?

Yet although the history of independent organising is weak, a movement may gradually take shape. The instances of autonomous organising are small, but telling. One of the factors which has con-

initiated towards growing awareness about the unequal, secondary position of female labourers, is a series of court cases which since the middle of the 1960s have been instituted against sexual discrimination in company practices. The court cases challenged for instance, the fact that companies maintain special rules for the dismissal of women, by forcing them to resign at their marriages, etc. Some of the court cases were launched by women individually. A few judges prohibited any discrimination against women, but their verdicts did not durably change company practice. Precedents were created, it is true. And thanks to the mentioned court cases plus accompanying press reports, the unequal treatment was broadly publicised.

Of greater value are those instances where women acted collectively and were represented by their own, autonomous unions. Examples precisely of this kind are the court cases against the dismissals and discrimination by the electronic company Shin Shirasuna referred to above, and the trial recently held against another electronics company, Sanyo Denki, by 15 part-time labourers. Whereas several of these women had worked for 12 years under a subcontractor of Sanyo Denki, they were suddenly dismissed three years back. The court verdict cited on February 26, 1990, by the newspaper *Mainichi Shimbun*, stated "Even though they were part-time employees, the women engaged in the same basic tasks as regular workers. Accordingly, dismissals should have been carried out by the same process as that for regular workers."

What form of organisation of part-time labourers offers most prospects for success? One initiative which appears promising is the Edogawa union. Edogawa is the name of a neighbourhood in Tokyo where many small companies are located—metal workshops, tin factories, workshops for the ironing and packing of garments, etc. The union is not a 'normal' union, for it tries to gather under one and the same roof male and female workers from different factories and workshops located in the same neighbourhood. It explicitly champions, also, the interests of part-time labourers. Grievances which the union, according to spokesperson Obatasan, addresses include discrimination between regular employees and part-timers, in terms of wages, social security, etc. The membership of the Edogawa and other community unions is still rather limited. 30,000 throughout the whole of Japan, Obatasan reports, adding that growth in membership has been steady over the last year. Yet the community union may provide an answer to the circumstance that part-timers are scattered over many, small companies.

In any case, the autonomous organisation of women part-timers should be vigorously stimulated, for they are a crucial ally for women workers elsewhere in Asia who are up against Japanese capital. In order to once more underline the potential, let us lastly cite the example of the combativity of the

women who used to be employed by the food processing company Tsuki Man. Here, female part-timers founded a union to resist the heavy workload which itself resulted from the stiff competition between labour groups. The women also intended to protest against the low wages (only 430 yen per hour). The management's reaction was, first, to dismiss staff members of the union. Women then staged a whole round of strike actions. The confrontation reached a climax when women, through pickets, tried to obstruct the transfer of machinery entrusted to gangsters by the company. Though the removal of the factory could not be prevented, part-time labourers continued resisting. They started boycott of food products of Tsuki Man, and brought the fight against the unjust dismissals to the court. The battle of Japan's new labour 'reserve' is on!

Notes

- 1 A remarkable discussion about the sexual division of labour as it used to exist in the tobacco industry can be found in Edith Abbott, *Employment of Women in Industry: Cigarmaking—Its History and Present Tendencies*, in Baxandall Gordon and Reverby *America's Working Women: A Documentary History—1600 to the Present* (Vintage Books, New York, 1976, p. 87).
- 2 The figure has been derived from the article by Fujita Kuniko 'Women Workers: State Policy and the International Division of Labour: The Case of Silicon Island in Japan' (*The Bulletin of Concerned Asian Scholars*, Volume 20, Number 3, 1988) according to Fujita Kuniko: integrated circuits produced on Kyushu Island constitute 10 per cent of world output in Silicon valley in the United States, 25 per cent is manufactured.
- 3 The water production in Scotland, and the polarisation existing in this section of the electronics industry between highly skilled male personnel and less skilled female workers, has been described well by Swasti Mitter in *Common Fate: Common Bond—Women in the Global Economy* (Pluto Press, London, 1986, p. 83, *The Electronics Industry in Britain and Ireland*).
- 4 This was mentioned amongst others in the report of an international meeting on micro-chips' technology, held in Manila, the Philippines, in 1986. 'From Bonding Wires to Banding Women' (published by the Centre for Women's Resources, Quezon City, 1988, pp. 19 and 27), Mary Hancock in 'Transnational Production and Women Workers' (in *Migrant Women's Labour*, edited by Annie Phizackiea, Routledge, 1983, p. 131) states: "The most common complaint is deteriorating eyesight and frequent headaches caused through the daily use of a microscope for eight hours to carry out the fine assembly work on electronic components", according to her figures, in many of the factories up to 50 per cent of the women assembly workers complain of deteriorating eyesight after

to three years of work.

- 5 According to Gary Saxonhouse, if a comparison be drawn with other textiles' producing centres in the world—with Bombay in India, for instance, and with Lowell in Massachusetts, in the United States—the percentage of female labourers was highest in Japanese textile mills (see the book, edited by Hugh Patrick, *Japanese Industrialisation and its Consequences*, University of California Press, 1976, p. 101).
- 6 Figures about the working hours in the silk and cotton textile mills have been drawn from the article by Tono Harui, 'Japan's Industrialisation and Women Workers' (see *Industrial Women Workers in Asia*, *Women's Journal* jointly distributed by IWS International and the Committee for Asian Women, Rome/Hong Kong, 1985, p. 48).
- 7 A lively description of the working conditions which prevailed in the Japanese textile mills during the early phase of the country's industrialisation may be found in Yasue Aoki Kidd 'Women Workers in the Japanese Cotton Mills 1880-1920' (Cornell University *East Asia Papers*, Number 20, Ithaca, New York). Kidd's story is primarily based on the account of a worker Hosoi Wakizu, who was employed in a cotton spinning mill from 1908 till 1925.
- 8 Sen Katayama, the founding father of the Japanese socialist movement in his book *The Labour Movement in Japan* (Chicago, Charles Kerr, 1918, p. 57) illustrates what gruesome consequences the imprisonment of female factory workers at times had, according to him: 31 young women were roasted alive in the dormitory of one spinning mill when a fire broke out, the women died because the doors and windows of the

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dormitory were locked against possible escape attempts).

- 9 For a discussion on the law regarding temporary labourers (called 'arbeiter'), which was introduced by the government in 1986, see 'The Temporary Workers' Employment Act—Two Years after Its Passage'; in the newsletter of the Centre for Asian Women Workers' Fellowship, *Resource Materials on Women's Labour in Japan*, No 3, June 1988, p 3.
- 10 According to Annavajhula JCB ('Japanese Subcontracting Systems' in *Economic and Political Weekly*, February 25, 1989, p M-23) a home worker earns an average of 244 yen per hour, which contrasts sharply with the 1,239 yen per hour which a full-time employee in the manufacturing sector on the average earns; thus, according to this source, the hourly wage of a home worker is merely one-fifth of that of a regular worker.
- 11 See Miyoko Shiozawa and Michiko Hiroki, 'Discrimination against Women Workers in Japan' (*Asian Women Workers Centre*, Tokyo, Japan, 1988, p 19); according to this same source, laws were adopted in 1972 and 1974 specifically to promote the employment of women along the pattern of the M-curve (namely, the 'Women Welfare Act' and the 'Employment Insurance Act')
- 12 The 'Analysis of Labour Economy', an overview published by the Ministry of Labour (July 1989), states: 'Female part-time workers earned about 70 per cent of the amount of earnings for regular female workers in 1987, thus evidencing a fairly wide disparity in wages between the two segments. The sequential disparity in wages has tended to widen since 1975' (p 4)
- 13 See Michiko Hiroki, 'Child Care and Working Mothers' in *Resource Materials on Women's Labour in Japan*, No 3, June 1988, p 11)
- 14 A good description of Shin Shirasuna's expansion policy, and of its consequences for female labourers in Japan and in Taiwan, can be found in the article by Tono Harui, 'Women Workers and the Multinationals: The Shin Shirasuna Case' (*AMPO—Japan-Asia Quarterly Review*, Volume 20, No 4, and Volume 21, No 1)
- 15 For an overview of the social discrimination against Japan's untouchables, the 'Burakumin', see the publication *Japanese Minorities* (Minority Rights' Group, London, 1983, p 4); for details on the hungerstrike of South Korean women workers in Japan (see also the *Asian Women Workers' Newsletter*, Committee of Asian Women, Hong Kong, March 1990).
- 16 Personal interview of Tsusuki Yuko, February 15, 1990; according to Kazuko Tanaka, the early strikes of factory women workers were remarkably successful: 'The strikes in this early stage almost always resulted in a victory for the women workers, because the owners had as yet no strategy to suppress these strikes' (see *A History of the Women's Movement in Modern Japan* (Japan, January 1977, p 23).

FORM IV-A (See Rule 4A (1))

NOTICE

1. It is hereby notified for the information of the public that Greaves Cotton & Company Limited proposes to make an application to Central Government in the Department of Company Affairs, New Delhi, under Sub-section (4) of Section 23 of the Monopolies and Restrictive Trade Practices Act, 1969, for approval to the takeover of Auto Division of Brooke Bond India Limited. Brief particulars of the proposal are as under: i. Name and address of the applicant: Greaves Cotton & Co Ltd., 1, Dr V.B. Gandhi Marg, Bombay-400 023. ii. Name and address of the undertaking the whole or part of which is proposed to be taken over and the manner of acquisition of shares, acquisition of control or management, whether by the acquisition of the ownership of the undertaking or under any mortgage, lease or licence or under any agreement or other arrangement: Auto Division of Brooke Bond India Limited By purchase for cash consideration. iii Management structure of the applicant: The applicant is managed by the Managing Director subject to the superintendence, control and direction of the Board of Directors of the Company. iv a Capital structure of the applicant.

| | |
|---|--------------|
| Authorised Capital (as per Balance Sheet as at 31.5.90) | |
| 25,000 15% Cumulative Redeemable Preference shares of Rs 100 each | 25,00,000 |
| 10,50,000 Equity Shares of Rs 100 each | 10,50,00,000 |
| | 10,75,00,000 |

| | |
|--|--------------|
| Issued, Subscribed & Paid-up Capital | |
| 20,265 15% Cumulative Redeemable Preference Shares of Rs 100 each fully paid | 20,26,500 |
| * 9,85,687 Equity Shares of Rs 100/- each fully paid | 9,85,68,700 |
| * Since split up into shares of Rs 10 each | 10,05,95,200 |

b The undertaking proposed to be taken over Auto Division of Brooke Bond India Limited v Line(s) of business of the undertaking which will or is likely to emerge as a result of the proposed takeover: The manufacture of 2/3 wheelers vi Consideration for the takeover: Rs. 40 lacs. vii Scheme of Finance indicating the source(s) of finance for the proposed takeover: Out of internal generation.

2. Any person interested in the matter may make a representation to Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, Dr Rajendra Prasad Marg, New Delhi, within 14 days from the date of publication of this NOTICE, intimating his views on the proposal and indicating the nature of his interest therein.

Sd/-
K. SITARAMAN
SECRETARY

Date: 3. 6. '91

Excess Growth of Tertiary Sector

B B Bhattacharya

Arup Mitra

IN response to our paper [Bhattacharya and Mitra, 1990] Nagaraj [1991] questions the empirical justification of the proposition concerning the excess growth of the tertiary sector. He presents some empirical evidence to indicate that the tertiary sector already had a high initial share in net domestic product and in subsequent years has grown slower than the secondary sector. He, however, concedes that during the period 1966-67 to 1976-77 the tertiary sector has grown faster than the secondary sector. But for the period as a whole (1950-51 to 1987-88) and especially in the eighties the tertiary sector has grown slower than the secondary sector. Also he argues that the rate of growth of the percentage share of tertiary sector in NDP has been slower than that of secondary sector

It is important to note in this context that the main thrust of our paper has been on balanced growth between commodity production and tertiary income (henceforth commodity balance) and not on the relative growth of the secondary and tertiary sectors. If the tertiary sector grows much faster than commodity production, then it may result in inflation and/or balance of payment problems. There is, as of now, no definite norm regarding the relative growth rates of income generated in the tertiary sector and the output produced in the commodity sector. However, it is obvious that if the tertiary sector expands rapidly and the gap between the growth rates of the tertiary sector and the commodity sector widens, then it would have adverse implications for inflation and balance of payment. In our paper we have presented evidence to show that the growth of income originating from the tertiary sector has been unrelated to the growth of income from the commodity sector and this has aggravated the inflationary and balance of payments situation in the country in the recent years.

Table 1 presents the growth rates of NDP and value added originating from secondary and tertiary sector. It may be noted that the average annual growth rate of the tertiary sector has always been higher than that of the commodity sector. More importantly, the growth differentials between the two seem to have increased over time and in particular during the eighties when the industrial sector has experienced a spurt. Thus the commodity balance does not seem to have improved even in the eighties.

Even if we confine ourselves to the performance of the secondary *vis-a-vis* the tertiary sector, it may be noted from Nagaraj's [1991] own evidence (Table 2) that the second-

dary sector has grown faster than the tertiary sector only during the first phase of industrialisation: 1950-51 to 1965-66. In the subsequent periods the tertiary sector has been grown faster than the secondary sector. It is quite natural that in the early phases of industrialisation the growth rate of the secondary sector, with a very low initial share in NDP, is likely to register a relatively higher growth rate than the other sectors. Even if we consider his Table 1, we may note that the percentage point increase in the share of the tertiary sector in NDP (13.1) has been higher than that of the secondary sector (11.2) during the period of 1950-51 to 1987-88. Thus in this sense our contention that even for the period as a whole (i.e.,

1950-51 to 1987-88) the tertiary sector has grown relatively faster seems to be justified. However, the rate of growth of the percentage share of the tertiary sector in NDP could be lower than that of the secondary sector as shown by Nagaraj [1991]. But the growth rates of the sectoral shares are not the proper measure of sectoral performance.

The central thesis of our paper was that the tertiary sector in India has been growing much in excess of the demand generated for services by the commodity sector. In our paper we have substantiated this point in terms of the income linkages. However, it may be argued [Edgren, 1990] that although tertiary sector income is not directly related to commodity sector income, the latter, especially manufacturing output, may generate employment in services through its multiplier effect (e.g., servicing, transporting and marketing of manufactured products). The manufacturing sector may therefore

TABLE 1. SECTORAL GROWTH RATES OF NDP, 1950-51 TO 1987-88

(Percent per annum)

| Period | NDP | Commodity Sector | Tertiary Sector | GRD |
|--------------------|-----|------------------|-----------------|-----|
| 1950-51 to 1965-66 | 3.6 | 3.4 | 4.2 | 0.8 |
| 1966-67 to 1975-76 | 3.3 | 3.0 | 4.1 | 1.1 |
| 1976-77 to 1987-88 | 4.1 | 3.4 | 5.4 | 1.0 |
| 1980-81 to 1987-88 | 4.7 | 3.8 | 6.2 | 2.4 |
| 1950-51 to 1987-88 | 3.5 | 2.9 | 4.6 | 1.7 |

Notes: (1) GRD is tertiary sector growth rate minus commodity sector growth rate.
(2) Commodity sector is defined as the sum of primary and secondary sectors. In our earlier paper [Bhattacharya and Mitra, 1990] the commodity sector was defined as sum of agriculture, forestry, and manufacturing sectors only. In this note we have made the definition consistent with the sectoral classification used by Nagaraj [1990].
(3) Figures in the table refer to exponential growth rates.

Source: Central Statistical Organisation, *National Accounts Statistics* (New Series), 1989 and 1990.

TABLE 2. RELATIONSHIP BETWEEN TERTIARY SECTOR EMPLOYMENT AND INCOME IN TERTIARY AND COMMODITY SECTORS AT THE STATE LEVEL

| Year | Intercept | lnMFGI | lnTERI | lnAGI | R ² |
|------------------------------|---------------------|--------------------|--------------------|------------------|----------------|
| 1983 (15 obs) | -8.012 (-3.159)* | -0.112 (-0.439) | 1.091 (3.049)* | | .82 |
| 1987-88 (15 obs) | -5.949 (-2.401)* | 0.119 (-0.472) | 0.978 (2.831)* | | .78 |
| 1983 and 1987-88 (30 obs) | -7.333 (-4.350)* | -0.135 (-0.778) | 1.074 (4.518)* | | .80 |
| 1983 (15 obs) | -9.956 (-3.747)* | -0.008 (-0.032) | 0.772 (1.991)** | 0.335 (1.635) | .86 |
| 1987-88 (15 obs) | -7.785 (-2.570)* | -0.110 (-0.437) | 0.884 (2.487)* | 0.197 (1.045) | .80 |
| 1983 and 1987-88 (30 obs) | -9.185 (-4.743)* | -0.101 (-0.604) | 0.925 (3.786)* | 0.230 (1.757) | .82 |

The general functional form is:

$$\ln \text{TEREMP} = \alpha + \beta \ln \text{MFGI} + \gamma \ln \text{TERI} \text{ (and } + \delta \ln \text{AGI)}$$

where TEREMP - Tertiary sector employment,

MFGI - Manufacturing sector income at 1970-71 price,

TERI - Tertiary sector income at 1970-71 price,

AGI - Agriculture sector income at 1970-71 price,

ln - Natural log,

* and ** - denote significance at 5 and 10 per cent levels respectively.

Sources: (1) Central Statistical Organisation, *Estimates of State Domestic Product*, 1989.

(2) National Sample Survey, 38th and 43rd Rounds.

contributes to income of services through employment generation. There was an acceleration in the growth of manufacturing output in the 80s. It is therefore worth examining the impact of this on employment in services. But an empirical investigation of this hypothesis can be done only at the cross-section level because time-series data on employment covers only the organised sector of the economy. The information on employment (principal category) from the National Sample Survey, 38th Round for 1983 and 43rd Round for 1987-88, are utilised for this purpose. The corresponding data on State Domestic Product are taken from the Central Statistical Organisation. The regression results (Table 2) however do not support the hypothesis mentioned above. Given tertiary sector income the partial elasticity of tertiary employment with respect to manufacturing (and also agricultural) sector income turns out to be statistically insignificant. It may be noted that the data on tertiary sector employment here includes that in public administration which is generally not influenced by multiplier linkages. However since data on employment in NSS 43rd Round does not

give separate information on employment in public administration we could not separate it out from the total tertiary sector employment. Despite this limitation we may broadly infer that not only income but also employment in services appear to be growing independent of the commodity sector growth.

To conclude, neither income nor employment in services was significantly influenced by commodity sector income, especially manufacturing income even in the high growth phases of the eighties. It is in this perspective that the excess growth of the tertiary sector and its implications for inflation and balance of payment deserve attention of the policy-makers.

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plainly ignores her identity as an active, functional and necessary member of an extended family and a complex rural community. Pumping money may effect some immediate changes which even the traditional village heads would accept as they can very well see which side of their bread is buttered. But it remains to be seen how far the changes would persist and to what extent they are only plastic surgery.

In conclusion, I feel it should be pointed out that this article only proves that bilateral funding also goes the way of most traditional development efforts—to make the rich even better off while leaving the poorer sections barely touched. This is evident from the repeated mention of improvement in the conditions of "women from somewhat better off households". Further, as the author herself admits in regard to irrigation projects, "...any traditional agricultural employment generated by the irrigation facilities can be an important contribution to get more labour but it can also give more resources to landholding patriarchy to have more power in imposing control over the labour of landless women". And development experience indicates that the latter is what normally happens.

I am surprised that *EPW* should have devoted so much space to prove that bilateral funding can effect any kind of empowerment of the downtrodden or the oppressed. Empowerment of women, or any underprivileged group for that matter, can be realised only through a people's movement. If planners and policy-makers want any part in it they should think along the lines of generating employment to create assets that can be controlled by women, or help them assert control over existing resources through selection of appropriate projects. Rather than working with the individual it would be better if they adopted a community approach as empowerment can be realised much more effectively by a group rather than by the individual.

Bilateral Funding and Women's Empowerment

Vidhya Das

THE article 'Empowerment of Women: Its Scope in a Bilateral Development Project' by Loes Schenk Sandbergen (*EPW*, Review of Women Studies, April 27) seems to be more indicative of the extravagant dissipation of resources in bilateral aiding rather than of any real change in the social status of women in a rural community.

The government of India norm for installation of hand-pumps is one for every 250 population. If individual family units can be given a hand-pump just on the whim of a bilateral aid project, where is the replicability? And again the article indicates that there was a marked improvement in production from zero to some (the quantity is not indicated) but fails to establish how it improves the social position of the women within the family or within the community—the "strategic gender needs", as the study terms it. There has been a tendency to compartmentalise the so-called practical gender needs and the strategic gender needs, whereas a deeper insight into the changing family situation would have given a better picture of the definite linkages between the two.

The study emphasises improved production of vegetable a lot, but gives no indication of a cost-benefit analysis. The price of hand-pump installation is high, but the only indication of the quantum of economic returns is "a small quantity of vegetables" and, more specifically, a small quantity of coriander leaves. There is no analysis of how much the family consumes, how the money

is utilised and how the production was undertaken. There just seems to be an assumption that since the hand-pumps are in the names of the women members of the households, they would be having all the controls. In the case of site selection for hand-pumps, which was apparently done as per the women's preference, there is no effort to see whether their opinion was influenced and to what extent.

I regret to say that this article smacks of the typical elitist feminist view which gives prime importance to the woman as an isolated individual unit and almost com-

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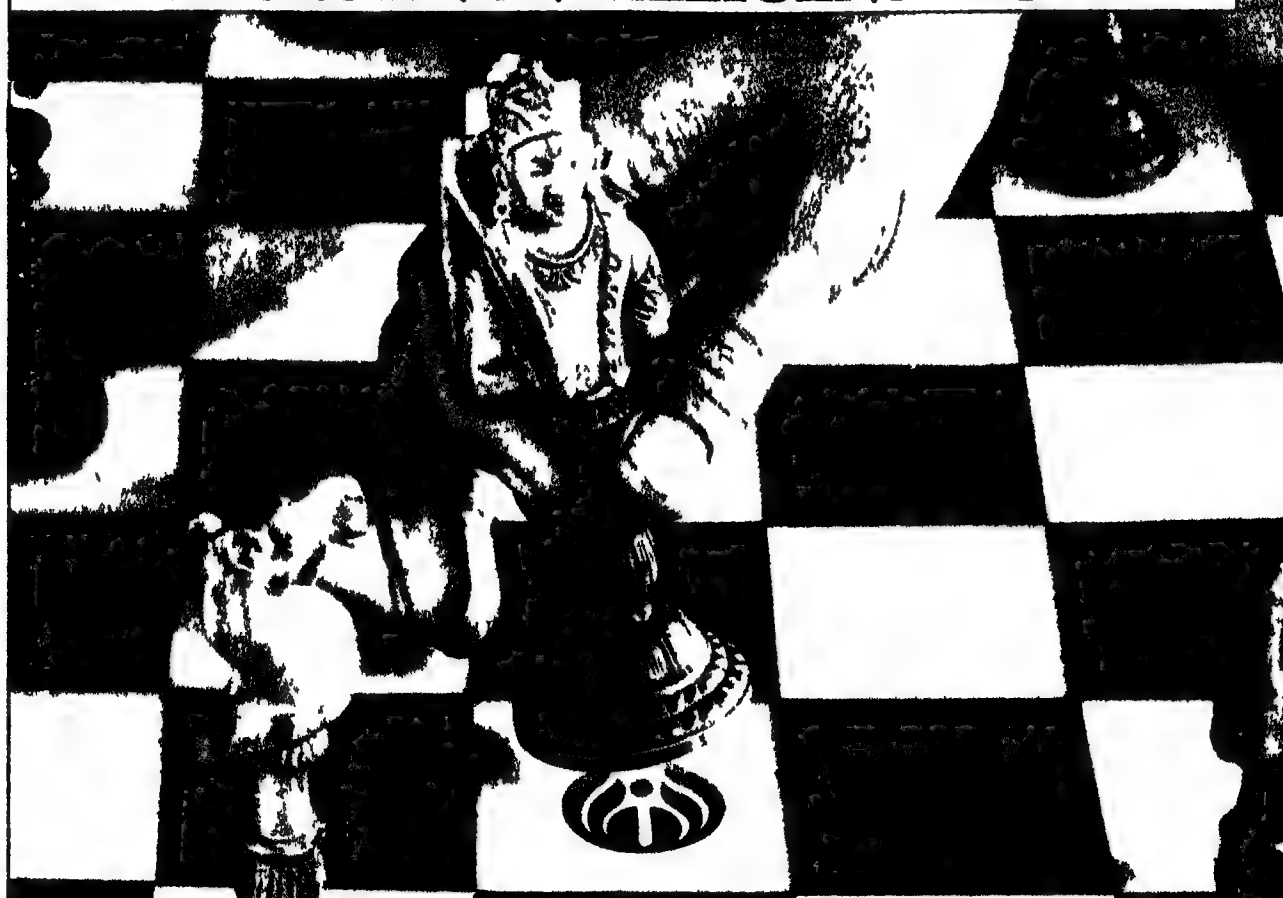
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Different Focus

The preoccupation with Salman Rushdie's portrayal of 'the Nation' and 'the Third World' on the one hand and with the digressive self-reflexivity ('Indian-ness') of his narrative technique on the other has resulted in the obscuring of his ideological moorings in the High Culture of the modern metropolitan bourgeoisie and in the suppression of a whole range of questions which have little to do with either 'the Nation' or 'the Third World' but which nevertheless are central to the basic import of Rushdie's narratives

1461

Road to Serfdom

We do need to liberate the Indian economy from the shackles of bureaucratic control, but trade reform of the type recommended by the World Bank is certainly not the first step in that direction

1437

Spring-Cleaning?

The main tactical task on the morrow of the Lok Sabha elections should be to isolate the BJP and its sympathisers and to mobilise the bourgeois democratic elements on a wide platform ideologically motivated by the Left

1443

Rajiv Gandhi's assassination should have provided the occasion for a general political spring cleaning. Unfortunately, it has not, at least not till now and there are few signs that unless pushed by circumstances, overall political behaviour in the country will undergo any qualitative transformation in the near future

1435

The self congratulation in Assam over the peaceful conduct of the polls may not be unjustified, but it is more important to note the ULFA's role in keeping the elections peaceful and the calculations underlying it

1443

Under Pressure

In the post Gulf War international balance with a vastly enhanced role for the US, the Third World will be confronted by the clovelly concerted pressures of the US and Europe in the political, economic and military spheres with no countervailing force anywhere in sight

1449

Lost Gilt

The government's decision to pledge 20 tonnes of confiscated gold abroad, which has attracted widespread criticism, is but a symptom of the country's external economic crisis which calls for review and reversal of the policy of economic liberalisation

1444

Opaque

Currently available data on khadi and village industries are inadequate and fail to provide an accurate profile of these industries. Suggestions for improvement

1452

Forgettable Anniversary

Within two years of the Tiananmen Square incidents, the whole episode looks so frightfully dated. Nobody is interested in it any more. The investors are not. The West is not. Japan has been more than keen to resume its role in China which it was forced, under American pressure, to suspend for a while

1441

Evidence Ignored

Those who argue for a money-based monetary policy, especially in approaching the problem of inflation, tend to evade the concrete evidence on the interest sensitivity of demand for money and the role of money supply in the inflationary process

1472

Women in Ancient India

THIS refers to Sukumari Bhattacharji's 'Economic Rights of Ancient Indian Women' (March 2-9). Her otherwise trenchant presentation is vitiated by a startling inaccuracy on page 511, column 2, paragraph 3. She writes: "Devayani was part of Sharmishtha's dowry; but Yayati who married Sharmishtha enjoyed Devayani slyly and begot Anu, Puru and Druhyu in her." This is unauthentic. The *Mahabharata* states precisely the converse in section 75, verses 34-35, section 81, verse 37, section 82, verse 25, section 83, verses 9-10 of the Sambhava Parva of the Adi Parva. According to these, Devayani forces Yayati to marry her, and takes Sharmishtha along with her as dowry. Devayani has Yadu and Turvasu as sons, while Sharmishtha solicits Yayati in secret, persuades him that it is his duty to satisfy her desire for children, and begets Druhyu, Anu and Puru thereby. It is not Yayati who approaches Sharmishtha but the other way about. Sharmishtha slyly enjoys Yayati.

Bhattacharji also misrepresents the story of Madhavi on the same page. Yayati, not having 800 horses with one ear black each as demanded by Vishvamitra of Galava as 'guru-dakshina', gives him his daughter instead, since by giving her in marriage to a king, Galava can obtain these horses. Unfortunately, Haryasva, to whom Galava goes first, has only 200 horses. That is when Malati herself, noticing the despair of Galava, tells him that she possesses a boon whereby she regains virginity even after giving birth to a child. It is Madhavi who suggests to Galava that he should give her to four kings desiring sons, and thus obtain 800 horses. Thereby, Haryasva, Divodasa and Usinara, each gets a son and Galava gets 600 horses. To make up for the missing 200, he gifts Madhavi herself to Vishvamitra, who begets Ashtaka, the rajarshi. It is this Ashtaka who saves his maternal grandfather Yayati from falling into the earthly hell when he is thrust out of heaven. The 'usage' aspect, therefore, is a direct consequence of Madhavi's own suggestion for rescuing Galava, and is *not imposed* on her, for she could well have remained with the first king, Haryasva, by keeping the secret of her boon safe.

Actually, even prior to the pledging of Draupadi in the dice-game, the use of the woman as an object is first made by Kunti herself, the mother-in-law. While Arjuna and Bhima hold the incensed kings at bay in the bridegroom-choice arena, Yudhishtira and the twins scurry home. Thus, Kunti knows all about what has happened when Bhima and Arjuna come home with Draupadi. Kunti calmly asks the five brothers to divide the princess among them equally, and then gets extremely anxious that her word should not become false. Vyasa puts on a command performance with mythical tales in order to persuade Drupada to agree to the polyandrous union, with both Kunti and Yudhishtira insisting that the

mother's command, once stated, must not become false! Similarly, Pandu directs Kunti which god she must sleep with on all three occasions for getting him foster-children. Like Madhavi, she announces the boon she possesses and does not mind being used as a child-producing machine. We have, therefore, to see the psychological make-up of the women themselves whereby they volunteer for such exploitation. Obviously, some sort of self-fulfilment is involved in the transaction and it cannot be treated simplistically as another instance of MCP-ism, particularly in Sharmishtha weaving her net of enchantment around Yayati who has scrupulously been avoiding her.

Calcutta

PRADIP BHATTACHARYA

Environmental Colonialism

THIS has reference to your editorial 'Global Warming: Environmental Colonialism' (February 23). The Centre for Science and Environment (CSE) study has challenged the findings of the WRI report on global warming which puts the blame on developing countries for the occurrence of global warming. By using the data from the WRI Report *World Resources 1990-91*, the CSE study examines the validity of arguments and myths put forward by this study that India, China and Brazil are amongst the top five countries responsible for the global warming.

This is not the only study carried out by WRI which blames the developing countries for environmental destruction in the world. In fact, a few years ago, the WRI published a report for the World Bank and UNDP, *Tropical Forests: A Call for Action*. This study also put the blame on poor people, not profits, for tropical deforestation and called for commercial forestry based on privatisation to solve the problems of deforestation and poor. These arguments were used by the

Britishers to colonise our forest resources and now, through 'scientific', 'objective' studies, these arguments are being presented to us once again.

It is high time that such studies by WRI and other similar institutes in the West are examined and exposed by research institutes, NGOs and citizen groups in Third World countries. To counter the Western hegemony, we need to have more data base and scientific institutions to look into the environmental and developmental issues, both global and local.

Instead of seriously examining the issues of equity between developed and developing countries raised in the CSE study, Allen L Hammond of WRI (*Indian Express*, January 28) argues that such issues should only be discussed and negotiated in the context of a global climate convention and the United Nations Conference on Environment and Development to be held in 1992. Here again, there is a serious danger of over-representation of environmental groups and institutes like WRI from the industrialised countries and marginalisation of popular environmental movements and groups (such as the Ganga Mukti Andolan and those involved in the Baliapal struggle in India) from the Third World countries. There is a growing concern and consciousness in the Third World countries about the need to stop the construction of environmentally destructive developmental projects like big dams, nuclear mining projects, tourism, etc. But the voices and views of environmental movements and groups who are involved in such struggles will not be heard if mere tokenism prevails. Therefore, it is the responsibility of environmental groups and movements from the Third World countries to come together, build solidarity and alliances with like-minded groups from developed countries so that real issues related to environment and development can be discussed and debated in the conference.

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Old Myths

ONE wonders what the CPI(M) hopes to gain by running with the hares and hunting with the hounds. The series of ambivalent statements made by its different leaders in the wake of Rajiv Gandhi's assassination definitely show up the party in poor light. The assassination seems to have sent the leaders scurrying in different directions. Utterances made by one leader need to be clarified by another the next day while some other day another leader says something utterly different.

What, for instance, is one to make of Jyoti Basu's reaction to Rajiv Gandhi's assassination as telecast on Doordarshan the next day? Basu was quoted as saying that the event struck a blow at the nation's stability. So, are we to understand that Rajiv Gandhi symbolised stability? This exactly is the claim which was being made by his party in the election campaign. Yet all these months the CPI(M) was telling us that it was Rajiv Gandhi who had destabilised the country by his policies. Now, after Rajiv Gandhi's shocking death, has a veteran leader like Jyoti Basu been swept off his feet and stampeded into joining the chorus about loss of stability as orchestrated by the Congress(I)? Even more intriguing have been the doings of another CPI(M) leader, Harkishen Singh Surjeet. At a time when the Congress(I) was in the throes of a crisis over the choice of its leader, Surjeet arrived on the scene to reassure the nation, at a press conference in Delhi on May 27, that there was no crisis in the Congress over the election of a new party president. Was it really necessary for this eminent CPI(M) leader to become a spokesman of the Congress(I)?

Soon after the election of P V Narasimha Rao as the Congress(I) president, the CPI(M) general secretary E M S Namboodiripad addressed a letter to him, which was almost grovelling in its appeal to the Congress(I) to re-examine its attitude towards the Left parties before the polls took place in the remaining Lok Sabha and assembly constituencies, while complaining about Congress(I) attacks on his party cadres in West Bengal, Tripura and Kerala. Namboodiripad expressed the hope that Narasimha Rao would complete the process of restoring inner party democracy in the Congress(I). One fails to understand why a professedly self-reliant and independent party has to depend on changes in the Congress(I) organisation and to seek its favours. Following reports of confusion among the party ranks and speculation in the national press, a spokesman of the CPI(M) sought to allay misgivings by issuing a statement on June 1 saying that there was no question of the CPI(M) joining hands with the Congress in any post-election scenario. Jyoti Basu, talking to reporters at the Calcutta airport before leaving for a holiday at Digha, also hastened to reiterate that there was no question of any realignment of political forces in the post-poll scenario.

But these clarifications notwithstanding, the CPI(M) leaders need to do a lot of explaining. It is not without reason that E M S Namboodiripad, Jyoti Basu and Harkishen Singh Surjeet, among the party's politburo members, have somehow managed to acquire the reputation of nursing a soft spot for the Congress(I) in general, and certain people in that party in particular. Jyoti Basu, for instance, had established a personal rapport with Rajiv Gandhi in recent years and had succeeded in neutralising him during the elec-

tion campaign in West Bengal, much to the chagrin of the State's Congress(I) leaders and cadres. The latter quite openly expressed their resentment at the conspicuous absence of any anti-Basu tirade in Rajiv Gandhi's speeches at election rallies in the State. Jyoti Basu for his part is on record as having said that in the event of a hung parliament, his party would support any government at the Centre on an issue-to-issue basis. Was this an indirect way of reassuring the Congress(I)? As for Surjeet, his party's bleak prospects in the Punjab elections seem to have brought him closer to the Congress(I), whose support he needs to get the polls in that State postponed. Namboodiripad's pro-Congress(I) stance, however, appears to be contrary to the stand taken by chief minister E K Nayanar in Kerala. Soon after Namboodiripad's appeal, Nayanar at an election rally in Kochi, lambasted the Congress(I) leadership and roundly blamed it for Rajiv Gandhi's assassination. It seems, therefore, that Namboodiripad's views are dictated more by his concern for the post-poll national scenario than by the immediate local electoral interests of his party in Kerala.

What apparently brings together these leaders is the plea that the BJP-VHP combine and the secessionist forces in Punjab and Kashmir must be fought by allying with all secular forces, including the Congress(I). This view is, it seems, shared by sections of the CPI as evident from the 'open letter to Congressmen' addressed by the CPI MP, Chaturanan Mishra, on June 1, in which he calls for a "national consensus among secular parties" in the situation brought about by Rajiv Gandhi's assassination which is described as 'not just the assassination of the president of a party but a national tragedy'. Mishra's desire to identify Rajiv Gandhi with the Indian nation is just a step ahead of Jyoti Basu's identification of Rajiv Gandhi with stability. Not to be left behind, the CPI leader requests secular parties like the Congress(I) to abjure alliances with communal and divisive parties either in government or in the opposition.

While the concern expressed by the CPI(M) and the CPI about the rise of communal and divisive forces will be widely shared, it is rather intriguing that they should appeal to a party which during its rule at the Centre, and in several States, for most of the post-independence era, had fostered the rise of the same communal and divisive forces which the Left is trying to fight. How can the CPI(M) forget that it was Rajiv Gandhi who inaugurated his election campaign in 1989 by taking the name of Rama at Ayodhya? How can it forget that it was Indira Gandhi's Congress which propelled Bhindranwale to serve its interests in Punjab leading eventually to the present imbroglio there? How can it ignore the communal riots that have taken place in States ruled by the Congress(I), or the direct involvement of Congress(I) leaders in the massacre of Sikhs in Delhi and other places in October-November 1984? Those leaders are still around and are dictating the policies of the Congress(I), to which the CPI(M) and CPI are making appeals for an alliance of secular forces. Can such an organisation by any stretch of the imagination be described as secular? How much longer will it take the Indian communists to purge themselves of the myth that the Nehru dynasty and the Congress Party can be the only bulwarks of stability and secularism in India?

URBAN MESS Victims of Neglect

THE deluge which hit Bombay city last week and disrupted city life for several days is not only a cause for concern to the city administrators and citizens, but is a worrying comment on the neglect of urban planning in general. There is no denying that the volume of rainfall in those two days, "the worst ever since 1952", would have put a strain on the most efficient of water carriage systems—the heavy downpour combining as it did spectacularly with high tide in Bombay's big drain, the Arabian sea. But equally, the drainage system, designed almost a century ago, has long been showing signs of breaking down. The storm water drains reportedly criss cross with the city's drainage system and in times of stress, as when there is an excess of water the two systems tend to break down together, making the process of water drainage almost impossible.

Long ago a report had recommended desilting of the drains as an urgent measure but nothing much seems to have been done on this count. Neither the drainage system nor the storm water system is adequate for the demands of the city, even without the 'mix' which is bound to take place during the monsoons—the latter apparently is capable of taking care of about an inch of rain a day, but in the last many years Bombay has been receiving as much as two inches a day on many days (and in a 24-hour period last week as much as over 3 inches). Clearly, while there has been much discussion about these issues, no long-term measures have been implemented in a long while to alter, redesign and expand the water and drainage systems (not to mention the water supply system which is quite another agonising concern). In short, little cognisance has been taken of the expanding city and its needs. And if this is the situation in Bombay, which is generally thought to be the best administered as far as civic amenities are concerned, is there any reason to believe that other cities are better maintained?

On the contrary, the general neglect of urban planning over the decades has led to a proliferation of urban problems. For example, among the reasons for the flooding in Bombay in areas which had never before been so affected were the uncollected garbage and the debris from unfinished road work which obstructed the flow of water. The Bombay Municipal Corporation employs perhaps the largest number of workers for garbage disposal

and has adopted some modern methods of disposal, such as compacting, etc. These are, however, becoming increasingly inadequate. And sadly this is the case in most urban areas, including the proliferating small towns.

This unconcern for all-round planning has also meant a neglect of the possible consequences of new development. For instance, in Bombay, reclamation of land from the sea has been taking place at an increasing pace both at the southern tip as well as further north on the city's western side. But there is no indication that these projects had ever given thought to how the land fill would affect the tide patterns on the city's shores and, consequently, how it would affect the city's drainage systems during the monsoons.

As usual, the worst affected in last week's deluge were the slum- and pavement-dwellers who comprise most of the one lakh people rendered homeless. While the middle class wet its feet, the working class populations nearly got drowned or lost most of their meagre belongings and shelter, such as it was. And this is what happens every year. Since these sections have been relegated to the status of 'illegal' occupants by the city administration, their loss is never estimated nor, of course, compensated. And yet their ranks are swelling not only in the large cities but in the smaller ones as well.

ELECTIONS

Biased High-handedness

PRESIDENT R Venkataraman's recent exhortations to the nation over the radio and TV networks to ensure 'free and fair' elections may have been well intentioned, but they lacked effective appeal because of some other contradictory signals from New Delhi about the same time. These signals came from the chief election commissioner (CEC) whose conduct is the most crucial in determining the degree of freedom and fairness of the electoral exercise.

One refers to the CEC's latest decisions regarding the two States of West Bengal and Tripura. In the first State he has ordered repolling in 40 booths, merely on the basis of some complaints made by the Congress(I) candidates, while in the second State he has refused to postpone the polls despite repeated complaints by the Left Front about widespread Congress violence against the opposition parties—complaints which were substantially supported by the contentions of 10 IAS officers of the State.

The blatancy of the CEC's protection

to the Congress(I) violence in Tripura has not escaped the notice and comments of quarters which can be least suspected of harbouring any pro-Left bias. Thus, the Agartala correspondent of *The Telegraph* referred more than once in his report datelined June 8 to the Congress(I) violence against the Left Front in the wake of Rajiv Gandhi's assassination. *The Statesman*, Calcutta, even devoted a leaderette titled 'Blind Man's View' in its issue of June 9 indicting the CEC for "allowing Congress(I) hoodlums in the State [Tripura] to get away scot-free".

Contrast to this the CEC's fiat to the West Bengal government to hold repolls in 34 polling stations of the Howrah parliamentary constituency and six polling stations of the Asansol parliamentary constituency—15 days after the first polls and even though there was no report of any irregularity from the returning officers concerned, indeed even after the returning officers concerned had replied to his queries that there had been no incident of booth capturing in any of these constituencies.

Against this background, the president's exhortations for free and fair polls gets further compromised as the CEC makes it a point to publicise his frequent meetings with the former while pursuing his apparently unfair policies.

SOVIET UNION AND G 7

Unreal Expectations

ONE thing is now certain. Mikhail Gorbachev is going to London to address the G 7 summit on July 17, the day the summit concludes its regular business. The British, the hosts this time, emphasise that Gorbachev is not to participate in the summit meeting, he is only to address the summit participants after the regular meeting.

Gorbachev has made no bones about why he is so very keen on going to the G-7 summit. His purpose is to plead for support for his economic reform programme. And the support he seeks is not small; the sum mentioned is \$ 150 billion over the next five-year period. An advance team headed by Yevgeny Primakov, the man Gorbachev deputed to put some sense into Saddam Hussein on the eve of the Allied ground attack against Iraq, was in Washington to explain Gorbachev's reform programme.

Significantly, while George Bush keeps on promising support to Gorbachev personally and to his perestroika—"I want perestroika to succeed"—are George Bush's

exact words—soon after Primakov's Washington visit, the US secretary of state, James Baker, in his address to NATO foreign ministers rejected outright notions of massive Western aid to the Soviet Union when he said, "I don't honestly think we can catalyse Soviet reform through a big-bang approach" At the same time, though, Baker was setting conditions for whatever support might be forthcoming from the West His four conditions were that the Soviet Union must make a clear move "to embrace a real market economy", stop repressing the "independence-minded" Baltic States, cut military spending and end aid to "regimes that pursue internal repression" Baker made it clear subsequently that he had Cuba in mind when he referred to regimes practising internal repression Evidently, however much the US is inclined to be supportive towards Gorbachev and his reforms, it does not envisage pledging of hundreds of billions of dollars

Of course, the US itself is in no position to pledge the large sums Gorbachev is aiming at and Gorbachev should know this The US has been, and continues to be, an importer of enormous amounts of foreign capital Even today it is running a current account payments deficit of \$ 100 billion The US economy is being sustained by massive inflows of funds from Japan Germany and other countries, with no mean contributions coming from countries like South Korea and Taiwan So, if substantial pledges have to be made to the Soviet Union, it could adversely affect the flow of funds not only to East Europe and the Third World, but also to the US Of course, if one posits a reversal of the current recessionary trends in the West and projects a scenario of reasonable growth, say, at 3 per cent per annum, as against the present level of less than 2 per cent, accommodating an export surplus of \$ 30 billion with the Soviet Union should not be difficult But then there has to be thinking at a very different level one that transcends the immediate interest of each of the countries concerned Gorbachev is possibly counting on that but isn't he day-dreaming?

BALANCE OF PAYMENTS

All-Too-Brief Respite

It is, of course, very disturbing that the country is being driven to dip into its gold holding The decision of the government to raise, through the State Bank of India, a loan of \$ 200 million on the strength of a swap arrangement involving 20 tonnes of gold out of the confiscated stock with the government may well be the begin-

ning. After all, with as much as \$ 4 billion of revolving debt and with foreign exchange reserves having receded below the \$ 1 billion mark, it was a matter of weeks, if not days, before some such a step had to be resorted to

The hue and cry being raised in certain quarters about the inadvisability of the present government resorting to the gold swap is totally unjustified Precisely because the present government is a caretaker government, it has gone in for a swap and not an outright sale This gives any successor administration the opportunity to rescind the swap if it can work out some other arrangement for raising the required funds Indeed, the successor administration, whatever its hue, will have to think on those lines for the simple reason that the country's gold reserves, including the stock of confiscated gold, do not add up to much At the prevailing international price of gold, its value will work out to around \$ 4 billion, at the outside There is also an added reason Precisely because it is a swap arrangement and not an outright sale, the amount realised seems to be 25 per cent less than what could have been realised from outright sale at the current international price of gold

Of course, the very first task of the new administration will have to be to sort out the arrangements for tackling the country's critical payments position The stop gap arrangement made by the present caretaker government may well give the new administration some breathing space and for that it should be thankful, but the respite will not last very long

DEFENCE

For US Eyes Only?

STRANGE are the ways of our defence establishment It withholds even the most innocuous information from the public on grounds of 'national security' Yet it bends over backwards to treat the US ambassador to a tour of the most sensitive spot in our border area on the plea of 'courtesy'

The trip was organised from June 6 to 8 The spot was Siachen in Kashmir where the Indian army remains entrenched facing Pakistani troops It is supposed to be out of bounds for ordinary Indian citizens, not to speak of foreigners Such is the concern over security in border areas that whenever Indian press persons are taken there by the army authorities on conducted tours, they are required to refrain from mentioning in the dateline the name of the spot and use the

euphemism 'somewhere in the border area' so that the 'enemy countries' do not get to know from their reports about the details of our defences But the US ambassador is, of course, from a 'friendly country' and, therefore, can be allowed access to secrets which an ordinary Indian cannot be trusted with

The entire trip appeared to be a hush-hush affair The ambassador arrived at Nimu, the divisional headquarters of the troops posted in Siachen, and was reported to have had a tete a tete with the local army authorities there who had earlier organised his transport from Leh When the news leaked out, officials in New Delhi hemmed and hawed at first The external affairs ministry, which is required to be kept informed of the movements of foreign dignitaries, pleaded ignorance Army sources initially feigned ignorance, but later confirmed the report, describing it as a mere 'courtesy call' to a military camp

One wonders what the army is up to in Kashmir? Are the local army officers acting on their own? Is there a communication gap between the headquarters and the officers posted in Kashmir? Last year, the army got itself in a tight corner over the kidnapping of a journalist in Srinagar He was taken away from his home by army jawans Army bosses in Delhi at first disclaimed any responsibility for his arrest, and some even suggested that he might have been kidnapped by terrorists in the garb of Indian jawans' Only when the matter was taken to the Supreme Court was the journalist released from army custody

The Indian public has the right to know whether the US ambassador's tour of Siachen was in response to an invitation by the local army commanders, or whether it was cleared by the army headquarters If it is the first, it requires suitable action against army personnel who acted 'presumably without any clearance from the top But if it is the second, it involves far reaching political implications Is New Delhi tilting towards Washington to the extent of opening up its defence structure to US supervision? Is it a prelude to its willingness to submit to the requirements of the Pressler Law under which it will have to obtain the US president's certificate regarding its nuclear plans? In the past the Indian government tended to raise the pitch of its anti US rhetoric, particularly on the eve of any major policy decision that ultimately led to submission to US pressures Today also, it may not be a coincidence that while some members of the Union cabinet keep on thundering against the CIA and blaming it for Rajiv Gandhi's assassination,

...colleagues in the same cabinet surreptitiously welcome the US ambassador to an inspection of the country's defence preparations along a sensitive border

ETHIOPIA

Danger from US Involvement

THE 30 year civil war in Ethiopia which has left about 2,00,000 people dead in the fighting, caused recurring famines that have taken a toll of 3,00,000 people and rendered some 15 million people refugees has finally seemingly concluded. But Ethiopia's predicament has eased only to the extent that one of the two primary antagonists has ceased to exist and in the circumstances that obtain excessive optimism of a quick and surgical solution to the country's problem may be misplaced.

True, the three main rebel groups—the Tigrean dominated Ethiopian Peoples Revolutionary Democratic Front (EPRDF), the Eritrean Peoples Liberation Front (EPLF) and the Oromo Liberation Front (OLF)—had united in ousting the regime of Mengistu Haile Mariam. Now that this objective has been achieved, difficulties are liable to crop up. Under the terms of the US mediated London agreement the EPRDF is to exercise power in Addis Ababa as an interim government pending an all party conference to be convened before July 1 which will discuss the formation of a broad based provisional Ethiopian administration which in turn will conduct election.

However, the EPLF says that while it will co operate in the formation of the provisional government it will not participate in it. Instead the EPLF which wants independence for the Eritrean region has announced that it will form a provisional government in Eritrea pending a referendum under UN supervision. According to EPLF leader Issaias Alwerki, the formation of the provisional government would be merely formalising the government and administration of the past 30 years implying *de facto* Eritrean control all through the past. If Eritrea proceeds with the demand for full independence the rest of Ethiopia will be land locked since the province on the Red Sea controls the entire Ethiopian seaboard with its ports of Massawa and Assab.

This problem is however not as intractable as it seems. As of now the EPRDF leader Meles Zenawi has refrained from anything more severe than a mere expression of hope that Ethiopia will remain united and has made it clear that the 'freely expressed will of the people' would be accepted. This is a salutary recognition

of the futility of holding the country together by force, which itself is an implicit recognition of Eritrean military power and the mass support that the EPLF and the idea of independence enjoy in Eritrea. For its part, the EPLF too has so far struck a note of moderation. It has announced that the formation of the provisional government is not to be construed as a declaration of independence and that the referendum—which offers a choice between independence and autonomy—may be deferred till after the general elections which is likely to be delayed by more than a year due to the absence of reliable voting registers. Given these fraternal concessions and the fact of a shared political ideology, a peaceful solution to the seaboard question may well be worked out. But at the level of mass nationalism the Eritrean desire for independence is as strong as the opposition to it by the dominant Amhara population of Ethiopia. Consequently, the possibility of events taking a course that is at variance with the leadership's current flexibility cannot be ruled out.

The more fundamental problem is external. The chief architect of the new world order' has taken an excessive interest in Ethiopia's internal affairs. The West can take little solace from the ouster of Mengistu's supposedly Marxist regime since the struggle in Ethiopia has been exclusively confined to groups professing Marxism Leninism and the communist aims of all three rebel groups sit uncomfortably with the 'spirit' of the new world order. Mischief cannot therefore be precluded and there is more than a suspicion of it in the US mediator's attempt to portray the seizure of Addis Ababa as having been accomplished at American bidding, as also in the gratuitously indulgent advice to refrain from reprisals and to move quickly towards democracy. The US assistant secretary of state for African affairs Herman Cohen has been crudely categorical in asserting that Ethiopia will get international support only if it lays the groundwork for a new political system. Since the EPRDF had already made clear its intention of moving towards a multi-party system, the harping on the so called new political system seems to imply a repudiation of the political ideology of the rebels. But given that the mass support of the rebels in many areas is founded on various reform measures consistent with their ideology, such a repudiation may not be easily forthcoming. Hence aid to Ethiopia, particularly under famine conditions, might be linked to the extraction of such a repudiation, the consequences of which, though it cannot be gauged now, may well be a continuation of civil strife.

TWENTY YEARS AGO

EPW, June 12, 1971

In the midst of the thousands of refugees pouring into India everyday, it may not be exactly comforting to know of "the coincidence of points of view of India and the Soviet Union on all major international problems". While in Moscow, the joint communique continues, Swaran Singh "also discussed the serious situation created by the continuing stream of millions of refugees from East Pakistan coming into the adjoining States of India". The coincidence of views does not seem to have extended to this problem, but then it is a small matter.

In the annals of our foreign relations, it would be difficult to find a more pointless and fruitless errand. The only result seems to have been to reassure the Soviets (as that was necessary) that we do not intend to get involved in the civil war in Pakistan. The independence of Bangladesh is no longer the issue. We are worried primarily about the refugees. In other words, the Soviets have reason to feel relieved that the change in the political map of the sub continent is not imminent after all. The *status quo* faces no serious danger of alteration. Even if Swaran Singh wanted to emphasise this, the least he could have done was not link the fate of the hapless refugees with umpteen other problems of the world.

★ ★ ★

The main thrust of China's recent diplomatic offensive, whatever the local context—be it South Asia or South East Asia—is to prevent a convergence of interests between the Russians and the Americans. While adhering to this as the primary aim of its diplomacy, Peking has not lost sight of the purely Russian threat. It is in this latter context that Peking's active wooing of some East European countries must be regarded. Rumania, which for several years has stoutly followed an independent policy *vis a vis* the Soviet Union, is the obvious and willing choice for making the Russians feel slightly unsecured on their Western boundaries. The Chinese calculation is very likely to be that the encouragement of Sino Rumanian ties will make for greater Russian caution on their Eastern, i.e. Chinese, frontier.

In a significant speech last month Ceausescu strongly indicated that Rumania might be thinking of military co-operation with the Chinese. He declared that his country would henceforth be ready to co-operate with the armed forces of all socialist states regardless of whether they were members of the Warsaw Pact. By this he made it clear that military co-operation with the Yugoslavs and the Chinese could not be ruled out. This sort of suggestion is a breach of the spirit of the Warsaw Pact and is bound to worry the Kremlin—an effect which it was meant to have.

Upgrading Technology and Reducing Costs

Kumaran Pola

SANDVIK ASIA reported impressive improvement in operations and profitability for the year ended December 1990. The production of tungsten carbide products increased to 54.96 lakh, equivalent to 1062 kgs, from 49.58 lakh, equivalent to 1012 kgs, in the preceding year. The main raw materials and bought-out components consumed during the year were 104 tonnes of tungsten ore as against 136 tonnes in the preceding year, 11 tonnes of cobalt including cathodes as against 10 tonnes in 1989 and 18 tonnes of carbide powders as against 15 tonnes in 1989. These figures reflected the results of the measures taken by the company to improve the cost effectiveness in the manufacturing and process rationalisation areas. The imported raw materials and components formed 76 per cent of the cost of raw materials and components consumed during the year as

compared to 77 per cent in 1989. The company manufactures and markets cemented carbide cutting tools, wear parts and rock tools and mineral tools. The tungsten carbide products manufactured by the company include integral rock drill steels, bits, detachable bits, extension drill steel equipment, inserts, tips, dies, nibs, studs and other applications. Sandvik Asia is today the largest supplier of cemented carbide cutting tools which are marketed under the brand name 'Coromant'. It offers the most comprehensive range of sophisticated rock drilling and coal mining tools.

The company is making continuous and systematic effort to optimise energy/power consumption and to reduce the use of diesel and furnace oil per unit of various products. For instance, the company has on hand a proposal for the

modernisation of the hydrogen gas plant to be implemented in the next two years at a cost of Rs 3 crore. This will result in an energy saving of 30 per cent. The company is also pursuing actively research and development efforts. A collaboration agreement was entered into with AB Sandvik Coromant, Sweden, for a period of five years in October 1990 for enabling the company to undertake R and D projects in the areas of development of materials and processes, cutting tools designs and geometrics, new coatings, production technology, fundamental studies in related areas and recovery/recycling of tantalum and niobium from cutting tool scrap.

Though the company has increased its exports by 47 per cent from Rs 1.15 crore in 1989 to Rs 1.68 crore in 1990, the company's foreign exchange expenditure far exceeded its earnings. As against foreign exchange earnings of Rs 1.68 crore in 1990 and Rs 1.15 crore in 1989, foreign exchange expenditure totalled Rs 6.26 crore and Rs 8.98 crore, respectively. In addition, the company remitted Rs 59.40 lakh each during the two years on account of dividends.

As regards the prospects for 1991, the directors stated that factors like the foreign exchange crunch, Gulf war and the general economic climate since February 1991 had slowed down production in many industries such as automobiles, machine tools and engineering. This would have an adverse impact on the market for hard materials and cutting tools in the first half of the current year. However, the company hoped to introduce the latest designed coated inserts, tooling systems, and additional range of milling cutters which will improve the productivity of the user industries. The company made an investment of Rs 3.77 crore during 1990 to upgrade its products in the context of the steady replacement of outdated machinery by modern CNC machines, automatic presses and robotics in different industries the last three years.

The financial performance of the company improved during 1990 as reflected in an overall return on investment of 10.71 per cent. The company improved its assets utilisation and achieved for its shareholders Rs 1.10 of sales for every rupee of investment in assets as compared to Rs 0.98 of sales per rupee of investment in 1989. There was also improvement in the net profit margin on sales from 6.20 per cent in 1989 to 9.76 per cent in 1990. On shareholders' equity, the rate of return improved from 15.70 per cent to 25.54 per cent.

Due to higher generation of funds in-

The Week's Companies

(Rs in lakh)

| Financial Indicators | Sandvik Asia | | Motor Industries | | Fairgrowth Financial Services | |
|--|------------------|------------------|------------------|------------------|-------------------------------|--------------------|
| | 1989 December | 1990 December | 1989 December | 1990 December | 1990 March | 1991 March* |
| Income/expenses/profit | | | | | | |
| 1 Net sales/main income | 4,096 | 5,165 | 23,308 | 28,587 | 0 | 6,902 |
| 2 Other income | 93 | 114 | 558 | 712 | 0 | 9 |
| 3 Raw material cost | 1,464 | 1,334 | 8,543 | 11,450 | 0 | 0 |
| 4 Employees cost | 884 | 946 | 6,376 | 7,135 | 0 | 13 |
| 5 Depreciation | 237 | 280 | 2,253 | 2,697 | 0 | 13 |
| 6 Other expenses/adjustments | 949 | 1,611 | 4,045 | 4,435 | 0 | 6,683 |
| 7 Operating profit (1+2)-(3 to 6) | 655 | 1,108 | 2,649 | 3,582 | 0 | 202 |
| 8 Interest | 203 | 214 | 38 | 289 | 0 | 91 |
| 9 Taxation | 198 | 390 | 1,150 | 1,800 | 0 | 0 |
| 10 Net profit (7-8-9) | 254 | 504 | 1,461 | 1,493 | 0 | 111 |
| 11 Dividends | 144 | 173 | 533 | 533 | 0 | 9 |
| Capital/loans/assets | | | | | | |
| 12 Share capital | 578 | 578 | 3,805 | 3,805 | 0 | 100 |
| 13 Reserves and surplus | 1,040 | 1,395 | 6,785 | 7,842 | 0 | 102 |
| 14 Current liabilities and provisions | 1,420 | 1,551 | 4,984 | 6,225 | 0 | 4,426 |
| 15 Short-term borrowings | 525 | 643 | 347 | 2,208 | 0 | 1,175 |
| 16 Long-term borrowings | 616 | 541 | 221 | 1,430 | 0 | 270 |
| 17 Gross fixed assets | 3,231 | 3,619 | 19,876 | 24,075 | 0 | 510 |
| 18 Accumulated depreciation | 2,039 | 2,283 | 13,102 | 15,711 | 0 | 13 |
| 19 Inventories | 1,313 | 1,006 | 3,182 | 3,709 | 0 | 725 |
| 20 Receivables | 1,297 | 1,606 | 3,088 | 4,233 | 0 | 2,800 |
| 21 Current asset | 2,897 | 3,143 | 8,310 | 10,756 | 0 | 5,521 |
| 22 Investments/other assets | 91 | 229 | 1,029 | 2,390 | 0 | 54 |
| 23 Total assets/liabilities (12 to 16) or [(17-18)+(21+22)] | 4,179 | 4,708 | 16,112 | 21,510 | 0 | 6,073 |
| Key financial ratios | | | | | | |
| 24 Turnover ratio (1/23) | 0.98 | 1.10 | 1.45 | 1.33 | — | 1.52 ^a |
| 25 Return on sales (10/1)×100 (%) | 6.20 | 9.76 | 6.27 | 5.22 | — | 1.61 |
| 26 Return on Investment (%) (10/23)×100 or (24×25)% | 6.08 | 10.71 | 9.07 | 6.94 | — | 2.44 ^a |
| 27 Return on equity (%) [10/(12+13)] ×100 or [23/(12+13)]×26 | 15.70 | 25.54 | 13.80 | 12.82 | — | 73.27 ^a |
| 28 Book value per share (Rs) | 280.17 | 341.65 | 278.31 | 306.09 | — | 20.20 |
| 29 Current market price (Rs) | 670.00 | 1,290.00 | 890.00 | 1,285.00 | — | — |
| 30 Price/earnings ratio | 15.23 | 14.78 | 23.18 | 32.75 | — | — |

— = New company a = Annualised * for 9 months.

Balance Sheet Analysis by Manisha C. Mehta

funds got reduced as reflected in the debt/equity ratio of 0.601 in 1990 as against 0.711 in the preceding year. The liquidation of inventories by Rs 3.07 crore was more than offset by increases in receivables. The company's working capital position reflected a current ratio of 2.03 in 1990 as against 2.04 in the preceding year. The company reported a higher interest coverage ratio of 4.18 times in 1990 compared to 3.23 times in the preceding year.

MOTOR INDUSTRIES COMPANY

Expansion and Diversification

MOTOR INDUSTRIES COMPANY achieved marginal increases in production during the year ended December 1990. Production of fuel injection pumps increased to 1,038 in 1990 from 916 in the preceding year, spark plugs to 11,238 from 11,000, elements and delivery valves to 10,308 from 10,014, nozzles, nozzle holders, elements and delivery valves to 7,498 from 7,042 and filters and filter inserts to 1,172 from 1,156. Total raw materials, spare parts and components consumed during the year were valued at Rs 114.50 crore as compared to Rs 85.43 crore in the preceding year. Of this, 35 per cent consisted of imported raw materials, spare parts and components compared to 31 per cent in the preceding year.

Sales, excluding excise duty, but including export incentives of Rs 2.63 crore in 1990 and Rs 2.23 crore in 1989, amounted to Rs 285.87 crore. This showed an increase of 23 per cent over the preceding year. Export sales increased by 20 per cent, to Rs 26.11 crore compared to Rs 21.69 crore in the preceding year. The company exported 1.4 million spark plugs during 1990. Total foreign exchange earnings increased from Rs 21.90 crore in 1989 to Rs 26.35 crore, while foreign exchange expenditure increased from Rs 25.29 crore to Rs 29.48 crore. In addition, the company remitted Rs 2.18 crore in 1989 and Rs 2.04 crore in 1990 in foreign currency on account of dividends to non-resident shareholders. Among the user-industries of the company's products, there was a healthy growth in commercial vehicle production. The tractor market was also good. The single-cylinder pump market fluctuated and the spark plug market stayed steady.

Cost reduction and improvement in quality continue to be the two major objectives of the company. Rationalisation of heat treatment shop loads, modification for auto-stop of spindles of machine tools, introduction of solar heating and other measures were estimated to have saved energy to the extent of 470,000 kwh

per annum, a saving against the 7.72 crore by way of capital and revenue expenditure towards R and D in 1990. This represented 1.8 per cent of the total turnover. Development of new fuel injection systems to meet customer requirements in the national and export markets and developmental work on indigenisation of fuel injection equipment for engines with foreign technology were some of the R and D efforts during the year. Future plans include designing and developing single cylinder pumps used on tractors, vehicles and small generator engines for the Bosch Group, the company's collaborators, widening the range of products for export and development of fuel injection equipment with emphasis on reduction in fuel consumption and emissions. The company's R and D centre is recognised by the union ministry of science and technology. There is a continuous flow of technology information between the company and the Bosch Group. During the last five years the company imported technology for the following products: special purpose machines (1986), honing machines (1986), auto electricals (1988) and hydraulics (1989).

The company's third production facility was inaugurated in December 1990. Production of auto electrical items is proposed to be concentrated at this modern plant. The company also completed the shifting of spark plug assembly lines to Naganathapura. The company made pilot

Bangalore works. Bulk production commenced recently. The company will make pilot supplies of proportional and directional control valves from the middle of 1991.

Motor Industries Company became the first company in the automotive industry to be conferred self-certification status by the Directorate General of Quality Assurance, Ministry of Defence. The company adopted 12 quality principles which are binding on all employees and arranged a suppliers' meet during the year to familiarise suppliers with the guidelines for supplier quality assurance and assessment. The company initiated measures to fulfil the requirements of ISO 9000 adopted by the European Community. In the area of human resources development, the company imparted advanced training in quality and advanced technology related areas to over 2,100 employees in 1990. The company trained 291 apprentices under various statutory schemes.

Despite the improvement in production and sales, profitability was eroded during the year. The overall return on investment worked out lower at 6.94 per cent in 1990 compared to 9.07 per cent in the preceding year. The company generated lower sales of Rs 1.33 per Re 1 of investment in total assets during the year. The assets utilisation was Rs 1.45 of sales per Re 1 of investment in the preceding year. Even the net profit margin on sales showed a



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decline from 6.27 per cent in 1989 to 5.22 per cent in 1990.

The company was obliged to resort to short-term and long-term borrowings which increased by Rs 18.91 crore and Rs 12.09 crore, respectively. Fixed assets increased by Rs 15.90 crore during the year. The additions were mainly in plant and machinery.

Apart from the increase in the assets base, the factor which depressed profitability was the measures introduced in Taxation Laws (Amendment) Act, 1991 which necessitated a substantial increase in tax provision. This resulted in only a nominal increase in net profit after tax.

FAIRGROWTH FINANCIAL SERVICES

Impressive Beginning

FAIRGROWTH FINANCIAL SERVICES, which was incorporated on July 9, 1990 with registered office at Bangalore, commenced business operations from August 10, 1990. In the nine-month period ended March 31, 1991, Fairgrowth Financial Services put into operation all the infrastructural facilities including premises, manpower and communication in its nationwide network of seven branches in addition to the registered office and launched its full range of activities.

The company today is in a position to provide a comprehensive package of financial services, including equipment leasing, hire purchase and consumer financing. The company also provides investment management services, bills discounting facilities and capital market operations. The spectrum of services under corporate advisory and industrial consultancy services includes advice on mergers and acquisitions, project finance and counselling, preparation of project reports, market surveys and recruitment, tax and management consultancy. The chairman's statement notes that with the Eighth Plan on the anvil and investment priorities being finalised, there is expectation that financial services companies will be called upon to play an expanding role in resource mobilisation efforts. Public sector undertakings will further increase their reliance on direct borrowings. Another development favourable to the financial services industry is the recent trend towards 'disintermediation' in banking which is the inevitable outcome, *inter alia*, of the deepening and widening of the capital market. The chairman's statement expects that securitisation of credit will in due course come to other areas like consumer and trade credit.

During a short span of nine months, Fairgrowth has established itself in the fast growing financial services industry. It was

involved in equity issues together with other companies. The company was granted Category I Merchant Banker status in December 1990 by the Securities and Exchange Board of India (SEBI). The company also became a member of the Cochin Stock Exchange.

The company has done well in leasing, sanctioning leased assets of Rs 5.50 crore. Disbursements were Rs 3.14 crore as on March 31, 1991. The company generated an income of Rs 39 lakh from this activity. The member of lease accounts stood at 21. The company has set a target of Rs 30 crore for cumulative lease for 1991-92.

Total sanctions in respect of hire purchase and consumer financing services put together were Rs 4 crore as on March 31, 1991. The stock on hire amounted to Rs 3.38 crore. Projected cumulative disbursements for 1991-92 in hire purchase/consumer financing are Rs 25 crore.

Fairgrowth emerged as an active player in bills/securities market during the year. Total outstanding amount in respect of bills discounting/bills financing stood at Rs 7.58 crore and the company was holding a stock of securities worth Rs 3.87 crore. In merchant banking in addition to tying up 40 public/rights issues, the company entered into underwriting or standby commitments of Rs 8 crore and launched its portfolio management scheme called 'Dividendz'. The company aims to concentrate on asset-based financing activities and an asset base of Rs 60 crore is projected for 1991-92 as against Rs 19 crore in the first year of operations.

On the basis of the balance-sheet figures, the company mobilised a total of Rs 60.73 crore during the year. The sources of funds were share capital Rs 1 crore, reserves and surplus Rs 1.02 crore, current liabilities and provisions (including share application money of Rs 2.60 crore) Rs 44.26 crore, short-term borrowings Rs 11.75 crore and long-term borrowings Rs 2.70 crore. The funds were utilised in fixed assets Rs 4.97 crore, inventories of shares and securities and stock of assets on hire Rs 7.25 crore, receivables which included lease and hire purchase debtors Rs 28 crore, cash and bank balances Rs 7.25 crore, miscellaneous current assets such as bills of exchange and share application money paid Rs 12.71 crore, investments in subsidiary companies Rs 0.45 crore and intangible assets in the form of capitalisation of deferred revenue expenditure not written off Rs 0.09 crore.

Fairgrowth achieved a return on investment of 1.83 per cent in 1990-91. However, on the shareholders' funds, the return was an impressive 54.95 per cent. The debt-equity ratio worked out at 7.15 per cent. The interest coverage ratio was comfortable at 2.22 times.

Year of Turmoil

ANDHRA PRADESH STATE ROAD TRANSPORT CORPORATION (APSRTC) incurred a loss of Rs 10 crore during the year ended March 31, 1991. The corporation went through a year of turmoil in 1990-91. In May 1990, there was a severe cyclone in the coastal districts of the State which disrupted both railway and road transport for more than three weeks. The loss in revenue on account of this natural calamity was estimated at Rs 10 crore and loss to property and workshops at Vijayawada as well as depots was estimated at Rs 5 crore. The corporation could not operate 47 lakh kms during the months of August and September 1990 on account of the agitation connected with the implementation of the Mandal Commission report. About 1,000 buses were damaged during the agitation. The Mandir-Masjid controversy and the resultant communal flare-up led to the burning of 28 buses and non-operation of 1.81 crore kms. This was estimated to have caused a loss of Rs 10 crore.

The Gulf crisis led to a 10 per cent rise in diesel oil causing the stabling of 2,000 buses, resulting in an estimated loss of Rs 25 crore. In the areas affected by Naxalite activity the corporation lost 123 buses in the course of the year, the estimated loss on this account being Rs 6 crore.

The APSRTC inducted 1,600 buses into its fleet in 1990-91 at a cost of Rs 85 crore. This was financed by loans of Rs 42 crore from IDBI and LIC and internal accruals. The company repaid earlier loans of Rs 33 crore and accrued interest of Rs 10 crore.

The corporation introduced the concept of mofussil bus services around municipal towns. 32 municipal towns have been identified for the purpose. Shuttle services have been introduced to connect district headquarters. There was augmentation of inter-State services. About 150 buses to Karnataka and 65 buses to Maharashtra would be added in the immediate future. By way of public amenities, 49 bus stations have been constructed during the year at a cost of Rs 8 crore. Another Rs 3 crore was spent for acquiring land for the purpose. The corporation spent Rs 2 crore on enlarging its computer facilities.

In view of the worsening traffic situation in Hyderabad city, RITES was entrusted with consultancy work to recommend the best possible rapid transit system for the city. A light rail transit system has been recommended as the best proposition for Hyderabad.

STATISTICS

| Index Numbers of Wholesale Prices (1981-82 = 100) | | | Weight | Latest Week 18-5-91 | Variation (per cent) | | | | | | |
|--|-----------------------------|------------------|----------------------------|----------------------------------|-----------------------|---------------------------|---------------------------|------------------|------------------|------------------|---------------|
| | | | | | Over Last Month | Over Last Year | Over March 31, 1991 | In 90-91 ** | In 89-90 | In 88-89 | In 87-88 |
| All Commodities | | 171.4 | 193.9 | 0.8 | 11.1 | 1.4 | 10.2 | 7.5 | 8.2 | 5.8 | |
| Primary Articles | | 166.9 | 200.1 | 0.9 | 14.4 | 1.9 | 13.1 | 4.9 | 11.3 | 9.1 | |
| Food Articles | | 177.3 | 215.9 | 1.6 | 13.4 | 2.1 | 11.9 | 9.9 | 9.0 | 10.2 | |
| Non-food Articles | | 176.4 | 216.0 | -0.2 | 21.0 | 1.7 | 16.9 | -1.7 | 21.6 | 11.3 | |
| Fuel, Power, Light and Lubricants | | 164.9 | 189.1 | 0.3 | 14.3 | 0.3 | 11.9 | 5.5 | 3.5 | 6.7 | |
| Manufactured Products | | 174.7 | 191.3 | 0.8 | 8.8 | 1.4 | 11.9 | 9.4 | 7.2 | 3.7 | |
| Cost of Living Index | | | Base | Latest Month | Variation (per cent) | | | | | | |
| | | | | | Over Last Month | Over Last Year | Over March 1990 | In 1989-90 | In 1988-89 | In 87-88 | In 86-87 |
| Industrial Workers | 1982 = 100 | 201 ¹ | -0.5 | 13.6 | 13.6 | 6.5 | 9.1 | 9.2 | 8.7 | | |
| Urban Non-Manual Employees | 1984-85 = 100 | 169 ¹ | — | 13.4 | 13.4 | 6.9 | 6.3 | 9.0 | 7.9 | | |
| Agricultural Labourers | July 60 to June 61 = 100 | 843 ¹ | 1.8 | 13.9 | 14.5 | 3.2 | 11.4 | 9.9 | 4.7 | | |
| Money and Banking | | | Latest Week (3-5-91) | Variation (per cent in brackets) | | | | | | | |
| | | | | Over Last Month | Over Last Year | Over March 23, 1991 | In 90-91 | In 89-90 | In 88-89 | In 87-88 | |
| Money Supply (M ₃) | Rs crore | 2,74,444 | 1,029 (0.4) | 36,698 (15.4) | 7,743 (2.9) | 34,300 (14.9) | 28,571 (18.1) | 22,027 (15.7) | 22,295 (18.8) | | |
| Net Bank Credit to Government Sector | Rs crore | 1,46,174 | 2,795 | 23,113 | 7,885 (5.7) | 21,778 | 12,715 | 12,811 | 12,776 | | |
| Bank Credit to Commercial Sector | Rs crore | 1,72,459 | 167 | 19,541 | 2,502 (1.5) | 19,552 | 20,531 | 12,389 | 11,294 | | |
| Net Foreign Exch Assets of Banking Sector | Rs crore | 6,879 | -1,098 | 1,113 | -1,138 (-14.2) | 1,429 | 637 | 682 | 1,314 | | |
| Deposits of Scheduled Commercial Banks | Rs crore | 1,97,099 | -970 (-0.5) | 26,950 (15.8) | 5,910 (3.1) | 24,230 (14.5) | 22,041 (18.7) | 15,321 (14.9) | 17,320 (20.3) | | |
| Foreign Exchange Assets | Rs crore | 2,425 | -1,359 (-35.9) | -2,462 (-50.4) | -1,573 (-39.3) | 1,710 (-30.0) | -830 (-11.6) | -508 (-6.6) | 604 (8.6) | | |
| Index Numbers of Industrial Production (1980-81 = 100) | | | Weights | Latest Month (Nov 90) | Variation (per cent) | | | | | | |
| | | | | | Averages for | | | | | | |
| | | | | | 1990-91 | 1989-90 | In 1989-90 | In 1988-89 | In 1987-88 | In 1986-87 | In 1985-86 |
| General Index | | 100.0 | 201.9 | 200.3 | 182.8 | 8.3 | 8.7 | 7.3 | 9.1 | 8.7 | |
| Mining and Quarrying | | 11.5 | 199.0 | 202.8 | 199.7 | 5.9 | 7.9 | 3.8 | 6.2 | 4.2 | |
| Manufacturing | | 77.1 | 197.9 | 195.6 | 175.6 | 8.3 | 8.7 | 7.9 | 9.3 | 9.7 | |
| Electricity | | 11.4 | 232.1 | 230.5 | 214.4 | 10.7 | 9.5 | 7.7 | 10.3 | 8.5 | |
| Basic Industries | | 39.4 | NA | NA | NA | NA | 9.9 | 9.6 | 9.2 | 6.8 | |
| Capital Goods Industries | | 16.4 | NA | NA | NA | NA | 7.4 | 15.9 | 18.2 | 10.6 | |
| Intermediate Goods Industries | | 20.5 | NA | NA | NA | NA | 11.5 | 4.8 | 4.4 | 7.5 | |
| Consumer Goods Industries | | 23.6 | NA | NA | NA | NA | 6.0 | 6.5 | 7.1 | 12.5 | |
| Durable Goods | | 2.6 | NA | NA | NA | NA | 22.1 | 7.8 | 18.9 | 18.7 | |
| Non-Durable Goods | | 21.0 | NA | NA | NA | NA | 2.4 | 6.2 | 4.9 | 11.5 | |
| Foreign Trade | | | Unit | Latest Month (Mar 91) | Cumulative for* | | | | | | |
| | | | | | 1990-91 | 1989-90 | 1989-90 | 1988-89 | 1987-88 | 1986-87 | 1985-86 |
| Exports | Rs crore | 3,427 | | 32,527 | 27,681 | 27,681 (36.3) | 20,302 (29.0) | 15,741 (26.2) | 12,452 (14.3) | 10,895 (-7.2) | |
| Imports | Rs crore | 3,625 | | 43,171 | 35,416 | 35,412 (+25.6) | 28,194 (+23.9) | -198 (11.2) | -10,644 (2.2) | -7,735 (14.7) | |
| Balance of Trade | Rs crore | -198 | | -10,644 | -7,735 | -7,731 | -7892 | -6,658 | -7,644 | -8,763 | |
| Employment Exchange Statistics | | | Unit | Latest Month Dec 90 | Cumulative for* | | | | | | |
| | | | | | 1990 | 1989 | 1990 | 1989 | 1988 | 1987 | 1986 |
| Number of Applicants on Live Register as at end of Period | Thousand | | 34,632 | 34,632 | 32,776 | 34,632 | 32,776 | 30,050 | 30,247 | 30,131 | |
| Number of Registrations | Thousand | | 600 | 6,541 | 6,576 | 6,541 | 6,576 | 5,963 | 5,465 | 5,535 | |
| Number of Vacancies Notified | Thousand | | 46 | 530 | 600 | 530 | 600 | 543 | 621 | 623 | |
| Number of Placements | Thousand | | 25 | 284 | 289 | 284 | 289 | 329 | 360 | 351 | |
| Income | | | Unit | 1989-90 | 1988-89 | 1987-88 | 1986-87 | 1985-86 | 1984-85 | 1983-84 | 1982-83 |
| | | | | | | | | | | | |
| Gross Domestic Product (current prices) | Rs crore | | 3,92,524 | 3,49,105 | 2,94,408 | 2,60,442 | 2,34,159 | 2,07,869 | 1,85,991 | 1,58,851 | |
| Gross Domestic Product (1980-81 prices) | Rs crore | | 1,95,237 | 1,85,543 | 1,70,716 | 1,63,924 | 1,57,348 | 1,49,966 | 1,44,310 | 1,33,469 | |
| Per Capita Income (1980-81 prices) | Rupees | | 2,142 | 2,078 | 1,910 | 1,881 | 1,852 | 1,804 | 1,780 | 1,682 | |

* For current year upto latest month for which data are available and for corresponding period of last year.

** Excluding gold and SDRs. + Upto latest month for which data are available. NA- Not available.

+ + Provisional data @ Quick estimates

Notes: (1) Superscript numeral denotes month to which figure relates, e.g., superscript¹ indicates that the figure is for January and so on
(2) Figures in brackets denote percentage variation over previous period

Calcutta Diary

AM

Rajiv Gandhi's assassination should have provided the occasion for a general political spring-cleaning. Unfortunately, it has not, at least not till now, and there are few signs that, unless pushed by circumstances, overall political behaviour in the country will undergo any qualitative transformation in the near future. The nation will, therefore, continue to stagger from one crisis to the next.

WHY not say it? The standard first query in a murder investigation is on the identity of the person likely to benefit from the crime. This is the reason for the raised eyebrows at the manner the Congress(I) party has gone about in the past few weeks, squeezing the maximum electoral advantage from the doing away of its president. The assassination has indeed left the party totally without its co-ordinates. We are therefore once more face to face with the Joan Robinson riddle: make any generalisation about India, its obverse is equally true. The murder, brutally planned and executed, packed a whole lot of hatred. But should we none theless withhold to hate the four flushers who, right in the midst of the trauma the nation is in, try to hustle the mourning widow into taking over the helmsmanship of the slain husband's party? If she would not fall for the trap, why not entice the teenage daughter by dangling the crown of the Youth Congress before her? After all this one is almost attuned to listening to the cynical whisperings that are on the pity of it, if only he had been done to death a couple of days ago: the first phase of the elections too could have benefited from the sympathy wave. According to the opinion of the nation's supreme judiciary, the chief election commissioner has the prerogative to countermand elections wholesale, why not in any event make a last ditch effort by appealing to him? One Congress(I) lining newspaper has not failed in the task. The dastardly occurrence on the night of May 21, has, it has argued in beautiful prose, ushered in a qualitatively different situation in the country, it is somehow unfair that the general elections, which ought to be held simultaneously all over the country, would have to bear the blemish on account of this schizophrenia, please, in the circumstances, should not the chief election commissioner boldly order fresh elections in each of the two hundred-odd constituencies where voting had taken place on the day preceding the heinous assassination?

Proposals of such an outrageous nature are posted without the least sign of embarrassment, politics, after all, is the art of survival. Secularism above all, the party is pledged to fight to its last breath the pernicious doctrine of Hindutva. But such constraints must not intrude when the party is tackling the most serious crisis in its career. The calculations are fine-tuned: the near chaos in the first party of the nation could not but induce the leaders and the cadres of

the Bharatiya Janata Party to invoke, in the final phase of the electoral battle, the 'killer instinct', the display of exuberance on their part would scare the daylight out of the citizenry belonging to minority communities, for dear life, they would vote *en masse* for the party most likely to succeed against the BJP, which, in current reckoning, is bound to be the Congress(I). With the minority vote thus assured, the party should now have no qualms to go all out to recapture the loyalty of the majority community. Secularism therefore deserves to be shoved aside for the next fortnight, it has to be a purposeful elongated carnival of the grossest Hindu rituals all the way to Kanyakumari, the government has thought fully provided both special trains and Black Cats, the guarding minstrels, the urns carrying the murdered former prime minister's ashes would therefore have the maximum exposure, Doordarshan praise be to it, had already done its preliminary bit. The obnoxious doctrine of Hindutva has to be fought all the way: however use a thorn, the scripture advise to remove a thorn. The Hindu ambivalence which some would describe as upidity emerges resplendently triumphant. On a Hindu you are always deemed to be a Hindu despite how many number of times you openly repudiate the faith. Similarly, once the nation has been labelled a secular republic, it is for keeps a secular republic, irrespective of the systematic violation of rudimentary secular principles directly under the auspices of the state, such as the unabashed sponsoring of Hindu rituals under the pretext of organising a state funeral.

The murder has thus provided no shock therapy. The foreign born widow of the felled former prime minister has, as of this moment, refused to go along, otherwise the script appears to be entirely according to order. Hypocrisy continues to be the guiding spirit in whatever the party says and does. To allay the doubts in some minds whether or not the murdered leader was not already divine, he is conferred, post haste, posthumous divinity. Much of the current mess in Punjab and Kashmir is the product of exclusive misdoings on the part of Rajiv Gandhi and his mother, the latuous accords he was in the habit of signing every now and then actually further destabilised law and order in the different corners of the country, the authoritarianism he graduated into in the course of his tenure as prime minister was no less egregious than the mother's, and

resulted in the further worsening of Centre-State relations, as prime minister, he gave respectability to the point of view that, as far as economics is concerned, the poor were not relevant, only the minuscule rich and the precious foreigners were, the nation, that is, that segment of it which mattered, was accordingly invited to plunge into a great liberal hoopla, and foreign exchange was considered to be a free commodity like air or water, if you happen to be short of it, why bother, just borrow, the country's total external debt consequently jumped five times over the short span of five years, it is henceforth a deadly debt trap. He, Rajiv Gandhi, drove the last nail into the coffin of his grandfather's dream of a self-reliant, self-sustaining economy, the backroom boys he strategically placed in the nooks and corners of government are now busy preparing memoranda and schedules of understanding whereby a major slice of the nation's sovereignty is proposed to be pliantly gifted to foreigners. If fundamentalists of assorted hues are currently holding the nation to ransom, should not the accountability for that too be laid at the door of his famous vacillations? A notification in 1986 under the Preservation of Ancient Monuments Act could have taken care, at inception, of the Babri Masjid Ram Janmabhoomi squabble. He, Rajiv Gandhi, however spurned earnest advice pouring in from scholars and secular-minded public men. He was instead much taken up by the exciting idea that Indian secularism does not mean separating the state from the church and the temple and the darga and the gurudwara and the synagogue, the state, on the contrary, should take turns to be sweetly reasonable to each and every religious denomination. *Ramayan Mahabharata* on the Doordarshan screen has been without question the single biggest factor stoking Hindu revivalism in the country. Rajiv Gandhi's men considered that to be one of their grandest achievements, and proceeded to balance their scale of secularism by commissioning inanities from the Bible and canonising the sword of Tipu Sultan. The folly did not quite stop here. The computer boys informed Indira Gandhi's offspring that he could sail through the 1989 elections by playing the straight Hindu card, since a card is a card, he rushed to sign one further accord, this time with the goons of the Vishwa Hindu Parishad, he nodded his concurrence with the first *shilanka* and co-opted the slogan of Ram Rajya as his opening gambit in the poll campaign. Naivete was his second nature, these insolences, he genuinely thought, could be compensated by slapping down a ban on Salman Rushdie.

India is no longer much of a nation. There is little point in dissembling, that such is the state of affairs is almost entirely attributable to the later doings of the Nehru Gandhis. More than others, the pall bearers of the Congress(I) ought to take cognisance of this simple reality: their present plight is not on account of the accursed times, it is because they allowed themselves to be blindly led by

the dynasty into the thralldom of authoritarianism. The party has now begun to dilate on the need for internal democratisation. Even so, it cannot restrain itself from the temptation to seek votes by putting on display the dying embers of the dynasty. Few, very few, in the party have yet developed the perception to identify the nature of the hiatus between their pledges and their propensities.

Does not part of the same complaint hold against those who proclaim themselves to be as much against Hindu obscurantism as against the Congress(I) variant of ersatz secularism? The fundamentalists threatening to overrun the nation are not waving the flag of Hindutva alone; they are also collecting the crowd by their supra-nationalist harangues on Punjab and Kashmir; a horrendous spirit of jingoism is consequently abroad in many parts of the country. The cult of high defence outlay, and of an ample nuclear deterrent accompanying it, is an additional stock-in-trade of the rampaging demagogues. Their version of nationalism would once upon a time not look askance at the notion of self-contained, self-reliant growth. No longer. Big business has caught on to the possibilities latent in Hindu obscurantism. It is a unipolar world; the Americans, the masters of all they behold, have revised their manuals; they are about to smoke the pipe of peace with the fundamentalists in West Asia. If Islamic obscurantists are acceptable to Foggy Bottom, Hindu fundamentalists too can then live on hope, the deep is bound to respond to the deep. The BJP has therefore been duly briefed; it has decided to go the whole hog to welcome, lock, stock and barrel, the grand panacea of economic liberalisation.

The battle obviously has to be joined. The supposedly Left and democratic political alternative in the country can hardly hope to make itself credible by toeing the fundamentalist line on Punjab and Kashmir; it has to strike out on its own. State violence, it must have the courage to assert, is no answer to discontent which has its roots in mass deprivation. The unrest in Assam too is a direct outcome of the most perverse application of the imperial principle in Centre-State arrangements. On all such matters, including the issue of inordinately high defence expenditure and defence imports which only help domestic commission agents and foreign armament merchants, the Left has to shed its post-1962 psychosis. Rajiv Gandhi's assassination should have provided the occasion for a general spring-cleaning. Unfortunately, it has not, at least not till now, and there are few signs that, unless pushed by circumstances, overall political behaviour in the country is to undergo any qualitative transformation in the near future. The nation will therefore continue to stagger from one crisis to the next. That is, in case it still survives as a nation, so many funny things could happen while one is on one's way to the amphitheatre.

NOTICE

1. It is hereby notified for the information of the public that AMBALAL SARABHAI ENTERPRISES LIMITED (Divn.: SARABHAI CHEMICALS), BARODA-390 007 proposes to give to the Central Government in the Department of Company Affairs, New Delhi, a notice under sub-section (I) of section 21 of the Monopolies & Restrictive Trade Practices Act, 1969, for substantial expansion of its activities. Brief particulars of the proposal is as under.

(i) Name(s) of person(s)/Body Corporate owning the Undertaking : AMBALAL SARABHAI ENTERPRISES LIMITED

(ii) Capital structure of the applicant Undertaking

Authorised Capital (Equity) : Rs. 65,00,00,000

Subscribed Capital (Equity) : Rs. 18,78,33,410

Paid-up Capital (Equity) : Rs. 18,78,33,410

(iii) Details of the proposed substantial expansion

(a) Name of new goods to be produced, supplied, controlled or distributed or of new services to be rendered : LEVAMISOLE formulations - Vet

1. Capacity before expansion : NIL

2. Expansion proposed : LEVAMISOLE formulations-Vet. - 2 lac.pkgs. equivalent to 2000 kgs. of active ingredient (Levamisole hydrochloride) to be used.

3. Location of the Project for substantial expansion : BARODA (Gujarat)

4. Brief outlines of the cost of the Project, the Scheme and source of finance : No capital expenditure involved. Product to be manufactured in the existing plant with no additional equipment.

2. Any person interested in the matter may make a representation to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this Notice, intimating his views on the proposal and indicating the nature of his interest therein

For AMBALAL SARABHAI ENTERPRISES LIMITED
(Divn.: Sarabhai Chemicals)

Sd/-

(B.K. BANERJEE)
MANAGING DIRECTOR

Place: BARODA

Dated. 31st May, 1991.

Trade Reform for Restructuring the Economy

Arun Ghosh

We do need to liberate the Indian economy from the shackles of bureaucratic control, but trade reform of the type recommended by the World Bank is certainly not the first step in this direction

ONE of the problems with neo-classical economics is that it relies heavily on algebra. It tends to forget that human behaviour (and responses) cannot always be fitted into neat algebraic equations. The usefulness of the equations—to transform a familiar quotation from Tarlok Singh, the doyen among Indian planners today—rests on a recognition of the limitations of these equations. Unfortunately, when one works out delightful equations (sometimes based on questionable data), the fascination of using these equations for purposes of prediction remains. Indeed, the desire for prediction is usually too great to resist.

One cannot blame the latest World Bank report on India, 'Strategy for Trade Reform', of the above weakness because what is available to the Indian public is only the Executive Summary. It is only this summary which has of late been discussed in some detail by four eminent Indian economists, in the pages of *The Economic Times*, Delhi (over June 5 and 6, 1991, based on the essence of the summary reproduced in *The Economic Times* earlier).

The full report is obviously a matter between the government of India and the World Bank, and with India's exchange reserves in a state of near bankruptcy and a bailing out operation by the IMF/World Bank and the consortium countries being contingent on a policy package acceptable to lenders—one can argue that a document of such vital importance should be made public and not kept under the wraps. The summary promises rich economic analysis and it is not necessary that it should be acceptable to all sundry for its publication. In any case, all donor countries have copies of the report.

PROBLEM OF RESTRUCTURING

For the present, however, one has to make do with the Executive Summary. One must at the outset admit that the summary makes a plausible case for certain major policy changes. But three preliminary points must be made. First, as Mrinal Datta Chaudhuri has very pertinently pointed out, the trade policy

reform suggested assumes that trade reform can be financed from export earnings. In Datta Chaudhuri's words, "The Indian industrial economy has been more or less autarkic for a long period; the restructuring process will have to be financed through a credit line from abroad. The second aspect into which the report does not go into is the kind of organisational reform any reform of the trade regime must presuppose. This will require changing the climate in which industrial relations work, which will affect labour laws in the Indian industry. These are not easy tasks." Secondly, Kirit Parikh—who has suggested that "it will be worthwhile to proceed with the reform"—has stated categorically that "it may take some time before the benefits flow down to the poor. Meanwhile, positive action must be taken for poverty alleviation. With or without these reforms, a nationwide employment guarantee scheme (EGS) is needed and can be financed without raising fiscal deficit if all other subsidies, including the implicit ones to mostly well off segments of society, are withdrawn." Finally, as Y. K. Alagh (who admits that a "number of measures suggested have to be taken anyway") points out, the difficulty with the World Bank is an ideological stance of latching on India's economy to the daily vicissitudes of the world economy, and little awareness of a knowledge based path to it—that general prescriptions are inefficient, as shown by the IMF's chief economist, Mohsin Khan, in the sense of leading to negative growth in many countries through a long period, has been substantiated by MIT's Professor Lance Taylor's work on 18 countries in a project.

Three extensive quotations from *The Economic Times* have been given—I have not referred to the fourth comment by Amiya Bagchi who has opposed the World Bank prescriptions—partly because the three economists quoted are generally in favour of trade reform and yet seem to have doubts on the policy package recommended, and partly because all three of them hint at the problem of 'restructuring' of the Indian industrial economy. We have to consider our policy

options in the context of the extremely difficult and delicate situation that has developed within India, as a result of the unbalanced growth (both as between regions and as between different sections of the community) that has occurred over the past decade. That there has been faster growth than in the past during the eighties will be questioned by none. What is being asked today is at what cost this growth has been achieved, and whether different segments of the economy can be turned on and off today at will by the central authorities when social tensions are at a boiling point. The question also arises as to how to tackle the extremely fragile balance of payments situation coupled with the large internal deficit, even as there is a just demand for some form of employment guarantee programme, so that the World Bank's assumptions regarding a *reduction* in the fiscal deficit may not be realistic. And this raises the whole problem of how to plan simultaneously for the resurrection of the economy from the horrendous position it has managed to get into (within the short space of a decade maybe less—perhaps a bare five/six years) and at the same time make a dent on the illiteracy, lack of health, rapidly expanding population increasing inequality of incomes—not only between different sections of the population but also as between different regions—which is now threatening to tear the country apart. How does one simultaneously achieve the structural reforms recommended by the Bank and growth of the economy which would be more egalitarian and 'acceptable' to the Indian people? How does one mesh the immediate short term problem of tiding over the present balance of payments crisis with the longer term problem of initiating a process of self-sustaining growth of the economy? That is in essence the problem. But we need first a brief explanation of the outlines of the World Bank report.

TRADE REGIME REFORM

The Summary Report of the Bank recommends simplifying the import/export trade control regime so as to, in a sense, globalise the Indian production structure in three phases, and also, at the same time, bring about macro economic balance in the economy primarily through a sharp reduction in the fiscal deficit of the government of India. The simplification of the trade regime should aim at: (i) bringing down all import duties (within a period of five to seven years) to something like 20 per cent flat on all imports (including all consumer goods); (ii) abolishing all quantitative restrictions

air transports (again, over time); (iii) introduction of transparency in the import control system by introducing the Harmonised System (HS) of product classification for import licensing purposes; and (iv) starting with a *real* devaluation of some 20 per cent immediately, in order to make exports more profitable and imports more difficult (in the face of a first stage reduction of import duties on all capital goods and intermediate products).

In fact, the Summary Report spells the various steps of the trade regime reform programme as follows:

- a) redesign import policy in accordance with the HS system of classification;
- b) create one negative (restricted) List;
- c) allow all items that are not explicitly on the restricted list to be imported through REP licences;
- d) have all intermediate goods and raw materials off the restricted list into categories that are importable by REP licences; move the intermediate products already imported under REP into OGL stock and sale category; continue this policy so that all raw materials and intermediate goods end up on OGL stock and sale;
- e) move all capital goods in the restricted list to being importable under REP licences and then to OGL stock and sale;
- f) move consumer goods from the restricted list to being importable through REP licences; and
- g) ultimately, move all goods into OGL stock and sale category.

The first three recommendations can, the report says, be implemented immediately. Steps (d) and (e) can be undertaken over the next three-four years. The last two steps can then be implemented after that—along with the recommended tariffs, exchange rates—and other macro-economic adjustments should make it possible to eliminate the QR system completely within five to seven years.

I have deliberately repeated only the *major* elements of the policy prescriptions because the summary of the report is not available to all readers. Neither the GOI nor the World Bank has publicised even the Summary Report. (I have focused on the major policy prescriptions, and not on the details, and I have also left out the recommendations as to fiscal reform. Of course, the three para summary above is an attempt to cull out the essence of a 16-page report, and I may be forgiven for not mentioning the other elements, e.g. the tariff and other reforms in as great detail as the proposal for reform of the trade regime.)

One last word. The report has emphasised the importance of acceptance of the entire package; piecemeal implementation just would not work.

Let me make two initial points. First, there is no doubt that over the years, our trade policy has become extremely complex. What is worse, policy changes from time to time have become highly discretionary and, indeed, have of late become a source of corruption. Simplification and transparency of the system are therefore two very important recommendations on which there is unlikely to be any disagreement. In fact, the de-bureaucratisation of the trade regime is an urgent reform; and one should extend wholehearted support to: (a) the transformation of the import control regime to the HS classification—a move which was initiated by V P Singh during his tenure as commerce minister, which has to this day not been implemented; and (b) the simplification of both the tariff and the import control system. There is no justification for very high import duties on key intermediates, just as there is no justification for the import duty on capital goods to range from zero to 85 per cent (*plus* auxiliary duties and countervailing duty).

There is also considerable merit, in the existing framework, for focusing on a gradual shift from discretionary AU licensing (for selected industries) to REP licensing which may maintain neutrality, in regard to the balance of payments, of any change made in the licensing system.

Having said this, and without prejudice to the *rates* of duty (which the Bank report accepts must in part be guided by revenue considerations also), there is a very good case for having fewer slabs of customs (as well as excise) duties, if for no reason other than to simplify the administration of the system. In theory, one can argue that *one* unique rate of duty would lead to the most efficient allocation of resources; but the argument also presumes some degree of egalitarianism in the distribution of income in the country, so the allocative efficiency criterion falls to the ground because the market itself is fragmented, highly segmented, and even the production structure is not really competitive but highly oligopolistic, with a strong tendency towards cartelisation. (This tendency can, of course, be broken, but that is another issue.)

INTERNAL COMPETITION

There are several points which the Bank report has not taken into consideration, and one may perhaps focus on these *major issues* rather than offer detailed comments on individual points made. First, as Alagh has rightly pointed out, we must have internal competition before forcing our entrepreneurs to face external competition. That, in itself, will bring to the fore the problem of exit, of rehabilitation and restructuring, of a fund for the re-training and redeployment of labour.

Take the case of the Indian sugar industry. There was a time—and perhaps the situation obtains even today—when almost every sugar factory in the country had a separate price for the 'levy' sugar supplied by it to the authorities. Even as of today, every fertiliser factory has a separate retention price. These are but two examples. We have, *for reasons other than economic*, managed to develop a highly complex industrial structure; and no external trade liberalisation is necessary to simplify this system.

The instance of the fertiliser industry brings to mind another issue overlooked in the World Bank report. During the eighties, a number of natural gas-based nitrogenous fertiliser plants were set up in the country, based on Haldor-Topsoe/Snamprogetti technology, with a standard size (deemed internationally economic) of 1,350 tonnes of ammonia per day. Under pressure from *all* parties, the import duty on all fertiliser equipment was reduced to zero; and three plants were set up on a 'turnkey' basis. The World Bank has separately found that a similar plant, based on similar technology, was set up in Thailand at around the same time, at *two-thirds* the capital cost of the Indian plants. The zero import duty on capital goods in India led to a jacking up of the export price of equipment under 'tied aid'.

How is the drastic reduction of the import duty on capital goods going to help India if equipment supplied under 'tied aid' programmes is high priced? Who in the world would have bought the Westland helicopter when we did? Will the donor countries agree to complete untying of aid in the coming years when the Indian economy is being restructured? It is well known that imported power plant equipment is—duty apart—significantly more expensive than domestically produced equipment. Our power costs are going up because our savings rate is not enough to finance our investment programme; and the tied aid we are forced to use is raising capital costs of projects all round. A massive aid programme—increasing the quantum of 'tied aid', associated with the tariff and import policies recommended—will *not* reduce our investment cost and will get us deeper into the debt trap.

So the first need is for us to be 'self-reliant' in the sense that our exports should be enough to finance *all* our imports, including project imports, and that requires as a first step that domestic savings should be equal to domestic investment. Our domestic savings have declined during the eighties by some 2 to 3 per cent of the GDP. Reduction of the fiscal deficit may help in the process of increasing the savings rate but it all depends on *how* the fiscal deficit is to be reduced. We need to reduce the consumption of the affluent, not of the poor; and

are unlikely to achieve that objective. The Bank study has recommended that the required adjustment be made through a reduction of government consumption, which is fine. But *how* is government to reduce its consumption expenditure? Kirit Parikh, in his perceptive comments, has suggested a cut in *implicit* subsidies which help the affluent sections of the population (which, in the aggregate amount to a large figure, pace the study by Mundle and Rao in the *EPW* of May 11); Parikh has also suggested at the same time an employment guarantee scheme so that every citizen is assured of a minimum income. Such a programme would be very far from the type of adjustment programme that the World Bank study seems to recommend.

Every study by neo-classical economists one sees seeks to compare the Indian scenario with that of Japan, South Korea, Taiwan, Thailand, Malaysia. Everyone forgets that: (a) countries like Japan and South Korea started with land reform and education for all; and (b) both Japan and South Korea had extremely 'controlled' economies, with active co-operation between industry and government in the matter of domestic R and D, absorption, adaptation and development of imported technology by domestic investors, and highly selective import of technology. It is only now, after industry has matured, that it has got greater freedom; but even so, they appear to observe certain norms in regard to the balance of payments. The Indian industrial culture is still a culture imbued with the making of quick profits. Doubtless, the present system has aided and abetted this culture, but we have to ensure, while introducing the reform package, that we do not "throw the baby out with the bath water".

RESTRUCTURING INDUSTRY

There is a very good case for cheapening key intermediates, and for improving the efficiency of the capital goods sector. This is one area where innovative ways have to be thought of so that the user industries do not suffer. For example, in the case of alloy steel, we could write off part of the capital of the Alloy Steel Plant, and then make it face competition. The World Bank study mentions that the capital of private mini-steel plants is already fully depreciated, but it does not even mention the ASP which is the largest producer. In fertilisers, we need not determine the location, the size and the technology of plants to be set up, and we should throw the field open. In Bristol, a small plant (two sets of ammonia units each with 400 tpd capacity as against the much-touted Topsoe technology of 1,350 tpd introduced in India with foreign aid)

of ammonia as against 8.5 million units required by our 'technologically latest' Topsoe plants. For improving the efficiency of the capital goods sector, we need to selectively import technology, backed up by R and D and indigenous design engineering capability. But then, we must also ensure that they get orders for plant and equipment for our projects and are not left out in the cold because of the availability of 'tied aid' and the inadequacy of domestic savings generally and of finance for projects in particular. In the steel industry, our blast furnace productivity (hot metal output per cubic metre of furnace capacity) is today around 40 per cent of the Japanese rate (or somewhat less); and *most* of the reasons arise from management weaknesses, though part of the reason is the type of coking coal available. But it should be possible, with minor adjustments (e.g. to ensure uniformity of inputs) and better management of the technical parameters (like blast temperature and top gas pressure, etc) to *double* blast furnace productivity, which should immediately reduce the cost of pig iron substantially. The same goes for the steel melting shop and other facilities. We do not need devaluation of the rupee to achieve competitiveness in the steel industry. In fact, devaluation would only breed complacency because the plant authorities would then have lower than international prices without any effort. One could go on citing case after case wherein the solutions are known, but we seem to get caught up in a medley of confusion much of which has to do with the decline of morale in public sector enterprises arising from political and bureaucratic interference with the functioning of these enterprises. The remedies are known; it is not necessary to discuss them here.

The brief point is that restructuring of Indian industry would have to follow different methods and allow different incentives/disincentives in different industries. *General* remedies can be applied only later, with their own costs and rewards.

Indeed, it is a somewhat complex situation in which the real culprit is the shortage of domestic savings to finance domestic investment. For each industry, we need specific solutions, until our own savings rate goes up; and the Bank staff studying India for years now, with access to every type of data (not normally available to Indian researchers) should know that different industries need different remedies. True, they all need competition, but not in the manner or of the type proposed. We first need genuine competition within the country. Secondly, we have to carefully modulate the sectors opened up for import competition, because with the present highly skewed

try, the Bank report prescriptions will (a) create an immediate shut-down of a large part of Indian industry; (b) thereby add large numbers to the already unemployed population; (c) only help to improve the well-being (or consumption standards) of some 100 million Indians (out of the present population of some 845 million); and (d) as a result, create social tensions which may tear the country apart.

That is why Kirit Parikh, while recommending that we move towards reform of the type suggested, has stated categorically that reform must be accompanied by an employment guarantee scheme. How is one to operate an EGS if, say, a million factory workers are suddenly thrown out of their jobs because of plant shut-down as a result of the Bank recommended strategy?

POLITICAL ECONOMY APPROACH

This is why, as I started by saying, neo-classical economics appears to have lost touch with reality. What we need is a revival of *political economy*, based on an understanding of the guts of the problem of the Indian economy.

And the guts of the problem, the reason for the low productivity in India, lie in lack of education, lack of skills, lack of health—most people do not have the physical energy to put in eight hours' hard work because of malnutrition—lack of infant and maternity care (which in turn is partly responsible for the unrelenting growth of the population). In agriculture, the problem arises from the rapid loss of fertility and desertification of the land because of the loss of tree cover, formation of gullies, and increasing lack of capacity of the soil to retain moisture. What we need for agricultural growth is local 'watershed area' planning, suited to each locale, improving the moisture retention capacity of the soil (or improving drainage where necessary), and a cropping pattern suited to each area. The Bank staff—and many others—talk of increasing inputs of chemical fertilisers when many countries in the West are moving back to organic fertilisers and to the use of bacteria (like *Rhizobium*) for improving soil fertility.

What we need urgently in this country is to improve the productivity of the soil in 70 per cent of the cultivated area which is still unirrigated. What we need to focus on is the improvement of education and health of the people. What we need is massive investment for rural infrastructure—which can only become possible with decentralisation of political and economic authority and the devolution of the requisite funds, together with the required *organisational support* (like the

supply of scientific data of the type available from satellite imagery to the local authorities) to help the people to plan their own local development programmes. What we need is external aid for supporting programmes for harnessing solar energy, in order to provide a minimum of energy to all households. That alone will reduce the felling of trees and the steady deterioration of soil fertility in large parts of the country. We do need a break from the financing of mega industrial projects by the government and, to that extent, the Bank study may help to temper the pace of such investments. But that is not the way to stop ill-directed industrialisation. A carefully modulated trade reform is necessary because, as Mrinal Datta Chaudhuri has pointed out, our industrial structure has become highly complex and we seem to have succeeded in discouraging innovativeness. But the Bank-recommended package is certainly not the answer to our present problems.

Liberalisation does achieve decentralisation—through private sector decision making—but the type of liberalisation recommended is likely to run counter to the more important needs of budgetary support for an employment guarantee programme, and social expenditure on education and health, et al. The way to achieve this objective is through decentralisation of political and economic authority, a transfer of funds under centrally sponsored schemes to the States and from the States to the local authorities, a reduction of the overt subsidies, a reduction in defence expenditure and greater reliance on diplomacy, and a genuine beginning of economic co-operation within the region, which would make for a shift in the allocation of resources to a more efficient pattern of production. This does not need the type of liberalisation recommended in the World Bank study.

Let me admit that we do need reduced government regulation of production and investment decisions by domestic entrepreneurs. We also need less of government regulation in regard to technology decisions, but only in regard to certain sectors. What we do *not* need is the proliferation of technology for the manufacture of items like soft drinks and fast foods. The concepts of consumer choice and of a free market are myths. The consumer is conditioned by TV advertisements and by what his neighbour is doing. There is no free market because in Delhi alone the same products have a price range extending to a difference of 200 per cent in different areas. Nor is a free market of any use to a bonded labourer with no monetary income. We are trying to apply the rules of the game relevant to a developed, Western society on an entirely

The reform of the trade regime in India is important, but not the most important need of the day. Nor is the package prescription of the Bank study likely to help India even to achieve the limited objective of trade reform because it may get the country enmeshed in both a widening internal and external deficit. True, the Bank study has, at the end, made certain recommendations which will, *for a brief period*, contain the external imbalance. But we are apt to forget that there are severe limits to what exchange rate changes can achieve because of demand/supply inelasticities and, in the process, we can lose heavily on the terms of trade. (See, V Bhaskar, 'Export Promotion, Exchange Rates and Commodity Prices', *EPW*, May 18, as one of several studies relevant in this context.)

TO WHAT PURPOSE?

There are several other questions that arise. After implementation of all the reforms recommended, the various economic simulations predict the current account deficit in the balance of payments to remain the same (even after five to seven years) as in the base year, namely, 3 per cent of the GDP (*vide* Table 18 of the Executive Summary). At the same time, overall output declines under all assumptions, the decline in machinery output ranging from 10.5 per cent to 16.6 per cent under different assumptions. So does the output of metals (the percentage decline under different assumptions being

ment declines, as do electrical appliances and electronics. We are left with a small growth in output of agriculture (ranging from 0.3 per cent to 0.9 per cent) and a reasonable growth of minerals output (ranging from 1 per cent to 4.3 per cent). Construction declines or increases marginally under different assumptions, the output of services goes up—how, one is not quite sure because their growth should depend on the growth of production of goods.

What is the purpose of the drastic trade reform recommended if aggregate output is to decline not only in the short term but also in the long-term, and if the current account balance of payments deficit is to remain unchanged at 3 per cent of the GDP?

More detailed commentary on the Bank staff study is unnecessary. The danger—and a real danger that exists today—is that given our present precarious balance of payments situation, recourse to IMF assistance in the short run may force the country into adopting measures which may properly entrap us for a very long period. The very existence of the country would in fact be at stake.

We do need to liberate the Indian economy from the shackles of bureaucratic control which have gradually tightened since around the mid-seventies. But trade reform of the type recommended by the World Bank is certainly not the first step to this liberation.

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Forgettable Anniversary

GPD

Within two years of the Tiananmen Square incidents, the whole episode looks so frightfully dated. Nobody is interested in it any more. The investors are not. The West is not. Japan has been more than keen to resume its role in China which it was forced, under American pressure, to suspend for a while.

THE second anniversary of the Tiananmen Square incidents went off quite uneventfully. The Chinese authorities are a little wary of anniversaries. So they did not look forward to seeing unpleasant things. In a society practising ancestor worship, which is really worship of the venerated dead, any government would be wary of anniversaries. Last month Amnesty International published a detailed list of people still languishing in Chinese gaols as a consequence of their participation in the protest demonstrations of June 3-4, 1989. It is difficult to think of other protest demonstrations in the world which were so large and (quite contrary to the belief of the CPC leadership) so uncertain of what they were supporting and demanding. The CPC leadership, of course, did not think so. What happened then is more than well known and hardly needs any recapitulation.

The net result has been that the anniversary of the Tiananmen incidents has made the Chinese leadership quite nervous. Somewhere the fear that death anniversaries always produce unpleasant consequences has been quite strong in the minds of those who rule China. It has been so ever since Zhou Enlai's first death anniversary way back in 1976. So the government of China decided to play it safe. Tiananmen Square remained closed to the public. No anniversaries, no flowers, no demonstrations was what the Chinese government had decided. There were, of course, references of the 'criminals' of the Tiananmen, counter-revolutionary criminals, that is. Anybody who can be certain of who those people in Tiananmen Square in June 1989 were has to be very bold indeed. Amnesty International is certain that these were "prisoners of conscience". The Chinese government is certain that they were counter-revolutionary criminals. Amnesty International talks of "hundreds of workers, students, intellectuals, Catholics, Protestants and Tibetans" who have been arrested since June 1989. But then organisations always have their peculiar and politically convenient categorisations. Chiang Kai-Shek was also a Christian, whether Catholic or Protestant is beside the point. But for a London-based

organisation it must be important to announce that 'Catholics and Protestants' have been arrested, they being (naturally) different from students and intellectuals.

Anyway, to each his own prejudices and preferences. The fact of the matter is that there are any number of Chinese people in gaol. The second anniversary of the Tiananmen Square incidents was marked by the fact that these people are still there, although quite a few 'students' have been released.

Normally the anniversary would have gone unnoticed. Asians being killed by their governments or by their own people does not attract attention any longer. It is simply a question of your preferences in killing. Some people don't like the state killing people, but think that people killing one another can be ignored because it is largely a function of state terrorism. Others think the opposite. Basically timid pen-pushers like us do not like these arguments, but what can we do? We have to live with violence and hope that it will not affect us.

It is, of course, fine that as Amnesty International points out, "trials in China do not meet international standards for fair trial" By international standards, it obviously means Euro-American standards. It might indeed be true that Asian trials generally do not meet "international standards for fair trials". There is no room for fairness in the Asian world. There has not been since the age of imperialism. Various ruling elites have simply replicated Euro-American standards for the coloured world in their respective worlds. This was seen quite vividly in the way in which South Korea's Roh Dae-wu the other day dealt with his students who had taken to the streets in anticipation of the anniversary of the Tiananmen Square incidents. The riot police went on a rampage in downtown Seoul. The Chinese authorities must be wondering why South Korean repression of their own students does not evoke as strong a moral indignation as the Tiananmen Square incidents do or did.

And this, they must ruefully think, in spite of their being now as open to the West and to the inflow of foreign capital as the South Koreans are. A part of the Chinese authorities' bitterness in their

condemnation of the perpetrators of the Tiananmen Square incident no doubt springs from what they must see as international double standards. This is not to say that Amnesty International is guilty of them. But a whole lot of other people and institutions are. And even Amnesty International is clearly in the wrong in thinking that in Deng's China Catholics and Protestants are detained *because* they are Catholics and Protestants. That simply is not true. The Chinese state, like the state in any other developing country, reacts essentially to any challenge to the hegemony of the ruling elite. And but for certain parts of Latin America where liberation theology has been a major force, the Catholic church has been a remarkably conformist and passive institution.

Anyway, within two years of the Tiananmen Square incidents, the whole episode looks so frightfully dated. Nobody is interested in it any longer. The investors are not. The West is not. Japan has been more than keen to resume its role in China which it was forced, under American pressure, to suspend for a while. But even that is an old story. There is little doubt that those who are in gaol in China will have to conform to the new political requirements. They will be released once they recognise that. Already the process is on as far as the students are concerned. In these very columns we had talked of a popular poet being helped by the PLA navy to migrate to Taiwan. There are no fair trials in China. But there are fair escapades; some engineered by the Chinese authorities themselves.

There has been some restriction on religious activity in China. Hence the Amnesty International's references to the Catholics and the Protestants. The world must look very different from London. But here in India we could do with some restriction on religious activity—whether Hindu or Islamic or Christian or Sikh or what have you. In backward societies these restrictions are important—one point which the much maligned Cultural Revolution was repeatedly making. It is no use mixing up religious rights with human rights, at least not in a backward society. So if the new regulations in China provide for that and if Li Peng's government has enforced these regulations, they should not be condemned. There is no escape from backwardness. And if there is no escape from backwardness, there is no escape from repression and, of course, from the Tiananmen Square incidents or their repetition. Any anniversary judgment on the Tiananmen Square incidents will have to recognise that.

Towards a Realignment of Social Forces

Ajit Roy

It is something of an irony that prospects, however vague, of the resuscitation of a Nehruvian perspective of development have opened up only with the fading away of the dynastic rule of the Nehru family.

EVEN while a section of the Congress(I) leadership is wistfully striving to stretch the Nehru Gandhi connection by seeking to draft Sonia Gandhi as its new helmsperson, obviously only a nominal one, everyone is conscious of the fact that Indian politics has entered a new phase with the death of Rajiv Gandhi. This awareness, naturally, has set the political parties to review their strategic orientations. Political pundits of various hues and statures in their turn have joined the game by peddling their pet theories.

Four or five variants of strategic plans have so far emerged to the fore. For instance, the Congress(I) and the BJP are still aiming at achieving the dominant role, but by striking a changed chord, the first by unleashing a sympathy wave as witnessed in 1984 in the wake of Indira Gandhi's assassination and the second by shifting its emphasis from the mandir-roti twins to a promise of 'stability' in the face of a likely loss of credibility of the same promise from the rudderless Congress(I). Then there are voices either demanding a national government, presumably including BJP representatives, or a Congress(I) Left joint front presumably excluding the Janata Dal. The Left parties are also engaged in a review of their position, vaguely aware that in the changed situation they may have to revise their tactics about the Congress(I). Indeed, insofar as Iyoti Basu's speech at a condolence meeting in Calcutta on May 26 is an indication, the CPI(M) may shift towards a more positive attitude to the Congress(I).

Although the Indian people and their political leaders have seldom betrayed signs of a lack of down-to-earth realism in their political judgment in the past, their present search for 'stability' mainly through the installation of a government with a stable majority at the Centre is certainly likely to prove chimerical. The BJP whose high pitch mandir campaign has been associated with bloody riots from one end of the country to the other, whose particular interpretation of 'Hindutva' by definition puts off the Muslims, Christians, Sikhs, Parsis, Adivasis, Dalits and so on, and whose demand for an instant and forced integration of the Kashmir valley can offer no prospects for assuaging the hurt and estranged Kashmiri people can never be a credible champion or instrument

of stability.

As for the Congress(I), if it failed to offer the much trumpeted stability with its nearly three fourths majority in the ninth Lok Sabha, how can it manage to do so with a slashed majority this time, if it gets a majority at all?

Moreover the Indian people and politicians should have in the meantime acquired enough historical experience to realise that real stability is a systemic function and that the assurance of a government majority in parliament is only one of its many dimensions. Attentive observers of the Indian scene should have also realised that the more basic factors tending to disturb the prevailing stability in the country are the struggles between the landless Dalits and the land holding middle class, the deprivations and alienation of the Adivasis, the rivalries among the backward castes themselves for vantage positions in the power structures and the regional disparities leading to widespread disaffection in the outlying parts of the country arising particularly from the limited lopsided and inequitable growth processes.

The promotion of sectarian parochial consciousness by all kinds of power hungry politicians competing for the retention and extension of their captive bases further compounds this situation.

In these circumstances, a firm parliamentary majority can itself become a factor for intensifying the destabilising pressures if this apparent stability is exploited to fortify the position of the ruling coteries, just as Rajiv Gandhi's regime had sought to do during most of its five year tenure. This process only intensifies the asymmetries and contradictions within the regime's social bases and between its social bases and the socio-political institutions standing thereupon. All the destabilising factors listed above were actually stimulated by the short sighted attempts at 'social and political engineering' initiated by Rajiv Gandhi in the early years of his rule.

The violence that is presently sweeping the country and is being widely bemoaned as symptoms of criminalisation of politics represents in essence the necessary norms of the destabilised politics of the day. Stable politics has been defined as a constant

process of bargaining and accommodation on the basis of accepted procedures. A certain level of violence is, of course, permissible under the norms of stability, some deviations from the norms are not, historically speaking, really abnormal, there may even be deliberate violations of the norms, but only sporadically. When deliberate violations of the 'norms' of violence become the rule, it indicates a fundamental breakdown of the so-called social contract, i.e., the social consensus, that provides legitimacy to the existing system, in other words, the hegemony and domination of the existing power bloc. This calls for a new consensus on the basis of a radical realignment of social forces. All the indications of the functioning—and non-functioning—of Indian polity today proclaim clearly and loudly that such a basic realignment has become due. But there precisely is the rub, so to say.

A basic shift in the existing correlation of forces in India today poses many intricate problems, for which no readymade answers are available. Firstly, in the context of the contemporary global developments, a direct option for a socialistically-oriented shift is hardly a realistic possibility even if one overlooks the question of maturity of the forces of production necessary for such a leap.

A more modest strategic objective, more in tune with the existing situation, is a broadbased social alliance for pushing forward a model for a democratic, egalitarian welfare oriented development of the sort which Jawaharlal Nehru had half-heartedly advocated but failed to achieve due to the self-contradictions in his own mind and in his operational plans besides the constraints and compulsions of the regime over which he presided installed by all round compromises.

It will however be naive and simplistic to think that successes in the strivings for pursuing a revised Nehruvian model of growth will be either easy or guaranteed. Not only the internal impediments remain as deeply embedded but the external environment has also become much more unfavourable due to the eclipse of the so-called socialist camp, significant weakening of the non-aligned movement and much more than a corresponding strengthening of the neo-colonialist forces—all this very much weakening the autonomy of the Indian economy as well as the Indian bourgeoisie.

Any success in this, the most appropriate under the circumstances, direction will demand the simultaneous operation and interaction of a number of factors and processes, such as

(i) The unity of action of a wide array of Leftist forces, party-based and non-party, and the combination of militant mass actions with a skilful use of parliamentary and other institutional forums.

geists-capitalist) growth, never failing to link these immediate and partial actions with the long-term objective of social transformation, in both material and cultural terms

(iii) Strengthening the linkage between the national struggles in India with all similar strivings in other parts of the world, including the actions of the radical forces in the developed, neo-colonialist, countries (iv) And, finally, an important part of this programme will be a sharper definition of the socialist perspective itself—from both the ends, i.e. deep going and critical studies of the capitalist dynamics and a renewal and enrichment of the conception of its socialist alternative on the basis of critical studies of capitalism as well as of the received theories and perceived practice of socialism

From this strategic conception, the immediate tactical tasks on the morrow of the 10th Lok Sabha elections will be

(i) to define a common platform of the Left forces for the purpose of isolating and weakening the medievalist disruptive BJP and similar forces, and

(ii) sifting to the extent possible principled elements from the entire range of the centrist bourgeois parties i.e. the Congress(I), Janata Dal and Samajwadi Janata Dal, for a broad Centre Left alliance based on a programme consistent to the extent possible, with the objectives noted above and excluding to the extent possible elements wedded to the 'Hindutvavadi' persuasions

In other words the main tactical task should be to isolate the BJP and its sympathisers on the one hand and to mobilise the bourgeois democratic elements as far as possible on a wide platform ideationally motivated by the Left

It is something of an irony of history that prospects, however vague have opened up for the resuscitation of a Nehruvian perspective of development in the country only with the fading away of the prospect of the dynastic rule of the Nehru family. The realisation of these prospects will, however continue to be retarded till the cynicism/sycophancy personal aggrandisement and similar legacies left by Nehru's family successors are purged from the political culture of the 'mother party and its proliferating offspring

Finally, it should be always borne in mind that this contemplated neo Nehruvian phase can only be a short period when radically oriented social forces will have to confront neo colonialist, inequalities and authoritarian forces for supremacy and a more permanent delineation of the social physiognomy. Indeed, with the growing intensification of contradictions within India and in the global environment, the multi class heterogeneous alliance can only be a short lived one. Hence, skilful permutations and combinations of MPs will be of much less importance than the mobilisation and unification of people in the fields and factories

Politics of 'Peaceful' Poll

Kamarupee

The self-congratulation in Assam over the peaceful conduct of the polls may not be entirely unjustified, but more important it is to note the ULFA's role in keeping the elections peaceful and the calculations underlying it.

THE elections to the 14 Lok Sabha seats and 124 of the 126 assembly seats in Assam passed off uneventfully, barring a few minor incidents. There was no polling for the Kokrajhar West (ST) assembly seat because the 'independent' candidate supported by the All Bodo Students' Union and the Bodo Peoples' Action Committee was declared elected unopposed after the other candidates in the fray were 'persuaded' to withdraw. The ABSU BPAC combine is leading the agitation for the creation of Bodoland, of which Kokrajhar area would be the very core, and is supporting selected 'independents', viewing the polls as a virtual referendum for the creation of Bodoland. Polling in Badarpur assembly constituency was countermanded following the death, due to natural causes, of the candidate of the Natun Asom Gana Parishad.

The few very minor incidents that marred the peaceful conduct of the polls, of which the most serious appears to be the incident of ballot box snatching by one of the former ministers in the AGP government in the Kamalpur assembly constituency, do not even deserve notice in the context of the norms for electoral conduct being set in other parts of the country. Naturally, there has been a lot of self congratulation in Assam over the peaceful conduct of the polls.

The self congratulations are not unjustified. There were indeed widespread apprehensions of violence before the polls, given the bitter conflicts that have been raging in the State between and among the various sections of the State's population, now apparently hopelessly divided along bitterly antagonistic caste/language/religion/ethnic divides—to take note of only the major divisions. These divisions have become especially sharp in the five years of AGP rule during which many of the State's indigenous minorities (who together would probably form a majority) had become totally alienated from the AGP government. The most visible evidence of this alienation has been the agitation for the constitution of a Bodoland as a separate State outside Assam being led by the ABSU BPAC combine, the agitation for the constitution of the two autonomous hill districts of the State into an autonomous State within Assam being led by the Autonomous State Demand Committee (ASDC), the agitation for a 'federal reorganisation' of the State according to a highly complicated scheme of autonomous

structures covering every segment of the State's population—this last being led by the United Reservation Movement Council of Assam (URMCA). Every one of these agitations viewed the State's politically and culturally dominant Assamese speaking people, especially that section which they derisively identified as forming an 'upper caste Hindu clique', with total hostility.

These new contentions, along with older and more inherent ones revolving around language and religion (the latter in a rather subdued manner) had so muddled the social and political atmosphere in the State during the years of AGP rule that apprehensions of a volatile situation during the election campaign and the poll were natural. Indeed, with the AGP itself splitting almost on the eve of the polls, adding another dimension to the existing divisions, such apprehensions were not unreasonable.

Above all was the most serious apprehension that the United Liberation Front of Asom (ULFA), the organisation committed to securing the 'liberation' of Asom from the clutches of India, would interfere in the election process either by disrupting the polls—after all, ULFA openly derided 'Indian democracy'—or involve itself in more mysterious ways to secure the election of candidates who in the organisation's calculation would be of assistance to the organisation. In this scenario, every kind of interference by the organisation, including intimidation of voters and candidates and enforced withdrawals (rather in the manner in which candidates in Kokrajhar West (ST) assembly constituency were 'persuaded' to withdraw), was envisaged.

And yet the election campaign and the poll have gone off with remarkably little fuss.

However, the real credit for the peaceful conduct of the polls appears to be due not so much to the peaceful disposition of the contestants and their supporters, nor to the deployment of a large number of paramilitary forces to augment the State's police forces (now acknowledged by the State's director general of police to have been inadequate and rather thinly spread) but to the strict way in which ULFA adhered to its declared policy of non involvement in the electoral process, on the ground that it did not believe in 'Indian democracy' and indeed did not subscribe to the concept of 'India' as a political entity.

tual purport of such a declared policy of non-interference, and whether the formal declaration was simply a cover for more subtle forms of intervention, ULFA remained steadfast to its declaration. At the same time since ULFA had refrained from calling upon 'the people to abstain from voting'—some in interventions by ULFA spokesmen in the local press actually urged the voters to take part if only to realise from actual experience the futility of taking part in the 'farce' of elections—it was clear that ULFA wanted the elections to be held while keeping itself formally away from the electoral process. The assurance of non involvement and refraining from a poll boycott call was clearly double-edged, for these also meant that no one else should disrupt, or in any way

kind of malpractices, the electoral process. This, and the implications of defying such stated policy and unstated directives, appear to have contributed rather more tellingly to the uneventful conduct of the polls in Assam than anything else.

This stand appears to be perfectly consistent with the organisation's larger objectives—affirming its lack of faith in 'Indian democracy'—and its immediately tactical requirement of ensuring the establishment of a relatively weak, regional party government or, even more preferably, a coalition government of regional parties, in the State, which alone will enable the organisation to resume its activities and regroup its scattered personnel in a post-Operation Bajrang scenario.

bringing imports forward and delaying repatriation of export proceeds. This was further compounded by the cessation of accretion to the non-resident deposit accounts as a result of the Gulf crisis and perhaps the impairment of confidence in the economy.

A number of general observations could be made about the problems and prospects of balance of payments. The deterioration of the trade deficit could be attributed in large part to factors within the domestic economy. First and foremost, the economy has been unable to adjust its structure to changing domestic and international economic conditions. Investment in the productive sectors of the economy has not been at the required pace.

A low level of investment has implied low rate of technological progress, for new investment incorporates new technology. The resultant low productivity, widening technological gap, low degree of specialisation of many firms, and production of goods which face declining domestic and foreign demand have led to the erosion of India's competitiveness. Further, government policies have contributed to the creation of an economic environment that has indeed aggravated the trade imbalances. Large and growing government deficits geared to consumption have given rise to high liquidity. In spite of the lacklustre economic growth, the country has been resorting to extensive borrowing, in particular short term borrowings. As a result there has been an accumulation of external public debt, the servicing of which has imposed a considerable burden on the country. Thus, coupled with sharp fluctuation in already insufficient visible receipts and inflow of private capital, created a desperate situation where the government has been driven to fall back on the last resort of selling its gold stock to pay its debt.

Such sale however does not provide a lasting solution. What next, after all the available gold stock has been pledged? Balance of payments instability has become a chronic problem. External payments prospects are bleak. Domestic macro economic imbalances are worsening. Inflationary pressure is building up. Monetary policy is tight and production repressed. The international economic environment is far from favourable. The growth rate has considerably slowed down in the industrial countries. Conditions in the world money and capital markets are not encouraging. There is a certain degree of uncertainty regarding the country's ability to raise capital through borrowing following the sharp downgrading of the country's credit rating. Above all, there is no economic administration worth the name in the country. This ominous situation calls for rethinking of policies and crying a halt to the economic liberalisation. There is need to study and draw lessons from the experience of a country like Pakistan which has recently gone the whole hog with the policy of economic liberalisation.

Gold Sale: Symptom, Not the Malady

The government's decision to 'pledge' 20 tonnes of confiscated gold abroad, which has attracted widespread criticism, is but a symptom of the country's external economic crisis which calls for review and reversal of the policy of economic liberalisation.

STANDARD AND POOR, the internationally reputed credit rating agency, was the first to break the news that India had sold gold in Zurich on May 30 to cope with the foreign exchange crunch and consequently it has lowered India's debt ratings to BB+ for long term senior debt. It was the second such downgrading in less than a year. As further speculative reports concerning gold sale surfaced, the government of India hesitatingly confirmed that India had, for the first time, sold 20 tonnes of confiscated gold to raise \$ 200 million (Rs 400 crore) with repurchase provisions to deal with the balance of payments crisis. The gold had been sold through the State Bank of India purely on a lease basis for a period of six months. The foreign exchange procured through the gold sale would carry a flat LIBOR rate of 6.3 per cent. Reportedly the swapping was done after the confiscated gold was shipped overseas for an internationally accepted mint mark certifying good delivery quality, which became necessary as the Indian mint did not figure in the 32 recognised mints worldwide.

An act as desperate as the sale of gold (which even seemed to have affected the election prospects of ruling government) had to be resorted to in order to raise resources to meet the anticipated foreign exchange gap of around \$ 700 million for June. Speculation is that the country may be forced to pledge further amounts of gold to avoid the disgrace of defaulting on debt servicing obligations. There have also been reports that the Reserve Bank of India might use its own monetary gold (kept as reserve for currency issue) for raising resources through leasing. The RBI indeed does enjoy the statutory sanction for selling or swapping

15 per cent of the official gold reserves.

The gold pledge has proved very controversial. The prime minister himself took pains to explain the rationale of using the gold for raising foreign exchange resources. He explained that the 20 tonnes of gold had been mortgaged and not "sold in order to manage a difficult market situation". The RBI governor was the competent authority to take a decision in this regard, but the decision had been ratified by the government. The prime minister added that if the required foreign exchange had not been raised by pledging gold, the country's credibility and creditworthiness would have been seriously impaired.

There has been criticism of the government's decision to convert a non liquid asset viz gold stocks, into more liquid floating foreign currency assets from different quarters. Also there has been support for the government's action. Most of the critical comments have focused on the ethical aspects, the propriety and the timing of the decision and have failed to address the underlying basic issues. To stress the obvious, the need for the sale has arisen because of the large and widening external payments deficit, in particular the trade deficit. The increase in the trade deficit is in part ascribable to the oil price rise which followed the Gulf crisis. But even excluding the effect of high oil prices, the trade deficit widened markedly to about Rs 16,000 crore, reflecting basically the impact of the policy of liberalisation pursued in the past five years or so. This got reflected in the surge in the non oil import bill. The deterioration of the balance of payments gathered momentum after July 1990. The expectation of an acceleration in inflation and creeping

Terms of Political Discourse in India

T V Sathyamurthy

Discussion at the second conference of the project 'Terms of Political Discourse in India' focused on the themes of State and Social Oppression; India's Economic Policy in the International Context; Politics of Agrarian Transformation; Structure, Discourse and Political Institutions; State, Nation and Class; and Resistance, Co-option and Cultural Transformation.

THE second conference (Bhubaneswar September 20-23, 1990) of the project 'Terms of Political Discourse in India' was essentially designed to enable the contributors of papers to comment critically on each other's work prior to undertaking the production of final drafts, and to discuss the main themes of the projected volumes with the aim of ensuring a degree of coherence in the work as a whole. Like the first conference (T V Sathyamurthy, 'Terms of Political Discourse in India', *EPW*, July 7, 1990) the Bhubaneswar conference also reflected the wide range of issues falling within the scope of the project, if anything with sharper focus.

The conference was divided into workshops around the following six themes: (1) State and Social Oppression: Identity and Resistance; (2) India's Economic Policy in the International Context; (3) Politics of Agrarian Transformation; (4) Structure, Discourse and Political Institutions; (5) State, Nation and Class in India; and (6) Resistance, Co-option and Cultural Transformation. It was hoped that, in these groups, areas of agreement as well as of disagreement between contributors could be fully explored.

State and Social Oppression: Identity and Resistance

The papers grouped together under this rubric were: Ilina Sen, 'Aspects of the Women's Movement and Political Action in India'; Sudhir Chandra, 'Understanding Hindu-Muslim Relations: A Note on Two Hindi Novels'; V Suresh, 'The Dalit Movement in India', and an abstract of a paper on 'Fourth World Realities and the Distortions of the Dominant Discourse: The Case of the Indigenous People of Orissa' by R K Nayak.

Sen's paper provided a broad historical overview of the women's movement in its most recent phase and included some of the theoretical issues relating to specific features of its elaboration in the Indian socio-political and economic context. The discussion focused on women's position within 'general' movements, the tensions between men and women in common political action (e.g., over land- and forest-based issues), the question of women and the media in relation to the market and

patriarchal values, the integration of the position of women in the family with their specific class/caste positions, the meaning and role of 'equality' in women's struggles, and how the relatively equal status of women, say, among certain Adivasi communities can be maintained under conditions of change.

A number of participants raised questions on Sudhir Chandra's paper relating to the applicability of concepts valid at a micro level to the sub-continental level, the costs that non-dominant (i.e., minority) cultures were required to bear as a consequence of the dominant culture providing the paradigm of homogeneity for the society as a whole, and the structuring of various identities (i.e., the different communal identities as well as other socio-political and economic identities) in a hierarchy and not simply as co-existent ones.

The discussion of Suresh's paper on the Dalit Movement touched on the reasons for the increase in atrocities against Dalits. Two alternative hypotheses were put forward: a decline in the sense of community and the failure of the state to intervene at the local level in order to guarantee civil rights; and the Dalits' refusal to accept their ascribed position and organising themselves successfully to resist upper caste domination. Another question to surface reflected upon the problems involved in mobilising Dalits as a united force because they were now active in different spheres and members of different classes to some extent.

The contradiction between those among the Dalits who are agricultural labourers and those who have developed urban or non-agricultural links was highlighted. Dalit women's experience of struggling against sexual violence at the hands of upper or higher caste men was also discussed with special reference to the accusation levelled against them that they were 'in league' with upper caste women.

The author was questioned as to why there was no reference in his paper to the Bahujan Samaj Party and to the Satnami movement in Chattisgarh. Another strand of the discussion related to the distinction between reformist movements (aimed at

changing the position of the Dalits within the caste order) and revolutionary overthrow of the caste order itself. It was suggested that the policies developed by the existing state could contribute a material basis for a 'humanistic ideology'.

R K Nayak's abstract elicited discussion of the diversity of experiences within the category of Adivasis, varying from the Adivasi population fragmented in central India between a number of States, to territorially homogeneous Adivasi communities with sharply developed sense of national identities. A number of participants were interested to know whether there was any role for surviving elements of collectivism in the future of the Adivasi communities.

Resistance, Co-option and Cultural Transformation

S V Rajadurai and V Geetha's paper on 'DMK Hegemony: The Cultural Limits to Political Consensus' gave rise to a discussion of the question of the 'Tamil nation'. Some felt that the criticism of the DMK's 'compromise' put forward in the paper was premised on the assumption that a Tamil nation was in fact in existence as an ideological construct if not as a political reality. It was suggested that the Tamil question could not be analysed separately from questions of the nation state and of markets. Tamil nationalism could only be understood if India were regarded as a collection of nations, rather than as a single nation. Attention was also given to the Tamil national struggle in Sri Lanka and its class basis. The authors felt that the DMK ideology could be regarded as providing the inspiration; it also made a dynamic input into Tamil culture.

The question of how the appropriation of dissent described in Sumi Krishna's paper (entitled 'The Appropriation of Dissent: The State vis-a-vis People's Movements') fitted into a larger structure of state and civil society was considered. It was suggested that the paper could throw light on the differing relations of different movements to the state in terms of the nature of the demands made on the state.

India's Economic Policy in International Context

The following papers were discussed under this rubric: A K Bagchi's 'The Discourse of Political Economy in Post Colonial India: A Fractured Consensus or a Vanishing Facade?'; Pramit Chaudhuri's 'Economic Planning in India'; Krishna Bharadwaj's 'Regional Differentiation in India'; T V Sathyamurthy's 'India's International Role: Economic Dependence and Non-Alignment'; Sanjaya Baru's 'India's Industrial Policy'; F Sridharan's 'Liberalisation, Self-Reliance and Technology Policy in India in the 80s: A Shift in Terms of Discourse?'; and Suman

Nair's 'India's Population Policy'.

The discussion on Bagchi's paper centred round the failure to create the conditions for capitalist development since independence through the adoption of 'economic nationalist' policies including agrarian transformation, the role of the left in India, the tension between building socialism and promoting capitalism by demanding more stringent economic nationalism and the enforcement of 'bourgeois laws' disciplining capital, the contradictions engendered in the development pattern (e.g., the Punjab), the role of the political coalition including the rich and middle peasant classes, the problems posed by India's specific 'class-caste' context for fostering economic nationalism in an effective manner, and the nexus between market-sharing between regional capitalists and economic nationalism.

Chaudhuri's paper was followed by a discussion of different strategies of growth and the distinction between a 'support-led strategy' and a 'growth-led strategy'. It was suggested that the role of the state should be re-defined to enable a better redistribution of the surplus whilst mobilising to advantage the resources that the poor already have. It was stressed that such policy changes could only be effective if they were underpinned by structural change such as land reform and legal changes strengthening economic nationalism. There was some discussion of the process of planning itself as a strategic instrument serving certain class interests whose nature has changed over time. A distinction must be made between the impact of planning on high, middle and low income groups on the one hand and 'the poor' on the other. The main conclusion of the paper remained that planning had not affected poverty.

Krishna Bharadwaj's paper evoked comments pointing out the need to include some discussion of the regionally uneven role of nationalised banks and their policy of transferring resources to advanced industrial areas. Several questions were raised, among which the following were central: were Gujarat and Maharashtra, say, in fact well placed in agriculture at the beginning (in the 50s say)?; was the State Domestic Product (SDP) a good measure of the differential performance of the States?; was the relationship between growth and poverty implied in the paper valid?; what was the role of factors such as the nature of extraction of surplus by trading-finance capital and of markets in explaining the pattern of backwardness?

The discussion following Sathya-murthy's paper touched, among others, on the following controversial points: had the paper not exaggerated the role of foreign capital (especially foreign direct

capital) and over-estimated the extent of India's satellisation; was there a congruence between the set of issues raised in the paper—viz, hegemony, liberalisation and dependence—and certain important events—viz, Bangladesh war (1971), FERA (1973), the first liberalisation budget (1975-76), and the IMF loan (1982)?; how should the responsiveness or the lack thereof towards the poor as witnessed by expenditure allocation be evaluated?

The main issues raised in response to Sanjaya Baru's paper hinged on whether the 'breakdown of consensus' hypothesis (referring to the broad consensus in the country on the industrial strategy to be followed during the first 20 to 25 years of independence) would bear closer examination without further data (e.g., a statistical profile of the different groups and sectors in the economy and their import intensity), whether the paper did or did not understate the role of international capital, and whether the paper underestimated the nature of restructuring under way in the Indian economy.

Criticisms of Sridharan's paper revolved round the contention that it contained no references to the alternative discourse. According to a number of participants self-reliance had never been defined as autarky. The implied simple assumption in the paper that allowing more technology import would solve the problem was also attacked. Some suggested that technology should be approached in a more disaggregative manner than in the paper. One criticism related to the absence in it of an explanation why indigenous technological capabilities did not develop earlier on.

The two main comments on Sumati Nair's paper hinged on the need for a more sophisticated critique of Malthus and the importance of the relationship between political crisis and shifts in population control. Another point related to decisions concerning the use which women made of their bodies. These should be increasingly made directly by women themselves and not allowed to remain surrogate decisions taken on their behalf by men.

Politics of Agrarian Transformation

This workshop consisted of papers by Ravi Srivastava ('Some Recent Trends in the Pattern of India's Uneven Development and Implications for Political Processes'), Dev Nathan ('Agricultural Labour and Poor Peasant Movement in Bihar: Nature of Resistance and Problems of Strategy'), Sucha Singh Gill ('Agrarian Capitalism and Political Processes in the Punjab'), and R. Vidyasagar ('New Agrarianism and Challenges for the Left').

Srivastava's paper led to a discussion of the dynamism in hitherto 'backward'

areas, while new classes were struggling with political implications related to their caste bases. It was suggested that even uneven development should be studied in a national context for the reason that the success of 'backward' class movements depended on the extent to which they related to national issues. A discussion of the implications of the rise across regions of the rural real wage rates differentiated between advanced areas where the impetus for rural wage increases came from rising demand and backward areas where the stimulus was provided by migration. However, this was not consistent with conditions of overall 'surplus' labour.

Dev Nathan's paper gave rise to a discussion of the different forms of agrarian transformation and of the significance of the group emerging as capitalist farmers from the lower castes (Kurmis, Yadavs and Keoris). Some discussion also focused on the impact of different types of agrarian change on women's position.

Sucha Singh Gill's paper was followed by a discussion of the present political and economic situation in Punjab. Protest movements in the State were not being articulated by the labouring classes but by the emerging agrarian bourgeoisie from whom the Shiromani Akali Dal drew its main political support. The rural bourgeois elements also tended to take over more and more elected offices in the local administration at the level of the district and below, as well as leading 'farmers' movements' and 'kisan movements'. It was pointed out that differentiation was taking place in several

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sectoral composition.

The discussion of Vidyasagar's paper centred round the failure of the Left to mobilise the rural proletariat in the past which was linked to their emphasis on building an alliance against the landlord class. There were also some comments on the role of the CPI(ML) parties, and in particular the Indian People's Front (IPF) in the areas in which they were active.

Structure, Discourse and Political Institutions

The papers discussed in this workshop were: Rajni Kothari's 'Fragments of a Discourse: Towards Conceptualisation'; Subrata Mitra's 'Modernisation, Endogenous Culture and Revolution: 'Western' Paradigms of Indian Politics'; Satish Saberwal's 'Democratic Political Structures'; Kalpana Wilson's 'The Post-Independence State in Marxist Writing'; Dhirubhai Sheth's 'The Great Language Debate: Changing Terms of Discourse'; Sudipta Kaviraj's 'On the Structure of Nationalist Discourse'; Suranjan Das's 'The Indian National Congress: Aspects of Continuity and Change'; and Javed Alam's 'Nation: Discourse and Intervention by the Communists in India'.

The discussion that followed Kothari's paper drew attention to the questions of distinguishing between 'discourse' and 'non-discourse', distinguishing between following some form of logical order and adopting inter-locking discourses, and of the absence of reference points (implied in vertical segmentation in discourse). Did discourse mean 'contingent utterances' or 'a range of utterances possible' or 'conceptual common sense'? Discussion also centred round the tendency to regard the state as the only agency that can change society, the precise point in time when the post-colonial state was first challenged in India (by the Maoists in 1966?), the hiatus in the paper originating in a possible lack of sense of proportion in Kothari's appreciation of orders of magnitude and, most interestingly, the difference between Nehru's and Gandhi's position concerning the relationship between state and society in discourse-analytic terms and the advantage enjoyed by the former over the latter who did not have a clearly worked out model.

A main point to emerge in the discussion of Mitra's paper was the intellectual slavery of much of Indian political science to categories and concepts handed down by Western political science, and its servitude to existing terms of reference. There was some controversy over Mitra's treatment of specific authors such as Francine Frankel and Atul Kohli.

Among the wide range of comments that Saberwal's paper attracted, the most persistent one related to whether there was

symbols. There was an implicit assumption that Western paradigms and classificatory schemes were universally applicable, especially at the level of understanding of emancipatory action. One of the participants pointed out that, over and above the segments and fractions of society, there was a range of expectations and underlying divisions which were human, emancipating, liberating, etc. and, as such, frameworks of understandings and actions that were not bound by cultural presuppositions could be conceptualised. Another point made was that, in order to produce the translation of ideas and experience into workable ideologies, and set in motion the creative process of constructing ideology, a high level of institutionalised organisation was needed. On the other side, 'bhaichara' applied its tradition of control over force to perpetuate mayhem. In order to operate legislative (i.e., democratic, institutionalised) structures at the State level, participants ought to be willing to work to norms and disciplines and not create artificial majorities by buying and selling legislators (a canker that could well spread to the Centre).

Wilson's paper stimulated several interesting contributions. It was pointed out that there was no crystallised version of the major political trends in India in academic writings. Marxist contributions on the Indian state were important and should not be belittled. The question of the character of the Indian state was closely linked to the assessment of the character of the bourgeoisie (is it a collaborationist or an oppositionist ruling class?). The actual understanding of the communist movement in respect of this question has varied from one to the other. It was pointed out that the author's remit was restricted to academic Marxist writings on Indian politics and did not extend to inner party controversies. After a period of stagnation (the 60s and the 70s), Marxist and party intellectuals were feeling much more relaxed and secure about advancing reassessments of the strategy and tactics of the communist movement, and self-censorship was definitely on the wane.

Among the responses evoked by Sheth's paper were: (1) the distinction in the paper between two levels of discourse—the existential and transcendental—and the shifts in these due to changes in social reality (especially in contested areas of change); and (2) the dimension of minority rights which involved the questions of identities and equality as reflected in the way in which the relationship of symbolic contestations in different representations of reality related to each other. Some interest was aroused on the

firmative action in the safeguarding of minority rights, the Constitution being cited as an example of this by counterposing abstract issues of equality in the form of individual rights versus group rights. In a number of States, effective political power had passed from higher to lower castes. Yet, paradoxically, this did not affect the position of a vast majority of individuals belonging to lower castes. Another question that came up for discussion was the change in the role of English in the education of the regional elites. The impact of the market on the state and its contribution to the speed of dissemination of English was also discussed. The phenomenon of metropolitanisation and the competing position of the English and Hindi educated segments of the elite were also commented upon.

Kaviraj's paper stimulated an energetic discussion. A point was raised about the dominant language. From Gujarat to Assam there was a linguistic continuum, and in every region rural people were bilingual or multilingual due to the overlap and variation of dialects from area to area. The term 'composite culture' featured in the discussion next. Was it something that the likes of Nehru had or was it the feature of villages in which the Moharram procession started from the courtyard of the Hindu temple and the Durga image was taken right up to the mosque before it was taken out for the immersion ceremony? Composite culture of the latter kind should be distinguished from the hybrid Anglo-Indian or Indo-Anglian culture of the elites. Discussion was also extended to include the question of Hindu versus all-India nationalism and Jinnah's brand of Muslim nationalism. In order to address the question of nationalism adequately it would be necessary to comprehend its many-layered character analytically. The process of enumeration was crucial to nationalism as also the notion of being bounded by an area. When national identity was enumerated, all other identities also would be enumerated. Another point of view denied the validity of 'composite culture' and argued in favour of 'multiple identifications' instead. This was further refined to refer to a 'hierarchy of multiple identities'. Secularism could only be made sense of in the concrete, not on the basis of abstract formulations. European categories could not be extended to India any more than class categories could be mechanically employed to solve all problems.

Das's paper attracted a good deal of debate. Some sympathy was expressed with the way the story was told in the paper by putting together (a methodological point) discrete colligated events

same class or type. A part of the discussion bore on the problematic relationship between Nehru and the CPI, especially the former's tendency to mete out punishment to the latter whenever it transgressed the parameters of the Congress system. It was also pointed out that the rough and tumble of electoral politics stood in flat contradiction to the paper's assumption that the desirability of socialism was taken by the Congress (axiomatically) as a moral imperative for action.

Alam's paper touched on the discourse involved in this general area, its analysis and critical proposition. The question was raised as to who defined the limits of what was being talked about within other sets of boundaries. The discussion then moved on to a consideration of the specific modalities of nationalism— from a lexical understanding of the word 'nationalism' to the 'national question' in Lenin's polemic on the subject, to Gandhi's view, according to which the Indian nation had existed before the arrival of the Muslim rulers and therefore could not cease to exist after their coming. Indian nationalism appeared in three analytically separable layers—structural, theoretical and the final demand in the 40s for Pakistan.

The discussion then focused on inner party controversies within the CPI. There was a strong tussle within the CPI on the two streams of nationalism (the alternative line being espoused in an 800-page report in two volumes by Adhikari, entitled *Hindu Muslim Unity and the Freedom Struggle*) in relation to the Pakistan question. The question was also raised as to whether the motivating factor behind the CPI's line on the multinational character of India was opportunism or a lack of proper grasp of Marxism. Also, it was asked, what was the underlying logic of the CPI urging the Sikhs to join Pakistan, when in fact there was a profoundly antagonistic contradiction between the Sikhs and the Muslim League. In spite of India being a multilingual state, and the States' Reorganisation Commission's suggestion that the main or overriding criterion for the reorganisation of States should be the language of the majority, the government insisted that the Punjab (unlike the southern and western States) should continue as a bilingual state.

An interesting discussion followed on the question of why the Marxists and communists subsequently removed the 'national question' from the agenda. It touched on the evolution of Indian and international communist thinking on the question as it ramified itself during the period 1942-46. The great political error lay in the mechanistic acceptance by the

FORM IV-A (See Rule 4A (1))

NOTICE

1 It is hereby notified for the information of the public that Greaves Cotton & Company Limited proposes to make an application to Central Government in the Department of Company Affairs, New Delhi under Sub-section (4) of Section 23 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval to the take-over of Auto Division of Brooke Bond India Limited. Brief particulars of the proposal are as under: i Name and address of the applicant: Greaves Cotton & Co Ltd, 1, Dr V B Gandhi Marg, Bombay-400 023 ii Name and address of the undertaking the whole or part of which is proposed to be taken over and the manner of acquisition of shares, acquisition of control or management, whether by the acquisition of the ownership of the undertaking or under any mortgage, lease or licence or under any agreement or other arrangement: Auto Division of Brooke Bond India Limited. By purchase for cash consideration iii Management structure of the applicant: The applicant is managed by the Managing Director subject to the superintendence, control and direction of the Board of Directors of the Company iv a Capital structure of the applicant:

Authorised Capital (as per Balance Sheet as at 31.3.90)

| | |
|--|---------------------|
| 25,000 15% Cumulative Redeemable Preference Shares of Rs. 100 each | 25,00,000 |
| 10,50,000 Equity Shares of Rs. 100 each | 10,50,00,000 |
| | <u>10,75,00,000</u> |

Issued, Subscribed & Paid up Capital

| | |
|---|---------------------|
| 20,265 15% Cumulative Redeemable Preference Shares of Rs. 100 each fully paid | 20,26,500 |
| * 9,85,687 Equity Shares of Rs. 100/ each fully paid | 9,85,68,700 |
| * Since split up into shares of Rs. 10 each | <u>10,05,95,200</u> |

b The undertaking proposed to be taken over: Auto Division of Brooke Bond India Limited v Line(s) of business of the undertaking which will or is likely to emerge as a result of the proposed take-over: The manufacture of 2/3 wheelers vi Consideration for the take-over: Rs. 10 lacs vii Scheme of finance indicating the source(s) of finance for the proposed take-over: Out of internal generation

2 Any person interested in the matter may make a representation to Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, Dr Rajendra Prasad Marg, New Delhi, within 14 days from the date of publication of this NOTICE, intimating his views on the proposal and indicating the nature of his interest therein.

Sd/-
K. SITARAMAN
SECRETARY

Dated this 11th day of June 1991

with the 'national question' had not yet been overcome by all three communist parties. Conceding the right of every nationality to secede, the writings of Namboodiripad and Sundarayya on the 'national question' (as well as the Note of the Madurai Congress on the 'National Question') still continued to remain a part of the CPI's thinking even in the 60s (e.g., Adhikari's pamphlet on *Sikh Homeland*).

The main interest of the concluding

be covered in the volumes to come out of the project. These included, among others, the emergence of the BJP as a powerful force attempting to mobilise 'Hindutva' politically through the Ayodhya issue; the strategy of the Janata Dal to mobilise political support on the basis of its stand on the issue of reservations; (Mandal Commission recommendations); and the systematic violation of human rights by the state and other groups as well as the resistance to it.

Fall-Out of Gulf War

Changed US-Europe Relations and Third World

GN

In the post-Gulf war international balance with a vastly enhanced role for the US, the Third World will be confronted by the closely concerted pressures of the US and Europe in the political, economic and military spheres with no countervailing force anywhere in sight.

IN 1941, Henry Luce, the publisher of *Time*, decided that the era then ending should be known as 'the American century'. Forty years later, the president of the US declared before the US Congress that "among the nations of the world only the US has had both the moral standing and the means to back it up". This he felt would bring the US and the world to the "next American century". When the US defence secretary, Dick Cheney, claimed (February 5) that "USA is the leading power in the world" and that "we have special obligations because of not only our capabilities but also because of our moral standing" he was giving expression to the US establishment's self-assessment.

The US stands to gain the most from the new arrangement in West Asia. The chairman of the joint chiefs of staff has declared that the US has "always been anxious to have a forward headquarters [of the central command] in the region [Middle East], and I think we may be able to get one this time". Indeed long before this the US defence secretary had asserted that the US naval presence in the Gulf region would be 'significantly enhanced' and added that "there are other steps we could take to maintain a significant presence out there without having large US forces on the ground". This military arrangement means that the US can dominate and control a region with 85 per cent of known world oil reserves. Seventy per cent of western Europe's oil supplies and 90 per cent of Japan's oil requirements are met from the Persian Gulf.

This region is also vital as a market, including for armaments. Kuwait's reconstruction cost will be at least 100 billion dollars. Britain and the US already have arms agreements with Saudi Arabia which are worth 20 and 21 billion dollars, respectively. Japan was by far the largest financier of the Gulf war after the Saudis and the Kuwaitis with their commitment of \$ 13 bn and Germany contributed \$ 7 bn. But out of 171 contracts for the reconstruction of Kuwait 70 per cent went to the US and 22 per cent to Britain.

The other objective of establishing US global pre-eminence is contained in Bush's call for a 'new world order'. This is vital for the US since the post-cold war world was described by the US as a multi-polar system. Not any more. The global partnership has been replaced by American leadership. More importantly, in the post-Gulf war scenario the dividing line between those who can act militarily and those who cannot has once more become important. Neither Germany nor Japan has a credible military presence. No wonder Bush called the war the 'defining moment'—the US would now stand a better chance of establishing its leadership over rivals as much as reluctant allies. This is where the evolution of US relations with Europe becomes significant.

US-EUROPEAN RELATIONS

In early 1990 it looked as if the US would be sidelined by the swiftly changing scenario in Europe with the demise of

pean client state of the US, Britain, appeared confined to the margin in European moves towards political union. When the crisis erupted in the Persian Gulf the European response was hesitant. It was under US pressures that support for war efforts gradually emerged. While France was late in coming round to accepting the US diktat, Germany maintained a low profile by using the argument of its post-war Constitution which banned deployment of troops abroad. Significantly, the European response was not in the shape of a commonly worked out stance expressed through the European Community (EC). It was, instead, found necessary to show Europe's collective support for US war preparations against Iraq by reviving the Western European Union (WEU) which had been in limbo since 1949 when NATO was formed. By reactivating WEU which was given charge of the common command operating from Paris, the US succeeded in bouncing back into the ongoing moves for a common security policy for Europe 1992. When the British prime minister, therefore, contended that "considerable disparity" existed within the 12-nation EC and that this indicated that "Europe was not yet ready for political union or common foreign policy", he was not just speaking for Britain which is a third rate power, but putting across the claims of the US. US pressures have paid dividends insofar as the agenda of debate now revolves around WEU and its role as a link with NATO on the one hand and EC on the other.

In what was a fall-out of the US military victory over Iraq and the successful projection of US power, the US state department in a memorandum to 11 EC members (Ireland, the twelfth member, is neutral) warned those who were proposing a defence role for EC. According to *The Independent* (London, March 6, 1991), the US laid down three demands for preserving NATO: avoid creating an internal caucus of European states within NATO; avoid undermining NATO's doctrine of common response; and avoid enfeebling the command structure of NATO.

Now it is true that the US has supported European involvement outside, although it is hardly elated at the prospect of an Europe outside its control. At a meeting of NATO foreign ministers at the end of December last James Baker in fact asserted that US supports "an enhanced European security and defence role, provided it is supportive of the Atlantic Alliance".

Interestingly, WEU and its standing armaments committee work in conjunction with NATO and are, for all practical pur-



STATE BANK OF BIKANER AND JAIPUR

ABRIDGED BALANCE SHEET AS AT 31ST MARCH, 1991

(RUPEES IN LACS)

| 31.3.1990 | CAPITAL AND LIABILITIES | 31.3.1991 | 31.3.1990 | PROPERTY AND ASSETS | 31.3.1991 |
|-----------|--|-----------|-----------|--|-----------|
| 2080.00 | Subscribed and Paid-up Capital | 2080.00 | 32321.00 | Cash : In hand, with RBI, SBI & Notified Banks | 33147.57 |
| 1683.44 | Reserve Fund & Other Reserves | 1983.84 | 493.86 | Balance with Other Banks | 1931.71 |
| 228098.39 | Deposits and Other Accounts | 268025.54 | Nil | Money at Call and Short Notice | 5000.00 |
| 23544.09 | Borrowings from other Banking Companies, Agents etc. | 22094.68 | 78056.62 | Investments | 87735.00 |
| 1303.92 | Bills Payable | 2672.19 | 137860.37 | Advances | 150977.26 |
| 9545.45 | Bills for Collection being Bills Receivable as per contra | 10791.72 | 9545.45 | Bills Receivable being Bills for Collection as per contra | 10791.72 |
| 6021.87 | Other Liabilities | 2488.35 | 6653.21 | Constituents' Liabilities for Acceptances, Endorsements and other Obligations per contra | 4965.93 |
| 6653.21 | Acceptances, Endorsements and Other Obligations per contra | 4965.93 | 874.38 | Premises | 883.91 |
| 0.06 | Balance of Profit | 0.06 | 864.08 | Furniture, Fixtures and Vehicles | 997.69 |
| | | | 12261.46 | Other Assets | 18671.52 |
| 278930.43 | TOTAL | 315102.31 | 278930.43 | TOTAL | 315102.31 |

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM 1ST APRIL, 1990 TO 31ST MARCH, 1991

| FROM 1.4.1989 TO 31.3.1990 | EXPENDITURE | FROM 1.4.1990 TO 31.3.1991 | FROM 1.4.1989 TO 31.3.1990 | INCOME | FROM 1.4.1990 TO 31.3.1991 |
|-------------------------------------|--|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| 16844.79 | Interest Paid on Deposits, Borrowings etc. | 19171.38 | 22966.24 | Interest and Discount | 26362.12 |
| 6190.49 | Salaries, Allowances etc. | 7406.90 | 2989.72 | Commission, Exchange, Brokerage etc. | 3601.84 |
| 2442.66 | Other Expenditure | 2835.68 | Nil | Other Receipts | Nil |
| 478.02 | Profit | 550.00 | | | |
| 25955.96 | TOTAL | 29963.96 | 25955.96 | TOTAL | 29963.96 |

"OUR MOTTO - CUSTOMER SATISFACTION"

posed, subordinated to it. Hence the significance of the US pushing for WEU's revitalisation. Manfred Wörner, general secretary of NATO, was quite categorical when he said "WEU cannot be anything more than an integrated part of NATO... an instrument for European action outside NATO's territory, as in the Persian Gulf".

The US, therefore, pushed for Europe to revive WEU, whose charter is compatible with NATO's, while permitting it to act outside the NATO area in conjunction with the US. This would enable the US also to press Europe to share the economic burden even as the latter moves away from its obsession with the Soviet Union. Manfred Wörner says that NATO does not need an 'enemy' to survive. "In an age when we cannot precisely quantify future risks, NATO's collective security is by far the most sensible insurance policy against every kind of uncertainty." The implication here is that the trans-Atlantic alliance is an insurance against an 'uncertain' future.

As it happens, one of the uncertainties is posed by the Third World which is not an ideological, political or commercial threat but is a potential threat all the same, with the sheer size of its population and prone as it is to messianic anti-Western movements. The Third World is the new factor in all these calculations. Significant in this connection is the statement by NATO on April 6, condemning Iraq's repression of Kurds. In an unusual move a specially convened NATO meeting called for bringing 'every pressure' on the Iraqi regime. Obviously NATO is expanding its geographical reach in conjunction with WEU.

The debate on WEU and its usefulness has always focused on its broader objective of enabling Europe to intervene militarily outside Europe. In this sense not only does the US get round the problem of independent European defence but also ensures its position within by associating Europe in its global objectives. These moves also mean the subsumption of the UN under the US-Europe axis since NATO and WEU are moving towards arrogating to themselves the task of global policing. (The creation of 'safe havens' inside Iraqi territory by the US, backed by Britain and France, which the UN secretary general and other officials have opposed, shows the threat posed to international order by the US-Europe combine.) European countries such as France, Germany, Holland, etc. are in the forefront of a concerted campaign to change the UN Charter which would dilute the Third World's sovereignty and enable outside interference in any country's internal affairs. Of course, all this is under the

hyperbole of halting human rights violations. But, bereft of frills, this is simply an attempt by Europe and the US to usurp the right to define international order and enforce international law. What is more, these countries are scathingly critical of the UN Charter's supposed 'limitations', i.e. it does not permit outside interference. Hence the resolution moved by Britain backed by US and France for a UN-administered 'safe haven' inside Iraq for Kurds. Thus would a minority of five members of the Security Council subvert the UN Charter and dictate terms to UN's 159 members.

Simultaneously, the US has also been leading efforts to (a) formulate a common policy for exporting weapons to non-NATO nations, especially in the unstable areas of the Third World; it was with this in mind that the US ambassador to NATO, William Taft, proposed on March 15, 1990 that an international board to monitor defence trade be formed along the lines of GATT which regulates civilian trade; and (b) open up Western defence trade and the European side of the market by removing obstacles in the shape of 'technical standards for equipment' so as to allow 'international teaming up by the defence industry'. While the likelihood of a 'defence GATT' appears distant, the offer represents a US desire to push for 'trans-Atlantic co-operation' with cartel-building to control the weapons market. There is the likelihood of a comprehensive move to control the movement of defence technology to the Third World. This was earlier done through the Missile Technology Control Regime, an agreement among supplier countries not to sell missiles having a range of over 300 kms. There is now a move to impose regional non-proliferation regimes for non-nuclear weapons. Possibly out of fear of being sidelined by US moves for regional non-proliferation regimes supervised by US allies, Japan is using its economic muscle. Hence the reported Japanese moves to link its aid to India and Pakistan with their signing of NPT. Also, Germany is taking the strident line now against Iraq to compensate for the diplomatic loss suffered because of its low profile during the war. What is ominous is that in the escalating stridency the victims are inevitably the Third World.

While trans-Atlantic differences have increased over the years, the Persian Gulf war has helped restore the international balance of power in favour of the US. For instance, in Europe Germany's role has suffered and Japan is being shut out from West Asia. The US can now tap the anti-Japanese and anti-German sentiments and wield these as a bargaining stick. The US analysts were aware of the constitu-

tional composition operating in the case of Japan and Germany and their military participation could not have helped the US materially or politically. On the contrary, it could have obstructed getting the support of the Soviet Union and China in the UN Security Council. Furthermore, the EC has quietly dropped its proposal for a solution to the Arab-Israeli conflict through a UN peace conference by requesting the US to allow its participation in a regional conference. Nor is it pushing for a conference on security and co-operation for the Mediterranean and the Middle-East.

The post-cold war balance with an enhanced role for the US, therefore, helps in the short run to put the brakes on the emergence of an independent security policy for Europe. This implies that the Third World will face the combined weight of trans-Atlantic enterprise in both civilian and military trade. Immediately there will be greater pressure on the Third World to compromise on intellectual property rights, terms of trade, foreign policy, security policy, etc. Third World countries will have to confront a regime of non-proliferation of nuclear and non-nuclear armaments at the regional level aimed at disarming recalcitrant members of the Third World and co-opting as local clients those willing to toe the imperialist line. And in confronting the combined might of the US and Europe there will be no countervailing force available to them. It is this prospect that must inform any debate in India about the fall-out of the Gulf war.

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Data System for Khadi and Village Industries

An Evaluation

T R Bishnoi

The currently available data on khadi and village industries are quite inadequate and fail to provide a useful profile of village industries. This is partly due to the inappropriate data system in use.

THE objective of the Khadi and Village Industries Commission (KVIC) is to revive village craftsmanship and industries so as to restore partially the concept of self-reliance in a village economy. The programmes of the KVIC aim at employment generation in a gainful way to tackle rural unemployment and encourage the best use of local manpower skills, raw materials and technique/process of production. For this purpose, the KVIC disbursed financial assistance of Rs 602 crore in the form of grants and loans to 13.88 lakh khadi producers and 26 village industries employing 26.82 lakh persons during 1986-87. Of this amount, khadi producers accounted for Rs 328.50 crore (55 per cent) and village industries, Rs 273.65 crore (45 per cent). Its operation has increased sizeably over a decade as indicated by disbursement, i.e., an increase of 14.43 per cent per annum from Rs 156.45 crore in 1977-78 to Rs 602.16 crore in 1986-87; for khadi it increased at 12.30 per cent and for village industries at 17.70 per cent per annum. But the programmes of the KVIC, particularly in case of village industries, have grown over time without corresponding efforts to improve the information system, reliability and accuracy of data for this sector. The present information system of the KVIC is just to meet the statutory requirements.

These data are not useful in indicating the profile and realities of village industries. Though the Working Group on the KVIC (1984) and KVI Review Committee (1987) have made a number of recommendations for improving the data system and monitoring in practice no initiatives and steps were taken to follow them. Because of lack of accurate and dependable statistics relating to village industries, financial support from the Central government for expansion of its programmes, as shown in the KVIC's budget for 1986-87, was substantially curtailed. For the same reason commercial banks also gave limited financial

assistance. The government allocated Rs 98.14 crore (64 per cent) as against the demand for Rs 153.60 crore in 1986-87 and commercial banks gave a credit of Rs 80 crore as against the target of Rs 150 crore for the years of 1980-85. The need for accurate and up-to-date information became so vitally important for the KVIC that it convened an all-India seminar of statistical staff of the KVIC and KVI boards in June 1988. One of the outcomes of the three-day seminar was the appointment of a three-member committee including experts from the National Sample Survey Organisation (NSSO) and Indian Statistical Institute, Delhi to suggest, among others, the modalities and procedures for data system. The said committee is still deliberating upon the issues.

LIMITATIONS OF PRESENT DATA SYSTEM

The KVIC collects quarterly and annual data relating to assisted units through a comprehensive proforma from the KVIC State offices and also from the KVI boards. Then, these data are compiled by the staff at the head office and published in KVIC's annual report. The annual report of the KVIC is in two parts, (i) text, and (ii) tables. The textual portion highlights the working of the KVIC, and the second part in the form of tables provides data industry-wise and State-wise on certain important variables. Since data relate to assisted units of village industries, the units which either obtained financial assistance from other sources or did not do so remain omitted. Moreover, despite calling in and compiling detailed information from the assisted units, the KVIC's annual report, due to space constraints, publishes data relating to selected items like disbursement, employment, production, earning and sales. Important items like the number of assisted units, fixed and working capital, contribution of owners/workers, number of skilled and non-skilled workers, types of assistance—

raw materials/equipment and machinery supplied, grants and loans, marketing support, training of workers, etc., and motive power—manual or electricity-based units—are omitted. These type of data would have been very useful for the KVIC in planning and administration of schemes as well as for research.

The report furnishes data too aggregately. The aggregation of institutional units and individual units undermines the quality of data as the former units are covered on census basis and the latter on a different sample basis. Moreover, the institutional units maintain records of their operation and form a predominant position in disbursement and production, thus, qualifying for their greater weightage in the data pool. The individual units, though large in number relatively less important in disbursement and production, are covered on different sample basis. These units rarely maintain records, and even if they do so, the information may not be adequate and according to the reporting proforma of the KVIC. There is no mention, at all, in the annual report about the concepts and methods followed in collection, compilation and aggregation of data according to industry and State. In the text of the report adequate information on villages/blocks/districts covered by the KVIC operation is not available. In the annual report of 1986-87, the number of villages mentioned on page 1, 1.5 lakh, relates to two decades in the past. There is hardly any discussion on the performance of assisted industries in different States. It is difficult to find any logic and economic meaning in presentation of certain ratios, as given in the KVIC's annual report (1986-87), such as per capita (number of units or workers full/part time?) net disbursement, ratio of production (annual) to disbursement (cumulative), and ratio of net disbursement to value of production plus sales, etc. All in all, whatever be the data given in the KVIC's annual report 1986-87 they lack, apart from adequacy, a meaningful analysis and systematic presentation.

The quarterly and annual returns are called in by the KVIC, the former for selected items and the latter for a large number of items for comprehensive coverage. Institutional producing units, which are covered on a full count basis and maintain regular staff and proper records, pose no problem in respect of both these returns. Through quarterly return the institutional units may be asked to furnish basic information in actuals relating to disbursement, employment,

production and sales, etc., and individual producing units (only those units which were assisted or contacted during the quarter), number of units assisted, disbursement, producer's contribution, all in actuals, and data relating to employment and production, provisional. These quarterly provisional data need to be replaced by actuals for the year from the annual return. The annual questionnaire should contain, among others, (1) number of units; (2) disbursement; (3) owner's contribution/equipment; (4) output; (5) employment in manhours of (a) hired workers, and (b) family members; (6) cost of (a) inputs (i) from local market and (ii) through KVIC, (b) other cost; (7) sales in (a) local market, (b) through KVIC and (c) other; and (8) earning (net).

The real problem arises when there are a large number of individual producing units. The sampling procedure for these KVIC-assisted units at the State level/ Union Territory level can be stratified at two stages: one with blocks/or disbursing centres (whichever is appropriate) as the first stage units and producing units as the second stage units. The blocks/or disbursing centres are chosen with a probability proportional to size (number of production units) with replacement. The sample of 10 per cent of assisted producing units in the second stage could be selected randomly. The illustration (Table) will be enough to explain the method:

| Blocks/ Disbursing Centres in a State | No of Producing Units | Cumulative Sum | Range |
|--|-----------------------------|-------------------|---------|
| 1 | 50 | 50 | 1-50 |
| 2 | 40 | 90 | 51-90 |
| 3 | 100 | 190 | 91-190 |
| 4 | 60 | 250 | 191-250 |
| 5 | 50 | 300 | 251-300 |

We must note that any block/centre which has few units (say, less than the number of industries covered) should be ignored. To select a block or disbursing centre, a random number between 1 to 300 is drawn. Suppose this number is 165 which falls in block 3 which covers numbers 91 to 190 (inclusive). If a second block is selected the above process is repeated with a new random number between 1 and 300. Selection of block/centre with replacement is necessary in order to keep the probabilities of selection proportional to the sizes. At the second stage, from each selected block/centre a sample of 10 per cent of all assisted units should be taken on a random basis irrespective of industrial activity.

There may yet be some problems particularly when sometimes we find that non-assisted units outnumber the KVIC-

assisted units in the region. In such a situation, in order to check unbiasedness of sample data in the context of total population, these may roughly be compared with those relating to household and non-household manufacturers available in reports of Economic Census, 1977 and 1980. The report of Economic Census, 1980 gives some data, relevant for such comparisons. It contains statistics on 'own account' enterprises/establishments in India and also in various States/Union Territories. The data relate to type of ownership (private and co-operative), location (rural and urban), broad activity (agriculture and non-agricultural), employment (hired workers and others as well as female and male workers), Scheduled Caste/Tribe-owned units, employment size, power/fuel-based or manual operation. These data are given by industry which also includes 30 types of handicrafts.

SOME SUGGESTIONS

In the light of the above limitations of the data, a few suggestions on allied matters may help to improve overall data position.

Since unpriced annual report of the KVIC containing data on KVI sector cannot be distributed to all data seekers, a priced publication entirely devoted to the statistics on khadi and village industries will be welcome by all data users, particularly, banks, development organisations and researchers. Though the commercial banks and RRBs have an extensive network of branches in rural areas and the KVIC desires them to expand the financing of village industries, data constraints in this respect really work as impediments in getting bank finance for these activities to the desired extent. Therefore, improving the accessibility to detailed data on KVI sector would serve a useful purpose.

The present proforma should be revised (as has been recently agreed to by the KVIC) with expert advice to retain the most relevant items from the point of view of policy-making. All the concepts used in the proforma for data collection should be clearly defined in a simple language. Certain concepts also need to be standardised like, employment in manhours/man-days, etc. In case of individual units the data collected through the sampling methods should be checked in the light of their validity for the whole population. This could be done once in five years at least for five relatively important industries through the census method. In this, annexures of the report of Economic Census, 1980 would be very useful

reference material (particularly annexures I and II of House and Enterprise Lists and annexure X of concepts and definitions).

In presenting the information the break-up of data by institutional units and individual units will be very useful as they have significant differences in quality and method of collection. In addition to absolute figures, certain analyses like percentages, frequency and economic/financial ratios permitted by data will be helpful in the ready use of such statistics.

The review of certain concepts which are followed by the KVIC as eligibility criteria for financial assistance, will be much needed. Firstly, an investment of Rs 15,000 in an activity as an 'eligibility criterion' for financial assistance from the KVIC was fixed long ago and it has remained unadjusted for price increase. Secondly, the villages in the vicinity of big cities have been transformed into small towns over the years due to fast urbanisation. Moreover, as a result of population growth, the average population size of a village has considerably increased over the years. The criterion of village-size of 5,000 persons, if strictly applied, will render a number of genuine villages ineligible for KVIC assistance. Thus, in the KVIC's programmes, all these criteria of investment ceiling and village-size need a continuous review.

Since the responsibility for data collection is entrusted to statistical staff at district level, their skills should be improved. They need to be trained in technical details of sampling procedures and appraised of various concepts used in quarterly and annual returns. They should be motivated to ensure the maximum reliability of data through collecting actual details and avoid guess-work in this work. Once in two years a conference/workshop should be held to help them not only to exchange views on the problem but also the changes in attitude towards data work and their importance.

Apart from monitoring statistics on the KVI sector, the commission should also carry out some regular studies on project feasibility for industry level, profile and performance of assisted industries and marketing potential for the products of the sector. In the areas where the KVIC lacks experts and staff, such studies can be sponsored in research institutions and universities. These studies would have the benefit of a scientific approach, be unbiased and cost economic.

[My grateful thanks are due to J C Sandesara for his encouragement and suggestions in preparation of this draft. I am alone, however, responsible for the errors, if any.]

ALGEMENE BANK NEDERLAND N.V.

(Incorporated in The Netherlands with limited liability)

BALANCE SHEET AS AT 31ST MARCH, 1991

In respect of all business transacted through the branches in India
for the year ended 31st March, 1991.

| AS AT 31ST MARCH 1990 RS | CAPITAL & LIABILITIES | AS AT 31ST MARCH 1991 RS | AS AT 31ST MARCH 1990 RS | PROPERTY & ASSETS | AS AT 31ST MARCH 1991 RS |
|-----------------------------------|--|-----------------------------------|--|--|-----------------------------------|
| 28 100 000 00 | 1 Capital Investments deposited with the Reserve Bank of India under section 11(2) of the Banking Regulation Act 1949 (At Book Value) | 94 500 000 00 | | 1 Cash In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes) | 258 471 615 21 |
| | 2 Reserve Fund and Other Reserves | | 94 415 724 16 | 2 Balances with Other Banks (On Current Accounts) In India Outside India | 1 431 441 01 2 134 174 98 |
| 5 741 800 00 | (i) Capital Reserve Profit on sale of Fiat | 5 741 800 00 | 1 642 120 45 972 811 69 2 604 932 12 | 3 Money at Call and Short Notice | 100 000 000 00 |
| 0 00 | (ii) Head Office Reserve Account | 21 699 000 00 | 0 00 | 4 Investments | |
| 5 170 000 00 | (iii) Reserve under section 11(2)(b)(ii) of the Banking Regulation Act 1949 | 10 585 000 00 | 515 610 000 00 | i) Securities of the Central and State Governments and other Trustee Securities including Treasury Bills (at face value) | 575 410 000 00 |
| 5 215 000 00 | Add transfer during the year | 10 997 171 00 | 0 00 | ii) Ordinary shares (At Cost or Under) | 0 00 |
| 10 384 000 00 | | 21 480 171 00 | 256 000 00 | Fully paid up | 0 00 |
| 14 124 800 00 | | | 2 00 | Partly paid up | 256 002 00 |
| | 3 Deposits and Other Accounts | | | iii) Debentures or bonds (At Cost or Under) | 0 00 |
| 0 00 | Fixed Deposits | | | iv) Other Investments—Unit Trust of India Initial Capital (At Cost) | 50 000 00 |
| 665 929 008 47 | i) From Bank | 0 00 | 50 000 00 | Unit Scheme 1964 (At Cost) | 292 190 000 00 |
| 665 929 008 47 | ii) From Others | 1 481 592 073 85 | 2 820 000 00 | v) Gold | 0 00 |
| 44 768 586 96 | Savings Bank Deposits | 51 678 552 26 | 0 00 | | 867 826 002 00 |
| | Current Accounts | | 318 716 002 00 | | |
| 0 00 | Contingency Accounts etc. | | | | |
| 219 141 561 51 | i) From Bank | 0 00 | | | |
| 219 141 561 51 | ii) From Others | 211 106 098 88 | | | |
| 926 839 158 94 | | 211 106 098 88 | 1 764 376 524 97 | | |
| | 4 Borrowings from Other Banking Companies, Agents etc. | | | | |
| 125 108 974 55 | i) In India (secured) | 251 594 859 90 | | | |
| 1 074 641 15 | ii) Outside India (secured) | 0 00 | | | |
| 126 183 615 70 | | | 251 594 859 90 | | |
| 22 231 706 99 | 5 Bills Payable | | 41 387 609 75 | | |
| | 6 Bills for Collection being Bills Receivable—Per Contra | | | | |
| 322 969 426 21 | i) Payable in India | 423 440 591 06 | | | |
| 621 577 552 75 | ii) Payable outside India | 558 115 542 54 | | | |
| 944 446 778 96 | | 981 556 133 60 | | | |
| | 7 Other Liabilities | | | | |
| 44 131 674 44 | i) H O Inter Branch Balances and Branch Adjustments | 19 323 056 38 | | | |
| 17 586 525 03 | ii) Others (including Rs 14 049 696 00 in respect of unexpired discounts 1990 - Rs 6 285 286 31) | 142 355 516 88 | | | |
| 61 718 198 47 | | | 161 678 574 26 | | |
| | 8 Acceptances Endorsements & Other Obligations—Per Contra | | | | |
| 117 606 811 21 | | | 202 775 485 53 | | |
| | | | 216 969 204 98 | | |
| | | | 419 744 688 51 | | |
| | | | 706 196 161 20 | | |
| 2 214 251 070 27 | Carried Forward | 5 544 690 479 61 | 1 121 953 019 48 | Carried Forward | 2 025 877 628 57 |

(Incorporated in The Netherlands with limited liability)

**In respect of all business transacted through the branches in India
for the year ended 31st March, 1991.**

See Notes appended—Schedule D.

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Monday, JUNE 7TH, 1991

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A. KAPUR
General Manager India

ALGEMENE BANK NEDERLAND N.V.

(Incorporated in the Netherlands with limited liability)

PROFIT AND LOSS ACCOUNT

In respect of all business transacted through the branches in India for the
year ended 31st March, 1991

| Year Ended 31st March 1990 Rs | EXPENDITURE | Rs | Year Ended 31st March 1990 Rs | INCOME (Less provision made during the year for bad & doubtful debts and other usual or necessary provisions) | Rs. |
|-------------------------------------|---|-----------------|-------------------------------------|---|---------------|
| 124 918 439 76 | 1 Interest paid on deposits borrowings etc | 191 177 520 97 | | 1 Interest and Discount | 269,952,997 9 |
| 16 684 104 81 | 2 Salaries allowances gratuity pension pension fund provident fund and bonus | 24 219 768 40 | 191 925 968 79 | 2 Commission exchange and brokerage | 52,399,682 8 |
| 10 800 00 | 3 Directors and local committee members fees and allowances | 7 800 00 | 0 00 | 3 Rent | 8 8 |
| 46 965 114 07 | 4 Rent taxes insurance lighting etc. * (Net of excess provision for Income Tax for the previous year Rs 8789000) | * 28 811 868 95 | 0 00 | 4 Net Profit on sale of Investments Gold and Silver Land Premises and Other Assets (not credited to Reserve or any particular Fund or Account) | 8 8 |
| 278 048 15 | 5 Law Charges | 428 215 22 | 0 00 | 5 Net Profit on revaluation of Investments income from non-banking assets and Profit from sale of or dealing with such assets | 604,328 4 |
| 1 244 430 45 | 6 Postage telegrams and stamps | 1 692 982 72 | 0 00 | 6 Other receipts | 0 0 |
| 100 000 00 | 7 Auditors Fees | | 0 00 | 7 Other receipts | 160,000 0 |
| 4 000 00 | As auditors | 100 000 00 | 0 00 | 8 Loss | 0 0 |
| 51 694 00 | For taxation matters | 5 000 00 | | | |
| 2 653 00 | In other capacity | 85 250 00 | | | |
| 160 147 00 | Certificates etc. | 41 555 00 | | | |
| 5 621 530 77 | Out of pocket expenses | | | | |
| 1 660 192 44 | 8 Depreciation on and repairs to the banking company's property | 231 805 00 | | | |
| 0 00 | 9 Stationery printing advertisements etc. | 11 904 575 36 | | | |
| 6 402 365 14 | 10 Loss from sale of or dealing with non-banking assets | 1 934 404 42 | | | |
| 26 061 043 02 | 11 Other Expenditure | 7 682 792 33 | | | |
| | 12 Balance of Profit | 54 985 855 94 | | | |
| 240 006 415 11 | TOTAL | 123 076 609 29 | 240 006 415 11 | TOTAL | 323 076 609 2 |

See Notes annexed—Schedule II

| Non-Remuneration paid to Chief Executive Officer (C.E.O.) | C.F.O. | FX C.F.O. |
|--|--------------|--------------|
| 88 667 00 | 18 905 14 91 | 14 905 17 90 |
| 96 054 00 | 160 000 00 | 40 000 00 |
| 19 113 00 | 121 200 00 | 41 352 00 |
| | 80 782 00 | 99 168 00 |
| 204 834 00 | 361 982 00 | 182 720 00 |

SCHEDULE II

NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 1991

1. PRINCIPAL ACCOUNTING POLICIES
- A) General
- These accounts have been prepared on the historical cost basis and in accordance with the statutory requirements prescribed under the Banking Regulation Act 1949 and practices prevailing in the country.
- B) Transactions involving foreign exchange.
- Assets and liabilities in foreign currencies have been translated at the rates ruling at the end of the year except for
- a) Pakistan Rupees which have been translated at brokered rates.
- b) Outstanding forward exchange contracts which have been disclosed as contingent liabilities at the contracted rates.
- Outstanding forward exchange contracts are revalued at the bank's applicable rates of exchange as at the end of the year and the resulting profit or loss on revaluation is accounted for.
- C) Investments
- i) Securities of the Central and State Governments are valued at face value and the differences between cost and face value are amortised over the remaining period till maturity of the respective securities.
- ii) All other investments are valued at cost or under.
- D) Advances
- i) Provision for doubtful advances: The Management reviews the advances/loan portfolio each year in addition to periodic reviews and based on its judgment sets aside specific provision for doubtful advances. The provision for doubtful advances is made to the satisfaction of the auditors.
- ii) Advances are stated net of bills of exchange rediscounted and specific provision in respect of doubtful debts.
- iii) No credit has been taken for interest on amounts considered doubtful.
- F) Fixed Assets
- a) Premises have been valued at cost and furniture and fixtures including vehicles and equipment have been valued at cost less depreciation.
- b) Depreciation has been provided for on the written down value method at the rates specified in Schedule XIV of the Companies Act 1956 except that computers, equipment and vehicle are depreciated at 33 1/3%.
- c) Furniture and fixtures etc. at written down value includes items in the nature of premises added to rented office buildings on which depreciation is charged at 5%.
- d) Depreciation has been provided on additions for the full year irrespective of the date of addition and no depreciation has been provided on assets sold/discarded during the year.
- F) Staff Benefits
- Provision for gratuity and pension benefits to staff (inclusive of provision for past service liability) has been made on the basis of actuarial valuation. Separate funds for gratuity and pension have been created and the contributions payable (inclusive of contribution for past service liability) have been paid to the respective funds before the year end.
- G) Bills received from constituents for collection on their behalf are entered in memorandum register and are recorded in the financial ledger only when collected. Bills for collection outstanding as on 31st March 1991 have however been shown in the Balance Sheet under the relevant head of accounts.
- H) Net Profit
- The net profit disclosed in the profit and loss account is after
- (i) Provision for taxes on income in accordance with statutory requirements.
- (ii) Provision for doubtful advances.
- (iii) Other usual and necessary provisions.
- HEAD OFFICE RESERVE ACCOUNT
- Head Office Reserve Account represents the amount debited to the convertible rupee account of Head Office with the Bombay Branch to meet the cost of acquisition of a residential apartment at Bombay.
- The previous year's figures have been regrouped/rearranged wherever necessary.
- Per our report attached to the Balance Sheet
For A. F. FERGUSON & CO.
Chartered Accountants

Sd/-

F. N. PAVRI
Partner

Bombay JUNE 7TH 1991

Sd/-

A. KAPUR
General Manager India

ALGEMENE BANK NEDERLAND N.V.

(Incorporated in the Netherlands with limited liability)

SCHEDULE I

*Schedule of particulars of advances required
by the Banking Regulation Act, 1949 annexed to and forming
part of the Balance Sheet as at 31st March, 1991*

| As at 31st March 1990 Rs | PARTICULARS OF ADVANCES | As at 31st March 1991 Rs | As at 31st March 1990 Rs | PARTICULARS OF ADVANCES | As at 31st March 1991 Rs |
|--------------------------------|--|--------------------------------|--------------------------------|--|--------------------------------|
| 104 548 049 45 | (i) Debts considered good in respect of which the banking company is fully secured | 349 345 604 86 | 1 769 154 44 | (v) Debts due by directors or officers of the banking company or any of them either severally or jointly with any other person | 6 066 996 40 |
| 125 658 247 86 | (ii) Debts considered good for which the banking company holds no other security than the debtors' personal security | 168 240 275 52 | | (vi) Debts due by companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or in the case of private companies as members | 0 00 |
| 396 200 065 89 | (iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors | 296 438 516 99 | 0 00 | (vii) Maximum total amount including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other person | 6 587 996 02 |
| (i) 00 | (iv) Debts considered doubtful or had not provided for | 0 00 | 2 402 890 10 | (viii) Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or in the case of private companies as members | 0 00 |
| | | | 0 00 | (ix) Due from banking companies | 0 00 |
| | | | | | |
| 718 196 361 20 | TOTAL | 814 012 397 37 | | TOTAL | |

Auditors' Report on the Accounts of the Indian Branches of Algemene Bank Nederland N.V.

We have audited the Balance Sheet of the Indian Branches of Algemene Bank Nederland N.V. as at 31st March 1991 signed by us under a reference to this report and the relative Profit and Loss Account for the year ended on that date.

Under the provisions of Section 29 of the Banking Regulation Act 1949 read with the provisions of Sub-section (1) (2) and (5) of Section 211 and Sub-section (5) of Section 227 of the Companies Act 1956 the Balance Sheet and the Profit and Loss Account are not required to be and are not drawn up in accordance with Schedule VI of the Companies Act 1956. The accounts are therefore drawn up in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act 1949.

We report that

- 1 we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory
- 2 the transactions which have come to our notice have been in our opinion within the powers of the Indian Branches of the Bank

3 in our opinion proper books of account as required by law have been kept by the Indian Branches of the Bank so far as appears from our examination of those books

4 the Balance Sheet and the Profit and Loss Account of the Indian Branches of the Bank drawn up by this report are in agreement with the books of account

5 in our opinion and to the best of our information and according to the explanations given to us such Balance Sheet and Profit and Loss Account together with the notes thereon, give the information required by the Companies Act 1956 in the manner so required for banking companies and on such basis give a true and fair view

(a) in the case of the Balance Sheet of the state of affairs of the Indian branches of the Bank as at 31st March 1991

and

(b) in the case of the Profit and Loss Account of the profit of the Indian branches of the Bank for the year ended on that date

For A F FERGUSON & CO
Chartered Accountants
Sd/
F N PAVRI
Partner

Bombay JUNE 7TH, 1991

Imperialist Intrigue and International Law

A G Noorani

The Kuwait Crisis: Basic Documents; Grotius Publications, P O Box 115, Cambridge CB3 9BP, UK, \$ 35

THE Research Centre for International Law of the Cambridge University has put students of international law in its debt by sponsoring the editing and publication of this, the first, volume in the Cambridge International Documents Series. Its editors are E Lauterpacht Q C, C J Greenwood, Marc Weller and Daniel Bethlehem. The volume traces the history of British Kuwait intrigues behind the back of the Ottoman Empire, the rise to statehood of Iraq and Kuwait and the events following Iraq's invasion of Kuwait till the end of November 1990. A later volume will deal with the sanctions and their economic consequences. The present volume conforms to the highest standards of legal and historical scholarship.

Perhaps the most useful part of the work is the collection of documents on the historical background, beginning with the secret agreement between the British and the Sheikh of Kuwait, which undoubtedly was a part of the Ottoman Empire then. One is reminded of China's oft repeated lament that the Sino Indian boundary question is a legacy of colonialism. The Iraq Kuwait differences were certainly rooted in the colonial past. British interests in the Gulf were watched from Calcutta. Aden was a part of the Bombay Presidency.

"Kuwait is the best indeed the only, port deserving of the name in the Persian Gulf", the viceroy, Lord Curzon wrote on November 19, 1898 shortly before assuming office in January 1899. He rejected Turkey's claim to sovereignty over Kuwait but noted that "we recognise Turkish authority on the coast line considerably to the south of Kuwait". He, therefore, advised against asking for a concession from Turkey for a railway with a terminus at Kuwait. A senior official in the India Office, W Lee Warner, who later became an authority on Indian princes, had written a note on Kuwait dated June 23, 1898 to which Curzon referred. The note said, "Kuwait or Grane appears to be within the limits of Turkish influence, if not Turkish sovereignty". He recalled that on July 17, 1897 the Foreign Office had taken the view that "we have never acknowledged Kuwait to be under Turkish protection, but it is doubtful if we could deny Turkish influence". It cited arguments for and against the Turkish claims. The only effective argument against Turkey was that it had not "effectively maintained" its sovereignty over Kuwait. Five arguments were cited to show "the advantages of acquiring control over Kuwait" - a very fair harbour, a potential railway terminus, a trade route, control over piracies and slave trade, and "exclusion of Russian or other foreign influence".

This settled the issue. It is considerations like these, and not the authority of inter-

national law, which governed imperial policy. But once territory was acquired, international law, fashioned largely by the European powers, was invoked to sanctify the conquest. Witness Goa.

The secret British-Kuwait accord of 1899 bound the Sheikh of Kuwait "not to receive" the agent of any power without British permission or assign any part of his territory to such a power. In return the British promised him "the good offices of the British government towards you"—and no doubt against Turkey. In 1901 Turkey agreed with the British not to send troops to Kuwait.

What followed thereafter is, as they say, history. Turkey, an oriental empire in an enfeebled state, the sick man of Europe, colonialism on the ascendant, vassals of the empire willing to accept Western support to assert their 'freedom' from the empire's control even if it meant selling this freedom, next, to the Western power.

The documents are a treat for any student of that era. We find interesting nuggets, such as British despair over their "impossible client in the person of the Sheikh". Already by then the boundary question had cropped up. Kuwait's boundaries in 1902 were 'ill defined'. Turkey retained its military outpost on the island of Bubiyan. As the area became increasingly favoured as the likely ending point for the proposed Baghdad railway, the government of India became restive over Turkish presence there.

On July 29, 1913 the British government and the Ottoman Imperial Government signed a Convention which recognised (Article 1) that "the territory of Kuwait constitutes an autonomous *Eaza* of the Ottoman Empire". Turkey joined the wrong side in the first world war which broke out in 1914 and the Convention unratified as it was became a dead letter.

After the war, the Ottoman provinces of Baghdad, Mosul and Basra known collectively as Mesopotamia were detached from Turkey and transformed into the state of Iraq over which Britain acquired control as a Mandatory Power under a Mandate of the League of Nations. Iraq became independent in 1932. Till the revolution of 1958 it was under British influence.

Kuwait became a British protectorate and remained so till 1961 when it became independent. In two agreements of April 23, 1923 and of October 31, 1932 Iraq and Kuwait agreed on their frontiers. What is more to the point, on October 4, 1963 Iraq and Kuwait reaffirmed their accords.

The colonial era ended but the scourge that afflicted the entire Third World gripped Iraq. It would not forget the past. None can read Iraqi documents on its territorial claims against Kuwait without being struck

by the futility of the entire discord. Granted that Kuwait was obdurate, Iraq's attack was simply indefensible.

But the US used this not to repel the aggression but to subjugate Iraq. In the process, it undermined the United Nations.

The UN Security Council Resolution 660 of August 2, 1990, immediately after the Iraqi aggression, demanded Iraq's withdrawal but also called upon Iraq and Kuwait to begin negotiations for resolving their differences. More, it supported "all efforts in this regard, and especially those of the League of Arab states". In a major policy switch this line was abandoned. On August 8, President George Bush announced the deployment of troops in the area. Saudi Arabia was "persuaded" to invite them.

The United Nations Charter confers on the Security Council the "primary responsibility for the maintenance of international peace and security". Chapter VI defines its powers with respect to the peaceful settlement of disputes. Chapter VII empowers it to take action with respect to acts of aggression or breaches of the peace.

The Security Council is empowered to impose economic sanctions. If these are considered initially to "be inadequate or have proved to be inadequate subsequently", military action may be taken (Article 42). *No such finding was made by the Council in the present case.* Resolution 665 imposing the sanctions was passed on August 25, 1990. Three months later, on November 29, 1990, the Council passed Resolution 678 authorising member states "to operating with Kuwait 'to use all necessary means to uphold and implement' the Council's resolutions. The use of force was not specifically mentioned. The Council had not the power to give a power of attorney to member states. The charter enjoins the Council to retain its control. To this end it provides (Article 47) for the appointment of a Military Staff Committee consisting of the chiefs of staff of the five veto powers, "to advise and assist" the Council on all questions relating to the Security Council's military requirements, the employment and command of forces at its disposal. All members undertake to make available to the Council on its call armed forces. Despite the Soviet Union's insistence the Military Staff Committee was not activated. It is this committee which is "responsible under the Security Council for the strategic direction" of the forces.

The US went to war unilaterally in flagrant breach of the UN Charter, not to evict Iraq from Kuwait but to subjugate Iraq. In the result it destroyed Iraq and imposed terms reminiscent of the Versailles Treaty. The Security Council endorsed them and exposed the irrelevance of the Charter, once again.

It is of a piece with the criminal folly of the Third World that Iraq brought all this upon itself by its recourse to force against a neighbour and by its bankruptcy of basic good sense.

Special Employment Programmes

N J Kurien

Rural Employment Programmes in India: The Implementation Process
by R K Tiwari, Indian Institute of Public Administration, New Delhi, 1990,
pp 271, Rs 150.

A MAJOR feature of the Indian development process has been its inability to generate enough employment opportunities for the growing labour force. Sluggish industrial growth had been the major problem during the sixties and seventies. Though the growth performance had been better during the eighties, the structure of growth was such that it could not absorb much labour. Labour absorption in agriculture also has been steadily declining since the Seventies. Indeed, the overall economic growth of around 5.5 per cent per annum achieved during the eighties was significantly higher than the trend rate of growth of about 3.5 per cent for the earlier decades. The growth of employment during this period, however, was far below the projected levels and well below the growth of labour force.

Rural employment programmes, the subject of this book of R K Tiwari, have a long history which goes back to the last century. The colonial rulers introduced the concept of 'test relief works' to gauge the intensity of famines. Large attendance at such works by villagers was indicative of the seriousness of droughts. Depending on demand, more and more wage employment was provided at labour intensive public works. The strategy of wage employment was initiated in post independence India with the introduction of Rural Manpower Programme (RMP) in 1961. RMP was started as a pilot project in 32 CD blocks. Its objective was to provide employment for 100 days to the needy who were exposed to long spells of seasonal unemployment. A country wide scheme known as Crash Scheme for Rural Employment (CSRE) was launched in April 1971. It was intended to provide employment to at least 1,000 persons in each district through labour intensive works and to create durable assets. An evaluation of the scheme revealed that although it achieved its immediate objective to provide employment opportunities, the benefits were thinly scattered. Lack of proper planning was also evident. In the light of the experience of RMP and CSRE, a Pilot Intensive Rural Employment Programme (PIREP) was started in November 1972 in five selected CD blocks for a three year period. Its objective was to evolve a comprehensive rural employment strategy for the entire country. The Expert Committee which reviewed PIREP, however, expressed the view that the entire development strategy should be based on labour-intensive technologies so that maximum labour absorption takes place through the regular development process, leaving a small backlog of unemployment for being tackled through special employment programmes.

The Food for Work Programme (FWP), started in April 1977, was a major landmark in the history of rural employment programmes in India. Though a major inspiration for FWP was the desire of the government to offload the mounting foodstock, it soon became popular in rural areas and came to be recognised as a major instrument of rural employment and development. The nation succeeded in effectively fighting the drought of 1979-80 by providing about 600 million mandays of employment under FWP. A nation wide evaluation of the programme, however, brought out a number of deficiencies in its implementation. These included erratic disbursement of foodgrains, delay in measurement of earthwork, non-durability of assets created under the programme, inadequate technical support and lack of supervision leading to dilution of the technical specifications at the stage of implementation. Besides these deficiencies, there were three major reasons due to which the programme suffered a setback. First, the programme was implemented on an *ad hoc* basis. In the context of this uncertainty, the State governments were not able to provide the needed technical and administrative support to plan, oversee and monitor the programme effectively. Second, there was no attempt by the States to formulate a shelf of projects which could take into account the local needs and could also fit in with the overall priorities of the region where the programme was implemented. Third, in many States for want of financial provision for material component of works and also to give part of wages in cash, there was a tendency to take up earth works, mainly road works, which were not of a durable nature.

The National Rural Employment Programme (NREP) an improved version of FWP, was introduced on a nation wide scale in October 1980. NREP was made an integral part of the Sixth Plan in April 1981. It is being implemented since then as a centrally sponsored programme on a 50:50 financial sharing basis between Central and State governments. Its major objectives are generation of additional employment and creation of productive community assets. The guidelines provide that preference should be given to landless labour for employment. Further among the landless labour priority should be for SC/ST and women. The programme was being implemented through District Rural Development Agencies (DRDAs). The works were to be taken up for execution on the basis of a shelf of projects and annual action plan prepared by the DRDAs. Works were mainly executed through panchayat raj institutions. Workers

were to be paid minimum wages fixed under Minimum Wages Acts. Part of the wages were paid in terms of subsidised foodgrains. Allocation of resources to the States was to be made on the basis of a formula under which 50 per cent weightage was given to the number of agricultural labourers, marginal workers and marginal farmers and 50 per cent to the incidence of poverty. For ensuring creation of durable assets in the process of employment generation, up to 50 per cent of the allocation was permitted to be used for materials.

The major theme of the book under review is the implementation process of NREP. In the introduction, the author lays down the objectives of the study as being to understand the theoretical aspects of utilisation of surplus labour for capital formation, to review the rural employment programmes undertaken since the Third Plan, to oversee the implementation process in the National Rural Employment Programme; to ascertain how far the policy outcomes are consistent with the objectives, and to find out the principal factors affecting the realisation of the objectives. The book is organised into two sections. The two chapters in section one are 'Surplus Labour and Capital Formation' and 'Review of Rural Employment Programmes'. While the former deals with the analytical logic of wage employment programmes, the latter gives a fairly comprehensive review of rural employment programmes since the Third Plan. Though the classical theory of surplus labour associated with Nurkse and Lewis is invoked in the first chapter the discussion in the rest of the book does not make enough use of the analytical framework provided by it.

EMPIRICAL ANALYSIS

The major contribution of the book is the empirical analysis of the actual operation of NREP in Madhya Pradesh. This is based on field data collected by the author from two selected districts, Durg and Raipur, during the year 1985-86. The field survey was confined to seven CD blocks, four in Raipur and three in Durg. A total of 42 NREP works in the seven blocks were taken up for detailed study. Besides, 200 workers engaged in on going works of all types were interviewed. In addition, information was also collected from government circulars, reports, progress reports, shelf of projects and annual action plans, both at the block and district levels. Planning and implementation details were also collected from the personnel of the Rural Engineering Service and Panchayat institutions. The vast data on various aspects of NREP collected in the sample are summarised and presented in about 50 tables given as annexure to the book. Since the sampling design was a purposive one, no attempt was made to draw inferences of a universal nature applicable to the country as a whole or even the State as a whole.

The second section of the book has seven chapters. While the first one presents the objectives and methodology of the study, the

set-up, local planning process, problems of implementation, distribution of foodgrains, impact of the programme and major findings and policy implications, respectively. Two special aspects of the administrative set-up for implementation of NREP in Madhya Pradesh are the involvement of the gram panchayats and the Rural Engineering Service (RES). Well before government of India assigned a key role for panchayats in the Jawahar Rozgar Yojana (JRY) in 1989, the Madhya Pradesh government had given the gram panchayats the responsibility of implementing the NREP works. All NREP construction works in the villages were to be executed by the BDO through the gram panchayats. The accounts of the works were to be maintained by the BDO. Certainly, the role of the panchayat was limited as compared to the JRY of later years. In the case of minor irrigation and other works involving more than one gram panchayat area, the responsibility for implementation rests with RES, an agency specifically created for providing engineering support to rural works programmes. The RES personnel are expected to provide technical support for works taken up by the gram panchayats. In actual practice, however, little technical support had been forthcoming from RES. Often their role is limited to 'technical control' which in reality is nothing more than 'technical harassment'.

The author utilises a long chapter to capture the various steps involved in local planning process. He describes how a set of State guidelines superimposed over the Central guidelines leads to adoption of material intensive construction works, how shelf of projects for three-year and five-year periods are prepared, how annual action plans are prepared, how the powers of sanction are delegated, how cost estimates are arrived at and how funds are released to the implementing agencies and so on. One thing which clearly emerges is the fact that NREP was looked upon by all those who had the powers of decision-making as an asset creation programme rather than employment generation programme. This is further confirmed by the nominal role played by the DRDA in the planning and execution of the programme.

IMPLEMENTATION PROBLEMS

On the basis of the information collected during the survey the author presents a long list of implementation problems. It is interesting to note that these problems identified by the author are substantively similar to those brought out by the nationwide concurrent evaluation survey of NREP sponsored by the department of rural development of the government of India during 1987-88 and the Report of Evaluation of NREP by the Programme Evaluation Organisation. Though the principal objective of NREP has been to provide employment to the needy during the slack seasons, in actual practice the employment generation is more attuned to the budget cycle. As a result, very little employment is generated

during the first quarter of the financial year which is indeed, the main slack season. On the other hand more than half of employment generation takes place during the last quarter of the financial year.

Inflated estimates of employment generation under wage employment programmes have been reported by various evaluation studies in the past. This has occurred due to a variety of reasons—actual wages being higher than minimum wages, higher share of skilled labour, higher material component, outright misappropriation, etc. The author has independently worked out the employment component of a number of works taken up in the sample. He concludes: "So much so that in a building work of Rs 50,000, the mandays generated as mentioned by the blocks were in the range of 2,200 to 3,000 but according to our calculations it should be between 753 to 910 mandays at the most." No further comments on this issue are called for!

Other major problems associated with the implementation of NREP works are incomplete works, recovery of unutilised funds, selection of labourers and payment of wages, lack of technical support, short life-span of the assets created and absence of arrangements for maintenance of assets created. Using the sample information the author highlights the seriousness of each issue. The tendency of starting new works even when a large number of works remains incomplete is not peculiar to Raipur or Durg. Lack of recovery is part of the politics of anti-poverty programmes. Another casualty is the foodgrain component of the wage payment. Majority of the labourers could not get the benefit of subsidised foodgrains due to one reason or another.

BASIC ISSUES AVOIDED

The impact of the programme is assessed in terms of employment generation, incomes and benefits from the assets created. Not only that Madhya Pradesh is one of the least developed States in the country, the districts taken up for the study are particularly backward. More than 70 per cent of the rural population in both the districts are estimated to be below the poverty line. A significant share of them was from SC/STs and other socially deprived sections of the rural community. Both the districts are characterised by a high proportion of rainfed monocropped area. In the absence of any significant industrial development in these districts, the vast majority of the rural population is dependent on agriculture. The landless labourers get barely two to three months of employment in agriculture. The prevailing wage rate was far below the statutorily fixed levels. A number of exploitative practices including bonded labour was brought to the notice of the survey team. Under these conditions NREP employment was extremely popular with the rural poor. There was high turn-out of labourers in earth works varying from 200 to 500 per day resulting in a situation where such works got completed in a few days. In the case of construction

work usually there was no response or employment which often denied the chances of the most needy. On the basis of data collected from 200 labourers who were interviewed, it was found that the income received varied from Rs 28 to Rs 112 per beneficiary per year. Considering the fact that only the privileged among the poor got employment under the programme, the overall impact of the programme on the incomes of the poor is, indeed, marginal. Most of the assets created by the programme did not provide any direct or exclusive benefits to the poor. The preferred items of work were roads, school buildings, tanks, wells, community centres and panchayat bhavans. Not much emphasis was given to productive type of works like minor irrigation, drainage, land reclamation, etc, which generate sustained employment opportunities.

The book confines itself to a study of the implementation process of NREP which had been in existence for a decade from 1980 to 1989. From 1983 to 1989 another wage employment programme, viz, Rural Landless Employment Guarantee Programme (RLEGP), had also been implemented throughout the country. Though RLEGP was intended to provide a minimum of 100 days of employment to one member of each landless agricultural labour household, in actual practice nothing of this sort happened. In terms of coverage, implementation process, etc, it had been similar to NREP. Both these programmes were merged to form JRY in 1989. The principal departure of JRY is that the elected village panchayats are entrusted with the planning and implementation responsibilities of JRY throughout the country. As yet no comprehensive study of the implementation process of JRY has been made. Certain impressionistic studies give the indication that JRY is going on well in regions where panchayats are vibrant whereas it is in doldrums in areas where panchayats are dormant. For more authentic inferences based on scientific studies one has to wait for some more time.

Tiwari's book is certainly an important contribution to the literature on anti-poverty programmes in India in general and wage employment programmes in particular. The book, however, hardly touches on some of the basic issues. Can there be significant improvement in the planning and implementation of wage employment programmes in the present milieu? Are they not just placebos for the poor by the non-poor? Have the employment programmes helped the poor to improve their bargaining power with the non-poor for improved wages and other working conditions? Are we in a position to talk realistically about employment as a fundamental right? Is it not feasible to introduce an Employment Guarantee Scheme (EGS) of the Maharashtra type throughout the country? Employment programmes being obviously short-term measures, what are the long-term measures needed to solve the rural employment problem? These are only some of the issues to be sorted out by similar studies in the future.

Rushdie's *Shame*: Postmodernism, Migrancy and Representation of Women

Aijaz Ahmad

The essential task of Third World novels, it is said, is to give appropriate form to the national experience and the range of questions that may be asked of these texts must predominantly refer to this experience. Consequently other kinds of questions have to be subordinated to the primacy of the authorised questions. It is with these other questions that the present essay is primarily concerned.

Focusing more narrowly on the politics of reading individual texts the essay examines Salman Rushdie's book Shame. The author's purpose is to offer a symptomatic reading of an ideological location and in this context the essay locates the ideological underpinnings of Rushdie's work principally in the high culture of modernism and postmodernism.

THE axiomatic fact about *any* canon formation, even when it initially takes shape as a counter-canon, is that when a period is defined and homogenised, or the desired literary typology constructed, the canonising agency selects certain kinds of authors, texts, styles, and criteria of classification and judgment privileging them over others which may also belong in the same period, arising out of the same space of production, but which manifestly fall outside the principles of inclusion enunciated by that self-same agency, a certain kind of dominance is asserted and fought for, in other words, and is in turn defined as the essential and the dominant. The history of modernism is significant in this regard. It was the modernist avant-garde itself which first posited modernism as a comprehensive negation both formal and philosophical, of the canonical realism of 19th century Europe, and claimed, moreover, that realism which had been definitively broken superseded and buried in the period of high modernism the quarter century before 1940 let us say. In turn, the triumph of modernism is indicated today precisely in the fact that realist texts produced during that same period and in the same Euro-American spaces now find no significant place in the literary curriculae and critical discourses pertaining to that period and place, regardless of the number, the worth or the social influence of such texts in their own time. And, it is the hegemonic self-representation of modernism as an utter negation of realism which makes it virtually impossible now to see how many kinds of modernist narrativity, Kafka's for example, have been facilitated by the machineries of representation developed in 19th century Europe. This canonical status of modernism seems to be at work even in relation to what has now come to be known as postmodernism. As everyone knows there were all sorts of distinct movements—Imagism, Surrealism, Dada, Cubism, and so on—during the period which later came to be canonised under the unified rubric of modernism. Once that category had been set

in motion as the art of the 20th century, however, what came after it could only be seen in relation to it (i.e. it could only be a *post* of modernism itself). The hegemonic manoeuvre was evident, further, in the fact that any text which aspired to be included in the category of 'what came after' had (a) to have enough of modernism within it and (b) also to diverge sufficiently in a new avant-gardist way. In either case, processes of canon formation meant also that certain kinds of questions could not now be asked. One could not read a modernist or postmodernist narrative from the standpoint of realism, for example, without being guilty of Derrida's famous 'metaphysics of presence'. The subordinating or even foreclosing of certain kinds of questions, the foregrounding of others, is the essential canonising gesture.

Analogous procedures of privileging certain kinds of authors, texts, genres and questions seem to be under way now with regard to 'Third World literature'. The essential task of a 'Third World' novel, it is said, is to give appropriate form (preferably allegory, but epic also, or fairy tale, or whatever) to the national experience. The range of questions that may be asked of the texts which are currently in the process of being canonised within this categorical counter-canon must predominantly refer, then, in one way or another, to representations of colonialism, nationhood, post-coloniality, the typology of rulers, their powers, corruptions, etc. There is no gainsaying the fact that these are among the great questions of the age. What is disconcerting nevertheless is that a whole range of texts which do not ask, in any foregrounded manner, those particular questions would then have to be excluded from or pushed to the margins of this emerging counter-canon. Worse still, a whole range of other kinds of questionings—pertaining to other sorts of literary influences and experiential locations, the political affiliations of the author, representations of classes and genders within the text, and myriad such issues—would then have to be subordinated

to the primacy of the authorised questions, about 'nation' etc. It is with these other questions that the present essay shall be, in the main, occupied.

I

I have referred elsewhere to the great proximity and heterogeneity of cultural productions in our spaces,¹ both of the archival and the non-archivable kinds, which simply exceed the theoretical terms of 'Third World literature'. Here, I want to look briefly at only one author—Salman Rushdie—who occupies a distinguished place at the very apex of 'Third World literature', and at one of his books—*Shame*—which has already become something of a classic of this counter-canon. What happens to one's own reading, I would be curious to know, if one changes, in any appreciable degree, the questions? Aside from changing the questions somewhat, my main interest in undertaking this exercise is not to attempt a *sufficient* reading of either the author or the book, in some radicalised version of New Critical etiquettes, but, rather, to offer a *symptomatic* reading of an ideological location which makes it possible for Rushdie to partake, equally, of the postmodernist moment and the counter-canon of 'Third World literature'. For, there now appears to be, in the work of the metropolitan critical avant-garde, an increasing tie between postmodernism and Third Worldist canonisations. Thus, for example, whether we look at the literary critics who have done the most productive and influential work on this idea of a generic difference between 'the West' and the 'Third World' or at the actual authors who are accorded central importance in this evolving counter-canon—García Márquez, Fuentes, Rushdie, among others—we find, first, that these critical positions are framed by the cultural dominance of postmodernism itself, and, second, that there is enough in the authors upon whom critical attention is so trained which is appropriable for those sorts of readings, usually with the text's own

ference for Marquez over Asturias, for example, has always appeared to me to be essentially a political matter, which reflects the greater formal and political availability of Marquez (as against Asturias) for postmodernist appropriations on the one hand, and, on the other, the politics of avant-gardist literary taste in our time. The same predominance of postmodernist etiquettes of reading is palpably present in other cognate sub-disciplines that are evolving alongside 'Third World literature', as the roster of those who undertake 'colonial discourse analysis' would amply show. Nor is this subjection of the so-called 'Third World' text to postmodernist scrutiny something reserved for the best known; it now appears to be a fairly general tendency. Fredric Jameson occupies a different and distinctive position in all this because of (a) his arduous attempts to combine postmodernism with Marxism, (b) his identification of 'Third World literature' with 'naïve' realism and, farther back, specifically with allegory, and (c) his upholding of 'Third World literature' as a global other of postmodernism itself, under the insignia of 'nationalism'. What is remarkable even in his readings, different and superior as they are, is that he too is preoccupied, when one looks at the totality of his 'mapping', with defining a relation between 'Third World literature' and the 'global American culture of postmodernism'. For most other critics, even the *problem* of this relation hardly exists. What we find, instead, in most cases, is that postmodernism, in one variant or another, has been imbibed already as the self-evident politics and procedure, and what remains to be done is the selection, appropriation and interpretation of the texts that are to be included in, or excluded from, the emerging counter-canon of 'Third World literature'. It is in this space of overlap that Salman Rushdie makes, most forcefully, his mark.

That the author himself wants his three major novels thus far (*Grimus* is minor and, in some fundamental ways, both obscure and different) to be read as 'Third World' texts is made obvious enough in the main lines of thematics and plotting, and in the emphases that Rushdie has underscored whenever he has spoken in his own voice, whether within the novels or in the interviews and conference papers which have inevitably followed: the colonial determination of our modernity, the conditions and corruptions of post-coloniality, the depiction of the Zia and Bhutto periods in Pakistan as emblematic of Third World caudillos and dictators, in general, myths of nationhood and independence, the myths and gods of India, Third World migrants in metropolitan cities, the world of Islam, and so on. The forms of narrativisation, meanwhile, are diverse enough for critics to conjecture that they belong, in essence, to a generally non-Western, specifically Indian form of non-mimetic narration, derived, finally, from the

emphases, in the words of Raja Rao, the characteristically Indian penchant for obsessive digressions and the telling of an interminable tale. This is of course what Rushdie's own stance in *Midnight's Children* is. It has not been possible, though, to sustain this idea of quintessential Indian-ness in the form of Rushdie's narrative techniques; the lines of descent from European modernism and postmodernism are too numerous. The necessary though often unintended consequence of these approaches—i.e., the preoccupation with Rushdie's portrayal of 'the nation' and 'the Third World' on the one hand; with the digressive self-reflexivity ('Indian-ness?') of his narrative technique on the other—has been the obscuring of his ideological moorings in the high culture of the modern metropolitan bourgeoisie as well as the suppression of a whole range of questions which have little to do with either 'the nation', or 'the Third World' but which I take to be quite central to the basic import of his narratives.

The more fundamental questions shall become clearer as we get to the reading of the novel, but two features of the ideological subtext itself may be mentioned here in passing, so as to illustrate the general ambience of the work. Thus, Rushdie's idea of 'migrancy', for example, which is quite central to his self-representation both in fiction and in life, has come to us in two versions. In the first version, fully present in *Shame* and in the writings that came at more or less that same time, 'migrancy' is given to us as an ontological condition of all human beings while the 'migrant' is said to have 'floated upward from history'. In the second version, articulated more fully in the more recent writings, this myth of ontological unbelonging is replaced by another, larger myth of excess of belongings: not that he belongs nowhere but that he belongs to *too many* places. This is one kind of thrust in Rushdie's work, which appears to refer to the social condition of the 'Third World' migrant but is replete also with echoes from both the literary tradition of high modernism and the postmodernist philosophical positions. But then, alongside this issue of 'migrancy', we also find in *Shame* an actual portrayal of Pakistan—and, in Rushdie's own words, 'more than Pakistan'—as a space occupied so entirely by power that there is no space left for either resistance or its representation; whoever claims to resist is enmeshed already in relations of power and in the logic of all-embracing violences. This one can see in numerous minor episodes of the novel, such as the breezy caricature of the armed movement in Baluchistan in the 1970s, in the earlier portions of the book, as much as in the fabrication of the central character, Sufia Zinobia, as we shall seek to demonstrate below. Between these two poles of ideological construction—the individual's freedom, absolute and mythic, that is derived from the fact that he belongs nowhere because he belongs everywhere; and an im-

with violence and corruption that any representation of resistance becomes impossible—Rushdie encompasses, in fact, a whole range of nuances which clearly do not constitute a philosophical unity but which are the very nodal points through which the contemporary (post)modernist literary imagination passes as it negotiates its way out of Pound and Eliot, into the world of Derrida and Foucault. How very enchanting, I have often thought, Rushdie's kind of imagination must be for that whole range of readers who have been brought up on the peculiar 'universalism' of *The Waste Land* (the 'Hindu' tradition appropriated by an Anglo-American consciousness on its way to Anglican conversion, through the agency of orientalist scholarship) and the 'world culture' of Pound's *Cantos* (the sages of ancient China jostling with the princely notables of renaissance Italy, with Homer and Cavalcanti in between, all in the service of a political vision framed by Mussolini's fascism); one did not have to belong, one could simply float through, effortlessly, through a supermarket of packaged and commodified cultures, ready to be consumed. This idea of the availability of *all* cultures of the world for consumption by an individual consciousness was of course a much older European idea, growing in tandem with the history of colonialism as such, but the perfection and extended use of it in the very fabrication of modernism (not just Pound and Eliot, but a whole range of modernists, from Herman Hesse to St John Perse) signalled a real shift, from the age of old colonialism *per se* to the age of modern imperialism proper, which was reflected also in the daily lives of the metropolitan consumers in a new kind of shopping: the supermarket. In the literary imagination of high modernism this idea of cultural excess served, however, as a counterpoint against the far less sanguine notion that the fragmented self was the only truly modern self. Ideas of excess and disruption, of unity and fragmentation, were held in this imagination in a tense balance. If the chief characteristic of the metropolitan supermarket was that entirely diverse products (utensils, fabrics, jewellery, refrigerators, beds) could now be purchased under one roof, while also drawing upon the resources of different countries (Indian textiles alongside Manchester woollens; Persian carpets alongside French hosiery), making available a wide range of personal consumptions in a wholly impersonal setting, the felt experience of the elite artist was that he could now draw upon a whole range of cultural artefacts from the whole world (Indian philosophy, African masks, Cambodian sculpture) but he was also subjected to those same processes of capitalist alienation which were inscribed now not only in the processes of production, to be suffered by the working class alone, but in the very structure of social space as it was reconstituted in the modern city. The collage,

and the Cubist recompositions of perspective were the characteristic responses in the visual arts, and Eliot's *oeuvre* came to occupy so central a position in the literary imagination of the Anglo-Saxon elite—and, in an act of characteristic subordination, in the imagination of the Anglophone colonial elite as well—because he combined this sense of cultural excess with an equally strong invocations of 'Hollow Men' and 'Unreal City'; *The Waste Land*, with its fragmented surface, its polyglot ascription, its multi-cultural list of literary resource and ideological possibility, its malevolence toward working women and the sexuality of popular classes, its aristocratic affiliation, its dazzling technical resolution for the sense of unbelonging and inner ennui, is of course the central document of Anglo-Saxon modernism. In none of the major modernists, however, was the idea of the fragmented self, or the accompanying sense of unbelonging, ever a source of any great comfort, it came, usually, with a sense of recoiling, even some terror. What is new in the contemporary metropolitan philosophies and literary ideologies, which have arisen since the 1960s, in tandem with vastly novel restructurings of global capitalist investments, communication systems and information networks—not to speak of actual travelling facilities—is that the idea of belonging is itself being abandoned as antiquated false consciousness. The terrors of high modernism at the prospect of inner fragmentation and social disconnection have now been stripped, in Derridean strands of postmodernism, of their tragic edge, pushing that experience of loss, instead, in a celebratory direction: the idea of belonging is itself seen now as bad faith, a mere 'myth of origins', a truth effect produced by the Enlightenment's 'metaphysics of presence'. The truth of being, to the extent that truth is at all possible, resides now in multiplicity of subject positions and an *excess of belonging*, the writer not only has all cultures available to him as resource, for consumption, but he actually belongs in all of them, because he belongs in none. As these formulations begin to become the manifest common sense of the metropolitan intelligentsia, dutifully reproduced in the literary productions and pronouncements of 'Third World intellectuals' located within that milieu, one wonders what these cultural positions—(the idea of *origin* being a mere 'myth', the double-ness of arriving at an *excess of belonging* by *not* belonging, the project of mining the resource and raw material of 'Third World literature' for archival accumulation and generic classification in the metropolitan university)—might have to do with this age of late capitalism in which the most powerful capitalist firms, originating in particular imperialist countries but commanding global investments and networks of transport and communication, proclaim themselves nevertheless as being *multi-nationals* and *trans-nationals*, as if their *origins* in the United States or the Federal German Republic was a mere myth

and as if their ability to accumulate surplus-value from a dozen countries or more was none other than an excess of belonging.

If Derridean pressures move postmodernism in the direction of a self-reflexive celebration (one is free to choose any and all subject-positions—beyond all structure and all system, in Edward Said's formulation—because history has no subjects or collective projects in any case), the political implications of Foucault's philosophical position and narrative structure tend not only to re-inforce the impossibility of stable belonging and subject-position but also to bestow upon the world a profound cage-like quality, with a bleak sense of human entrapment in discourses of power which are at once discrete and overlapping, many of which appear to be located in the archaeological layerings of the countless passages from the *ancien regime* to modernity while others (the discourse of sexuality, for example) in perhaps Roman antiquity, but there appears to be none that can be traced to an origin or a purpose or an interest. This history without systemic origins or human subjects or collective sites is nevertheless a history of all encompassing power, which is wielded by none and which *cannot* be resisted because there is nothing outside the fabrications of power—perhaps *ought not* be resisted because it is not only repressive but also profoundly productive. History, in other words, is not open to change, only to narrativisation. Resistance can only be provisional: personal, local, micro, and pessimistic in advance. The enormous archival depth of Foucault's researches and the sumptuousness of his prose, we might add, stand in a peculiar relation to this definition of human possibility: as if the recovery and redefinition of the archive were, in the old humanist sense of the intellectual's vocation, a fundamentally redemptive act, and as if Foucault too believed, along with Whitehead for example, that style was the essential morality of a writer's mind.

I do not mean to suggest that *Shame* is somehow a fictional fabrication derived from these sets of ideas which the author then applies to the social reality that engages his attention. Nor is it of any importance whether Rushdie has even read any or all of these other authors (though some phrases in *Shame* are doubtless modelled on phrases from *The Waste Land*). What I wish to specify, rather, is the context of the book's composition as well as reception: the *kind* of author Rushdie is, the whole grid of predispositions which have gone into the making of such an imagination, the kinds of pleasures his book supplies to what was conceived of as its initial readership (Rushdie himself tells us that he wished desperately to win a second Booker Prize, with *Shame*, as he had done with *Midnight's Children*). In some basic ways, one is speaking not so much of Rushdie's intentions as of the conditions of his production, the very saturation of his thought as it were. It is important to recall here that Rushdie was not, until

his recent and macabre sentencing by the Ayatollah, an exile but a *self-exile*. Now, writers-in-exile often write primarily for readerships which are materially absent from the immediate conditions of their production, present only in the country from which the writer has been forcibly exiled, hence all the more vividly and excruciatingly present in the writer's imagination because their actuality is deeply intertwined with the existential suffering of exile and with the act of writing as such. The self-exile has no such irrevocable bond, he is free to choose the degree of elasticity of that bonding, and the material consequences of his migrancy necessarily bring him into a much more accountable relation with the readership which is materially present within the milieu of his productive work. This one recognises not as a weakness or a strength of Rushdie's work but simply as one of its framing realities. This shared ambience between the writer and his primary readership may then be reinforced, or not by ties, or lack of them, that are normally produced by one's own culture, one's own class and the range of choices which are then available and which one exercises for better or worse, in the process of living and writing.

I shall return briefly to these particular moorings and the broader implications of Rushdie's work in the concluding section of the present essay. Before going on any further with such generalisation, however, I want to look more closely at some aspects of *Shame* so as to clarify how these larger issues are embedded in the text of the novel itself. In the process, I shall offer some remarks on Rushdie's self-representation within the book, some more extended remarks on his representation of women in it, and on the implications of these, and of both his 'migrancy' as well as his postmodernist allegiances, for his politics. The intention is not to offer a more adequate or even an alternative reading of either *Shame* or the rest of his growing corpus, less still to deny that the condition of postcoloniality may itself be one of the co-ordinates for reading such books, but simply to illustrate the sort of questions and connections that get marginalised in the pursuit of a generic category of 'Third World literature'.

II

We might as well begin with the author inside the book. For, aside from the numerous things Rushdie has said in the course of his many interviews about his intentions in *Shame*, the narrative within the book itself is controlled transparently by the repeated, direct, personal interventions on part of the narrator—who is, for purposes of our interpretation, Rushdie himself. The first such intervention comes early in the book, as soon as the author is through with his first chapter. After a significant description of his theme—Shame, and what causes it—he comes to himself, his book, his country

I tell myself this will be a novel of leavetaking, my last words on the East from which, many years ago, I began to come loose. I do not always believe when I say this. It is a part of the world to which, whether I like it or not, I am still joined, if only by elastic bonds.²

And

The country in this story is not Pakistan, or not quite. There are two countries, real and fictional, occupying the same space, or almost the same space. My story, my fictional country exists, like myself, at a slight angle to reality. I have found this off-centring to be necessary. I am not writing only about Pakistan.

Then, after a short passage on Khayyam, the Farsi poet, we are told

I too, am a translated man. I have been *borne across* (p. 24, emphasis in the original)

Later in the novel, in the course of a poignant passage about his younger sister, Rushdie would also say, unmistakably about himself

Although I have known Pakistan for a long time, I have never lived there for longer than six months at a stretch. I have learned Pakistan by slices—however I choose to write about over there, I am forced to reflect that in fragments of broken mirrors. I must reconcile myself to the inevitability of the missing bits (pp. 70–71)

And finally

What is the best thing about migrant peoples and seceded nations? I think it is their hopefulness. And what is the worst thing? It is the emptiness of one's luggage. We have floated upwards from history, from memory, from Time.

As we begin to negotiate this imaginative territory marked by 'Pakistan' 'the East seceded nation' etc, it is well to recall what Rushdie himself tells us in a different passage that he had actually gone back to live in Pakistan but had left not because of political difficulty or economic pressure but because he had found the country 'suffocating'. With that personal decision to leave one does not quarrel, because that kind of decision always is personal. But his 'leavetaking' is so very central to his public self-representation as well as to the structure of his fictions that one wants to locate at least the *literary* consequences and precedents—of it somewhat accurately. With regard to his fictions and his general political stance, I think, this personal detail is to be seen not so much in relation to coloniality and its aftermath, nor with reference to the issue of dictatorship *per se*, but in the highly pressurising perspective of modernism itself which has been framed so very largely by self-exiles and emigres—James and Conrad Pound and Eliot, Picasso and Dali, Joyce, Gertrude Stein, and so on—who had experienced the same kind of 'suffocation' in their own spaces of this globe and who were subsequently to leave behind immense resources of genre and vocabulary for delineating that predominant image of the modern artist who lives as a *literal* stranger

in a foreign and impersonal city, and who, on the one hand, uses the condition of exile as the basic metaphor for modernity and even for the human condition itself, and, on the other, writes obsessively, copiously of that very land which had been declared 'suffocating'. Nor was 'the East', and the itch to say some 'last words' about it, far from the imaginative topography of modernism and Rushdie seems to have taken as much from the many styles and ideologies in which 'the East' had been represented within the larger compass of the modernist moment—the debts of *Midnight's Children* to *Kim* are substantial and Kipling, one might recall, actually belongs within this moment, as does Orwell, and Conrad, coming in the middle is of course one of the masters of it)—as he has taken, on other scores, from García Márquez. Even the increasing insistence on self-exile as a positively enabling experience for writers is by no means new, what is new and decidedly postmodernist is the emphasis much sharper in Rushdie's more recent writings, on the idea of multiple belongings and on the lack of any fundamental pain in dislocating oneself from one's original community. But this too fits because the current metropolitan milieu, with its debunking of any 'myths of origin' and of 'metaphysics of presence' does not really authorise any sustained acknowledgement of such pains.

The remarkable thing about the passages I have quoted above is, in any case, the handling of ambivalences and conditionalities. The irony of 'I tell myself', which is intended so clearly to suggest that what follows is mere self-persuasion, not the truth but a hallucination of truth, is poised so sharply against the power of that phrase 'a novel of leavetaking'—and poised all the more sharply because *Midnight's Children* and *Shame* actually are novels of leavetaking, not from the East surely but, more particularly, first from the country of his birth (India) and then from that second country (Pakistan) where he tried, half heartedly to settle down and could not—that tone of initial self-mockery dissolves quickly into a characteristically modernist use of that particular kind of irony which comes into modernism from its antecedents in romanticism itself and which serves to de-stabilise not only the object of irony but also its author, and which Franco Moretti has quite properly called a 'spell of indecision'. There is a quality of linguistic quicksand in all such passages, as if the truth of each utterance was conditioned by the existence of its opposite and Rushdie seems forever to be taking back with one hand what he has given with the other. The will to take leave is poised against the impossibility of leavetaking: he has been coming loose but is still 'joined'—he is still joined but only by 'elastic' bonds—and he is not sure that he likes the fact of continued joining (joined, 'whether I like it or not') he makes statements but he does not believe in them, the fictive and the real co-exist but do not correspond, not only his text but he, himself, exists 'at a slight

angle to reality'; not his text but *he* is 'translated', 'borne across', the translation occurs not on the semantic but on the existential level. These ambivalences propel him, then, to write a 'novel of leavetaking', about a country which is 'not quite Pakistan' and 'not only Pakistan' but *is*, in the most obvious ways, Pakistan. And the novel is something else, well 'my last words on the East'. An audacious undertaking indeed, wider in some senses than Joyce's in *A Portrait of the Artist As a Young Man*, the book which I think Rushdie quite intentionally invokes and where Stephen, the alter ego of that Irish, colonised author had also set out for self-exile so that, as he puts it in the concluding passages of that other book of leavetaking, "I may learn in my own life and away from home and friends what the heart is and what it feels" and 'to forge in the smithy of my soul the unrequited conscience of my race'.

There is poignancy in them surely, but Rushdie's formulations here are troubling on at least two counts. One is that it is always impossible, even in a work much larger than *Shame*—to say one's 'last words' about anything as amorphous as 'the East', this idea that there is some unitary thing called 'the East' about which some 'last words' can be said is a figment of the orientalist imagination and Rushdie is simply over stating at least his capacities if not also his intentions. That he begins the passage with a suggestion of self-mockery does not really retrieve the banal character of the assertion, since the whole book is replete with all sorts of banal statements about 'the East', including the assertion that the English word 'Shame' falls far short of the Urdu word 'Sharam' because the latter is a sentiment and notion and normative conduct characteristically Eastern, hence exceeding the Western capacities of cognition and linguistic formation 'they live after the death of tragedy we are told while 'we' presumably live in the grip of it. Second, there are remarkable contrasts between Rushdie's declarations and the phrases I have used from Joyce's little work of early modernism. There is in the young Joyce still a sense of 'home and friends', and even an accompanying sense of desolation in having to choose self-exile, there is also an intentionality—a choice however tragic, as well as a full-blooded irony about one's own undertaking and about the kind of rhetoric which frequently accompanies such undertakings, remarkable in all this is the pun on the word 'forge', nor is there any sense that the writer has floated upwards from history, from memory, from Time. Rushdie's stance is different. Pakistan, or India for that matter, is precisely *not* home, neither the joining nor the coming loose has, by now, with *Midnight's Children* behind him, the immediacy of a willed and necessary self-wounding that may require the language of iron and smithy, what we have, instead, is an image of tenuous and possibly flaccid rubber, 'elasticity', and what impresses one about 'I, too,

across' is that someone or something else, perhaps History itself, appears to be doing the translating, the bearing across. It is perhaps the lightness of being that comes from having 'floated upwards from history, from memory, from Time' which makes it possible for the author, then, to mock himself into wanting to say his 'last words on the East', in a parody of the flip confidence that one would encounter later in Naipaul's *Among the Believers* (*Satanic Verses* perhaps can be read more appropriately as Rushdie's version of the world Naipaul there describes, with far greater talent and knowing effect but with very uncanny overlap of stances.) As one returns from that phrase 'last words on the East', to Stephen's 'in the smithy of my soul the uncreated conscience of my race, one senses the impossibility of that floating upward' for anyone, migrant or not, who might have thought of 'migrancy' as personal need, because of the 'suffocation', but might be yet unwilling to make a fetish of his own unbelonging.

Parenthetically I may emphasise that I do not wish to construct this juxtaposition of two texts or rather the two sets of brief quotations as some kind of fixed difference between modernism and postmodernism. If a postmodernist at all, Rushdie is so precisely in the sense that his intellectual and artistic formation is essentially modernist but there are distinct articulations and emphases in which he clearly exceeds that basic formation. I am reminded here of those passages in *Invitation to a Beheading* where he argues that postmodernism is a set of tendencies within late modernism itself and which distinguishes itself primarily by celebrating human inability to experience reality as a totality over and beyond its fragments. The attitude towards (self-) exile would be another such shift, but a shift connected with historically distinct moments within the continuum of metropolises, high culture in the century of modern imperialism.

The East would of course continue to haunt Rushdie for many years after the writing of *Shame*, right up to the present and most likely into the indefinite future. For one thing, self-exile rarely becomes a full naturalisation even when class and culture can be fully shared—as even Henry James was to find out. British racism forecloses the option for people of colour in any case, even for a man of Naipaul's longings and identifications, let alone for Rushdie with his monumental ambivalences about the culture of his origins as well as his activist and oppositional relationship with the culture of official Britain. The writing of *Satanic Verses* on the one hand and the fundamentalist fury that was unleashed against him thereafter, has made vivid the non-elasticity of those bonds in a particularly macabre way, which Rushdie himself nevertheless could not have foreseen at the time when he wrote *Shame*. As regards the reading of that earlier novel in its own setting, however, what

towards (self-) exile in these passages is the connection in Rushdie's utterances between (a) the project of saying some 'last words on the East' (b) the ambition to write at one and the same time about Pakistan and also more than Pakistan ('the East' on the one hand, the typology of dictatorships on the other, as well as post-coloniality in general), (c) the sketchiness of the actual knowledge of Pakistan, and (d) the device of 'off-centring'. His declaration, furthermore, that he has 'learned Pakistan by slices' and must therefore reconcile himself 'to the inevitability of the missing bits', and to reflecting both the known and the not-known 'in fragments of broken mirrors', is at once a defence very early in the book, before the reader has engaged with the greater part of the narrative, against the anticipated criticism that there is much missing from this judgment of the 'last words', as well as a positioning of the author which has both a formal and a political import. The confessed fragmentariness of the experience precludes, for example, the realist option because what realism presumes—at the very least—is an integral experience which includes more than mere slices. The narrativisation of 'slices', in the form of 'fragments of broken mirrors' (the echo from *The Waste Land* here is, I think, intentional) only refurbishes the author's prior disposition toward modernism and postmodernism, i.e. views of the world which would serve to further validate the ontological primacy of the fragment.

But the matter of the 'missing bits' is not so easily settled, purely as a problem begging for a formal resolution. It is at least arguable that no one ever knows his country whole, regardless of how much of one's life is or is not actually lived within its borders: that the imaginative apprehension of totality is always constructed on the basis of those bits and slices of concrete experience which constitute any individual's life, migrant or not; that what eventually matters about any experience, felt or narrated, is not its partiality, because direct experience is always partial, but the quality of the particular bits which constitute it and those others which remain outside the felt experience and therefore outside one's imaginative capacity as well. If one has 'known Pakistan for a long time' and yet because of circumstance, 'learned' it only 'by slices', the question naturally arises: which 'slices' has one chosen to 'learn'? For, if we do not choose our own 'bits' of reality, those 'bits' shall then be chosen for us by our class origin, our jobs, the circuits of our friendships and desires, our ways of spending our leisure time, our literary predilections, our political affiliations, or lack of them. There are no neutral 'bits'—not even of not knowing. What Rushdie seems to know, from the inside, because of his own class origin is the history of the corruptions and criminalities of Pakistani rulers, about these he says remarkably trenchant things, and his desire to disjoin himself from that history

moving. The structure of this limited knowledge, circumscribed as it is within the experience of a decadent class to which he is joined by origin but from which he himself feels wholly alienated, only confirms, however, the world-view implied in his already-existing affiliations with modernism and postmodernism. Neither the class from which the Pakistani segment of his experience is derived, nor the ideological ensemble within which he has located his own affiliations, admits, in any fundamental degree, the possibility of heroic action, between the structure of felt experience and the politico-literary affiliation, thus, the circle is closed. What this excludes—the 'missing bits' to which he must 'reconcile' himself—is the dullness of lives lived under oppression, and the human bonding—of resistance, of decency, of innumerable heroisms both of the ordinary and the extraordinary kinds—which makes it possible for large numbers of people to look each other in the eye, without guilt, with affection and solidarity and humour, and which makes life, even under oppression, endurable and frequently joyous. Of that other kind of life his fictions, right up to *Satanic Verses*, seem to be largely ignorant, what his imagination makes of the subsequent experiences we shall only find out from later work. The infinite bleakness of *Shame*, its cage-like quality, is rooted, in other words, in what it excludes as much as what it actually is comprised of.

III

Virtually everyone has noted, as Rushdie himself has, that *Shame*, which is almost exclusively about Pakistan although a couple of episodes do take place in India, is a much more severe and despairing book, more bleak and claustrophobic, than was *Midnight's Children*. The sense that Pakistan is a cage is already there, in the opening episodes, where the Shakil sisters—the three mothers of the 'peripheral hero', Omar Khayyam—are clustered twice over: first by their father, the patriarch of the macabre mansion, with whose death the book begins, and then by themselves, after their one hedonistic night in which their son is conceived. And this sense of being trapped permeates the whole book, right up to the final denouement where we find that even dictators cannot cross the 'frontier' and escape their cage. In between, Bilquis is trapped in her 'elite actressy manner', her sentimentality, her 'horror of movement', her desire for sons and yet her lack of sons, as well as the crassness of her husband's ambitions, pieties and cruelties; Rani is trapped, likewise, in her own husband's infidelities and the rise and fall of his political career; Sufiya Zinobia—the heroine of the book, 'Shame' embodied—is trapped in her brain fever, her humiliation, and her volcanic urge to violence; her younger sister, Good News Hyder, is a much less substantial being but she too is trapped, first in her super-

ficiality and then, despite the marriage of her choice, in the constant demand on her fertility. The younger sister kills herself, the older kills her tormentors, but the cage never quite becomes anything other than itself.

We shall return to some of these characters presently. But we should first note the contrast with *Midnight's Children*, which had been about India, the country of Rushdie's own cherished childhood. What had given to that earlier novel its narrative amplitude was the connection with autobiography—that baggage of memories that even a migrant, particularly a migrant, must carry. Pakistan, by contrast, is a society Rushdie never knew in those golden years before the uprooting. It is not 'teeming' (Rushdie's word for India, borrowed, significantly, from Kipling) for him with stories, and with the plenitude of life, because, as he himself puts it, he has learned it only in little slices, and because the connection of his own life with that land—the new, moth nibbled land of God, as he calls it—is so very tenuous. It is a country which he knows, beyond very personal affections, only as a polity, and primarily in the grotesqueries of its ruling class. Within the limits of that knowledge, the rage that the book conveys is entirely well-founded. The problem is that the experience of a certain class—rather, a ruling elite—is presented, in the rhetorical stance of the book, as the experience of a 'country'. Far from being about 'the East' or even about 'Pakistan', the book is actually about a rather narrow social stratum, so narrow in fact that Rushdie himself can portray all the major characters in the book as belonging to a single family. This plot-device of turning all the antagonists into relatives is a wonderful technical resolution for reflecting the monopolistic structure of dictatorial power and the very narrow social spectrum within which this power in Pakistan circulates. It also helps him bypass the easy liberal dichotomy between military villains and civilian innocents, they are all of the same stripe. The main difficulty arises not in his portrayal of this structure of power and cruelty at the apex, thus he accomplishes on the whole, superbly. The difficulty arises when this ferocious fable of the state is elided, again and again, in his own recurrent rhetoric throughout the book, with a civil society which is declared to be co-terminal with this state structure, equally deformed and irretrievably marked by its purported civilisation (Islam) and its genetic origin (the partition), more catastrophically wounded than even what Narpaui makes out India to be in his *A Wounded Civilisation*. The rulers and the ruled seem to be joined together, each mirroring the other, in a satanic compact.

Thus, the bulk of the narrative is focused on the careers, corruptions, ribaldries and rivalries of the two main protagonists in the political arena. Reza Hyder, an army officer whose origins and early career are quite different from Zia's but who comes increasingly to resemble him, and Iskander ('Iskv')

Harappa, who is modelled on the personality of Bhutto, the former prime minister. The problem, even here, is that those parts of the book which attempt to create fictional equivalents of the literal facts of recent Pakistani history tend too much toward parody, many of the other parts tend too much toward burlesque. Both the parody and the burlesque are at times delicious, inventive, hilarious, but in re-creating the major strands of contemporary history in the form of a spoof, and then mixing up this spoof with all kinds of spooky anecdotes whose symbolic value is sometimes unclear and often excessive, Rushdie has given us a laughter which laughs, unfortunately, much too often. The fictional equivalents of Bhutto and Zia are such perfect, buffoon-like caricatures, and the many narrative lines of the political parable are woven so much around their ineptitude, their vacuity, their personal insecurities and one-upmanships, their sexual obsessions, the absurdities of their ambitions and their ends, that one is in danger of forgetting that Bhutto and Zia were in reality no buffoons, but highly capable and calculating men, whose cruelties were entirely methodical. It is this tendency to either completely individualise the moral failures of a ruling class (Bhutto, or Zia, or whoever, is a bad character) or to spread them far too widely through society at large (the country was *made* wrong, what else do you expect?), which gives to Rushdie's laughter, so salutary in some respects, the ambience, finally, of the modern cartoon.

It is on this narrative line, and on the thematic gathered around it, that most readings of *Shame* have concentrated. And, with reason. If the book is to be located in the counter canon of 'Third World literature', if it is to be read essentially as a document of post coloniality, a myth of the 'nation', a critique of dictatorship, a fictionalised biography of the Pakistani state, a dissent from the politics of partition and of Islamism, then, surely, *that* narrative, and all other narrative lines converging on that main one, should rightly be the point of focus. Who on the left—and not only on the left—could dissent from the abuse heaped on the likes of Zia etc? We can take infinite pleasure in the inventiveness and eloquence of the denunciations which are because of their justness our own, because we are already preoccupied with the twin myths of the 'Third World' and the 'nation', far too many of us are willing to set aside all sorts of things that the book says about women, minorities, servants, and others who are not of the ruling class. And, it is the pleasure of those wide ranging denunciations which makes it possible, for *The New York Times* let us say to lift the book out of its immediate location and compare Rushdie's achievement in *Shame*, in one breath as it were, with Sterne, Swift, Kafka, Marquez, Gunter Grass. What this particular angle on the book—the primary emphasis on the representation of the 'Third World' and the condition of post coloniality on the one

hand; the tradition of the grotesque on the other—does, however, is that it reads the book back from the author's own declarations and foregroundings, according to etiquettes stipulated by critics and theorists of 'Third World literature'. There is, thus, a certain complicity of a shared starting-point between the author and his critics, generated very largely by the very conditions in which the idea of a 'Third World literature' has arisen and which I have tried to specify elsewhere.¹ This complicity inhibits, then, other sorts of starting points: the issue, in the midst of all the political claims that go back and forth between authors and critics, of Rushdie's own politics and affiliations for example, or his representation of women and the related issue of a possible misogyny, or the aesthetic of despair that ensues both from his over valorisation of unbelonging ('floating upward') and his own location within the modernist trajectories, early and late, which are more than merely formal. These other issues are what I want to briefly address, but I am concerned here mainly with his representation of women, for four reasons: that women occupy so large a portion of all the narratives in the book, that Rushdie has himself drawn attention to this fact in numerous interviews, congratulating himself for these representations; that the issue of misogyny is a central issue in any sort of oppositional politics, and that the absence of any substantial male figures from among the oppressed and oppositional strata in this book—the absence, for example, of the male sections of workers and peasants, political militants, the patriotic intelligentsia—is so complete that it is only by analysing his representation of women that we can obtain any clue as to what his imaginative relation with *all* such strata might in fact be. In other words, Rushdie has so often declared himself a socialist of sorts that it is both legitimate and necessary to see what this book might look like if we were to read it from the standpoint of not socialism, simply some determinate energies of an emancipatory project, i.e. not only in its representation of rulers but also in its representations of the oppressed.

This is by no means an uncomplicated undertaking, for Rushdie is not in the way Orwell always was, a misogynist, plain and simple. Living in the contemporary milieu of the British left, he has not remained untouched by feminism itself, at least in a cerebral sort of way, and he is clearly aware, and quite capable of effective narrativisation, of many kinds of women's oppression in our societies. The complication is of a different order, and politically far more devastating than mere lack of sympathy. It is only after taking into account that structure of sympathy and the kind of politics in which it is embedded that one can proceed to examine the more central issues in his representation of women and then to relate those issues back to the generality of his political positions.

Thus, alongside the stories of Isky and

Reza, which together constitute the main narrative frame, are the tribulations of their wives, Bilquis and Rani. These portraits are drawn far more sympathetically than are the portraits of their husbands, and some of the most moving episodes in the book are associated with these women: the episode, for example, of the fire at the time of the partition which burns away 'the brocades of continuity and the eyebrows of belonging' from Bilquis' vulnerable female body, while she is left with nothing save the 'dopatta of honour' in which she wraps herself as an only refuge; and the other episode, toward the end of the book, when Rani, sequestered once more on her rural estate, takes stock of her life, and embroiders 18 shawls on which she traces, in intricate representational design, the debaucheries and cruelties of her husband's full career. Equally powerful are those last images of Bilquis, whose adult life started with forced, fire-propelled nakedness, shrouding herself at the end, an aged woman with defeated dreams, in black veils, so as to make permanent the distance between herself and the male-dominated world in which she has been caged all her life. Similarly, the episode in which Good News Hyder hangs herself in order to escape the constant, mad demand upon her procreativity is a moving episode, and it corresponds to very real horrors in our society. Even the initial conception of Sufiya Zinobia as one who is struggling to let the Beast out of the Sleeping Beauty is itself in the best tradition of grotesque realism. These are all powerful images. Both Bilquis and Rani are, however, when all is said and done, and quite aside from the insult and neglect they suffer at the hands of their husbands, paltry, shallow creatures themselves, capable of nothing but chirpy gossip (in 'the elite actressy manner'), or inertia or, at best, a tawdry affair with the owner of the local movie-house. They are not even remotely as evil as their husbands, and while Bilquis goes increasingly to pieces, Rani at least, in embroidering her shawls, manages to maintain a sort of dignity. Even hers is the dignity of resignation, however. In general, moreover, what we find is a gallery of women who are either frigid and de-sexualised (Arjumand, the virgin ironpants), or demented and moronic (the 20-odd years of Zinobia's childhood), or dulled into nullity (Farah), or driven to despair (Rani, Bilquis), suicide (Good News Hyder), and sheer surreal incoherence and loss of individual identity (the Shakil sisters). Throughout, every woman, without exception, is represented through a system of imageries which is sexually overdetermined; the frustration of erotic need, which drives some to frenzy and others to nullity, appears to be in every case, the central fact of a woman's existence. What we have, then, is a real disjuncture between particular *episodes* which can delineate quite vivid sympathies for the respective female characters on the one hand, and, on the other, a generalised *structure* of representation in which each of those same characters

turns out to be at least dislikable, frequently repugnant.

IV

The crux of the matter, however, is the characterisation of Sufiya Zinobia, the girl who was supposed to have been a boy, the 'miracle which went wrong', the demented child who was born blushing, and who is Shame personified. She is the one who provides the link between the stark title of the book and its many disjointed, sprawling narratives, and who is at the centre of that marriage between shame and shamelessness which, the author tells us over and over again, breeds the all-enveloping violence; she blushes, we are told, not merely for herself but also, more consistently, for the world at large. In a world of utter evil, where everything that happens should evoke shame but where everyone is entirely shameless, Sufiya Zinobia, this Shame personified, is no mere character; she is presented from the outset as the very embodiment of the principle of redemption, if redemption in this altogether unheroic, unscrupulous world is at all possible.

Initially, of course, her blushes begin at birth, for the simple reason that she, like all babies, was expected to be a boy. This unending shame which begins at birth and hounds all her days on earth might well have been, in a different sort of trajectory, an appropriate metaphor for the way a sense of fundamental female inadequacy, and shame as a specifically female attribute, are sought to be generated in the social processes of gendering. But then two things happen. One is that she gets ill, contracting brain fever, and thus becomes permanently retarded, developing the brain of a six-year old at age 19. Now, the problem with this metaphor of mental illness is that the pressures and processes of gendering, which are social and historical in character, and which impose upon great many women the possibility of deformation and incapacity, but which are open to resistance and reversal by women's own actions, are given to us in the form of a *physiological* insufficiency on her part, and the novel therefore becomes incapable of communicating to us, in whatever grotesque forms, the *process* whereby a woman's intellectual and emotional abilities may be sapped, or regained. We may be charitable and not recount here all the ways in which the fiction of women's physiological insufficiency has been mobilised in the past and present histories of gender politics. At the very least, however, this shift from the social to the physiological forecloses the possibility that the person in question can regain the control of her body, let alone her brain, through her own initiative; reversals of such conditions are rare, and they require the agency not so much of the patient as of doctors and hospitals. That Bilquis, her mother, would henceforth be ashamed of the child because the child is a moron, or that Sufiya herself would become an object of

medical interventions, or even that her marriage would remain sexually unconsummated, begins to make a certain sort of sense within the available social arrangements; we may now preach greater liberality of attitude toward such hapless creatures, but the essential social situation remains intractable and the novel simply fails to recover from this eliding of the social into the physiological.

In the course of the novel, moreover, Sufiya's shame comes to refer less and less to herself (her femaleness; her mental retardation) or to her family (which is ashamed of her on both counts, femaleness and retardation) and gets focused increasingly at the world as Sufiya finds it; she becomes, almost literally, the conscience of a shameless world—a principle of honour, so to speak. This too is somewhat problematic, in the sense that when the complex moral obligations of a social conscience are reduced to the limiting emotiveness of mere shame, and when this shamed conscience is deposited with one who is physiologically incapable of intellection and sustained responsible conduct, the author precludes, by virtue of the very terms that he has established, the possibility that this conscience would be capable of grappling with needs of social regeneration, or even with the sort of decency and daily heroism that countless ordinary people are quite capable of. Rushdie says over and over again, within the novel as well as in the interviews which have followed, that the encounter of shamelessness with shame can only produce violence. Precisely! But violence is not in itself capable of regeneration, and it is doubtful, Fanon notwithstanding, that violence is intrinsically even a cleansing virtue. In other words, the very dialectic—of shamelessness and shame, and their condensation in eruptions of violence—which governs the conceptual framework of the novel is fundamentally flawed and the symbolic values which Rushdie assigns to Sufiya Zinobia simply exceed the terms within which he has fashioned her own existence. The double punning in her name—on the word 'Sufi' and on the name of Zinub, the grand daughter of the prophet of Islam who is quite central to several of the popular strands derived from Sufic Islam—is, in context excessive and merely prankish.

This becomes clear as soon as one recalls the stages in the escalation of her violence. The governing metaphor for these escalations—the Beast emerging from inside the Beauty, while the Beauty herself is anything but beautiful in any conventional sense—is again superbly within the tradition of the grotesque, and the political idea which is inscribed within this metaphor—i.e., a woman's inherent right to be not a doll but a fighter—is equally powerful. One's sense of unease in all this comes, however, from the irrational and spurious manner in which her violence accumulates and what she herself *becomes* (a destroyer of men, fields, animals; a four-legged beast herself) before she reaches her object, namely, the murder

of her husband, the 'peripheral hero', Omar Khayyam Shakil. The first such eruption comes at the age of 12 when she goes out and kills 218 turkeys with a certain orgasmic relish in her unfocused violence: "Sufiya Zinobia had torn off their heads and then reached down into their bodies to draw their guts up their necks". The explanation for it is of course simple enough: "twelve years of unloved humiliation take their toll, even on an idiot" (p 149). And the next eruption is, from the authorial standpoint, equally innocent: on the day of her sister's marriage she tries to do to her brother-in-law what she had previously done to the turkeys, but she manages only to twist his neck permanently out of shape, thus putting an end to his polo-playing career. The explanation is again quite simple: 'a pouring into her too-sensitive spirit of the great abundance of shame' at the circumstances, presumably, in which the marriage was taking place (p 186). An instance of desolation in one case, a sense of honour in the other! But then comes something far more monumental. By then, more years have passed and she has married Shakil who is forbidden to sleep with her and sleeps with Shahbanou, her servant, instead. She rightfully begins to wonder about sex, children, the meaning of marriage itself, and Shakil's treachery; she has, at this point, the brain of a six-year old! One day, out of frustration and anger it seems, she walks out of the house, picks up four men, has sexual intercourse with them, kills them, and comes home with semen and blood on her veils. The central passage in this whole episode is worth quoting:

Shame walks the streets of night In the slums four youths are transfixed by those appalling eyes, whose deadly yellow fire blows like a wind through the latticework of the veil. They follow her to the rubbish-dump of doom, rats to her piper, automata dancing in the all-consuming light from the black-veiled eyes. Down she lies; and what Shahbanou took upon herself is finally done to Sufiya. Four husbands come and go. Four of them in and out, and then her hands reach for the first boy's neck. The others standstill and wait their turn. And heads hurled high, sinking into the scattered clouds; nobody saw them fall. She rises, goes home. And sleeps; the Beast subsides (p 242).

She becomes, in this passage then, the oldest of the misogynist myths: the virgin who is really a vampire, the irresistible temptress who seduces men in order to kill them, not an object of male manipulation but a devourer of hapless men. And in thus discovering her 'true' self, she becomes the opposite not only of that other daughter in the book, Arjumand, the sexless 'virgin ironpants' (Rushdie's version of Benazir Bhutto), but also the opposite of the Muslim male who, in some interpretations of the Islamic *shari'a*, is allowed four wives: what she does to her 'four husbands' is of course somewhat more extreme, perhaps because the backwardness of her mind is more than matched by the enormity of her sexual appetite

as well as her malevolence.

She comes home and sleeps, but it is only a matter of time, obviously, before she escapes again, this time for good, 'because once a carnivore has tasted blood you can't fool it with vegetables any more' and because 'the violence which had been born of shame... now lived its own life beneath her skin' (p 268). And she does escape, but 'what now roamed free in the unsuspecting air was not Sufiya Zinobia Shakil at all, but something more like a principle... a human guillotine... ripping off men's heads' (268-70). Soon enough, she ceases to be human even in a literal sense and becomes, of all things, 'a white panther' with a 'black head, pale hairless body, awkward gait'; 'stories about her... had begun to come from all over the country' (p 280). And her achievements:

Murders of animals and men, villages raided in the dark, dead children, slaughtered flocks, blood-curdling howls (p 280)... The killings continued: farmers, pie-dogs, goats. The murders formed a death-ring round the house; they had reached the outskirts of the two cities, new capital and old town. Murders without rhyme or reason, done, it seemed, for the love of killing, or to satisfy some hideous need (p 287).

What the author takes to be the meaning of all this dawns, improbably enough, upon Omar Khayyam Shakil, her husband who was also her doctor and who had been until then nothing but shamelessness personified:

For the first time in her life...that girl is free. He imagined her proud; proud of her strength, proud of the violence that was making her a legend, that prohibited anyone from telling her what to do, or whom to be, or what she should have been and was not; yes she had risen above everything (p 281).

This is of course Rushdie himself speaking; there is nothing in Shakil's character to suggest that he is capable of such an act of imaginative understanding. Yet, there is something profoundly unsettling about this idea of a 'freedom' which resides in rising 'above everything' (earlier in the book, we have already encountered the idea of 'floating upward') and hence being able to commit limitless, senseless violence. And if this is indeed what Sufiya Zinobia has become then it is very difficult, because of the moral perplexity, for a reader to sympathise with her in that last episode of the book where she finally manages to kill Omar Khayyam Shakil himself. By then, it is no longer a confrontation between shamelessness and shame but, rather, between a man who is of course clearly a moral cripple, and a woman who has become, not in the metaphorical but in the most literal sense, a beast.

This portrayal of Sufiya Zinobia, combined with that of Bilquis and Rani which we have discussed earlier and that of Arjumand ('virgin ironpants') which we have not had the opportunity to discuss at any length, raises a fundamental question about Rushdie's view of the world in general and

of women in particular. Considering that Rushdie himself has in his interviews proudly stressed the importance of women in *Shame*, as well as his own conception of Sufia as a principle of honour and redemption, he seems to have fashioned a macabre caricature of what female resistance to cruelties might be; the woman herself becomes, in this version, a rapist. For, so wedded is Rushdie's imagination to imageries of wholesale degradation and unrelieved social wreckage, so little able is he to conceive of a real possibility of regenerative projects on part of the people who actually exist within our contemporary social reality, that even when he attempts, toward the end of the novel, to open up a regenerative possibility, in the form of Sufiya's flight—and also her return, as nemesis and all-devouring fury—the powers which he, as author, bestows upon her in the moment of her triumph are powers only of destruction. It is indicative of the temper of the whole novel that even her innocence, up to the point where she remains innocent of the social corruptions of Rushdie's imagined world, is the innocence merely of the mad and the mentally retarded; she is doubtless the only one who finally obtains the energy to oppose and win, but this energy is itself rooted—literally, the novel tells us—in brain fever. Her power is, moreover, not only purely destructive but also *blind*; even before she takes her revenge upon her tormentors, she has been on the prowl, we are told, through all the nooks and corners of the country, eating up animals and men, destroying fields, creating terror. This kind of image, which romanticises violence as self-redemption, has of course no potential for portraying regenerative processes; it is linked up, further, in a most disagreeable manner, with imperialist and misogynistic myths: the image of freedom-fighter as idiot-terrorist; the image of a free—or freedom-seeking—woman as vampire, amazon, man-eating shrew.

What the characterisation of Sufiya Zinobia illustrates once again is the limiting, even misogynistic nature of the typologies within which Rushdie encloses the whole range of women's experience. As I pointed out earlier, there are several episodes in *Shame* where a sense of the oppression of women is obvious enough; in one kind of response one may now pity the victims of this oppression, much in the manner of the liberal bourgeoisie which always pities the poor. It is also possible to concede within some limits, as regards the general structure of his representation of women, that in real life many women have doubtless been driven to madness, violence, phobia, dementia. But women are not, in any fundamental sense, mere victims of history; much more centrally, women have *survived* against very heavy odds, and they have *produced* history. Madness, sexual frenzy, nullity of being, fevers of the brain, have been, by and large, very uncommon; the vast majority of

women have consistently performed productive (and not only re-productive) labour; and, like those men who also do productive work, they have retained with society and history a relation essentially imaginative, visionary, communal, and re-generative. Erotic need has been, for women as for men, often important, but only in rare cases is it the lone desire, outside loves and solidarities of other kinds; work, in any case, has been for the great majority far more central; women are not, any more than men are, mere eroticised bodies. So, there is something fundamentally awry about a system of imageries which over-valorises, when it comes to describing women, the zones of the erotic, the irrational, the demented, and the demonic. There is something fatally wrong, that is to say, about a novel in which virtually every woman is to be pitied, most to be laughed at, some to be feared at least some of the time, but none who may be understood in relation to those fundamental projects of survival and overcoming which are none other than the production of history itself. Satirising the masters is one thing, but it is a different matter altogether to give such chilling portraits—only chilling portraits—of women, in terms so very close to the dominant stereotypes.

Rushdie's inability to include integral regenerative possibilities within the grotesque world of his imaginative creation represents, I believe, a conceptual flaw of a fundamental kind. He speaks, again and again in the book, of a 'country'; but what he gives us is a portrait, by and large, of the cruel and claustrophobic world of its ruling class. That world he seems to know very well, but to think of the portrait of rulers as a portrait of the 'country' itself is an error, I think, not only of politics, narrowly conceived, but also of the social imagination. Hence the remarkable fact that while Rushdie talks constantly of politics, *all* the political acts represented within the matrix of the novel are demagogic, opportunistic, self-serving, cruel, or at least petty. Politics is mostly farce, sometimes tragedy, but it never is capable of producing resistance to oppression, solidarity and integrity in human conduct, or any sort of human community; for all its marvellous humour, Rushdie's imagined world is in its lovelessness almost Orwellian. And that, too, fits. If the political vision of your imagined world does not include those who resist, or love, or act with any degree of integrity or courage, then you *will* conclude, as Rushdie does, in the 'worst tale in history' which comes in the final pages of the book, that it is a country in which brother has been betraying brother for generations! Now, Pakistan's history is of course replete with betrayals, as is India's, but it is this idea of the permanence and pervasiveness of betrayal—the Orwellian idea, in other words, that human beings *always* betray one another—which gives to this book its quite extraordinary quality of lovelessness. For an equally bleak vision of human potentiality,

one would have to go, I think, to 1984 or to Naipaul's *A Bend In the River*. There is, I believe, a connection between this view of the world and Rushdie's way of representing women. This issue of the representation of women, I have argued, is important both because the issue of misogyny is always central to any kind of oppositional project and also because, in the absence of other kinds of representations of any other oppressed strata, the representation of women who *are* there in the book gives us crucial clues as to the general structure of his imaginative sympathies. Two points here are, I think, worth making. One is that any representation of women, whether in fiction or in life, has to do, surely, with gender relations, but also with *more* than gender relations; it is almost always indicative of a much larger structure of feeling and a much more complex political grid. What I have attempted, in other words, is not a sufficient reading of the book but a *symptomatic* reading: the concentration on a symptom which is itself vividly central but one which may also, in the same sweep, give us some understanding of the structure as a whole. Second, politics appears to me to be a matter not so much of opposition as of solidarity; it is always much less problematic to denounce dictators and to affirm, instead, a generality of values, let us say 'the enlightenment', as Rushdie does toward the end of *Shame*—or 'liberty' or whatever—but always much harder to affiliate oneself with specific kinds of praxis, conceived not in terms of values which serve as a *judgment* on history but as a solidarity with communities of individuals, simultaneously flawed and heroic, who act within that history, from determinate social and political positions.

V

Quite aside from other sorts of choices Rushdie might or might not have made, that kind of politics is precluded for him by the very (post)modernist location he chooses for himself and by the extent to which he valorises the experience of 'migrancy' and unbelonging. This is clear enough in *Shame* but is even more visible in more direct, non-fictional kinds of writing. To illustrate this point, I want to look briefly at two pieces of his which I have selected quite arbitrarily: his brief essay on Gunter Grass (*Granta*, no 15), and his succinct, delightful commentary, 'Outside The Whale' in *American Film*, on the recent deluge of movies about the British raj. My choice is arbitrary in the sense that these are neither more nor less representative than several other of his pieces; I chose them because they came soon after *Shame* and because they are short, in some other ways delightfully inventive, and therefore disturbing for their rather flip postmodernist ambience.

The essay on Grass, for example, begins: In the summer of 1967, when the West was—perhaps for the last time—in the clutches of the optimism disease, when the

microscopic, invisible bacillus of optimism made its young people believe that they would overcome some day, when unemployment was an irrelevance and the future still existed, and when I was twenty years old, I bought from a bookshop in Cambridge a paperback copy of Ralph Manheim's English translation of *The Tin Drum*. In those days everybody had better things to do than read. There was the music and there were the movies and there was also, don't forget, the world to change. Like many of my contemporaries I spent my student days under the spell of Bunuel, Godard, Ray, Wajda, Welles, Bergman, Kurosawa, Jancsó, Antonioni, Dylan, Lennon, Jagger, Laing, Marcuse, and, inevitably, the two-headed fellow known to Grass readers as Marxengels... And my passports, the works that gave me the permits I needed, were *The Film Sense* by Sergei Eisenstein, the 'Crow' poems of Ted Hughes, Borges' *Fictions*, Stern's *Tristram Shandy*, Ionesco's play *Rhinoceros*—and, that summer of 1967, *The Tin Drum*.

I have quoted the last two sentences in the passage above ("Like many of my contemporaries..." onwards) simply to convey a sense of the kind of influences and cultural milieux which have gone into making the type of imagination which Rushdie has. Here, though, I am much more interested in the opening statements. The tone is obviously satiric, even sardonic, and the follies listed here are of course not his own but, we are told, the West's. The tone of mockery is designed, meanwhile, to de-stabilise the meaning of the passage itself. Despite this strategem, however, one can detect the tendency to repeat, almost unthinkingly, the commonplaces and even inaccuracies of the metropolis' high culture. It is doubtful for example, that something called 'the West' was, in the summer of 1967, 'in the clutches of optimism'; that was the year of the Tet offensive, and at least a part of 'the West' American imperialism for example, was not at all 'optimistic'. It is equally doubtful that 'optimism'—the idea that 'the future still exists', the hope that we 'would overcome some day', the conviction that 'there is a world to change'—is as such a 'disease' (a 'microscopic, invisible bacillus', we are playfully told). To be amused, in retrospect, at the youthfulness of one's own youth is one thing; but to learn from maturity that a visionary relation with reality is itself folly, that literature is an antidote to such follies, is to participate, at least unwittingly, in precisely the kind of quietism which Rushdie himself seems to formally reject, in other parts of this brief essay and in many other of his writings.

Despair is now, in this age of late capitalism and the aftermath of high modernism, so constitutive a part of the contemporary bourgeois culture, and it is combined so casually with so many sorts of private pleasures, that one forgets, when one comes upon such formulations ('no future' and all that), how bleak a vision of human possibility this type of thinking signifies. And, it is perhaps because of his discomfort with such

bleakness that Rushdie ends the essay, formally, on the word 'hope'. But before we get to that formal ending, we see some other characteristic ways in which Rushdie participates in that cultural ambience. For example, he first speaks of Grass and of himself as 'migrants', in the literal sense of the word, as individuals who were born in one society and have migrated to another; on this score, he says some very perceptive things. But then he goes on to extend the meaning of 'migration' to a universal ontological plain: 'we are all migrants', he says, in the sense that 'we all cross frontiers'. That too is true, though in a very banal sort of way. The problem, however, comes when, having defined 'migration' as a metaphor for the human condition as such, he goes on to say that a migrant is 'a metaphorical being' and that 'the migrant intellect roots itself in itself' because it understands 'the artificial nature of reality'. Now, if a migrant is a metaphorical being, and if 'we are all migrants', then, obviously, we are all 'metaphorical beings'; and reality itself is 'artificial' then not only in the sense that much of it is *made* by us but also in the much more idealistic and modernist sense that life does not exist outside its metaphors; and if reality is only 'artificial' ('artefact' is another word Rushdie uses in this context), then, obviously, the writer's intellect has no choice but to 'root itself in itself'; the tie between social despair, a literal loss of reality, and narcissism is now complete. Within these ideological predicates, what kind of 'hope' does one speak of, when one does end one's essay on that word? Here, too, Rushdie's own words, in the two sentences which precede the sentence of 'hope', are significant:

The composition of elegies is indeed one of the proper responses for a writer to make when the night is drawing in. But outside his fiction, in his political activities and writings, Grass is making a second, and equally proper response. What this work says is: we aren't dead yet.

The presumption is that 'the night is drawing in'; again, there is no future. So far as the writing of fiction is concerned, therefore, one writes 'elegies'. Resistance, such as it is, belongs to other realms; political activities and directly political writings. In other words, art can only be an art of despair; whatever else one does, one does elsewhere. But in that other realm too, all one can say is 'we aren't dead yet'. The presumption again is that the apocalypse, the demonic end of the world, is at hand; we shall soon all be dead, and our laughter, if it is laughter at all, is the laughter of the day before the world ends. One acts, in other words, not because one hopes to change anything but because one is condemned, by existential necessity, to act; we are back to Beckett's formula—"I cannot go on... I'll go on"—which Rushdie himself quotes most approvingly in his other essay, 'Outside the Whale'.

I do not have the space here to offer a detailed reading of that odd essay—odd in

FORM II-A

Form of general notice to be given to the members of the public before making an application to the Central Government under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969

NOTICE

It is hereby notified for the information of the public that FORBES FORBES CAMPBELL & CO LTD, BOMBAY proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under the sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969, for approval to the establishment of a new undertaking/unit/division. Brief particulars of the proposal are as under

| | | |
|----|---|--|
| 1 | Name and address of the applicant | FORBES FORBES CAMPBELL & CO LTD Forbes Building, Charanjit Rai Marg, Fort, Bombay 400 001. |
| 2 | Capital Structure of the applicant organisation | Equity — Rs. — Unclassified Rs. — |
| | Authorised Capital | 484,00,000 |
| | Issued, Subscribed and Paid-up Capital | 424,96,520 |
| 3 | Management structure of the applicant organisation indicating the names of Directors including Managing/Wholtime Directors and Manager, if any | Dr FA Mehta — Chairman & Managing Director Mr N A Soonawala — Vice Chairman Mr D J Madan Mr K S Gaekwar Mr D B Engineer Mr Akbar Hydari Mr Gurcharan Das Mr D S Parekh Mr D N Poonegar — Joint Managing Director Mr D S Soman |
| 4 | Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division | The proposal does not relate to the establishment of a new undertaking or a new unit/division. However, it relates to the marketing of new products viz variety of Hand Tools, Cutting Tools etc required for Engineering Industry |
| 5 | Location of the new undertaking or a new unit/division | Not Applicable |
| 6 | Capital structure of the proposed undertaking | There will be no change in the capital structure |
| 7 | In case the proposal relates to the production, storage, supply, distribution, marketing or control of any goods/articles, indicate | |
| | (i) Name of goods/articles | Marketing of new products viz variety of Hand Tools, Cutting Tools etc required for Engineering Industry |
| | (ii) Proposed licensed capacity | |
| | (iii) Estimated annual turnover | Rs 2 Crores |
| 8 | In case the proposal relates to the provision of any service, state the volume of activity in terms of usual measures such as value, income, turnover, etc. | Not applicable |
| 9 | Cost of Project | N I L |
| 10 | Scheme of Finance including the amounts to be raised from each source | Not Applicable |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this Notice, intimating his views on the proposal and indicating the nature of his interest therein

For FORBES FORBES CAMPBELL & CO. LTD

C.T. GHADIALI
SECRETARY

Dated this 12th June 1991

the sense that it is so very good in so many ways and yet, in the last instance, so profoundly marred by Rushdie's aesthetic of despair. One of the oddest things about the essay is that after developing a superb critique of Orwell, particularly of the essay from which Rushdie himself took his title, and after rejecting the political quietism which Orwell recommends in that essay, Rushdie goes on to display not only the same kind of sensibility we find in his Grass essay but also his peculiar ability, which he seems to share with Orwell, to enunciate altogether antithetic ideas in one breath. Thus, one is hard put to know just where he stands intellectually when he says, for example, in consecutive sentences of a single paragraph, that 'we are all irradiated by history, we are radioactive with history and politics, which is history in action' and 'politics is by turns farce and tragedy, and sometimes both at once'. Now, if 'politics is by turns farce and tragedy', and politics is also 'history in action', then what exactly is one saying about 'history which has 'irradiated' all of us'? That we are irradiated with the 'farce and tragedy' of history itself? So, it is only fitting that by the end of that paragraph we find Rushdie quoting, very approvingly, Beckett's formula of 'I cannot go on' etc. Again, the problem is that if that kind of world weariness is where one takes one's final stand, and if history has already been dismissed as 'farce and tragedy', then why on earth does one want to quarrel with 'Orwell'? After all, Orwell too made plenty of room in his writings for what he took to be 'politics' and he too thought that politics was sometimes tragic, more frequently farcical.

VI

This parallel with Orwell is not a minor matter. Now, undoubtedly, a political discussion of Rushdie's work has become extraordinarily difficult in the wake of the terror unleashed against him by Iran's clerical rulers. But in those earlier days when his own life was not so endangered, and as *Midnight's Children* and *Shame* first burst upon the international scene, receiving equal accolades from *New Left Review* and *The New York Times*, one was struck by the fact that not since Orwell had a political writer with a colonial background, and one who had declared himself a socialist, been so equally admired on the right and the left. Alongside the lovelessness of the fictions, the repeated intrusions of a misogynistic streak, and a certain spontaneous belief in the universality of betrayal, which Orwell too had begun displaying since his earliest writings, *Burmese Days* onwards, Rushdie has also deployed that same stance of unbelonging, of the lone individual occupying a moral high ground above the 'chimeras of politics' (Rushdie's phrase), delivering his denunciations of left and right alike: Indira Gandhi, the Pakistani Generals, the Communist Parties, the Naxalites, film stars, pro-

phets, the short-lived banning of *La Pensee*. On certain issues—racism, religiosity, dictatorship, empire, and the like—one could take a position, and one could also in a general way speak of oneself as a man of the left, as Orwell himself frequently did, but there was no actual left, no existing community of praxis, within that world which had given to one's imagination and fictions their energy, with which one felt in any fundamental way bonded, accepting and struggling with the risks and the restrictions and the suffering that such bonding often implies. From all such groundings one had 'floated upward', even as one constantly thrashed about denouncing all, undifferentiatedly, that one had left behind. In an earlier time, right into the heart of modernism, such desolations of the self were still experienced quite frequently as a loss, what postmodernism has done is to validate precisely the pleasures of such unbelonging which is rehearsed now as a *utopia* so that belonging *nowhere* is construed nevertheless as the perennial pleasure of belonging everywhere.

In this context I can do no better than to simply quote a lengthy passage from that old classic, *Culture and Society* which is ostensibly about Orwell but clearly speaks of larger things.

Orwell was one of a significant number of men who deprived of a settled way of living find virtue in a kind of improvised living and in an assertion of independence. The tradition in England is distinguished. It attracts to itself many of the liberal virtues: empiricism, a certain integrity, frankness. It has also as the normally contingent virtue of exile qualities of perception, in particular the ability to distinguish inadequacies in the groups which have been rejected: there is an appearance of hardness (the austere criticism of hypocrisy, complacency, self-deceit) but this is usually brittle, and at times hysterical. Alongside the tough rejection of compromise which gives the tradition its virtue is the felt social impotence, the inability to form extending relationships.

Yet we need to make a distinction between exile and vagrancy: there is usually a principle in exile; there is always only relaxation in vagrancy. The vagrant in literary terms, is the 'reporter'. It is unlikely that he will understand in any depth the life about which he is writing. But a restless society very easily accepts this kind of achievement: at one level the report on the curious or the exotic; at another level, when the class or society is nearer the reporter's own, the perceptive critique.

Now after the Ayatollah's sentencing of him, Rushdie's 'vagrancy' has turned, paradoxically and tragically, into a full-scale exile—even from mainstream Britain. But even that earlier condition of the production of his work need hardly be used to merely deny the breadth of his achievement, which is substantial. What Raymond Williams' remarks on Orwell help us understand nevertheless is the importance, indeed 'the tradition', of certain ways of living which in some

cases—in Orwell's and Rushdie's surely—have been connected with a colonial past but are in no fundamental sense limited or attributable to the colonial experience *per se*. Exile, in the true sense, is of many kinds beside the purely colonial, and it in any case rarely produces an enduring sense of great pleasure. Exile usually has, as Williams points out, a principle, and the principle prevents one from 'floating upward' and denying the pain. Self-exile and 'vagrancy', by contrast, have become more common amongst artists in every successive phase of bourgeois culture since the early days of Romanticism, and as the experience itself has been chosen with greater frequency the sense of celebration and of 'the migrant intellect root[ing] itself in itself' has grown proportionately. It is the palpable presence of this kind of living in Rushdie's work, with its accompanying inability to believe in any community of actual praxis, hence the belief in the universality of betrayal which is lost in those readings of his work which locate it primarily in the problematic of the 'nation' and the 'Third World' even if one ends by complicating that location. Williams' summary evaluation of that 'tradition', with his highly perceptive diagnosis of its particular virtues and failings, would imply, if followed in its full logic, that Rushdie's work is to be located neither in some unified and categorisable 'Third World', nor in some innocent myth of 'migrancy' as Rushdie himself would have it, nor in an empty, postmodernist 'cosmopolitanism', but in a condition which is in some basic ways older, wider, far more extreme.

Notes

[The above is a provisional draft of an essay which is itself part of a book-length manuscript, on some of the thematics of contemporary literary theory which are formulated in the metropolitan countries.]

- 1 See, in particular, my 'Third World Literature and the Nationalist Ideology' in *Journal of Arts and Ideas*, nos 17-18 (June 1989, New Delhi).
- 2 All references to *Shame* in this essay are to the Vintage/Aventura edition of September 1984.
- 3 See in particular my article cited above.

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Money, Output and Price Level

Pulapre Balakrishnan

This paper presents some evidence bearing on the interest-sensitivity of demand for money and the role of money supply in the inflationary process which must be addressed by those who argue for a money-based monetary policy, especially in approaching the problem of inflation

IN a paper¹ entitled 'Money, Output and the Price Level', C Rangarajan has raised certain issues central to the conduct of monetary policy in the Indian economy. I take up the discussion here, among other things presenting evidence which has a bearing on the resolution of the concerned issues. These latter are the interest sensitivity of the demand for money and the putative role of the money supply in the inflationary process.

I

Theoretical Considerations

For two reasons, the interest sensitivity of the demand for money remains a matter of some interest. First, from the point of view of monetary policy, interest sensitivity of money demand provides the monetary authority with a lever on the determination of the equilibrium money stock which would not be available otherwise. This becomes all the more relevant in an institutional setting like the Indian one with features such as the RBI being required by statute to finance the Union government's deficit (net of borrowing from the public), not to mention the requirement placed upon the commercial banking sector to extend loans for certain 'priority' activities. With the banking sector (including the RBI) thus hamstrung as it were, the interest rate becomes an instrument whereby the monetary authority might attempt to control the stock of money in the economy. However, note what is being suggested. It is that the money stock may now be attempted to be controlled by acting on the demand for it, which is quite a different mechanism from what is envisaged under monetary targeting which idea suggests that the problem may be addressed from the supply side alone. Given the institutional structure in India referred to above the latter suggestion strains credulity. Can there be any effective targeting of the base when the best intentions calculations of the monetary authorities can be overruled by a stroke of the Central government's pen? But what of the private sector? Here, even if an interest rate mechanism is proposed as a means of controlling the rate of growth of the supply of money, it cannot be expected to have much teeth in controlling the expansion of credit. To the extent that interest costs are considered working capital costs by firms, in an oligopolistic setting, corporate borrowers are most likely to pass on rising interest costs as higher prices. Surely rising interest costs are no more likely to reduce the demand for credit to the industrial sector than rising materials cost are likely to lead

to firms lowering their demand for the same? However, commercial bank lending to the household sector may of course be expected to be interest-sensitive. Quite simply though, this does not account for such a large proportion, or even quantum, of credit expansion. I have thus far assumed, of course, that the monetary authorities have given us a good enough case for the control of the money stock.

The second of the implications of interest sensitivity of the demand for money is predictive in that now the presumed (constant) proportionality between the money stock and the price level is affected. The Quantity Theory of Money in its pure form no longer holds. Obviously, because the velocity of circulation can no longer be considered to remain unchanged as the stock of money alters. Now, then, the monetarist model of inflation may be expected to not stand up too well. This is so because the interest sensitivity of the demand for money allows for the possibility that now it is the interest rate which is the price that would equilibrate the supply and demand for money. Where the nominal interest rate is administered (as in the Indian case) it would be necessary to take account of the interest rate to predict the price level at any point in time. For monetary policy makers the message should be that the control of inflation cannot be effected via control of the money stock alone since the expansion of aggregate demand is no longer constrained by the volume of real balances. Money and income need not proceed in tandem.²

Finally, in a brief digression, I quote from a recent review³ of Hick's study, *A Market Theory of Money*, "the financial system has now almost evolved into a complex version of Wicksell's 'pure credit' economy in which the only instrument of monetary policy is the rate of interest and in which the liquidity preferences of financial intermediaries, not to mention those of asset holders in general, create premia which separate the rate of interest that the authorities can directly control from those that impinge immediately upon the spending decisions of ultimate borrowers. The premia, moreover, are variable and hard to predict. Their existence hampers the efficiency of the intertemporal allocative mechanism and renders monetary policy unreliable and difficult to implement. This modern variation on an old theme leads Hicks to argue that it is difficult nowadays for monetary policy to cope with inflation (rather than, as in the 1930s, with chronic unemployment)." While the extent to which the financial system in

the Indian economy has evolved is arguable, these Hicksian considerations are not irrelevant to discussions of the role of monetary policy in India. In the Indian context perhaps the real challenge to monetary policy stems from the existence of unorganised money markets where the interest rate is beyond the control of the monetary authorities. This issue has not been discussed before⁴ and I shall not spend any more time discussing it here.

II

Empirical Analysis

(a) INTEREST RATES AND DEMAND FOR MONEY IN INDIA

A widely stated reason for not investigating the interest sensitivity of the demand for money in the Indian economy is summed up by the argument that the practice of administering interest rates in the organised sector of the economy has meant that "a comparatively static spectrum of interest rates was prevalent"⁵ and that the trajectory of interest rates has been step-wise. Of course, in this sense the experience with official interest rates in India is perhaps no different from that with all administered prices. Consider for instance procurement prices in the foodgrains sector. However, that they have been altered in discrete moves is no reason to not consider their influence which is widely believed to be significant, on the supply decisions of farmers and thus on the open market price of grain. There is an analogy here to a practice of not devoting sufficient analysis to the role of interest rates in the money market. In any case, while discrete movement in the data series is indeed a nuisance from the point of view of an econometric investigation, the 'static' nature of the spectrum of interest rates is not really relevant to the question of the interest sensitivity of money demand. Strictly, what matters is the interest differential between money (defined as earning zero interest) and interest earning financial assets. The 'spread structure', as it were of interest rates among financial assets does not impinge upon the phenomenon of liquidity preference. Presented below are estimates of the demand for money in India.

Narrow and broad measures of the money stock, and short term and long term rates of interest, were used in alternate runs. The inclusion of the current inflation rate led to none of the other current-dated variables being significant, which was considered implausible. Estimates of the money demand

relation having excluded the inflation rate are presented below:

$$M_1 (m-p)_t = -0.58 + 0.51y_t - 0.16r_t \\ (0.13) (0.13) (0.07) \\ + 0.66(m-p)_{t-1} \\ (0.14)$$

$$R^2 = .96 \text{ see} = .054$$

$$LM \text{ autocorrelation } \chi^2(1) = .002$$

$$M_2 (m-p)_t = -0.54 + 0.56y_t - 0.34r_t \\ (0.21) (0.17) (0.14) \\ + 0.69(m-p)_{t-1} \\ (0.13)$$

$$R^2 = .98 \text{ see} = .060$$

$$LM \text{ autocorrelation } \chi^2(1) = .055$$

(standard errors in parentheses)

N = 29, all variables are in logarithms,

r = one year deposit rate in the case of

M_1 ,

and flat yield on 3 per cent govern

ment 'Rupee Paper' in the case of M_2 ,

(m-p) = real money balances,

M_1 = 'narrow' money currency plus de

mand deposits,

M_2 = 'broad' money M_1 plus time deposits

y = real income

Since the variables have been entered in logarithms, the short run elasticity with respect to the rate of interest of the demand for money can be read off directly. The implied long run elasticities are 0.47 and 1.10 for M_1 and M_2 , respectively. The above estimates of the demand for money in the Indian economy point to a marked interest elasticity with elasticities generally comparable to those in the developed economies. (The negative estimate of the constant is somewhat puzzling.)

Clearly the demand for money is interest sensitive, whichever way one might choose to measure the relevant variables. From the methodological point of view, having discovered an interest sensitivity to the demand for money it would be inappropriate to write down a price level equation justified as the inverse of a money demand function with the interest rate having been excluded. From the policy point of view, surely advocates of monetary targeting must now shed some of their sweetness with regard to its consequences.

(b) MONETARY GROWTH AND INFLATION

An econometric model estimated by Rangarajan is used to undertake certain policy simulations. Among those undertaken is one that claims to investigate, putatively the impact upon prices of a "sustained expansion" in the money supply. Nobody should quarrel with the proposition that *in the long run* (defined for present purposes as a situation in which all stock flow ratios remain constant) the inflation rate must be governed by the rate of growth of the money stock, for unchanging stock-flow ratios imply a constant velocity of circulation of money. However, neither this understanding nor any reference to the stability *per se* of the demand for money (function)

need lead us to believe that the monetarist model of inflation is at all helpful to deal with any given inflationary situation. Clearly the relationship between inflation and money growth logically accepted for the steady state does not preclude other factors driving the price level when the economy is out of it. This leads me to conclude that prior to proposing policy rules for inflation control, models of inflation other than the monetarist one need to be considered and their performance compared with that of the monetarist one. Given that there exists a well formulated literature on the former, not to do so is unacceptable. Elsewhere, I have constructed a test of alternative models of inflation for the Indian economy contrasting the widely accepted version of the monetarist model with what may be termed the 'structuralist' explanation of inflation according to which inflation is driven by the relative price of agriculture and the price of imported inputs. Not only does the latter variance dominate (with standard error of estimate half that of the former) but in a direct statistical juxtaposition⁸ the structuralist model rejects the monetarist one without being rejected in turn. I shall not however proceed to analyse this result here. Instead I present evidence of a different nature which is equally interesting and particularly important in the interpretation of Rangarajan's simulation results. It pertains to the direction of the influence in any relationship that may exist between money and prices in the Indian economy. Why is this relevant here? It is relevant because if it can be demonstrated that inflation influences the rate of monetary growth, even apart from the legitimacy of the theoretical underpinnings of the said simulation, the very consequences of anti inflationary policy based on an attempt to control the supply of money needs to be thought through.

To unravel the nature of the money-inflation nexus in time series relation between monetary growth and inflation in the Indian economy is analysed by means of the 'Granger causality' test. The test is easily explained. Consider the following bivariate relationship

$$Y_t = \Pi_{11} Y_{t-1} + \Pi_{12} X_{t-1} + \mu_{1t}$$

$$X_t = \Pi_{21} X_{t-1} + \Pi_{22} Y_{t-1} + \mu_{2t}$$

where the Π_{ij} are reduced form coefficients and the μ_t are random errors with the usual properties. Now if Π_{12} is non-zero X is considered to Granger cause Y. Similarly if Π_{22} is non-zero Y is considered to Granger-cause X.⁹ The relevance of such a test to the present concerns is the following: if the above is interpreted as a model of money and prices, then it is easy to see that the rejection of the null hypothesis that prices do not Granger cause money implies that the Friedmanian assumption of exogenous money is rejected. F values resulting from the test of whether inflation might have Granger-caused the growth of money are presented in Table I. Since theory cannot help much as regards the likely lag structure, up to two

lags were allowed for. The results indicate that the proposition that inflation Granger-causes the growth of the money supply cannot be rejected.

While the use of 'Granger causality' tests to establish causality in the philosophical sense of the term is methodologically suspect its usefulness in testing a premise of the independence between (two) variables may be somewhat more readily accepted. Thus, the results presented in Table I make it difficult to maintain the view that monetary growth in the Indian economy has been independent of the inflation rate. In the light of this finding two sets of questions assume importance. The first of these relates to our understanding of the inflationary process, a matter that I have already referred to. Where the money stock is not independent of the inflation rate it can no longer be claimed that inflation was caused by an exogenously determined nominal money stock confronting a stable (real) demand for money function. This Friedmanian explanation of inflation must now be at a discount and any attempted resuscitation of an overriding causal role for money must look elsewhere for inspiration. I wish to emphasise that the problem raised is entirely one of what is a legitimate interpretation of the evidence on money and inflation in India. It cannot be treated as "an estimation problem" to be so conveniently circumvented by an appropriate statistical technique such as simultaneous equations methods.

The second level at which the rejection of an autonomous growth of the money stock becomes important is the practical, i.e. at the level of policy. If it is the case that monetary policy has been accommodating in the past (in my view a reasonable interpretation of the pattern revealed by the Granger causality tests summarised in Table I) then it becomes necessary to question the usefulness for simulation of coefficients relating money and prices estimated for the same past.¹⁰ Two reasons can be provided for this querulousness. Interestingly, both were raised in the wake of the New Classical Macroeconomics. The first is best summed by the 'Lucas Critique'.¹¹ To see its relevance here consider the following response to an argument thus far. Well, perhaps monetary policy has been accom-

TABLE I MONEY INFLATION HAVE CAUSED? MONETARY GROWTH?

| | I | II |
|--|-----------|-----------|
| | F (1, 25) | F (2, 22) |
| M_1 | 10.80 | 5.25 |
| M_2 | 5.63 | 3.67 |
| I regression is $\Delta m_t = \alpha_0 + \alpha_1 \Delta m_{t-1} + \alpha_2 \Delta p_{t-1} + \mu_{1t}$ | | |
| II regression is $\Delta m_t = \beta_0 + \beta_1 \Delta m_{t-1} + \beta_2 \Delta m_{t-2} + \beta_3 \Delta p_{t-1} + \beta_4 \Delta p_{t-2} + \mu_{2t}$ | | |
| critical values at 5 per cent are F(1, 25) = 4.24 and F(2, 22) = 3.44, | | |
| N I 28 II 27, I 1952-53 to 1979-80, II 1953-54 to 1979-80 | | |

essentially a control variable and will be set autonomously in the future" Surely this is hopelessly off the mark to the extent that it ignores the possibility that agents' behaviour is regime specific. Once we allow for the latter, the regime-shift implied by the transition to a policy of non accommodative monetary policy may be neutralised to some extent if agents, appreciating the switch, might now begin to economise on money balances. The interest-sensitivity of the demand for money makes this a clear possibility in the case of households. A counterpart response among 'firms' (mostly banks of one kind or the other) in the financial sector could well be financial innovation.¹¹ One can hardly tell a priori what the magnitudes involved might be, but it is a salutary reminder that a Lucasian scepticism might well be brought to what is quite a Lucasian preoccupation really, a money supply rule. The second of the reasons for doubting the usefulness of simulations based on estimates from a period when monetary policy has actually been accommodating is essentially linked to the first. Allowing for private sector behaviour in the context of attempting to reverse an extant policy of passive money introduces the question of the 'credibility' associated with policy pronouncements. When agents are led to believe from past experience ('rational expectations') that the authorities will accommodate they are not inclined to re-orient behaviour to any announcement of monetary tightening. Now faced with unchanged private sector behaviour the monetary authorities are forced to go back to their accommodating ways for fear of bringing about a loss of output. This is the well known problem of 'dynamic inconsistency'. It is normally levelled against discretionary policy but this example must highlight its relevance even to proposals to shift to a rule-based policy regime if discretion has been the norm hitherto. Strangely history appears to count in the most unexpected instances.

III

Conclusion

The results presented here must be addressed by those who argue for a money based monetary policy especially in approaching the problem of inflation. In particular, the empirical underpinnings necessary to inspire confidence in the efficacy of monetary targeting (for whatever purpose) must be established, failing this, any argument for the proposal cannot be considered to have been substantiated. Further I would suggest that if the evidence produced is econometric, as it so often is, it must be in terms of the role/effects of nominal money growth, for this is the variable which we are told needs to be targeted. Levels regressions will not do, some decent theory must be produced and, where alternative explanations exist, the data must be pressed into trying to discriminate between them. More general

view of a rapidly changing financial system in the Indian economy. Concentrating on monetary aggregates may be being simple minded, making a distinction between money and credit is likely to be more rewarding.

APPENDIX SOURCES OF DATA USED IN STATISTICAL EXERCISES

- Money stock: A Vasudevan (1980), 'Money Stock and Its Components in India 1950-51 to 1979-80. A Statistical Account', *Indian Economic Journal*, 28, 1-30.
- Interest rate: *Report on Currency and Finance*, Bombay Reserve Bank of India.
- Real income: *National Accounts Statistics* issue of February 1984, Appendix A-1 New Delhi: Central Statistical Organisation.
- Price (level/rate of change): P C Chandok (1985), *Wholesale Price Statistics* Delhi: Economic and Scientific Research Foundation.

Notes

[For helpful discussions at various stages I thank Devajyoti Ghose and Dilip Mookerjee and C. Selvaraj. Errors, if any, can only be mine.]

- 1 *EPW*, April 10, 1990.
- 2 Perhaps the finest exposition of the issues involved here is to be found in J. Tobin (1947) 'Liquidity Preference and Monetary Theory', *The Review of Economics and Statistics*, 24, 124-31.
- 3 David Laidler (1990), 'Hicks and the Classics: A Review Article', *Journal of Monetary Economics*, 25, 481-89.
- 4 See, in particular S. Acharya and S. Madhur (1983), 'Informal Credit Markets and Black Money: Do They Frustrate Monetary Policy?', *EPW*, October 8.
- 5 Rangarajan, op cit, p. 838.
- 6 As in Rangarajan, op cit, p. 843. Interestingly, a rare instance of a quite meticulous acknowledgement of this appears in the Report of the Committee to Review the
- 7 It should be possible to test this proposition using the techniques developed to operationalise the theory of co-integrated variables. However, note that establishing that money and the price level move together in the long run (which is the interpretation of co-integration among a set of variables) is far from having established a causal role for money in this relationship.
- 8 A non-nested F test was implemented. See Chapter 5 of my *Pricing and Inflation in India* (1991) forthcoming, Delhi, Oxford University Press. Not surprisingly, it appears that this result would carry over to the case of the budget deficit too so long as it is defined (as in the accounts of the Indian Union) as the uncovered deficit. I refer to the work of Saini in this connection. See K. C. Saini (1984), 'Can Monetary Growth Explain Inflation in India?', *Indian Economic Journal* 32, 61-71. In fact, even the most casual empiricism suggests that the alleged relationship between the budget deficit and inflation hardly reveals itself during the second half of the eighties as we witness a definite shift in the share in output of the deficit (rising on average when compared to the magnitudes registered in the first half of the decade). A colleague appeals to a non-linearity in the relationship between the deficit and the inflation rate and points to the (ultimately as it were) definite rise in the inflation rate in the year 1990-91. To my mind, however, this disingenuous argument surely is a case of the money supply man getting by with a little help from Saddam Hussein!
- 9 I deliberately avoid using the expression 'im pact' of money on prices for this interpretation can only be legitimised by a maintained hypothesis that nominal money is independent of the price level (and this we have seen may not be entirely appropriate).
- 10 See R. E. Lucas, Jr (1983) 'Econometric Policy Evaluation: A Critique' (reprinted) in *Studies in Business Cycle Theory* Cambridge, Mass, MIT Press.
- 11 This has been the UK experience, for instance.

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The Ethnographer and the People

Reflections on Field Work

Vinay Kumar Srivastava

Once it is agreed that a society should be studied as a whole for contextualising a specific problem, field work for the ethnographer becomes an experience of undergoing nativisation in a different culture, with a different set of people. In such situations an episodic narration of encounters with respondents and the actions they carry out 'naturally' is a matter of anthropological reflexivity which an ethnographer should undertake in order to identify the impediments in the process of doing field work, to describe the strategies adopted for establishing relations with the people and, above all, to outline the process in which the self is comprehended in the background of the other. This paper is such a narrative reflection on field work in Baiga Chak in the Satpura region of Madhya Pradesh.

[The first part of this paper appeared last week.]

X

THINGS settled down after the initial catastrophe. Like the Red Indian family, which consists of a man, his wife, their children, and an anthropologist, the five of us (Raghu, the three students, and myself) were members of Dadar Tola. Raghu's role was limited to helping us in transcribing the audio tapes, a job we did late at night.¹⁴

The Baiga hamlet did have some Gond houses, and we often visited them to hear their perceptions of and relations with the Baigas as well as to know something about the Gond way of life. Besides these Gond households in Dadar Tola, a number of Gond boys from other villages, studying in the schools at Charha, were staying in the Baiga houses on rental basis—the rent being paid in cash and/or kind. School statistics revealed that there were seven times as many Gond boys as the Baigas; and this ratio further increased for the Gonds in higher classes. The drop-out rate for the Baigas was very high: domestic responsibility being the chief cause. "The Baigas lack the spirit of entrepreneurship. They still nurture the dream that tomorrow they would be permitted to have *bewar* (shifting cultivation), and although they have been encouraged to adopt settled cultivation, they still feel that their primitive method of producing food is much better. The schools are open for them, but their boys and girls do not come; neither do the parents encourage their children to study", the principal commented when I interviewed him on the facilities available for the scheduled castes and tribes in his school.

Perhaps, he was right. In the course of conversations with the Baigas, they uninhibitedly talked of the 'golden age' when they cultivated twelve types of grains through shifting cultivation; when 'they never had poverty', 'no sickness', and 'were happy'. In other words, they thought that an imposition of the ban on *bewar* cultivation had destroyed their 'free' social life. I was often requested to convey their sentiments to the government so that shifting cultivation might be permitted to them.

The 'officials' had left, and we were

'trying to behave' as the 'people behaved'. Nevertheless being outsiders, we were looked at as "closely allied to the government". Unable to hide our moorings, we had to tell them that we came from Delhi: "Oh! Where Rajiv Gandhi lives; where Indira Gandhi ruled." Having travelled not beyond Bajag, or at the maximum Dindori, the conception of people regarding Delhi was of a "small town where I met Rajiv Gandhi everyday; so after reaching back, I was expected to tell him of demands and sentiments of the people". It was difficult for me to familiarise the people with the 'vastness', 'anonymity', and 'atomism' of Delhi, where we, who seemed to be very important in their situation, disappeared in the lonely crowd—in the big mass of commonality.

It was difficult to convey to the people that we were like small fish in a big ocean. The anthropologists make promises to the people—in weaker moments and chiefly because of their inability to state clearly how 'powerless' they are—to 'do' something for them when they go back to the centres of power, but have a legitimate reason to forget all those promises as then, their involvement is with 'writing', construction of a 'system' out of the vagaries of details. An anthropologist's chief concern is academic, not political; his duty is to understand, and not to change; his goals are definite, where the distinction between the Self and the Other is perpetually kept. If the national political environment is in favour of putting a legalised ban on destroying forests for shifting cultivation, how could an anthropologist impress the tribals' demands on the planners and policy-makers? I have seen how applied anthropologists have failed when it comes to approaching local governments with native needs. Howsoever strongly we may voice the native opinion, the 'natives' are still considered the 'target groups' by the officials, who happen to be their planners and executioners of change.

XI

Dadar Tola had some well known shamans and healers, with their clients com-

ing from several villages. Ghoran, Bazari Lal, Daku, Assam Lal were the famous *bunia*. "Why were you named Daku?" I asked the shaman having this name, because his name meant 'dacoit'. "I was born the day the 'doctor' visited our village", Daku replied. Bazari Lal was named thus because the day of his birth coincided with the market (*bazaar*) day. Assam Lal was born in Assam, when his parents, he remembered, were forcibly taken to work in the tea gardens.

A boy born on Sunday would most probably be named Itwari; one on Monday (Somwar) might be named Somu; and so on. The girls are named similarly by suffixing *iya* after the proper name. So, the birth of a girl coinciding with the doctor's visit would end up naming the child as Dakiya, or if the forest guard happened to visit that day, the baby's name would be Jangaliya, similarly Sorniya, Mangaliya, Budhiya, etc, would be the names of the girls depending upon the days of their birth.

The dependence of the Baigas on the other 'castes' of their village like Gond, Panka, and Dhoba was expressed more in ritual terms. If there existed a high mortality rate of children in a Baiga family, it would immediately give a new-born to the other caste for adoption, and after a couple of months the Baiga child would be taken back. It is believed by the Baigas that a child adopted out would remain unaffected by the nefarious spirits (*jind, masan*). Once the child is taken back from its foster parents, it would be named according to the caste it was adopted into: so, a child ritually adopted by Gond parents would be named Godu (if female, Godiya); by the Panka family, Panku (or Panika); by the Dhoba, it would be called Dhobu (or Dhobiya). Although new names—some of them highly Sanskritic—have been acquired by the Baigas, the old practice of naming still continues.

XII

All the shamans of Dadar Tola were equally philosophical and knowledgeable, and they practised their lore with great con-

who having been rejected by the dispensary imparting Western medicine, received successful cure from the shamans. The latter invariably diagnosed the cause of sickness in the intrusion of one or more foreign bodies and spirits. But of all the shamans, Ghoran was the most vocal, reflective, and expressive. He was very proud to be a Baiga, and often expressed it in ethno-centric terms. In various drinking-sessions that were held at his house, he spoke at length, often in abstract terms, and thus was contributing a great deal to the Baiga philosophy of life. Addressing me, he said, "you come from the plains, where there is 'thin' (*putla*) water and food. We live in 'thick' (*mota*) water and food. You can't adjust to our way, and similarly we'll be unsuited to your way of life." In other words, he made it clear how difficult it was for us to be other-ised, despite our persistent attempts.

Ghoran never hesitated in telling us what he knew about his lore. If he did not know, he expressed his inability in plain words; in anthropological language, he was respondent *par excellence*. My tape-recorder was always ready whenever I met him—either in sessions of divination, or in field, or evenings when he was at leisure. One night I discovered—a painful event for an ethnographer—that the tape deceived me. It failed to record any conversation, which consisted of spells that Ghoran had learnt to de-poison the snake-bite. It was impossible to remember the *mantra*. I could remember the ritual ingredients, but their positioning in terms of space and direction categories was all confused. I still recall how bankrupt I felt at that time. To request Ghoran again for the same pieces of information might irritate him, I thought. The only viable option was to talk to him about the same topic after some days, under the rubric of 'to recapitulate'. After this mishap, I decided to keep my note-book ready, along with the tape-recorder.

The next evening, Ghoran came home after distilling liquor at some undeclared place in the forest. He was slightly drunk, and sat near fire with his maritalateral kin. Smoking tobacco, they were talking about a woman who eloped with a co-villager, leaving behind her children and husband. Ghoran immediately sought the cause of this 'not-too-usual' behaviour in the magic exercised on behalf of her lover by a *gunia*. Taking the cue from their talk, I asked, "Ghoran bhaiya, what is this magic?" "Mohini *mantra*—it can attract any one. Suppose a woman does not like me, but I like her, then I shall go to the *gunia* and request him to instil a likeness in the woman's mind. Once Mohini is exercised, the person on whom the *mantra* is supposed to affect will himself or herself come to his or her lover. Sahib, do you like someone who does not like you?" along came Ghoran's benign smile. Evading his question, I asked him to tell me the *mantra*, and the rituals associated with it. Instantaneously came Ghoran's spirit

"It goes on like this... *Urse mohini, khurse mohini*..."¹⁵ I opened my note-book, and even without being trained in short-hand, I started pacing with him. Ghoran suddenly stopped—I knew he had left the words of the *mantra* incomplete. He gave me a disappointed look, and said, "Sahib, you are a man of power (*rajwale*). You don't do any manual work (*kambuta*). The mud does not stick to your feet. You try to catch everything in 'black letters' (*kala acchar*). Every officer (*babu*) who comes here wants to write about us. But you don't realise that you'll die when the 'air' in you departs. Your body—eyes, nose, mouth—will lie, but the 'air' that makes you 'you' will leave to mix with the 'air' around you. 'Black letter' is nothing before this 'air'; and *gunyai* (healing) works on it. *Mantra* are nothing but the release of 'air'. The 'air' catches the mind and eyes. It curses or cures you." Repenting on my folly, I had closed the note-book, and was apologetically listening to Ghoran's discourse; I did not apply any effort to understand the underlying animism in his ideas.

"Sahib, you should know that there are two supreme mothers: Sun Mai and Kali Mai.¹⁶ Sun Mai controls the voice. Kali Mai controls the 'black letters'. Once they fought. Who is supreme? They could not reach any conclusion. Both said that they were supreme. Finally they went to the almighty (*paramatman*). He said, 'Both of you are powerful. In *mantra vidya* (the knowledge of spells), Sun Mai is supreme. In other matters, Kali Mai is supreme.' So, sahib, you write what we grow; what are our problems; but don't write our *mantra*. Sun Mai will become angry. How can you give the wealth of Sun Mai to Kali Mai? It's the recital of *mantra* that catches everything. It's the word of mouth (*mukhagar*). You learn the *mantra* by reciting with me. You live with me for some years. I shall make you perfect. Then you recite them and relieve the people of their problems. When you write them in 'black letters', the *mantra* lose their effect (*asar*). You, sahib, catch 'black letters'; you never catch the 'air'. 'Black letters' are seen (*prakat*). *Mantra* are never seen; *gunyai* is never seen. It is in 'air', caught by voice, and released in 'air'..."¹⁷

I was dumb-struck. I was found guilty of introducing 'writing' in an arena of culture where it was tabooed; where the oral-tradition had eternal supremacy over its written counterpart. I was reminded of an earlier occasion when in Gadwala village of Bikaner district in Rajasthan, a man of Meghwal caste was narrating the array of thirteen spells that was used to eliminate snake-poison from the body. My tape-recorder was on, and I was patiently listening to him. Every spell in its beginning had names of the Sanskrit gods, and ended with Bismillah-al-Rahman-al-Rahim. The mixing of Hindu and Islamic words of veneration was fascinating, and to note a hypothesis that struck me, lest it be lost, I

The Meghwal stopped for a while, and said "Please don't write the *mantra*. If you write it, it will die!"

Anthropologists specialise in writing, and local traditions—from kin terms to spells—form their subject-matter. There may be an important area of native life, where the people may feel that 'writing' should not be permitted to encroach upon. Whatever may be the reason of keeping this area sacrosanct without contaminating it with 'black letters', as Ghoran said, the anthropologist is caught on the horns of dilemma. Should he write the spells irrespective of the local sentiments? Should he comply with the local beliefs, thus refraining from writing where prohibitions exist? In the first, respect for native culture is negated; and in the second, the ethnography is incomplete.

XIII

Raghu was known to every one in Dadar Tola. He was called by many honorific titles like Mukhiya, Baba, Bhaiya, Samdhu, etc. He knew the anthropological work very well; so, he would rarely speak in interview sessions. Mostly he squatted in one corner—in the daytime, under the sun—and when I needed him, he would come to intervene.

One evening he told me, "Sahib, I have done a lot for the Baigas. I have always tried to save them from oppression (*atyachar*), especially from the forest guards and merchants. I have been instrumental in sending their dance party from Dhurkuta and other villages to the Republic Day celebrations in Delhi. Now, sahib, I want to write a book on them. I like your work immensely. You sacrifice so many things, your comforts, to be with these 'banwasi Baigas' (forest-dwelling Baigas)." The anthropologist in him—inculcated from his first experience with Elwin—was at last emerging. He continued, "But, sahib, something must be done for them. They are very simple, and trust everyone. I will tell you an interesting episode. You know, sahib, these Baigas say that they are the children of Naga Baiga and Naga Baigin."¹⁸ When people who had gone to Assam came back, they told others that there lived Naga Baiga and Baigin in Assam also. Then I looked into the truth of the matter. I told them that in Assam lived the Nagas and not the Baigas." All this inspired me to collect the life-history of Raghu, a work which was done intermittently over a period of many sittings.

But Raghu was not simply content with telling me about his life. He wanted to write his life-history, like me, like any other anthropologist. "During the day, sahib, and in the mornings, I am free. Please buy a note-book for me. I keep a pen with me. I shall write my *jivan charitra*." From then onwards, every day he would tell me the number of pages he had written. Finally, I was handed over a manuscript of 38 pages, titled *Apni Jivan Charitra*. It was obviously a narration

IN WILSON AND CARPENTERS WERE BUILT FOR HIM IN HIS LIFE.

From his autobiographical sketch it was clear that Elwin played a pivotal role in his life. In fact Elwin was his reference individual. Let me quote from *Apni Jivan Charitra*:

I started going to the Mission School, Marfa, on July 1, 1939. After I had spent two months in this school, its owner, Elwin sahib, came to Marfa from Sorwachhapar on a horse. He spent a night in the school. The teachers welcomed him. Next day he took two boys (I was one of them) from the school, and a teacher, Aziz Easai. Then began our journey on foot (*padayatra*). The sahib was on horse. From Marfa, we went to a village called Banjara. We stayed there for the night. The sahib asked the Baigas to sing *karma*. And the sahib also danced with them till twelve at night. Like this journey, we went to Gaura, Dhaba, Kanhari, Rujhni, Sarai, Ajar, Dhurkuta, Kandabani, Silpiri, Tantar, Jeelang, Jald, Bauna, Pipara, Sarai Tharha, Mohli, Kamko, and Samnapur—in total we visited eighteen villages in a period of three months. After this, the sahib took us to Sorwachhapar, and the teacher (Aziz Easai) brought us back to Marfa. From that time on, I started dreaming that once I became an able man, I would also spend my life with these forest-dwelling Baigas, and by becoming Elwin, I would also sing and dance with them.

He further writes:

Some months later, we were again taken on a journey to various places of Baiga Chhak by the sahib. We spent another three months in the Baiga villages. My father came to know about these visits. He thought that the sahib was uselessly taking me on these expeditions. He also feared that one day the sahib would take me to his country. He decided that my studies should be discontinued. My father came to take me away from the school in the month of March 1940 under the pretext of the post winter celebrations (*phag*). Once I came home, he decided not to send me back to the school. I did not like the decision. I was all the time—both in day and night—seeing (remembering) the dances and songs of the Baigas; and the view of the sahib's dancing (*jhum jhum kar nachna*) with the Baigas was simply unforgettable.

And then Elwin came to know about Raghu's absence from the school; he dispelled the misconceptions of Raghu's father. Raghu went back at school. Later on Raghu wrote that when (in 1947) he told his mother that he wanted to spend his life with the Baigas as Elwin sahib did, his mother said, "My son, don't go to the Baigas. They know magic and spells. They also know the potion that kills human beings. Some day they might kill you." But he convinced his mother that the Baigas were extremely nice and hospitable, and like Elwin sahib, he wanted to be with them. Elwin's anthropological interest in the Baigas became Raghu's life-long commitment to them.

Raghu was with us when we visited Tantar. He showed us the place where Elwin built his hut. "Elwin sahib knew the language of

a white sahib could speak their language with fluency. The sahib used *rishta nata* (kin) terms for the people. He talked to them in great detail, asking each and every thing. If he did not understand what the Baigas were saying, he would keep on probing till he was satisfied. He loved dancing with them. He would enter their kitchen, and eat whatever was offered him. Sometimes in the rituals of exorcism, he would take a stick and walk as if the Dev (the 'supernatural power') had entered him. Throughout the hard journey, he never fell ill, except for cold and cough. He loved smoking, and generously gave tobacco to the Baigas. He was very fond of women."¹⁹

I had carried Elwin's *The Baiga* with me to the field. Being involved with the people for the whole day, and then working with Raghu till almost midnight, I hardly had time to glance through Elwin's monograph of 550 pages. Once when I was listening to some episodes from Raghu's life, it occurred to me that a few names in his early description were familiar to me. And I decided to show the photographs of the Baigas in Elwin's book to Raghu, just to freshen his memory of his past friends and elders. He could identify some of them quite well. Moving from one plate to the other, Raghu would state one or the other prominent fact about the person he recognised, such as 'he had two wives', 'he died of TB', 'his children did not survive'.

Gradually, we moved on to the plate facing page 256 of the book. The title of the plate was: 'Bhumia girl with characteristic hemispherical breasts and large sharply defined areolae'. Raghu looked at it; he became grim and thoughtful, and did not utter a word. I asked him if he recognised her. That was the first time in our conversation, extending over so many days, that Raghu did not respond to my question. I quickly moved on to page 264, the plate facing it showed two well-covered Muria and Bhumia girls.

Could Raghu have identified that woman? Was he reminded of a painful experience? Was that woman related to him in putative kinship? What made Raghu quiet? I was puzzled. I repented showing the book to him. After this I was not enthusiastic about displaying the plates to Raghu. Quickly rifling the pages, I asked fewer questions, and Raghu gave briefer replies. After some time he returned to his normal self, and our conversation continued on the same note.

Raghu's pensive quizzed me. I could not muster enough courage to query him. After a couple of days when I found him in a cheerful mood, I gently probed him, "Raghu, what happened to you when you saw the picture of that Bhumia girl in Elwin sahib's book?" Raghu was forthcoming, "sahib, there is one thing I want to tell you. Please don't feel offended. I know how much you admire Elwin sahib. I am also indebted to him. He was a great man. But, sahib, he always wanted to take pictures of

used to call beautiful women of the village with their husbands. He gave them *mohua* (liquor) to drink. Then he told the men he would pay them if they permitted him to take pictures of their wives with exposed breasts. You see, sahib, these Baigas were poor people. Some men agreed to Elwin sahib's proposal. Then they ordered their women to stand or sit with their *pallu* (the part of *dhoti* used to cover breasts) thrown down. The women had to agree. Otherwise their men would beat them." He stopped for a while to measure my reaction, and continued, "sahib, you have seen so many women here. Young, old, married, unmarried. Even a small girl covers the upper part of her body. Some don't wear blouses, but still cover themselves with their *dhoti*. They don't wear a blouse not because they don't want to. They don't have a blouse to wear". And after a pause, he said, "sahib, you remember showing me the picture of that Bhumia girl. She would never walk like that in the village."²⁰

XIV

After disclosing what he initially thought would offend me, Raghu felt 'light', as he told me later. But what made him 'light' made me 'heavy'. Did Raghu lie to me? But why should he? He would gain nothing by disclosing this about a person for whom his respect was unmatched: his yardstick for measuring a 'field worker' was Elwin sahib. As an experienced field assistant, he once advised me, "sahib, you should work like Elwin sahib. His devotion to people was always talked about". And he also remembered giving the same piece of advice to Ray, with whom he worked for six months. In accordance with the anthropological advice to cross-question the informant in case the first set of replies failed to convince the ethnographer, I asked Raghu, at different intervals of time, about Elwin's strategy of seeking erotic pictures. His replies were the same, and his memory had not faded. My efforts to trace old people in this area who could substantiate Raghu's description failed, and I had no option but to treat it as the 'statement of fact' narrated by a person who 'claimed' to have 'worked' with Elwin for a period of six months, in two sessions.

Exoticisation apart, the pivotal intention of an ethnographer is to describe the native life as faithfully as possible, covering every aspect of their synchronous (and, if possible, historical) living. Such a holism encompasses every aspect, including the ones that may be tabooed or secretly guarded in the ethnographer's culture. Thus, sex—being an outstanding cultural fact of man-woman attraction as well as the perpetuation of the species—needs to be documented in its myriad aspects like sexual myths and folklore, sexual postures and symbols, sexual aberrations, etc. notwithstanding the cultural milieu of the ethnographer where sexuality might be brutally suppressed. Thus, if there exist myths of 'vagina with teeth' or local

recorded with all details, however distasteful they may be to the 'puritan' investigator. If there live naked men and women, and the ethnographer thinks that it is just not enough to say that 'the people do not wear anything', the people may be photographed in their 'natural state'. But, if the monograph becomes an 'encyclopaedia erotica', or the 'credulous' and 'simple' people are bribed or persuaded to pose naked for the well-covered people, who would receive pedagogic romanticism and sexual excitement by seeing anthropological photographs and reading anthropological descriptions, it is not only that the virtuosity and trenchancy of anthropological works is marred, but anthropological honesty is also jeopardised.

I believe that honesty in terms of extracting information is cardinal to anthropological work. An anthropologist does not invent the cultural facts, he simply describes them, as plainly as possible. And, then, interrelationship between the battery of facts is sought in terms of what the anthropologist thinks the most heuristically sound paradigm [Clifford and Marcus (eds), 1986]. In the process of collecting facts—and the experiences of people—the ethnographer's subjective predispositions are nothing short of conditioning variables. An ethnographer discovers himself by comparing or contrasting his cultural endowments with those under study. Asking questions and living with the people make him reflective about his own culture. Things people have never thought of, or events they have forgotten are systematically pondered over or remembered, as the case may be, in the company of an ethnographer. Anthropological field work is educating, for the anthropologist as well as the local populace. It is an experience for both.²¹ If there is an inextricable relationship between the personal experiences of the investigator, his personality make-up, the moments of loneliness all ethnographers pass through, the 'objectified' reality amenable to observation, the informations elicited from the people and the events—sometimes horrifying like flood, epidemic, war—which both the ethnographers and the people face collectively, it is difficult to understand how an anthropologist is able to dichotomise his field experience into 'private self' and 'public self', with the former yielding jottings in the diary, and the latter generating 'wealth of data'.

Since ethnography is a joint creation of the anthropologist and the people [Marcus and Fischer, 1986]—it is not the anthropologist *on* the people but it is the anthropologist *and* the people—its first readers should be the people themselves. If the people do not see their pictures—however naked they are—and do not read what is written on them, and thus do not discover themselves in anthropological works, the aim of ethnography as a joint creation stands defeated. We cannot take shelter under the implicit assumption—still

prevailing in some cells of our discipline—that the people we study are 'pre-literate', thus what we write on them is beyond their purview. The consequences of de-colonisation have taught us that neither can we nurture paternalistic attitude towards the people, nor can we assume that the people may never read what has been written on them. If we also think that anthropology can be a guide to action, besides being the mutual interpretation of cultures, the actual actors carrying out the action should be the people themselves. Therefore, it is all the more important that the people share what the anthropologists write about them, in their association and several residual memories.

XV

The Baigas are wonderful dancers. Their dancing team is on the list of probables for the Republic Day celebrations. For entertaining 'officials' coming to their area, the Baiga dancers are sponsored. In their cultural practices also, dancers of one sex of a village visit the other, where they have a whole night dancing session with dancers of the other sex. Although it is customary to wear dancing costumes, we were informed that this more could be easily flouted. Only on 'ceremonial occasions', which also included the entertainment programmes for the 'officials' and other 'big' people, the dancers came properly dressed for the occasion. Dadar Tola had a special site where the dancing sessions took place, but during our sojourn in the village, not a single dancing session was held. Perhaps the inclement weather, the extremely cold nights were partly responsible for keeping the people home.

One day the resident forest officer of Charha asked me, "Have you seen the Baiga dance?" "Not yet, but there is plenty of time. We'll see it some day," I said. "I shall be going to Dadar Tola this evening. Why don't you come along with me?" I seized this opportunity to start a conversation on the attitudes of the forest officials towards the Baigas. "Please meet me around six in the evening," the forest officer fixed the appointment. As scheduled, he came with the two Baiga teachers—Budh Singh Maravi, the first Baiga to be educated, and his second wife's brother, Arjun Singh Dhurve.

Working through 'proper channel' he told the Baiga teachers to help arrange a dance that evening. I told him that in case they had already prepared to dance, we would stay for we did not want them to specially arrange a dance for us. "Let them dance when they want to. Why make them dance just because we are here?" But authority is not accustomed to a negative reply. The Baiga teachers were fully set to marshal the locals for a dance. Perhaps they wanted to please the 'official' and us, or they wanted to 'prove' that they were 'powerful' in every village, in spite of their singular village affiliation.

The message was sent to various houses

in the village during the prospective dancing. A place—the courtyard of a house—was selected for the dance session, and with this began a commotion in the village. I could sense their reluctance. The efforts of the Baiga teachers came to nought, very few people assembled, most of them aged. And no woman came. Frustratingly I told the 'official', "Leave it, let the people rest." "Please wait. They dance every day, they will dance today also," came the reply. My helplessness manifested itself. All this trouble for us! The 'official' mildly reprimanded the teachers, "What is this? Hurry up!"

All those assembled sat around the fire warming their hands and feet. In an hour or so, some young men arrived and on the repeated insistence of the teachers, they brought their musical instruments. Their mental preparedness was conspicuously absent. The elder teacher, Budh Singh, lectured to the assembly, "We have to keep our culture alive. We are famous for our dances, our music, our songs. Our teams have gone as far as Delhi to proclaim that our culture is rich and varied." A man interjected, "But you have always sent people from your village." "That is another matter," Budh Singh continued, "Now if you don't dance, what impression will these sahibs from Delhi carry who have come to meet you?" Then he requested an old man to exhibit his art. He was famous for imitating the sounds of various animals and birds. His mimicry relieved the pent up tension. Peals of laughter shattered the earlier grim quietude. Old durries were spread out for us in the courtyard, but the younger members of our group preferred to sit on the floor. Later a cot was spread for them, as the doctor who periodically visited the village from Bajaj had told us that scabies was very common in these villages. Its mites living in the garments, blankets and bed linens.

The old man's performance increased the preparedness of people and Budh Singh asked the young men to stand up and prepare for *karma*, one of the Baiga dances. The drummer was instructed to start playing. But the women were conspicuous by their absence. Since they formed an essential part of the *karma* dance, word was sent out again. And with great persuasion, six women arrived. Two of them noticeably pregnant. Two had infants tied to their back. One was a middle aged woman, the last was an early teen. Obviously the rigours of the dance would have serious repercussions, I was doubtful and fearful. "Can't we have a dance of the males only?" I asked the teacher. "Don't worry. The Baigas are tough people."

The dance began, and euphoria built up. The lines of the accompanying song were sung first by the male dancers, who held the arms of their neighbours, and then by the women. The rows of the dancers moved hemispherically, and often these groups came in close proximity. Sexual allegories and metaphors were clearly evident in the

words of the song. The teachers also participated, and their vigour was unparalleled.

My heart went out to these women who perforce came to perform, since young, unmarried or newly married, or issueless girls refused to comply. A child fastened to the back of a woman started wailing. The 'official', sitting next to me, was completely oblivious to the aesthetics of dance, he simply wanted to prove that the people danced to his tune. After the first dance was over, I told the senior teacher that we had found it very entertaining and enjoyable and that we would now like to leave. I thought that after our departure, they might stop dancing and the women could then go back to the security of their homes. Budh Singh, the senior teacher, immediately retorted, "Should we assume that you did not like our dance, and therefore you want to leave? Please wait for some more time. The 'heat' of dance is just generating. These Baigas will dance like celestial nymphs (*apsara*)".

It was clear that he was making a distinction between his Baiga self and that of the others. The forest official whispered to me, "The other dances will be the same, the same movements, the same pelvic swinging. If you have seen one, you have seen all." On the insistence of Budh Singh we sat through a number of dances, the sexual allusions in the songs embarrassed me greatly.

XVI

While working on simple societies, anthropologists are keenly interested in accumulating the local material objects for their personal collections or museums. Some of these objects are gifted to them; others are purchased from the local people. I had also acquired a bow and an arrow from a *gunia* of Kandavani, paying him five rupees for both the objects.²² From Silpuri, I got a catapult, again for five rupees. I was also keen to acquire a Baiga necklace (*kanthi*). I asked Raghu if he could request a Baiga to make the necklace for me, and I would pay him for the things needed for the necklace, and also for the labour. Raghu requested a man from Jantar to make one for me, and the 'work' was readily accepted by him.

One morning two men—one old and the other young—came to meet me. The young man was from Jantar, and he had brought the necklace for me. It was beautifully made, and I paid the amount he asked for. The old man, who had come with him, was from Silpuri. He started telling me about his fever which had not abated even after having tried all the available treatments—shamanistic as well as dispensary—since the last two months. When I was talking to him, Raghu also joined us. Of course, both my guests were known to Raghu. The Silpuri man was very vocal, and I thought of talking to him for some more time. In the course of our conversation, he invited all of us to his village to witness a Baiga dance. He also said that every evening they had dancing and

singing in their village. He wanted us to come that very evening. I accepted his invitation, promising to be in his village by the evening. But he said that he would himself take us to his village. After talking to me for a couple of hours, the Silpuri man left to enjoy the rest of the day with Raghu and other people.

In the afternoon the doctor came to Charha on his visit. After finishing his work, he came to call on me. I spoke to the doctor about the illness of the Silpuri man. "You see, professor sahib, these Baigas don't take medicines regularly. They come to us when the sickness advances. Before that they depend on the *guniya*. Venereal diseases are very common in this area. So are dysentery, malaria and tuberculosis. Almost every one suffers from skin ailments. Pregnant women are given iron capsules, but they never take them. The Baigas fear hospitalisation. Once a Baiga was admitted to the Jabalpur hospital. He ran away from there with the glucose bottle. After having traced him in Baiga Chak, we asked him the reason of absconding from the hospital. His reply was, 'How could I have lived there? There was always daylight there. How could I have slept?' As the hospital lights were always on, he thought that that place was without night. So, they are primitive." You kindly advise them to come to us in the initial stages of illness, and take medicines regularly," the doctor churned out the usual medical advice clothed in widely prevalent stereotypes about the people.

In the evening we started for Silpuri. "Should we take something for the people?" I asked Raghu. "Sahib, please buy some packets of tobacco for the dancers and other people," and after a pause Raghu added, "You may also give them *muqaddam* (head man) a token gift of twenty one or thirty one rupees."

It was at least two hours after our arrival in Silpuri that the dance began. The dancers were ceremonially dressed, and there were many female dancers as well as males. I was told that they were 'professional' dancers. More musical instruments accompanied singing and dancing. There was a separate choir of singers. Lanterns radiated bright light. The people were cheerful. It seemed that they really wanted to dance, not for us but for themselves. It was an organised affair, the spontaneity we saw at Dadar Tola was absent here. After every performance the dancers, the musicians, and the singers rested for a while. Most were smoking the tobacco which Raghu had generously distributed on our behalf. Almost every one was drunk, and a heavy smell of *mahua* engulfed my senses and the stench filled my nostrils whenever their lips moved to talk to me. Surprisingly, the teetotaler Raghu had also consumed some liquor, and to conceal this from me he often covered his mouth with the loose end of his *dhot*.

One performance followed the other. In total we were entertained, or the people entertained themselves, with seven dances.

It was certainly not the same repetitive seven times, as the 'official' had told me in Dadar Tola, but each had its specific characteristics and nuances, although the row of male dancers remained distinct from the female, and the drummer always stayed between the two lines of the dancers in all the dances.

Once realising that the dancers were tired, we decided to leave. On Raghu's suggestion, I approached the headman of Silpuri, a young man, thanked him for the excellent performance that we had the honour to witness, and customarily presented a sum of thirty one rupees to him, to be distributed among the dancers. We were about to leave when the man who had extended this hospitable invitation, came to me and said, "Please give some more money to the dancers. After all, they are like your children." I handed over another thirty-one rupees to him, and said, "Please, that's all." But it was not enough. He and also some other men started saying loudly, "We are poor. We have nothing to eat. No one cares for us. Give us more money. We'll be grateful to you." I was encircled by the people. Some men and women were asking the female dancers to approach me—some girls came towards me, palms stretched out, entreating, begging, appealing, "We have danced for you, please give us some money." A couple of them also tried to touch my feet. I was nonplussed, Raghu was trying his best to appease the people, "The sahib is not a Dhanna Seth (a rich man). Kindly accept, all that he is giving you gratefully." While I stood motionless, my hands frozen in the pockets of my coat, and my mind registering incessant plaints for 'more money' in male and female voices, I heard Raghu repeatedly reiterating, "The sahib is a teacher. He has come to live with you. He is not a rich man. He has given you more than his pocket allowed and where are you?" He was looking for the man who had invited us to Silpuri. "Why don't you tell them that you invited the sahib and his group?" Our host, the Silpuri man, came close to me, "Please give them another fifty one rupees, and I shall quieten them." I followed his advice, and we started walking out of the village, perceptibly depressed and upset at this display. As far as I remember, I did not offer my salutations to the people before leaving. Along the way, Raghu profusely apologised for their sudden outburst, at times, he was enraged, threatening to take the matter to the formal body of the Baiga community. I consoled him and tried to quell his agitation, "Don't worry about it. Try to forget all that happened. When you go to Silpuri again, coolly talk to the people about their behaviour. Convince them that their overt display displeased their guests and was undesirable."

XVII

"But are they to be blamed?" I asked myself. Sukh Ram asked for two bottles of *daru* (liquor) in return for information on

now general means are performed. A visitor to Dadar Tola, who came to meet a local healer, asked for a packet of tobacco in exchange for knowledge of how he became impotent after he annoyed one of the local deities. A woman in a house where ear-piercing ceremony was taking place, asked me to buy some bangles for her. Another woman told me, "You ask so many questions, but never give us any money." And I remembered a man in an Oraon village near Ranchi, who asked me for eight annas before he told me how his marriage took place. In all these situations, the ethnographer is miserably placed. He can always put this 'expenditure' under the heading of 'miscellaneous' or the 'rapport-establishment budget', but what does the ethics of an anthropological field work say in this context. How far is it advisable to distribute tobacco to the people to gain friendship? Or, should an ethnographer distribute gifts to gain access to information?

If anthropology is, on the one hand, an interpretation of cultures, it is equally a critique of the development programmes, modernisation, and the inequality that has resulted from them. Much of the 'begging and 'demanding' behaviour of the people owes to the fact that they see an anthropologist as a submissive, nevertheless 'powerful' and 'resourceful' person, but lame in terms of the exercise of 'power'. Along with this relationship between the anthropologist and the people, development has not altered the poverty stricken situations in which the people are placed for decades together. The gains of development are urban-concentrated, little of them flowing to the rural areas, and those which do reach the villages are monopolised by the already existing minority that tends to become richer at the expense of the vast majority. In this situation, the people use this opportunity—of interaction with the outsiders—as one in which some material gains might follow. When they observe that the gains are not forthcoming, unless they make explicit demands, they unhesitatingly state what they expect. If expectations remain unfulfilled, interview sessions may be thwarted, and all doors of information closed to the anthropologist. An ethnographer may go ahead with exchanging 'little' resources (tobacco, liquor, gifts) for 'valuable' data, but, I think, by doing so he makes the task of future ethnographers much more difficult, and also this gives a new orientation to field work where 'power of resources' becomes central to data-collection.²⁴

XVIII

A local 'official' gave me a hand written text on the Baigas. He was certain that his 'book' would be extremely useful for my study. Written in Hindi, it began, "The Baiga people hate telling a lie. Once they open up with you, they do not hide anything. Yes, they are reluctant to talk to strangers

they may go to the extent of closing their doors on seeing an outsider. In case an official comes to their village, their headman makes all the arrangements." And then it went on to describe their beliefs, taboos, their relations with the Gonds, their folklore, dances, and deities. It ended with a poem, titled 'The Dwellers of Forests', which can be taken as a good example of how stereotypic images about the people are idealised. Its English translation could be something like this:

It's neither a town, nor a city
Here live the forest-dwellers,
the gentle and honest Baiga Adivasi
Their food is not urban, (they subsist) on
corn soup and rice
Their faces are always happy
with no streak of gloominess, the gentle
and honest
In the name of cultivation, the Baiga
Adivasi only grow corn and sesame
They spend their life covering half of their
body
By selling labour and wood,
they bring home salt and chilli
They receive closeness from the
government officials
Their relations with the forest department
are family like.
They are counted as the national
property
They sincerely follow the schemes of
the government
They are gentle and honest Adivasi

I had just finished reading this text when Budh Singh came to meet me. Interestingly, he also glanced through some portions of this text, praised the authenticity of information, and immensely liked the poem that 'stress on the Baigas as honest and gentle. "We are gentle and honest. But we are not prepared to change. When I go to various Baiga villages telling the people to send their children to schools, they all say, 'We will'. But when I visit them again, I find that no Baiga boy or girl from these villages goes to school. The schools have been primarily opened for the Baigas, but they don't understand this. I tell them to come out of superstitions and old customs, they never listen to me. You see, my father's younger brother, Moti Lal, was the first Baiga in Dhurkuta village to cut his long hair (*chundi*). This happened in 1952. The caste council (*panchayat*) decided to expel him. Only by giving some bottles of liquor as fine to the council members, he was given back his caste membership (*jat milana*). Now the situation has changed. I tell the boys who are still keeping *chundi* to cut them, so that they look like human beings (*manushya roop dikhien*). The *panchayat* is not so powerful today as it used to be at one time. I tell the parents not to get their girls tattooed all over the body, including the forehead. Tattooing is painful. And also, other castes make fun of us, our practices."

Budh Singh was in favour of furthering Baiga dances and songs, because they kept

the culture alive. However, he was strongly critical of the diacritical marks the Baigas were identified with. The theme of selective continuity has been advocated by various local leaders, cultural practices, looked down upon by the others, are urged to be given up. Often such movements pose paradoxes, which remain unresolved in the enthusiasm of change. For example, the movement towards modernity advises women not to get themselves tattooed, but still the conception of beauty is linked to tattoo marks, and it is also believed that unless the *karma* dancers are tattooed all over their body, they fail to evoke the same aesthetic response. If *karma* is to be preserved, but tattooing prohibited, the whole conception of beauty and self-hood needs to be changed. It is not uncommon even today to hear from the Baiga women: "At least the *gudna* (tattoo marks) is with us for ever, it will go with us after death."

"The doctors don't stay here. The pharmacist is corrupt. If you don't bribe him, he will not give you medicine. All the teachers except Arjun Singh, are outsiders. They are interested in seeking transfer from this place. Budh Singh continued. Unfortunately the development programme for the people is not endogenous. If the local people are picked up and trained in elite institutions of science, arts, medicine, engineering, etc., and then posted to their native areas, there is more probability that they would not only stay without bothering to be transferred, but also take their work and skills seriously. The pangs of ennui and loneliness would be absent once they are with their kin group, caste, and neighbourhood, with which they have multi-stranded relationships. "But educated professionals might always try to leave this forest and settle down in some other town," Budh Singh expressed his doubt when I tried to construct a model of endogenous development before him. "There is no harm in taking the risk, at all it is involved here," my voice was full of optimism. "If there is a Baiga doctor in Chharha dispensary, we may vouch for his commitment more than when the doctor comes here from hundreds of miles, leaving behind his family, relatives, and friends", I hypothesised my conviction. "I agree with what you say. But who will tell the government?" Budh Singh's question was more important. "Why don't you write to the government? Why don't you meet the officials in Bhopal? Please ask them to come here and select the talents from us. We will never shirk from our duties and hard work. Even if the educated Baiga does not come back to his native place, at least he will inspire several others to study. You have to do this for us", Budh Singh had more faith in the anthropologist. After all he saw me 'powerful'—as one who could approach the centres of power with more conviction and stronger voice.

"This meeting with you has been extremely rewarding", Budh Singh congratulated me. "You have come from the city. Still you are

know that every anthropologist talked like this. He continued, "Who cares for the people? You must have been a Baiga in your previous birth," he had couched in the Hindu idiom my anthropological concern for the Baigas.

"Please give me something so that I could always remember you", Budh Singh asked as he was preparing to leave for Dhurkuta.

As a memento of our meeting, I presented the very pen with which I had so far written my field notes and the diary

(Concluded)

Notes

- 14 I was in favour of transcribing all our tapes in the field itself, so that queries and questions, serendipity and hypotheses, that emerged from these could be probed further in the course of stay
- 15 Also, see Elwin [1939: 346-47]
- 16 The literal meaning of Sun Mai is 'mother of hearing', and that of Kali Mai, 'mother of blackness'
- 17 Compare these ideas with that of Plato and Rousseau, see Norris [1987]
- 18 The Naga Baiga and Naga Baigin, according to the Baiga tradition, were the first human beings to be treated after the earth was saved from being engulfed by the demons. Their lore further says that the creation of the Naga couple was to look after the earth—the mother earth. One reason of the Baigas not taking to plough cultivation was that they did not want to pierce the 'breast of the mother earth'
- 19 Raghu came to know that I was interested in collecting information about Elwin's field work. In January 1988, he went to Karanjia to meet an old man of Gond tribe. He gathered a lot of information from this Gond, and prepared a long document titled, *Shri Elwin ki jankari* ('Information about Shri Elwin'). In this document, he describes how Elwin got married to Kosi. An interesting piece of information in this document is that Elwin asked a *gunia* to exercise *mohini mantra* on Kosi Bai, daughter of Partu Baiga.
- 20 Shalina Mehta [1988: 49-50] writes, "For the students of anthropology 'Mandala' and its neighbouring tehsil 'Dindori' have been of significant interest from the time of Verner Elwin. Natives of the region vividly recollect Father Elwin's stay in the 'Baiga Chak' region, where he almost created a home-stead and a kind of mini-complex for himself and his party on the pattern of Baiga living style. There are innumerable tales relating to his exploits during his rendezvous over here, which Elwin himself may like to recollect as imperatives of anthropological investigations or may be to pass it on to untired students of anthropology as 'participant observation'. Local population in fact goes to the extent of identifying as 'Elwin syndrome' by separating children having blue eyes and fair complexion, of whom at least 16 are known to have been identified by the locals"
- 21 To quote Sartre [cf Clifford, 1983], "In fact,

the sociologist and his 'object' form a couple where each one is to be interpreted through the other, and where the relationship must itself be deciphered as a historical moment"

- 22 A few days before our arrival to this village, a wild pig was killed with this arrow, which still had poison on its head. Trying to feel the sharpness of the arrow-head, I touched it, and its owner almost shouted at me, "You should not touch it. It has poison, and may kill you." I immediately washed my hands with soap one of the students carried in her bag.
- 23 Elwin [1958: 180] writes, "On more mundane matters the Baigas are less expert. When the first engine came along the line into the district, a Baiga was found offering it a black cock under the impression that it was some evil spirit. They are almost entirely illiterate." According to a Tribal Research Institute (Bhopal) report of December 1986, the percentage of literacy among them is 4.51.
- 24 In this context, see Das and Parry [1983: 790-91]

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Rural Poverty and Its Alleviation in India

N Kakwani

K Subbarao

WE are happy to see a critical scrutiny of our paper [Kakwani and Subbarao 1990] by S Tendulkar and I. R. Jain (TJ for short hereafter) [Tendulkar and Jain 1990].

The measurement of poverty involves a number of conceptual and practical difficulties. Many a time we need to settle for second best methods because of non-availability of appropriate information. For instance, like most other researchers on Indian poverty, we have used per capita household expenditure (PCHE) as a measure of household economic welfare. A better measure of household welfare will, of course, be the per adult equivalent consumption which corrects for the differing needs of adults and children. But this measure cannot be employed in Indian studies because the NSS data are available to researchers only in grouped form (the groups formed on the basis of per capita household expenditure), although the NSS organisation collects the expenditure data for each household. The grouping involves considerable loss of information which may lead to biased estimates of poverty. To estimate poverty from such data, one needs to employ some interpolation device. Most Indian studies have employed a two-parameter lognormal distribution [Minhas, Jain, Kansal and Saluja 1987], with the exception of Ahluwalia (1978) who employs Kakwani-Podder's [1976] Lorenz function. Since the NSS does not regularly correct the income ranges in order to take account of inflation, inappropriate interpolation devices may induce large estimation errors. These errors will be particularly serious when one uses a single density function such as lognormal to the entire consumption range. In our study we used a general interpolation device [Kakwani 1980] which uses a different density function within each consumption range. Although this procedure is an improvement over those employed by previous researchers, it is still the second best solution.

TJ do not seem to recognise these and many other problems associated with poverty research in India. Had they appreciated these, they would have been more constructive in their evaluation of our paper; instead they adopted the negative approach of attacking—wrongly and unfairly in most instances as we shall soon demonstrate—everything in the paper. In what follows, we respond to their criticisms not in the order chosen by them, but in order of the importance of the issues raised by them. These fall into five groups: (a) our choice of price deflators; (b) problems with the decomposi-

tion methodology; (c) growth elasticities; (d) regression results; and (e) other miscellaneous issues including validity of our conclusions.

PRICE DEFLATORS

The central issues raised by TJ are (a) empirical inconsistency in using current prices for calculating Gini and Theil measures; (b) price deflators used by us for measuring poverty are inappropriate; (c) adoption of "conceptually more appropriate" deflators would vitiate our conclusions; and (d) data problems and alleged errors in our estimates of per capita household expenditure (PCHE) growth rates.

We first turn to the alleged empirical inconsistency in using current prices for calculating Gini and Theil's measures of inequality. We used the current prices because both these measures are relative measures of inequality and, therefore, will not be affected if per capita consumption of all households is multiplied by the same price deflator. These indices computed at the current and constant prices will differ only if we assume that households with different per capita consumption have different price indices. The households in the current period can have different price indices if the consumption patterns of households in the base period are different. If these differences are significant, we must compute the price index for each household. The price index of a household with PCHE x in the base period will be

$$I(x) = \sum_{i=1}^n \frac{P_i}{P_0} w_i(x) \quad (1)$$

where $w_i(x)$ is the expenditure share of the i th commodity ($i=1, 2, \dots, m$), which will depend on x and P_0 and P_i are the prices of the i th commodity in the base and current period respectively. Then the real income of that household in the current period, which we denote by x_R will be

$$x_R = \frac{x^*}{I(x)} \quad (2)$$

where x^* is the current per capita consumption of that household. In our study we assumed that $w_i(x)$ is independent of x , which would imply $I(x)$ will be exactly the same as that of x^* .

Following TJ let us assume that households with different income have different consumption patterns or in other words $w_i(x)$ is not independent of x . Then poverty and inequality measures (and also per capita

average consumption) must be derived from the distribution of x_R . To compute these measures, we must rank the households in the ascending order of their real income x_R but the available NSS data are ranked according to the current per capita consumption x^* . If these rankings are significantly different from each other, one cannot do any meaningful analysis of poverty and inequality. Even if the data were available for individual households, we could not construct fractile groups on the basis of the real household income because the households in the base period are not the same as those in the current period. Since we have no access to Jain and Tendulkar's 1989 paper published in the *Journal of Indian School of Political Economy*, we can only wonder how they succeeded in measuring real levels of living for different fractiles. We conjecture, however, that they have constructed the fractile groups on the basis of the assumption that the ranking of households by x_R is exactly the same as by x^* . If so, it would be methodologically a wrong procedure.

Next, we turn to the issue of inappropriateness of our choice of price deflators. This is not a new issue; it was earlier debated by P Bardhan and B S Minhas in the early 1970s. TJ point out that we have used the well established consumer price index for agricultural labourers (CPIAL) for adjusting both the poverty line and the mean PCHE. Recently Minhas, Jain, Kansal and Saluja [1990] have worked out state-specific consumer price indices separately for the total rural population (CPITR) and Minhas and Jain (forthcoming) for the middle range of the rural population (CPIMR). They suggest that the conceptually appropriate deflator for the mean PCHE to be CPITR, and CPIMR for the poverty line. They argue that since we have not used these "conceptually more appropriate" deflators, our findings and hence conclusions are wrong.

At the outset we must point out that when we wrote our paper, the alternative deflators were not available. The Minhas, Jain, Kansal and Saluja paper was published in June 1990 whereas our paper appeared in March 1990. The Minhas and Jain (1990) is still forthcoming. Therefore, TJ criticism for our not using these alternative deflators is unwarranted and unfair. Be that as it may, let us assume that this set of deflators were available to us. How much do we gain (or lose) by using these deflators? Should one choose a set of deflators merely because they are the latest to arrive on the shelf?

While advocating use of two deflators, TJ have not comprehended the empirical and conceptual pitfalls. Their suggestion of course implies that there exist two homogeneous groups of households, which have different consumption patterns. Empirically, how should such groups be formed? One possible suggestion is to use CPIMR for the households which are below

the poverty line and CPITR for those above the poverty line. Minhas, Jain, Kansal and Saluja, [1987] have correctly argued that "methodologically speaking this is not a sound suggestion. The proportion of the people below the poverty line is a variable entity which itself is the very object of poverty measurement"

There are conceptual problems as well. The correct procedure to compute the mean of real PCHE is to find the mean of x_R in (2). TJ suggest that the mean of real PCHE should be computed by deflating the mean of current PCHE (which we denote by \bar{x}) by CPITR, which is given by

$$\bar{x}_R = \frac{\bar{x}}{I}$$

where

$$I(x) = \sum_{i=1}^m \frac{P_i}{p_{0i}} w_i$$

is the CPITR, w_i being equal to the average expenditure share of the i th commodity for the entire rural population. It can be seen that mean of x_R in (2) will be equal to \bar{x}_R only if we assume that $w_i(x)$ is equal to w_i for all i . Thus, TJ's suggestion to compute real PCHE by deflating by CPITR implies that the consumption patterns of all households must be the same, in which case one deflator is good enough direct contradiction to their suggestion to use two deflators.

We have so far examined whether or not it is appropriate to use the recently developed two price deflators. We now address the question whether it is at all necessary to use more than one price deflator. It depends on whether or not the consumption patterns differ significantly across the PCHE ranges. If they do not, the use of one price deflator is justified. It is desirable to test this hypothesis but it is a major undertaking beyond the scope of the present study. Fortunately, Minhas and Jain (forthcoming) have presented the price indices (CPIMR and CPITR) for the middle range and entire rural population, respectively, which throw some light on the issue. The two indices computed by them for the years 1972-73, 1973-74, 1977-78 and 1983 do not seem to differ much as can be seen from their following numerical results at the all-India level:

| | CPIMR | CPITR | Per Cent Difference |
|---------|-------|-------|---------------------|
| 1971-73 | 121.9 | 121.8 | -0.08 |
| 1973-74 | 148.7 | 148.1 | -0.40 |
| 1977-78 | 174.6 | 176.5 | -1.09 |
| 1983 | 282.2 | 283.5 | -0.46 |

Although the differences are somewhat larger at the State level, they are still not large enough to alter the direction of our results or the broad conclusions about poverty and inequality.

It would thus appear neither appropriate nor necessary to use two deflators to convert the nominal PCHE into the real PCHE.

It should also be obvious from the above discussion that while Minhas et al have made a valiant effort to improve the quality of price deflators, the new indices have their own limitations so that our reliance on CPIAL is not entirely unjustified.

This does not mean that CPIAL, the deflator used by us, is the best. A major objection raised against this is that the agricultural labour households constitute only about 30 per cent of the total rural population and the remaining 70 per cent (which include a large number of poor small farmers) may have quite a different consumption pattern. And, therefore, for poverty analysis Minhas et al [1990] have advocated use of CPIMR which is derived on the basis of consumption pattern of the middle income range in the base period. The argument that the CPIAL is inappropriate because it is based on the consumption pattern of only 30 per cent of the rural household population is not that appealing. As a matter of fact, the CPIMR covers only those households which belong to the middle income range which comprise only 20 per cent of the total rural household population. As such a large proportion of the poor is not covered by this index.

Gaiha [1990] argues that CPIAL is the most appropriate deflator for measuring poverty. He makes two points in its favour. First, "agricultural labour households (ALH) are the largest occupational group among the rural poor; not only are the bulk of them poor but they also account for a large share of the rural poor". Second, since "ALH are typically net buyers of food, the CPIAL can be expected to provide a close approximation to the prices confronting the net buyers of food among the rural poor, which would be much larger than the share of ALH among the rural poor".

The most attractive feature of CPITR and CPIMR is that they are based on the consumption patterns observed in more recent years (1970-71) than the CPIAL (1960-61). The principal question therefore is: have the consumption patterns changed so drastically that CPIAL has become unusable? To answer this question, we again refer to the Minhas, Jain, Kansal and Saluja [1990] paper which presents CPITR based on both the weighting diagrams, viz, 1960-61 and 1970-71. We present their results at the all-India level but patterns at the State level are quite similar.

| | 1960-61 Weighting Diagram | 1970-71 Weighting Diagram | Per Cent Difference |
|---------|---------------------------------|---------------------------------|------------------------|
| 1972-73 | 121.5 | 121.1 | -0.3 |
| 1973-74 | 147.6 | 146.7 | -0.6 |
| 1977-78 | 173.9 | 172.2 | -1.0 |
| 1983 | 274.8 | 270.1 | -1.7 |

These results indicate that the price indices do not vary significantly when the weighting diagram for the more recent year is used.

This suggests that the differences in consumption patterns across different PCHE

ranges have little effect on the inference to the calculation of the consumer price indices. One would, therefore, expect the difference between CPIMR and CPIAL to be small because both these indices are based on the same retail prices. The values of these indices at the all-India level are as follows:

| | CPIMR | CPIAL |
|---------|-------|-------|
| 1972-73 | 121.9 | 122.9 |
| 1973-74 | 148.7 | 151.6 |
| 1977-78 | 174.6 | 168.6 |
| 1983 | 282.2 | 267.0 |

It is puzzling to note that the differences between the two indices are quite large for the recent years. The calculations performed at the State level showed even larger differences. How do we explain these differences? Since this is an important issue, it is worthwhile to understand in more detail how Minhas et al [1990] have computed their new indices.

The CPIAL series is constructed on the basis of 62 consumer items, of which 37 belong to the food group, four to fuel and light group, 11 to clothing, bedding and footwear group and 10 to miscellaneous goods and services group. In the construction of CPITR and CPIMR, 62 consumer items were aggregated into 49 items (37 food items, 10 miscellaneous and two item groups, viz, fuel and light and clothing, bedding and footwear). As we do not know why and how this aggregation was done, it will be difficult to evaluate its effect on the price indices. Since the consumption patterns of the 49 items were not available for the 1970-71 year, all these items were further aggregated into 13 major groups (nine relate to food and four to non-food). The prices for each of these major groups were computed using the consumption patterns observed in the 1960-61 year. The State-specific aggregate consumer price indices were then constructed from the 13 major group indices using the consumption patterns of households in 1970-71.

The claim that the proposed indices (CPITR and CPIMR) are the best ones because they are based on the latest representative consumption patterns as the weighting diagram is also not entirely valid because in fact the consumption patterns of households of both years, 1960-61 and 1970-71, have been used. Assuming that the within-group consumption patterns are the same in the 1960-61 and 1970-71 periods, Minhas et al [1990] make allowance for changes in the consumption patterns between the groups. TJ overlook the fact that this is a highly restrictive assumption. One would normally expect that the consumption patterns of households within the groups would change more readily than between the groups. Because of changes in incomes, the substitution of one food item for another food item may be more prevalent than the substitution of food for non-food. Since the within-group consumption pattern is assumed to be the same in the two periods and the between-

stable, it is not surprising to find that the Minhas et al indices do not vary much when calculated using the weighting diagrams of the two periods.

Because the Minhas et al indices are computed on the basis of two weighting diagrams, 1960-61 and 1970-71, their computation of CPIMR is also problematic. Since the income ranges are constructed on the basis of current prices, the households in the middle range in the 1960-61 year may not have the same level of welfare and consumption patterns as those in the middle range of the 1970-71 year. This creates a problem as to which households should be selected in 1970-71 so that they are compatible with those selected in 1960-61. Moreover, CPIAL is the only index available for the most recent years 1986-87 for which the poverty estimates are presented in our most recent version of the paper [Kakwani and Subbarao 1990a].

Before we respond to the next set of issues, we recapitulate the discussion so far. Our use of the CPIAL is perfectly justified; adoption of alternative price deflators as suggested by TJ, even disregarding the numerous conceptual and empirical problems stated by us, would have introduced fresh, unknown (indeed, unknowable) biases into the poverty and inequality estimates; the inferences drawn by TJ (their Table 3) are consequently untenable; there are no errors in our computations and the data problems, we believe, are not serious enough to vitiate our conclusions.

THE DECOMPOSITION

This technique enables one to separate the impact on poverty of changes in average consumption and in its inequality. The pure growth effect is measured as the per cent growth in poverty if the mean PCHE were to change but the Lorenz curve remained unchanged. Similarly, the inequality effect is measured as the per cent change in poverty if the Lorenz curve were to change but the mean PCHE remained constant. Since the poverty measures are non-linear, the total percentage change in poverty will not be equal to the sum of growth and inequality effects. In the *EPW* version, the residual (usually called the interaction term) was combined with the inequality effect. In the recent revised version of our paper [Kakwani and Subbarao, 1990a], we have separated the interaction term from the inequality effect.¹ Again, the direction of the results remained unchanged.

TJ are at pains to drive home the point that this methodology does not permit one to establish causal relationships. It is quite obvious that decomposition is an exact mathematical relationship and, therefore, cannot be used for establishing causality. We have ourselves pointed out this in our paper. Nonetheless, the methodology enables one to draw interesting inferences. For example, the inequality effect tells us whether or not growth in the economy is accompanied by

poor. It should not, however, be interpreted to mean that growth is *causing* a redistribution of income. Even if we do not know what is causing the redistribution, it is nonetheless important to know whether or not growth is *accompanied* by a redistribution. For example, if the relationship between growth rate and inequality effect is found to be significantly positive, we may conclude that the growth process tends to benefit the rich proportionately more than the poor, even if the causality is not known. Since the relationship between growth and inequality is expected to be non-linear (Kuznets 1955), the correlation coefficient which measures the deviations from the linearity may invariably show that the variables are either not related or weakly related. In such situations, the best procedure is to use the rank transformations which have been found to be robust and powerful. In this section, we present results on Spearman's rank correlation coefficient to test whether there exists an association between the two variables. The test statistic where

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

r being the rank correlation is distributed approximately as student's t -distribution with $(n-2)$ degrees of freedom. This approximation suggested by Pitman [1937] has been shown to perform better than the usual normal approximation (Iman and Conover 1978). Table 1 presents the correlation coefficients between growth rate and inequality effect and also between growth rate and total poverty effect. The student t value is calculated using 14 degrees of freedom.

The correlations in Table 1 suggest that the association between the growth rate and the inequality effect is positive and significant only in the first period (1973-74 to 1977-78). The relationship became insignificant during the subsequent periods. Thus,

on poverty is supported only in the first period but not in the two subsequent periods. Although the factors that may have contributed to the virtual absence of this relationship in the subsequent periods are difficult to establish empirically, it is at the same time difficult to dismiss entirely the role of anti-poverty interventions introduced in this period especially because the scale and delivery of this effort stood in contrast to the piecemeal efforts of the past.

The correlation between the growth rate and the total percentage change in poverty was found to be negative and significant during all the three periods (with one exception being the poverty-gap ratio for the ultra poor during the 1973-74 to 1977-78 period when the correlation was not significant at 5 per cent level). It implies that a positive growth generally tended to reduce the poverty. Although these observations tend support to the 'trickle-down' hypothesis, anti-poverty interventions may have played an important role in suppressing the adverse effects of income redistribution which might have resulted because of the growth. The impact of the growth without anti-poverty interventions would have been smaller as we observed during the 1973-74 to 1977-78 period.

TJ went to such a great length just to point out that the growth effect is more dominant than the inequality effect. This is quite obvious from our tables. An important observation made in our paper was that the inequality effect was generally positive in the 1973-74 to 1977-78 period but it became generally negative in the subsequent period. Thus, in the first period the redistribution of income increased poverty whereas in the second period it reduced it. Consequently, the proportional reduction in poverty was greater in the second period than in the first period despite the lower growth rate in the second period. It is not

TABLE 1: RANK CORRELATIONS BETWEEN GROWTH RATES IN PER CAPITA HOUSEHOLD EXPENDITURE AND INEQUALITY AND TOTAL POVERTY EFFECTS

| Period | Growth Rate and Inequality Effect | | Growth Rate and Total Poverty Effect | |
|------------------------------|-----------------------------------|---------|--------------------------------------|---------|
| | Correlation | t-value | Correlation | t-value |
| Head-count ratio poor | | | | |
| 1973-74 to 1977-78 | 0.62 | 3.2* | -0.68 | -3.7* |
| 1977-78 to 1983 | 0.33 | 1.4 | -0.75 | -4.5* |
| 1983 to 1986-87 | -0.03 | 0.1 | -0.62 | -3.1* |
| Head-count ratio ultra poor | | | | |
| 1973-74 to 1977-78 | 0.58 | 2.9* | -0.59 | -2.9* |
| 1977-78 to 1983 | -0.02 | -0.1 | -0.83 | -6.1* |
| 1983 to 1986-87 | 0.04 | 0.2 | -0.56 | -2.7* |
| Poverty gap ratio poor | | | | |
| 1973-74 to 1977-78 | 0.66 | 3.5* | -0.57 | -2.8* |
| 1977-78 to 1983 | 0.13 | 0.5 | -0.79 | -5.1* |
| 1983 to 1986-87 | -0.01 | -0.1 | -0.57 | -2.8* |
| Poverty gap ratio ultra poor | | | | |
| 1973-74 to 1977-78 | 0.66 | 3.5* | -0.39 | -1.7 |
| 1977-78 to 1983 | 0.05 | 0.2 | -0.68 | -3.7* |
| 1983 to 1986-87 | -0.06 | -0.3 | -0.53 | -2.5* |

Note: Asterisk indicates that the correlation is significant at 5 per cent level.

clear from TJ's writing why these conclusions do not follow even descriptively from a careful examination of our tables. They repeatedly make criticisms without providing explanation.

The decomposition proposed in the paper has important implications for the 'trickle-down' mechanism which is widely talked about by economists. Unfortunately, TJ dismiss this approach by calling it descriptive or non-causal. They further assert that there are interpretational problems with the decomposition of which we are not aware. The authors make such criticisms without providing any explanation. The only point on decomposition methodology raised by TJ is that depending upon in which year (base or terminal) Lorenz curve is kept unchanged the results can have very different interpretational implications. This is a valid point. The choice of the year is arbitrary. We chose the base year Lorenz curve because we felt that this was a natural choice. If TJ provided a rationale for selecting the terminal year Lorenz curve, we would, of course, adopt it but we believe that there exists no such rationale. It might interest *EPW* readers to note that the same authors have written a paper (June 1990 after our paper was published) using the same decomposition.²

GROWTH AND INEQUALITY ELASTICITIES

TJ argue that the growth and inequality elasticities estimated by us are of no value in the absence of an explicitly formulated economic model incorporating the mechanisms and processes connecting poverty, mean PCHE and relative inequality. We never implied that these elasticities would provide any clues to causality. Our aim in computing these elasticities was more

modest, viz, to examine whether or not there is a temporal tendency for the poverty ratio to exhibit greater (or lesser) responsiveness to changes in growth and inequality. The question 'how' growth was impinging on poverty was never asked. Of course, it would be nice to formulate an economic model which incorporates all the processes concerning poverty but such a model has to be a fully blown general equilibrium model encompassing all the sectors of the Indian economy and their linkages to the foreign sector. We invite TJ to attempt such a model and throw light on causality.

In this context, TJ also point out that the elasticities are point elasticities and, therefore, are conditional upon the points of evaluation which should be kept constant in order to detect true inter-temporal changes. It seems that they have completely missed the meaning of these elasticities. It is true that the Engel elasticities are computed at a given point because they are generally not invariant to the points at which they are evaluated. TJ are extending the same idea to the growth and inequality elasticities. These elasticities are computed from given income or expenditure distributions. They are in fact fixed for a given distribution. Any provided the methodology which can encompass alternative assumptions. It is not clear whether TJ are criticising our assumption or the methodology itself. All economic models are constructed on the basis of some assumptions and, therefore, the conclusions emerging from them are never unambiguous. Thus their criticisms relating to our elasticity calculations are unnecessary.

The final point on elasticities made by TJ is that growth and inequality elasticity cannot be related to growth and inequality effects. This is correct but we have not made

any attempt to relate the two. Elasticities measure the responsiveness whereas effects measure the actual change due to growth and income redistribution. Elasticities are computed on the basis of expenditure distribution for one year only whereas to compute growth and inequality effects we require expenditure distributions in two periods. Both these concepts convey quite different information about the characteristics of poverty. The elasticities are useful for simulating the effect of alternative policies. But it is equally useful to explain the actual changes in poverty. It is puzzling to know what point TJ are making by alleging that we are relating the two concepts. On the basis of the magnitudes of inequality elasticities, we do make two statements: (1) if the inequality deteriorates during the course of economic growth poverty may increase ever, with a faster economic growth because of temporal change in them reflects the changes taking place in the income distributions. It makes little sense to fix a point of evaluation

As pointed out in our paper, the computation of poverty elasticity with respect to inequality is difficult because keeping per capita consumption constant, inequality in distribution can change in infinite ways. To compute this elasticity we need to make an assumption as to how inequality is changing; for instance, whether inequality is increasing by decreasing the share of the poor or increasing the share of the rich. In our paper, we have clearly stated that inequality elasticities are based on a proportional shift in the Lorenz curve and, therefore, are not unambiguous. This assumption may not be acceptable but one can compute these elasticities with alternative assumptions. We have

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growth and inequality elasticities are considerably higher for the ultra-poor than for the poor implying that increasing inequality will hurt ultra-poor more than the poor. Then TJ go on to say, "both the statements imply general reduction in inequality and not a particular characterisation used in B". This statement is based on the mistaken impression that we related inequality effects and elasticities. We made no effort to establish causality between growth, inequality and poverty. It seems that TJ have completely misinterpreted what has been said in our paper.

DATA RELATED PROBLEMS

TJ raised two other data related points. They argue that 1977-78 NSS poses problems as it reports unusually high proportion of expenditures on durables at the top open ended class interval. We have no access to their *all India* analysis of this problem, we did, however, look at this problem at the *State-level* and found it relevant only for two States, Maharashtra and Rajasthan, and made appropriate adjustments. It is worth stressing that a judgment on how serious is this problem is essentially a subjective judgment. We believe the problem is more serious in the two States mentioned. The expenditure figures on durables in the other States did not lead us to suspect their accuracy. TJ, however, are right in pointing out that the adjustments made for Maharashtra and Rajasthan in real mean PCHE have not been carried over to our decomposition exercises for period I. This was done in our revised, recent version of the paper [Kakwani and Subbarao, 1990a], and we found no change in the direction of results.

TJ also point out that we have made some calculation errors in computing PCHE. To clarify our position, we only need to repeat the procedure we adopted in computing all India PCHE. We have adjusted the expenditures in current prices for each State for State wise price differences (both over time and across States) and then aggregated to derive all India real PCHE estimates. Our estimates therefore, need not correspond with those all India PCHE estimates derived on the assumption that the price levels in different States are the same each year. Moreover, our all India estimates of the real PCHE are based on the average for 15 States, whereas the published all India tables are averages for more than 15 States. Thus the observed differences in the numerical results are to be expected owing to differences in methodology and coverage they do not reflect lack of care on our part but a lack of understanding on the part of TJ about the procedure we used in estimating all India PCHE.

REGRESSIONS

It is quite obvious from even a casual reading of our paper that regression relationships were not estimated to establish causality. Our purpose was again limited to testing

the hypothesis whether or not there exists a significant association between the variables. If the association is found to be statistically insignificant, it would most likely imply a non-existence of causal relationship. But if the association is statistically significant, it would only mean monotonicity in the relationship between the variables. One would then require further investigation to establish causality. This task could have been accomplished by using correlation coefficients. But we used regressions because they immediately provided us with the t values.

OTHER ISSUES

Finally, TJ object to our use of two point comparisons. It is well known that NSS is now available only quinquennially and one can only compare five-year periods so that, contrary to TJ's hope, there is no way one can get a complete time series for the 1970s and the 1980s. TJ's references to the problems created by the dance of the monsoons is a real one, but we disagree with their view that the years chosen by us are "exceptional years", especially when analysis is conducted at a disaggregated State-level, we also do not see much logic in ignoring observations on the basis of such factors as the rate of inflation. It is worth stressing no two years can ever be "identical years" from the viewpoint of sectoral, macro, fiscal and monetary angles even if data were available on a time series basis, every year has some year specific factors associated with it. Variation is the reality and it is the analysts' job to explain this variation, of course with due regard to exceptional extraneous occurrences (such as the drought of 1987). We believe there was no such exceptional occurrence in the chosen years, we hasten to add that it is our personal judgment. Moreover, purists might argue—and TJ may be in sympathy with them—that we need at least 20 observations, and given five yearly surveys, we need to wait for a hundred years to do any meaningful analysis of poverty "trends" in India. In that sense, we have no hesitation in saying that we do not belong to the category of purists.

The above discussion shows that there was nothing wrong with our methodology and the deflator chosen, causality was never implied (let alone established) by us, the qualitative conclusions of our paper nevertheless hold good, that there were no errors in our estimation, and that TJ's suggestion of haste in our publication is without any basis.

Notes

1. We have greatly benefited from discussions with Martin Ravallion who suggested to us to separate the interaction term from the inequality effect. For an excellent discussion of the decomposition see Datt and Ravallion [1990].
2. The decomposition proposed by TJ makes little intuitive sense. It is beyond the scope of the present note to provide a detailed critique of it.

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Seeing in Gestalt

C S Lakshmi

THIS is in response to the comments on my article 'Mother, Mother-Community and Mother-Politics in Tamil Nadu' (*EPW*, October 20-27, 1990). I have read the comments of V Geetha (*EPW*, February 16) and Pandian and others (*EPW*, April 20) with interest and care because the critiques have come from a quarter whose opinions I value personally. My paper has been seen, as suffering from a severe bias against the Dravidian Movement in general and with a most pronounced bias against the Self Respect Movement. My political project has been seen as one intent on deliberately suppressing information and distorting history in the name of women's studies. These are very serious allegations because the purpose of women's studies is to add new perspectives to history, not to distort it.

I have taken up identity-politics whose major determinant in this case is language in my opinion. Despite other determinants of caste, religion and class, language is one determinant that has cut across barriers. The identity is established by returning, recreating and recasting terms, idioms and images associated with the language and the identity is sustained through linguistic conventions and associations. In the process the identity gets fixed in such fundamental ways that it has to work within this fixity and perpetuate this fixity. This results in an undynamic and uncritical way of perceiving culture justified as reverence for culture and the culture descends into unalterable specifics in terms of gender. My project has been to study biology, culture and identity-politics and understand how women have carried their maternal bodies through this politics as historical entities. The attempt was not to see women as victims of a culture and politics but to place them in a context and see things in gestalt. I have attempted this as a Tamil woman whose growing years have been influenced both by the language and the ideas that have built the Tamil identity. If I have placed it under critical scrutiny now, I have done it with the same anger and ruthlessness with which Periyar himself questioned his cultural 'heritage'.

For the 1986 Women's Conference held at Chandigarh I sent a paper entitled 'Changing Times and Women: Participation without Protest'. In it a paragraph reads:

... The only persons who were raising questions about what it is to be a woman at this point were those in the Self Respect Movement led by E V Ramasami Naicker, E Ve Ra, as he was known. He had a defiant way of raising questions that were basically meant to shock people; to shake them out of complacency; to face reality. He felt that notions of motherhood curbed women's freedom.

Women must give up begetting children in order to be truly free, according to him (*Penn En Adimai Anai?* p 86). Many women who were in the Self Respect Movement were convinced that religion that bound women and men who enslave women had to be tackled before any cry for social reform. Many of them gave fiery speeches in conferences organised for women in the movement. In a meeting where women's freedom was the major topic only a hundred women came. There were, however, more than 2,000 men. Pointing this out, one of the most powerful speakers of the Self Respect Movement, Neelavathi, asked the male audience what they had gained by enslaving women. She spoke again over a roar of protest. "What have you gained", she asked, "except enslaving us?". She added sarcastically that many Tamil poems speak about the beauty of women's feet which are like flowers. She told the men to buy them slippers at least. She said that a woman must be allowed to use umbrellas. They were protection against the rain, she said. "If your women hold it nothing will happen to their chastity", she said bitingly (*Kudi Arasu*, May 29, 1932, p 9). Slippers and umbrellas were not considered important for women probably because they were not expected to go out. When even these minor matters were controversial, it was no wonder that the Self Respect Movement urged the entire role of woman at home to be questioned. Not that there were no contradictions within the movement. Some of their important women felt that education must not make the woman lose her feminine qualities or make her give up household chores (Report on Women's Conference, welcome speech of Tamarai Kanni Ammaiyar, *Kudinoor* (Coimbatore) 1938, p 15). But the question of what is essentially female was raised only by the Self Respect Movement at this time. The other women apart from accepting mothering as a woman's main role referred every now and then to mystical powers of Shakti that the woman possessed which was not seeming to do her much good.

Between 1986 and 1990 no dramatic upheavals have occurred to alter my position and turn me into a Dravidian-hater. However, I went back to the contradictions I mentioned in passing in the paper, when I began work on a paper on 'Gender, Language and Identity-Politics'. It seemed to me that the women's question was not one as it is very often referred to but a plurality of issues to which language added several dimensions. It was not just a question of liberation from oppression of a specific nature enshrined in religion, caste and culture which was made verbally explicit for everyone to see but a variety of issues arising from the nature and mode of induction and participation in this politics of libera-

tion planned as part of establishing a specific cultural identity and the manner in which the problems have been named. When despite blatant visibility and naming, there is a fixity in identity along gender lines at a later stage, one has to look beneath the visibility into hidden areas that were already leading to a particular denouement and look at what has gone along with the naming. To me it appeared that language was a major entry for women into identity-politics and with language came terms, images and definitions regarding gender. With the text of Periyar and other ideologues of the movement like Sami Chidambaram, there were several other strands running counter, parallel and intertwined, forceful and dormant at varying periods. Into Periyar's text was written his personal life because of his charismatic personality and because of the endearment 'thandai' to which he responded and because of the manner in which he had politicalised his person.

I have tried to place these several strands of views, comments, activities and notions ranging from the sublime to the bizarre which work along and at the same time counter to the programme of Periyar of questioning essentialisation of gender and at the end, turn it on its head. (By the way, there were two paragraphs giving details of Periyar's thoughts on men liberating women and on *Thirukkural* which were left out by the typist in the final draft not with any sinister motives but because of oversight.) It is in this context—in the context of what seemed to be a radical programme descending into specificities of gender—that I refer to Frigga Haug's comments on division along gender lines and not to dub the members of the Self Respect Movement as Nazis. In no other reading of the paper was this meaning read into the paper. Regarding periodisation of the movement, from the point of view of the women of the movement I saw four phases of major importance. The initial phase of meetings; participation in the anti-Hindi agitation; Nagammai's death and later; Periyar's marriage to Maniyammai and later. The non-separation of the phases of the movement along the usual lines was because I was dividing the movement into phases which I thought was more relevant to the women participants. However, this part of the paper may need alteration now to bear out my position more clearly, leaving no room for doubts.

I am writing this merely to clarify my stand regarding motivation because there seems to be a feeling that I have 'studied down' Dravidian politics. Given the political times we live in where one's caste is mistaken for one's position I felt this clarification was immediately needed. A longer paper I am planning to write and hoping to publish in the *EPW* would, I hope, clear all other doubts.



SOCIETE GENERALE
THE FRENCH AND INTERNATIONAL BANK
(Incorporated in France with Limited Liability)
BOMBAY BRANCH

BALANCE SHEET — MARCH 31, 1991

(Currency Indian Rupee)

| March 31 1990 (Note 4) | CAPITAL AND LIABILITIES | March 31 1991 | March 31 1990 (Note 4) | PROPERTY AND ASSETS | March 31 1991 |
|---------------------------|---|------------------|---------------------------|--|------------------|
| | 1 Capital: Face value of securities deposited with Reserve Bank of India under section 18(2) of the Banking Regulation Act 1949— Market value Rs 8 600 000 00 (previous year Rs 6 365 875 00) included under investments on the opposite side | 8 600 000 00 | 114 510 020 09 | 1 Cash In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes) | 277 814 520 41 |
| 6 450 000 00 | | | 3 851 477 05 | 2 Balances with Other Banks: On Current Account (i) In India 816 120 11 (ii) Outside India 15 400 385 74 | 16 216 505 85 |
| 1 900 000 00 | 2 Reserve Fund and Other Reserves | 7 650 000 00 | 28 054 016 06 | On Deposit Account (i) In India Nil (ii) Outside India Nil | Nil |
| Nil | 3 Deposits and Other Accounts Fixed Deposits (i) from banks 306 000 000 00 (ii) from others 1 154 747 831 90 | 1 460 747 831 90 | 31 905 393 11 | 3 Money at Call & Short Notice | 16 216 505 85 |
| 955 657 375 64 | Savings Bank Deposits | 20 575 320 12 | 150 000 000 00 | 4 Investments: (i) Securities of the Central and State Governments and other Trustee Securities including Treasury Bills of the Central and State Governments | 448 015 750 00 |
| 955 657 375 64 | Current Accounts | | 288 948 750 00 | (ii) Fully paid up equity shares | 180 000 00 |
| 14 971 836 16 | Contingency Accounts | | 180 000 00 | (iii) Debentures or Bonds | Nil |
| | (i) from banks 7,875 080 46 | | Nil | (iv) Units of the Unit Trust of India (previous year at market value) | 66 003 750 00 |
| 1 947 965 10 | (ii) from others 33 450 083 25 | 41 305 164 81 | 29 450 000 00 | (v) Gold | Nil |
| 45 421 610 42 | | | 318 568 750 00 | | 514 239 500 00 |
| 57 349 575 52 | 4 Borrowings from Other Banking Companies Agents etc: (i) In India (ii) Outside India | 1 522 628 615 83 | | 5 Advances (see Note 1 & Note 4) (Other than bad and doubtful debts for which provision has been made to the satisfaction of the auditors) (i) Loans Cash Credits Overdrafts etc (i) In India 300 400 692 36 (ii) Outside India Nil | 300 400 692 36 |
| 1 007 988 787 42 | Particulars Secured Nil Unsecured 7 703 200 00 | 7 703 200 00 | 412 191 982 14 | (ii) Bills discounted and purchased (Excluding Treasury Bills of the Central and State Governments) (i) Payable in India 451 874 385 52 (ii) Payable outside India 5 849 12 | 451 880 234 64 |
| 197 406 100 00 | | | 312 191 982 14 | | |
| Nil | | | | | |
| 197 406 100 00 | | | | | |
| Nil | | | | | |
| 197 406 100 00 | | | | | |
| 6 071 403 54 | 5 Bills Payable | 47 241 465 19 | | | |
| | 6 Bills for Collection being Bills Receivable as per contra (i) Payable in India 2 703 167 35 (ii) Payable outside India 17 038 465 32 | 19 741 632 67 | | | |
| 8 380 071 14 | | | | | |
| 41,517 138 97 | | | | | |
| 49 897 210 11 | 7 Other Liabilities (i) Head Office Account not Discounted 17 280 981 53 (ii) Other Liabilities 111 553 136 25 | 191 222 878 54 | 174 783 178 54 | | |
| 62 388 760 75 | | | 26 051 019 82 | | |
| 7 759 575 18 | | | 200 834 198 36 | | |
| 61 154 253 56 | | | 613 026 180 50 | | |
| 131 302 589 49 | | | | | |
| 1,396 966 090 46 | Carried Forward | 1 796 187 592 22 | 1 225 010 343 70 | Carried Forward | 1 690 551 453 46 |

SOCIETE GENERALE
THE FRENCH AND INTERNATIONAL BANK
(Incorporated in France with Limited Liability)
BOMBAY BRANCH

BALANCE SHEET — MARCH 31, 1991
(Currency Indian Rupee)

| March 31 1990 (Note 1) | CAPITAL AND LIABILITIES | | March 31 1991 | March 31 1990 (Note 4) | PROPERTY AND ASSETS | | March 31 1991 |
|---------------------------------|--|---|------------------|--|--|--|------------------|
| 1 496 966 (90) 46 | Brought Forward | | 1 796 187 592 22 | 1 228 010 343 70 | Brought Forward | | 1 690 551 453 41 |
| 444 339 171 62 | 8 Acceptances Endorsements and Other Obligations as per contra | | 364 253 029 35 | 8 380 071 14 41 517 138 97 49 897 210 11 | 6 Bills Receivable being Bills for Collection as per contra: (i) Payable in India (ii) Payable outside India | 2 703 167 35 17 038 465 32 | 19 741 632 6 |
| 9 466 779 14 | 9 Profit and Loss Account Profit as per last balance sheet Less Remitted to Head Office during the year | 12 842 905 37 (6 486 250 00) 6 356 655 37 | | 444 339 171 62 Nil | 7 Constituents' Liabilities for Acceptances, Endorsements and Other Obligations as per contra | | 364 253 029 35 |
| (1 766 108 00) 5 700 671 14 | Add Profit for the year as per Profit and Loss Account Less Transferred to Reserve Fund and Other Reserves | (1 766 108 00) 5 700 671 14 | | | 8 Premises Less Depreciation | | Nil |
| 11 042 244 23 | | 18 082 496 60 | | | 9 Furniture and Fixtures including Office Equipment Less Depreciation Original cost— beginning of year Add Additions during the year | 18 475 434 94 1 082 210 04 19 557 644 98 | |
| (3 900 000 00) 12 842 905 37 | 10 Contingent Liabilities (i) Claims against the Bank not acknowledged as debts (ii) Guarantees given on behalf of Customers (iii) Bills of Exchange rediscounted (iv) Outstanding forward exchange contracts | (3 900 000 00) 11 492 761 00 129 510 994 93 110 000 000 00 900 310 810 95 | 21 289 651 97 | 16 546 466 35 2 006 443 59 18 552 909 94 (77 475 00) 18 475 434 94 (9 699 938 33) 8 775 496 61 | Less Deletions during the year Less Accumulated depreciation | (272 381 46) 19 285 263 52 (11 587 459 21) | 7 697 804 31 |
| 14 479 832 00 | | | | 11 429 091 40 | 10 Other Assets (i) Interest accrued on investments (ii) Prepaid expenses advance payments deposits and amounts receivable (iii) Vehicles less depreciation (iv) Stationery and stamps (v) Advance payment of tax and tax deducted at source | 13 331 738 55 51 218 647 33 774 191 95 84 005 12 71 078 771 00 | |
| 122 995 886 27 | | | | 55 874 561 21 291 292 12 69 841 85 | | | |
| 200 000 000 00 | | | | 55 162 155 50 122 725 945 11 | | | 199 486 353 75 |
| 776 154 456 00 | | | | Nil | 11 Non Banking Assets Acquired in Satisfaction of Claims | | Nil |
| 1 853 748 167 45 | Total | | 1 881 730 273 54 | 1 853 748 167 45 | Total | | 2 181 730 273 54 |

The accompanying notes are an integral part of this statement

ARTHUR ANDERSEN & ASSOCIATES
Chartered Accountants
Sd/
Vijay Sahni
Partner

For SOCIETE GENERALE—BOMBAY BRANCH
Sd/
S. Martyns
Assistant General Manager

Sd/
J. P. Duroquet
General Manager

Bombay May 30 1991



SOCIETE GENERALE
THE FRENCH AND INTERNATIONAL BANK
(Incorporated in France with Limited Liability)
BOMBAY BRANCH

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 1991

(Currency Indian Rupee)

| 1990 (Note 4) | EXPENDITURE | 1991 | 1990 (Note 4) | INCOME (less Provision made during the year for bad and doubtful debts and other usual or necessary provisions) | 1991 |
|------------------|---|----------------|------------------|--|----------------|
| 96 325 240 97 | 1 Interest Paid on Deposits Borrowings etc. | 117 835 804 65 | 110 398 514 68 | 1 Interest and Discount | 171 721 221 27 |
| 9 096 658 75 | 2 Salaries Allowances Provident Fund Bonus etc. | 8 061 722 94 | 12 650 979 15 | 2 Commission Exchange and Brokerage | 17 509 046 41 |
| 44 250 00 | 3 Directors and Local Committee Members fees and allowances | 17 800 00 | Nil | 3 Rents | Nil |
| 5 310 017 50 | 4 Rent Taxes Insurance Lighting etc. | 6 087 004 82 | | 4 Net Profit on sale of Investments Gold and Silver Land Premises and other Assets (not credited to reserves or any particular Fund or Account) | 2 091 607 00 |
| 621 976 90 | 5 Law Charges | 879 827 00 | 1 145 254 45 | 5 Net Profit on revaluation of Invest- ments Gold and Silver Land Premises and other Assets (not credited to reserves or any particular Fund or Account) | Nil |
| 1 687 354 82 | 6 Postage Telegrams and Stamps | 1 624 186 14 | 2 650 000 00 | 6 Income from non banking Assets and Profit from Sale of or dealing with such Assets | Nil |
| 170 000 00 | 7 Auditors fees | 195 000 00 | | 7 Other Receipts | 1 940 718 19 |
| 3 524 587 48 | 8 Depreciation on and repairs to the banking company's property | 4 721 096 89 | Nil | | |
| 1 258 789 17 | 9 Stationery Printing Advertisements etc. | 1 115 515 62 | 3 96 581 84 | | |
| Nil | 10 Loss from sale of or dealing with non banking assets | Nil | | | |
| 6 039 222 30 | 11 Other Expenditure (including Head Office Supervision Charges) | 8 008 430 22 | | | |
| 11 042 244 23 | 12 Balance of profit | 18 682 996 00 | | | |
| 131 110 332 02 | TOTAL | 196 262 582 87 | 131 110 332 02 | TOTAL | 196 262 582 87 |

The accompanying notes are an integral part of this statement

ARTHUR ANDERSEN & ASSOCIATES
Chartered Accountants

Sd/
Vijay Sahu
Partner

For SOCIETE GENERALE—BOMBAY BRANCH

Sd/
S. Martyres
Assistant General Manager

Sd/
J. P. Ducroquet
General Manager

Bombay May 30, 1991

SOCIETE GENERALE
THE FRENCH AND INTERNATIONAL BANK
(Incorporated in France with Limited Liability)
BOMBAY BRANCH

NOTES AND SCHEDULES TO FINANCIAL STATEMENTS AT MARCH 31, 1991

1 Principal accounting policies

(a) General

The accompanying financial statements have been prepared on the historical cost basis and conform to the statutory provisions and practices prevailing in the country.

(b) Transactions involving Foreign Exchange

- (i) Monetary assets and liabilities have been translated at the exchange rates ruling at the close of the year.
- (ii) Income and expenditure items have been translated at the exchange rates ruling on the date of the transaction.
- (iii) Profit or loss on outstanding forward contracts have been accounted on an accrual basis.

(c) Investments

Investments are valued at the lower of cost or market value.

(d) Advances

- (i) Provisions for doubtful advances have been made to the satisfaction of the auditors.
- in respect of identified advances based on a periodic review of advances and after taking into account the portion of advances guaranteed by the Export Credit and Guarantee Corporation and similar statutory bodies.
- in respect of general advances based on management's estimates of potential exposure and taking into account guidelines issued by the Government of India and the Reserve Bank of India.
- (ii) Advances are shown Net of Bills Rediscounted under the New Bill Market Scheme of the Reserve Bank of India.

(e) Fixed Assets

- (i) Fixed assets have been accounted at their historical cost.
- (ii) Depreciation has been provided on the diminishing balance method at the following rates per annum:

| | |
|----------------------------------|-----|
| Furniture and fixtures | 10% |
| Electrical fittings and fixtures | 33% |
| Equipments | 33% |
| Motor vehicles | 33% |
- (iii) Certain fixed assets which were provided without charge to the Branch by Head Office are included in these accounts at nominal value for the purpose of control.

(f) Staff Benefits

Provision for gratuity is made on the basis of an actuarial valuation. Provision for pension benefits is made on an accrual basis. Separate funds for gratuity and pension have been created.

(g) Taxation

The balance of profit disclosed in the Profit and Loss Account is after provision for taxes on income in accordance with statutory requirements.

2 Remuneration paid to the Chief Executive Officer(s) in India

| March 31 1990 | | March 31 1991 |
|------------------|---|------------------|
| 311 760 | Salary | 461 560 |
| 55 412 | Perquisites evaluated in accordance with Income tax Rules | 81 227 |
| 360 179 | | 542 787 |

3 Schedule of Particulars of Advances required by the Banking Regulation Act 1949

| March 31 1990 | PARTICULARS | March 31 1991 |
|------------------|--|------------------|
| 430 458 107 46 | (i) Debts considered good in respect of which the Banking Company is fully secured | 421 652 241 68 |
| 52 464 118 54 | (ii) Debts considered good for which the Banking Company holds no other security than the debtors' personal security | 6 931 133 61 |
| 230 104 954 70 | (iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors | 224 697 551 91 |
| Nil | (iv) Debts considered doubtful or bad not provided for | Nil |
| 613 026 180 50 | Total of advances | 752 280 927 20 |
| 201 027 93 | (v) Debts due by directors or officers of the Banking Company or any of them either severally or jointly with any other persons | 156 750 00 |
| Nil | (vi) Debts due by Companies or firms in which the directors of the Banking Company are interested as directors, partners or managing agents or in the case of private companies as members | Nil |
| 238 850 09 | (vii) Maximum total amount of advances including temporary advances made at any time during the year to directors or managers or officers of the Banking Company or any of them either severally or jointly with any other persons | 201 027 93 |
| Nil | (viii) Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the directors of the Banking Company are interested as directors, partners or managing agents or in the case of private companies as members | Nil |
| 1 047 601 00 | (ix) Due from Banking Companies | 189 553 639 21 |

4 Previous year's figures have been regrouped wherever necessary.



SOCIETE GENERALE
THE FRENCH AND INTERNATIONAL BANK
(Incorporated in France with Limited Liability)
BOMBAY BRANCH

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS
UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949

We have examined the balance sheet of the Bombay Branch of Societe Générale (incorporated in France with limited liability) at March 31, 1991 and the related profit and loss account for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have also obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our examination and have found them to be satisfactory.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 and the provisions of Sub-Sections (1), (2) and (5) of Section 211 and Sub-Section (5) of Section 227 of the Companies Act, 1956 the financial statements are not required to be, and are not drawn up, in accordance with Schedule VI to the Companies Act, 1956. The accounts are, therefore, drawn up in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act, 1949.

In our opinion, the accompanying financial statements give a true and fair view of the state of affairs of the Bombay Branch of Societe Générale at March 31, 1991 and of its profit for the year then ended.

Furthermore, in our opinion,

- (a) the transactions of the Bombay Branch which have come to our notice have been within the powers of the Bombay Branch of the Bank,
- (b) the balance sheet and the profit and loss account are in agreement with the books of account and give the information required by the Companies Act, 1956, in the manner so required for banking companies, and
- (c) the Bombay Branch has maintained proper books of account as required by law insofar as appears from our examination of those books.

ARTHUR ANDERSEN & ASSOCIATES
Chartered Accountants

Sd/-
Vijay Sahní
Partner

Bombay May 30 1991

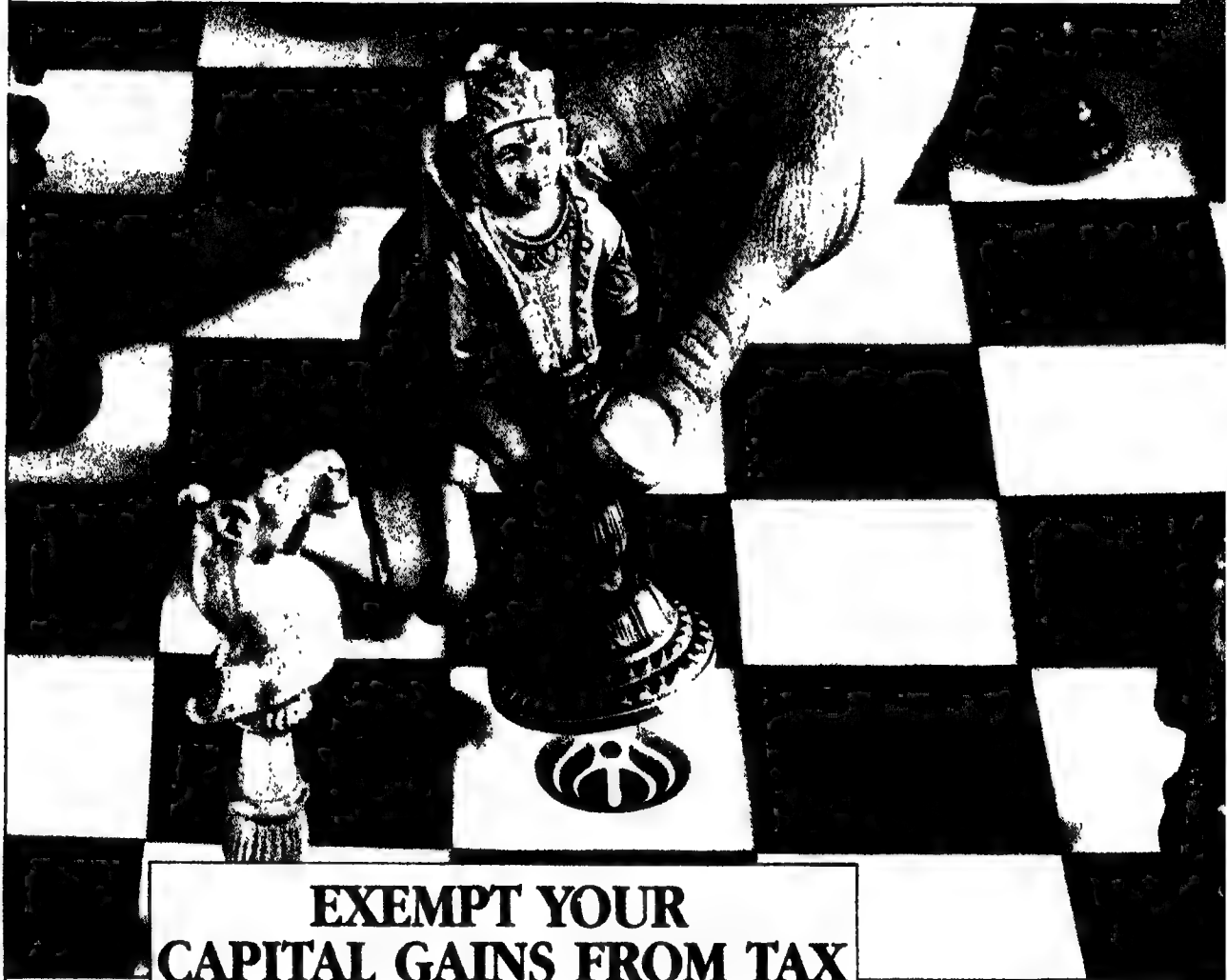


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ECONOMIC AND POLITICAL

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Monetary Policy for LDCs

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The news the images and the views on a single page of a single newspaper on a single day exemplify how the media, instead of serving as a critique of the ruling ideology, can be appropriated by that ideology to function as its cultural apparatus **1516**

Time to Change

One must hope that the new government will revise the old negative attitude adopted by the Congress(I) towards Amnesty International in the past Amnesty is not anti Indian **1508**

On Names

IN view of the election of P V Narasimha Rao as Congress(I) president, I would like to bring to your notice the following in relation to the usage of Telugu/Andhra names 'Rao', *ipso facto*, does not denote either the caste or the religion of the person being referred to. For example, P V Narasimha Rao is a Brahmin, J Vengala Rao, a Velama (a warrior clan), N T Rama Rao, a Kamma (a powerful all-round community, also called 'Choudari'), and Ch Devananda Rao is a Christian. Only the Telugu Muslims do not use 'Rao'. So, it will be preferable to describe the person concerned either by his full name or, wherever it is not possible, by his initials—like 'PV' and 'NTR'.

N M GOURIPATI RAO

Madras

Biased Interpretations

THERE are a few factual errors in Shatrugna's report (May 18). (1) The Congress candidate contesting from Anakapalle parliamentary constituency was not T Subbarami Reddy but K Ramakrishna (the sitting MP who won in the last election defeating his TDP rival by a majority of nine votes). (2) In explaining the allocation of seats among different caste groups by the Congress(I) and TDP the castes mentioned are Reddys, Kammas, Kshatriyas, Rajus, BCs, SCs and Muslims and the forward castes. Shatrugna states, "for the 34 general seats Reddys 13, Kammas 5, the rest being from the forward castes". Do not Kammas, Reddys, Rajus belong to the forward castes? What castes does Shatrugna have in mind when he talks about 'forward castes'? (3) Rajus, Kshatriyas are not two separate castes but are two names for the same caste.

Shatrugna states that the TDP candidates are non glamorous or are people with humble beginnings. This interpretation of the candidates' backgrounds depends on the colour of one's glasses. The TDP candidates from Visakhapatnam, Amalapuram reserved constituency and Anakapalle, only, to mention a few examples, are people who, from modest beginnings have become very affluent. It is said that in fact the TDP was reluctant to put up the candidate from Amalapuram constituency because he had amassed riches in a short period during his tenure as chairman, zilla parishad. He was selected because he would be able to fight the less-rich but more popular Congress(I)

candidate from the constituency.

It is common knowledge that the tobacco tycoons, liquor barons, civil contractors and film stars do not stake their claims in any one political party. Like bank's investments, they also spread their risks. All important political parties in the country have the support of such people. One has only to look at the antecedents of the TDP general secretary and the TDP ex minister Siva Reddy to counter the conclusion that these tycoons are the monopoly of only one party.

K SUBRAHMANYAM

Communists and Demand for Pakistan

WITH some people, particularly a section of the big press, any stick is good enough to beat the communists with. Here is an example. *The Telegraph*, Calcutta, April 4 in its editorial 'Dangers of Opportunistic Alliances', alleged among other crimes, that the Indian communists "chose the Muslim League as their ally and supported its platform of a separate Pakistan". In a letter to the editor of the newspaper dated April 5, this correspondent, among other things, pointed out:

The communists never sought or established an alliance with the Muslim League or against the Congress. If you kindly look up

the documents of the period, then you will find that they really called for Congress-Muslim League unity as the fulcrum of the Indian national unity. They never supported Pakistan but only the demand for the right of self determination of "the various nationalities such as Pathans, Western Punjabis (dominantly Muslim), Sikhs, Sindhis, Hindustanis, Rajasthanis, Gujaratis, Bengalis, Assamese, Beharis, Oriyas, Andhras, Tamils, Karnatakas, Keralas, etc", so that "free India of tomorrow would be a federation or union of autonomous States".

Moreover, the communists had then made it specifically clear that their proposal "conceded the just essence of the Pakistan demand and has nothing in common with the separatist theory of dividing India into two nations on the basis of religion". The communist document further states that "the recognition of the right of separation in this form need not necessarily lead to actual separation. On the other hand, by dispelling the mutual suspicions, it brings the unity of action today and lays the basis for a greater unity tomorrow."

This letter to *The Telegraph* was sent by registered post. On May 14, a reminder was sent also under registered post. But *The Telegraph* maintained its total unconcern. The letter has not been published. Since the issue is of some importance to the political history of the country, one hopes that the *EPW* will carry this rejoinder.

AJIT ROY

Calcutta

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Shaky Outcome

THE elections to the tenth Lok Sabha have, more or less as expected, yielded a Congress(I) government in New Delhi, but one without a clear majority in the lower house of parliament. What is more, but for Rajiv Gandhi's assassination midway through the elections, the Congress(I) would have ended up with some 60 fewer seats than it has now secured, or some 30 odd seats below even its dismal 1989 tally. This is a matter of some significance, for it confirms that the Congress(I) under Rajiv Gandhi's leadership had failed to arrest its political decline, despite the splintering of the anti-Congress electoral alliance forged for the 1989 elections and the unprepossessing record in office of the short-lived National Front government and its Samajwadi Janata Dal successor. The quick fall of these non-Congress governments and all the attendant political confusion and chaos notwithstanding, the Congress(I)'s principal electoral plank of being the only party capable of bringing back political stability cut little ice with the voters, taking the country as a whole. In other words, there was to be no repetition of the party's triumphant sweep back to power of 1979 after the two-year Janata Party interregnum; even under the continued tutelage of the Nehru family, the days of the Congress(I)'s dominance of the country's politics were very definitely over.

Very many factors and forces have, of course, made for the Congress(I)'s political decline, but the parallel occurrence of this process and the ushering in of the phase of so-called economic liberalisation or the stepped-up pursuit of market-driven capitalist development under Congress governments in the eighties led first by Indira Gandhi and then by her son cannot be dismissed as a coincidence and no more. The marked drying up of employment opportunities in the organised segments of the economy, the sharpened disparities among classes and groups and economic sectors and regions, the heightened clamour and competition from the prosperous and the powerful for politically-mediated give-aways have all found their echoes in the multiplying social and political divisions, tensions and conflicts. In this grab as grab can situation, it is not the decline of the Congress which is cause for concern, but the diminishing prospects of the parliamentary political system yielding viable arrangements for the governance of the country. Anxiety on this score is by no means premature considering that along with the large fresh loans from the IMF, the securing of which is evidently at the top of the economic agenda of the new Congress government which has just taken office in the capital, will come conditionalities calling for even more rigorous enforcement of the economic regime which has been sought to be put in place over the last decade. The consequences of this for the political set-up in the country is something which has received little attention even from the critics of IMF conditionalities.

To get back to the election outcome, along with putting the seal on the Congress(I)'s decline, the other outstanding aspect of it has been the BJP's spectacular performance, doubling its share of the votes polled from 11.4 per cent in 1989 to 22.9 per

cent and increasing its strength in the Lok Sabha from 86 to 119, thereby confirming its position, which it secured for the first time during the term of Chandra Shekhar's rump government, as the principal opposition party in the Lok Sabha. The demand for the building of a Ram temple at Ayodhya after demolishing the mosque there was a major issue in the BJP's election campaign and therefore there is a plebiscitary element in the electoral support that the party has received. This may prove to be volatile to a considerable extent. But to the extent the party's Hindutva appeal has been successful because of the responsive environment created by the general sense of alienation, frustration and disillusionment among the people, to which the BJP is aggressively offering a cure in the form of 'Ramrajya', its electoral base may remain substantially intact till such time as its own inability to put forward and carry out programmes to concretely deal with these conditions begins to be exposed.

The performance of the Janata Dal, which has emerged from the elections as a principal loser in terms of seats forfeited and reduced share of votes polled as compared to 1989, has served to underscore that the backward castes may be a necessary but are not a sufficient popular base on which to construct a serious agenda for social and economic justice. The successful inroads made by other parties into the scheduled caste vote and the tensions and even murderous clashes between the scheduled castes and the backward castes and among the many layers of the latter themselves hold lessons which the party will need to assimilate.

Despite its unseating from power in Kerala, the Lok Sabha elections have once again shown the electoral base of the Left to be limited but relatively stable. However, indications are visible already of a dilemma the Left is going to be confronted with. The contradictory and confusing pronouncements by the CPI(M)'s top leaders, for instance, point to the conflict between the Left's opposition to the Congress(I) and its anxiety to roll back the advance of the BJP. This confusion is likely to plague the Left till it broadens its campaign against communalism to include mobilising the people against all the Congress government's policies which have bred an environment so conducive to the growth of Hindu communal sentiment.

A final aspect of the elections to the tenth Lok Sabha which calls for attention is the fall in the proportion of the electorate which chose to exercise its franchise. What an overall poll percentage of 53-54 per cent taken together with the party's own 37-38 per cent share of this vote means is that the Congress is staking its claim to rule the country on the strength of the support of a bare one-fifth of the electorate. The support garnered by the other parties is, of course, even more minuscule. This should help to put the place and role of parliamentary politics in some sort of realistic perspective. It also underscores how limited the real democratic content of the polity will continue to be in the absence of political decentralisation, with all or most power concentrated in political and administrative organs in the Union and State capitals.

POLITICS

Muted Opposition

THE more closely one looks at the post-election scenario the more disturbing becomes the growing symbiosis between the newly elected ruling party and the opposition. The elusive and ambiguous concept of 'stability' seems to be bringing together the Congress(I) and the National Front Left alliance, opening up opportunities for manipulation by both. Both agree in their rhetoric at least that it would not do any good to have yet another mid-term poll. A minority government therefore would have to be accepted. To make the best of a bad job, the NF Left alliance has decided to adopt a "positive approach" to the new government on the plea that the country faces problems of national importance and of urgent nature.

There is a dangerous diversion in all this talk of 'stability' and problems of 'national importance' which is becoming the hallmark of the half-way house approach adopted by the NF Left alliance. The muted opposition to which the alliance's role will be reduced for all practical purposes may pave way for the BJP to emerge as an unalloyed opposition party looked upon by the people as the only full fledged alternative to the Congress(I).

Let us examine the implications of the 'positive approach' line. The IMF loan issue is going to be one of the immediate concerns on the agenda of the new parliament. Will the NF Left combine vote against a budget that could reflect the conditionalities imposed by the IMF? Since such an action could bring about the fall of the government, they could decide to abstain, again on the plea of maintaining stability. But outside parliament can they afford to remain silent on what in the opposition jargon would be an 'anti-people' budget?

Or, take for example a possible confrontation between the BJP-run States and the Congress(I) in the Centre. Now that the BJP has lost the parliamentary elections from Madhya Pradesh and Himachal the Congress(I) (as has been its wont in the past) could try to dislodge the BJP government in those States to serve its own partisan interests. This would of course politically suit the NF Left alliance at this juncture. But how could its justification for the option of remaining silent on the dispute be comparable with its general policy on Centre-State relation?

On the question of dealing with terrorism in Punjab and Kashmir, the NF Left alliance already in general agreement with the Congress(I). Bringing up of the repressive apparatus from the perspective of the hardships imposed on the people

thereby—seems to be the consensus decision arrived at by all the national political parties. On this issue, the BJP is also an ally. The bogey of 'national disintegration' (blamed on that omnipotent phantom, the 'foreign hand') has always been raised by the Congress(I) to disarm an opposition all too willing to accept without batting an eyelid whatever the officials of the home and the external affairs ministries feed them with.

The much trumpeted need for a 'stable' government at the Centre, ostensibly to prevent 'national destabilisation', seems to have paralysed the NF-Left opposition parties and is likely to stampede the citizens into accepting whatever unpopular measures that the new government might take. The Left in particular is in an unenviable position. Having asserted all these years the need to fight the Congress(I) tooth and nail, the Left has to find a cover that would convince its cadres and the vote bank that there is a higher cause for its decision to adopt a 'positive approach' to the Congress(I) government. The higher cause of 'national stability' may not cut much ice with the people after the budget. The objects of the Left's 'positive approach' also do not inspire much confidence. They are the same people—the 'coterie' and its opportunist allies in the Congress(I)—against whom the Left had been vociferous. It is futile to discover any 'progressive section' within this group. How long can the Left continue to sustain such a government and shelve thereby the inevitability of another mid-term poll?

IMF LOAN

Real Issues

THE matter of having to resort to the IMF is being wrongly posed. Being a full fledged member of the Fund, the option of approaching it for assistance is, of course, always open to us, though even in this regard a distinction has to be drawn between the types of assistance a country seeks. While first tranche borrowing or borrowing under the compensatory financing facility carries relatively low conditionality, borrowings over and above these carry stringent conditionalities. So in the context of the current debate, let us be very clear that having already availed of the low conditionality financing, what we are now to discuss is the question of high conditionality borrowing from the Fund. It is no longer a simple question of borrowing at a certain rate of interest, for a given period of time and on certain repayment terms. The question is a larger one about the conditions which the Fund attaches to its loans with regard to the country's economic policies, specifically with regard to the trade, tariff, fiscal and monetary policies. In this context the

World Bank's recent document on the strategy of trade reform in India backed by appropriate macro-economic measures becomes extremely relevant.

So when the matter of resorting to the Fund is debated, we have to do so in the full awareness of the sort of conditionalities that the assistance from the Fund will entail. The new government at the Centre will have to bind itself to the obligations that the Fund will want to impose as a precondition to the extension of its assistance. This may well be the very first major matter that the new cabinet will be seized of, a matter brooking little delay or prevarication but all the same one that cannot be decided upon in a rush because the obligations the country will be entering into will determine the government's economic policy over the next three to five years.

As has been brought out in these columns, the package of policy measures advocated by the World Bank in its trade reform report has, to say the least, a very questionable basis. The trade and tariff reform the Bank is advocating will throw open the gates to imports which would either be totally unnecessary or be at the expense of the already well-established domestic industry, especially the capital goods industry in regard to which India has attained a reasonable level of self-sufficiency.

As regards the macro-economic policy measures the Bank advocates, the doubts which arise are as serious and weighty. Devaluation as recommended appears to be totally unwarranted in the light of recent experience. Since the mid-80s despite sharp devaluation of the rupee, our exports have increased at a slower pace than our imports. Moreover, the steady depreciation of the exchange rate is already known to be affecting domestic industry adversely.

As regards budgetary and monetary policy, the World Bank's emphasis on reducing the so-called fiscal deficit raises the strong suspicion that the purpose is not so much to control inflation as to constrain the role of the government in the economy.

In the circumstances, while debating the question of resorting to the IMF, we ought to be clear on whether or not the sort of conditionalities being proposed would be acceptable to us.

MAHARASHTRA

Congress(I)'s Quarter

IN the overall post election tapestry Maharashtra presents a slightly different motif. For one thing, it has given the Congress(I) the largest contingent of MPs from a single State. For another, the saffron wave which has inundated several unexpected areas seems to have made less

if an impact. That's the conclusion one can draw from the overall results from the State. The first is an important factor in the internal power equations within the Congress at the Centre, and the second, while it has elicited sighs of relief from progressive political quarters, has brought even more into the open the innumerable problems within the BJP-Shiv Sena alliance.

Undoubtedly, the Congress(I)'s performance, in the context of its showing in other States, is impressive. And given that most observers acknowledge that a large measure of this success is due to the special efforts of Sharad Pawar in the post-assassination phase which led to a catching up of internal differences, even if only temporarily, it isn't surprising that the Pawar camp should be projecting this as a sign that the party has regained favour with the people of Maharashtra. That is the typical kind of wishful thinking practised in politics. For a significant factor in assessing the election results in the State is the fact of the remarkably poor voter turnout of 47.5 per cent. The Congress(I) won its 37 seats with 47 per cent of the votes. What this means essentially is that less than a quarter of the electorate has supported the Congress(I). Further, while the Congress(I) has secured nine seats more than it did in 1989, it has gained only 1.32 per cent additional votes.

As expected, the party has registered impressive results in Vidarbha, Western Maharashtra and Northern Maharashtra. In Vidarbha it has regained three of the four seats it had lost in 1989 to the BJP. It also regained its Amravati seat lost to the CPI the last time. The defeat of Vasant Sathe in Wardha by a CPI(M) candidate was more or less a foregone conclusion given that the party workers had been openly opposed to him there. The Nagpur seat contested by Banwarilal Purohit, who had only lately left the Congress on the Ayodhya issue to join the BJP, was another prestigious seat: it won with a substantial margin. In Western Maharashtra too it was a clear-cut win for the Congress notwithstanding the defeat of V N Gadgil who, it appears, had not contended with the consequences of leading the dissidence against Pawar. In Northern Maharashtra the party won all but one of the eight seats capturing 53 per cent of the votes.

The Congress performance in the other regions hasn't been as remarkable. In Konkan it secured four out of the five seats, including the prestigious Rajapur seat defeating Madhu Dandavate, with 37 per cent of the votes, only 2 per cent more than the tally of the BJP-Sena alliance which managed to retain the Thane seat by a small margin of 28,000 votes. Thane incidentally had perhaps the smallest voter turnout of 37 per cent. In

Maharashtra the Congress polled only 39 per cent of the votes but regained two seats, Jalna and Beed, which it had lost in the 1989 hustings. And in Bombay, it regained two seats, lost one and retained two.

While it is true that the BJP-Sena alliance lost five of the seats it had won in 1989, it has marginally improved its vote by 0.98 per cent. It has gained an impressive 29 per cent of the votes. Taken separately, this gain has come, significantly, from the Shiv Sena performance which has improved its vote by almost 5 percentage points, whereas the BJP has actually lost about 4 percentage points with six of its candidates losing their deposits. However, the alliance candidates were in second place in 25 constituencies.

The Janata Dal's complete rout in the State is undoubtedly a major factor in the stellar performance of the Congress(I), the most telling evidence of which is the shock defeat of Madhu Dandavate. The anti-BJP vote which would have been shared by the JD and the Congress(I) seems to have moved *en bloc* to the latter. Thus the BJP-Sena alliance's failure in translating vote gains into seats is attributable to the poor performance of the Janata Dal, and not because the alliance's electoral theme failed to take off. On the other hand, it is equally true that it is the Sena which has emerged as the more successful of the two, which could well be a symptom of an even more dangerous trend than the espousal of the Hindutva cause.

RISING PRICES

Uncomplaining Victims

A Correspondent writes:

WITH their attention focused on high politics, most people naturally tend to overlook more mundane affairs of daily life. Following the successive bandhs, official, unofficial and non-official, in the wake of Rajiv Gandhi's assassination, prices of daily necessities all over the country shot up to abnormally high levels. For instance, potatoes which had been selling at Rs 2.20 per kg came to cost Rs 6 for a while in some places. There was a more or less corresponding rise in the prices of other vegetables all over. The mournings and associated bandhs are now events long past, prices, however, have not returned to their previous levels in most cases. Potatoes, for instance, may now be got at Rs 4.00 a kg. Some mercy, no doubt.

After Sriperumbudur, the governments, at the Centre and in the States, have become, rightly indeed, much more security conscious and strengthened the security checks at various levels, from No 10 Janpath and Parliament House to T N Seshan, Jayalalitha and Jyoti Basu. But little or no steps have so far been

taken to safeguard the common people's life-sustaining food items. Indeed, while newspapers and politicians vie with one another in bemoaning the fatal attack on the departed leader, they hardly notice the conspiracy to deprive the poorest of the poor of even their very inadequate food.

But why blame the elite only? Even the poor people themselves who thronged the capital's thoroughfares in hundreds of thousands to bid goodbye to Rajiv Gandhi have not noticeably bestirred themselves to draw others' attention to the conspiracy to starve them. In other words, dominated by the elite-imposed diversionary consciousness as they are, the vast masses at the base of our social pyramid are yet to be aware of their own deprivation to a degree which could stir them to collective action, or at least articulation of their keenly felt wants. This is, indeed, the basic problem of the Indian democracy which cannot be solved by any Constitutional magic or lectures on political morality.

NRI REMITTANCES

Not Attractive Enough

THE Foreign Currency (Ordinary-Non-Repatriable) Deposit Scheme announced by the Reserve Bank is meant to attract NRI funds in the form of non-repatriable deposits. While it is supposed to be "aimed at providing further incentives and to give wider options" to Indians resident abroad, individuals as well as corporations, to make investments in the country, the specific purpose is to delink the inflow of such funds from any future obligation to permit their repatriation. Thus the foreign exchange received under this new scheme, once received, will stay with the government. This is unlike the FCNR and the NRER schemes under which funds received from abroad are repatriable. The difference between these two schemes is that whereas under the former there is no exchange risk because the deposits continue to be designated in foreign currency, under the latter exchange risk is not covered as the deposit is denominated in rupees and the rupee deposit, along with the accrued interest, is reconverted for purposes of repatriation at the exchange rate prevailing at the time of such repatriation. It is precisely because of this difference between the two schemes that the inflow into the deposits designated in rupees had lately totally dried up as the exchange risk has been mounting higher and higher.

In fact, it has been pointed out time and again, the NRER scheme was bound to lose whatever little attraction it had in the form of the higher interest rate, given the pace at which the rupee was being devalued month after month since the mid-1980s. What really needed to be done, therefore, was to create a facility for those

OF OUR NRIs WHO HAD GONE OVERSEAS temporarily leaving their kith and kin behind and who would one day return whereby they could remit their foreign earnings home without fear of incurring exchange loss. It has taken our bureaucrats so many years to wake up to the need to create a facility of the above type. Only the worst type of balance of payments crisis has shaken them to this realisation. But are they not bolting the doors after the horse has fled?

The Reserve Bank's new deposit scheme has been sought to be made out to be an improvement on the FCNR scheme in the sense that it offers a higher rate of interest of 1 per cent above the rate on deposits made for three years under the latter scheme. But is that really a great concession? The deposits made under the FCNR scheme are supposed to be for a fixed period of five years. If the higher rate of interest of 1 per cent is for locking up one's funds for a longer period, can one not ask what concession is the scheme offering for the commitment not to repatriate the funds abroad? As far as one can make out, the only other concessions the scheme offers are with respect to income tax, wealth tax and gift tax. But even on FCNR deposits no income tax or wealth tax is attracted, nor is gift tax payable for any gift made out of these deposits.

Could it be the thinking that precisely because the new scheme is addressed to NRIs who would in any case not be interested in the repatriation of their funds abroad they do not need to be given any additional concession? The provision of exchange risk cover should do for this group of NRIs. Why give them additional incentives? Here, it has to be remembered that to most, if not all, of these NRIs income tax concessions would not matter much. After all, most of the savings from their hard earned income would just be enough to build up a few assets of their own like a house or a piece of agricultural land and set themselves up in trade or industry.

Why do the mandarins in the government, including those in the RBI, not remember that whatever the objectives behind the homeward remittances of our NRIs, including the most modest of them who are spread all over West Asia, especially the Gulf, they are not immune to various pressures? Have they forgotten that there is a flourishing 'hawala' trade in foreign exchange?

If the purpose was really to attract the inflow of funds from abroad through our NRIs, the need was to offer a package of incentives that they could not turn their backs on easily. Only a bold person will wager his all on a scheme which offers 1 per cent additional interest for locking up one's funds for a period of five years and that too with repatriation facilities

altogether withdrawn. But our mandarins have to wager nothing on the success of any of their schemes. So who cares?

But maybe the real purpose is precisely to show that such schemes add up to little. And that there is no go but to seek help from IMF.

ARMS CONTROL US Double-Speak

ON the one hand George Bush speaks of the need for arms control in West Asia and pleads for "collective self restraint" by the five permanent members of the UN Security Council, who are also the major arms exporters of the world and who account for practically all of the arms imports into West Asia. On the other hand, his defence secretary, Dick Cheney, goes soon thereafter to West Asia canvassing the sale of various types of arms and shamelessly proclaims that "it is not inconsistent to say on the one hand that we are interested in arms control and on the other hand that we want to make certain our friends can defend themselves".

The US defence secretary has announced agreements with the UAE and Bahrain for the sale to them of Apache missile firing helicopters and with Israel for the supply of F 15 jet fighters in addition to support in the development of a missile defence system. Furthermore Cheney has made public the US intention to stockpile arms in Israel to meet any future contingency.

What does all this add up to? Instead of trying to help the countries of West Asia to turn the region away from war and turmoil into an area of peace, what is really being attempted is to make it a potential cauldron which, when it blows up, will perhaps result in a conflagration the like of which the region has never before witnessed.

And all for what? To dump unwanted and nearly obsolete arms in the region. Let us not forget that these arms have already been paid for by the benefactor nations like Japan and Germany, not to speak of Saudi Arabia and Kuwait, as part of their contribution to the Gulf War. In that transaction itself, the US is believed to have made a net profit of \$ 20 to \$ 30 billion. Now Dick Cheney wants to 'double sell' the arms he has already been paid for.

The purely profiteering angle apart, it is the broader issue which needs to be concentrated upon. Is the world going to be confronted with yet another Gulf War? Surely, that likelihood cannot be dismissed if the world community cannot restrain US weapon mongering. Francois Mitterrand and his other counterparts in Europe have to act fast on this front. Mere admonishing, and that too rather tangential, would hardly do.

TWENTY YEARS AGO

I PW, June 19, 1971

The wide-ranging dismissals of important ministers and officials in the Egyptian cabinet and ruling party last month were regarded in some quarters as signifying more than the consolidation of Sadat's power base. As most of those dismissed, especially Ali Sabry and Samy Sharaf, were considered to be 'Leftists', these dismissals were seen as a calculated move to lessen Soviet influence in Egypt. The Soviet reaction was on the surface extremely unperturbed. But the arrival of Nikolai Podgorny, the Soviet president, in Cairo on May 25 showed that the Russians were far from unconcerned. [The delegation] had an ace up its sleeve in the form of the 'treaty of friendship and co-operation', which was signed within 48 hours.

With their vast military and economic investment in Egypt and the recent upheavals within the Egyptian government, [the Russians] probably feel the need to institutionalise their relationship with Egypt so as to have a greater knowledge of and influence on governmental changes within Egypt. The treaty, which is the first with a non-communist country since the end of World War II, is also a gentle reminder to Egypt and other Third World countries that they cannot easily do without Soviet political, economic and military help.

This does not mean that the Russians now have an open ended commitment to back Egyptian military adventures against the Israelis. It does, however, mean further Russian involvement in the defence of Egypt against an Israeli attack. Nor is the treaty an attempt at getting tough with the Americans. More likely it is an indication to the United States that West Asian stability and peace can only come about if the Americans agree to co-operate with the Russians in coaxing both the Israelis and the Arabs towards agreement.

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The latest national income data, for 1969-70, show how limited the economic recovery has been despite successive good harvests. It is now becoming evident that those who expected agriculture to trigger off growth (and a market for industrial products) had misunderstood the economic forces which govern growth. Agriculture cannot be the 'triggering' mechanism, it can merely provide a stability condition in which growth may be stimulated in other sectors. The rate of growth outside agriculture had been almost twice that in agriculture, in the past. Given today's growth rate (5-6 per cent) in agriculture, India could easily make a run for a 10-12 per cent growth in areas other than agriculture. We have wasted four years doing nothing.

World Class in Tyre Technology

Kumaran Pola

MRF, the Madras-based tyre industry giant, has closed the latest accounting year on September 30, 1990 and brought out the results for a six-month period. With the accent on diversification, the company is pursuing new projects to take it in newer directions. The chairman and managing director, K M Mammen Mappillai, finds the company on the threshold of becoming a major trading house even by world standards.

MRF brings world class technology to India. Its Vapocure project is a case in point. Advanced Australian technology has enabled MRF to revolutionise industrial painting systems. In collaboration with Vapocure, Australia, MRF offers a wide range of polyurethane paint formulations that can be rapidly cured at room temperature. It is the only technology worldwide in this area and MRF is the sole licensee in India. Licensees in other countries around the world include big names such as Dupont

and Sumitomo. The plant site is located at Cuddalore, Tamil Nadu, and production has already started. The polyurethane formulations will help in the manufacture of shatter/proof glass too.

Bringing toy technology through Funkskool, an MRF subsidiary, is yet another bold venture. The company launched Funkskool in collaboration with Hasbro (USA) sometime back. The Funkskool plant located in Goa is one of Asia's most modern toy projects. Toys are made of high grade, non-toxic material with quality standards at par with the best in the world.

MRF is a recognised trading house and its exports are racing towards the Rs 100-crore mark. MRF has already established trade links with over 55 countries. MRF quality products have won over competition from European and American business houses. Apart from tyres which are its mainstay, the company is India's largest exporter of marine pro-

ducts. MRF also exports leather, large quantities of cashew, spices and tea. During the six months ended September 30, 1990, tyre exports increased by almost 74 per cent. The USA, Afghanistan, Bangladesh and Middle East continue to be the company's main markets. The company's diversification into finished leather is paying off. The participation in the Semaine Internationale Du Cuir in Paris and the International Leather Fair in Madras has established its presence in the world leather market. The foreign exchange earnings on account of the export sales amounted to Rs 31.72 crore and foreign exchange outgo Rs 22.06 crore, excluding imports of natural rubber to the extent of Rs 7.81 crore canalised through the State Trading Corporation of India and paid for in rupees.

In the field of tyres, which accounted for 87 per cent of the sales of MRF, the collaborators, the Uniroyal Goodrich Tyre Co, USA, have been continuously helping it for quality improvement by imparting technological developments. The R and D efforts of the company coupled with updated technology from its collaborator resulted in high quality standards and strong brand preference. Total tyre production at 18.86 lakh far exceeded the 14.70 lakh and 11.91 lakh produced by the closest two competitors during April-September 1990. MRF is now also in collaboration with Michelin, the world's largest tyre makers, which will enable the creation of state-of-the-art aircraft tyres.

As regards the prospects for 1991-92, the directors state that the tyre industry in the world is passing through a severe recession and demand in India has also been affected adversely. Despite this, MRF achieved a production of Rs 173.70 crore during the first three months as against Rs 134.10 crore in the corresponding period of the preceding year. Gross sales worked out at Rs 177.30 crore as against Rs 153.40 crore.

The work of modernisation and expansion is well under way in all the manufacturing units of the company. Production is expected to commence soon in the diversification project to manufacture of conveyor belting. Trial production at the Medak tyre project is expected during the year. In order to establish the company's presence in leather exports, Aruna Leathers and Exports was amalgamated with the company.

The financial results of the company during the six months ended September 30, 1990 showed an annualised growth of 17 per cent in net sales, 62 per cent in operating profits and 54 per cent in net profits. Though the assets utilisation ratio declined from 1.79:1 to 1.70:1, a higher net

The Week's Companies

(Rs in lakh)

| Financial Indicators | MRF | | Lipton India | |
|---|---------------|---------------------|------------------|------------------|
| | 1989 March | 1990 September** | 1989 December | 1990 December |
| Income/expenses/profit | | | | |
| 1 Net sales/main income | 44,170 | 25,889 | 45,904 | 56,221 |
| 2 Other income | 365 | 262 | 985 | 1,071 |
| 3 Raw material cost | 26,634 | 16,137 | 33,181 | 39,623 |
| 4 Employees cost | 2,051 | 1,484 | 2,149 | 2,055 |
| 5 Depreciation | 1,325 | 795 | 135 | 170 |
| 6 Other expenses/adjustments | 11,168 | 5,021 | 8,922 | 13,032 |
| 7 Operating profit (1+2)-(3 to 6) | 3,357 | 2,714 | 2,502 | 2,412 |
| 8 Interest | 1,472 | 910 | 904 | 1,207 |
| 9 Taxation | 650 | 850 | 555 | 622 |
| 10 Net profit (7-8-9) | 1,235 | 954 | 1,043 | 583 |
| 11 Dividends | 231 | 116 | 347 | 347 |
| Capital/loans/assets | | | | |
| 12 Share capital | 386 | 386 | 1,575 | 1,575 |
| 13 Reserves and surplus | 5,495 | 6,325 | 2,214 | 2,451 |
| 14 Current liabilities and provisions | 8,790 | 10,982 | 8,269 | 5,704 |
| 15 Short-term borrowings | 6,563 | 7,190 | 5,647 | 3,058 |
| 16 Long-term borrowings | 3,491 | 5,558 | 391 | 388 |
| 17 Gross fixed assets | 15,539 | 17,650 | 2,470 | 2,998 |
| 18 Accumulated depreciation | 6,103 | 6,908 | 999 | 1,144 |
| 19 Inventories | 7,631 | 8,766 | 11,319 | 8,073 |
| 20 Receivables | 4,402 | 6,641 | 1,494 | 985 |
| 21 Current assets | 15,072 | 19,301 | 16,571 | 11,269 |
| 22 Investments/other assets | 216 | 397 | 55 | 54 |
| 23 Total assets/liabilities (12 to 16) or [(17-18)+(21+22)] | 24,725 | 30,441 | 18,096 | 13,176 |
| Key financial ratios | | | | |
| 24 Turnover ratio (1/23) | 1.79 | 1.70* | 2.54 | 4.27 |
| 25 Return on sales (10/1)×100 (%) | 2.80 | 2.68 | 2.27 | 1.04 |
| 26 Return on investment (%) (10/23)×100 or (24×25)% | 4.99 | 6.27* | 5.76 | 4.42 |
| 27 Return on equity (%) [(10/(12+13))×100 or (23/(12+13))×26] | 21.00 | 28.43* | 27.53 | 14.48 |
| 28 Book value per share (Rs) | 152.51 | 174.04 | 24.06 | 25.56 |
| 29 Current market price (Rs) | 210.00 | 565.00 | 95.00 | 131.00 |
| 30 Price/earnings ratio | 6.56 | 11.42* | 14.35 | 35.39 |

* = Annualised; ** For 6 months.

Balance Sheet Analysis by Manisha C Mehra

profit margin of 3.68 per cent compared to 2.80 per cent improved the profitability ratios. The overall return on investment spurted to 6.27 per cent from 4.99 per cent and return on equity to 28.43 per cent from 21 per cent.

The balance-sheet changes showed a funds-flow of Rs 57.16 crore during the six months period. The inflows consisted of increases in reserves and surplus Rs 8.30 crore, current liabilities and provisions Rs 21.92 crore (of which Rs 15.64 crore were on account of sundry creditors), short-term loans Rs 6.27 crore and long-term loans Rs 20.67 crore. Of this, Rs 13.06 crore were utilised to increase fixed assets, Rs 11.35 crore to build up inventories and Rs 22.39 crore to accumulate accounts receivables. The balance represented increases in other assets.

The debt/equity rose to 1.90:1 from 1.71:1, though this did not affect the interest coverage ratio adversely which moved up to 2.98 times from 2.28 times. The current ratio improved from 1.71 to 1.76

LIPTON INDIA

Traditional Businesses Do Well

LIPTON INDIA registered a record performance in its traditional businesses during the financial year ended December 1990. Its traditional business are tea, edible fats and dairy and animal feedstuffs. However, in the new foods business, which accounts for less than one per cent of total production, the results were unsatisfactory. Production of various items in 1990 were as follows with comparative figures for 1989 in brackets:

| | (Tonnes) |
|--|------------------------|
| (1) Blended teas including bulk, packets and tea bags (including quantity processed by others) | 40,811 (44,139) |
| (2) Hydrogenated oils/vanaspati/ refined liquid oils (including production at part-leased facilities at Hindustan Lever factories at Sewri, Bombay and Shamnagar, West Bengal) | 59,147 (57,261) |
| (3) Milk powder (including baby food) | 2,942 (3,346) |
| (4) Margarine (includes production at Hindustan Lever) | 1,150 (951) |
| (5) Ghee | 2,201 (2,163) |
| (6) Animal feedstuffs (including quantity processed by others) | 2,39,930 (2,26,977) |
| (7) Food and beverages (processed by others) | 966 (7,168) |

Sales of pouch-pack 'Taaza' tea continued to grow significantly during the year. The company started operations at

its new packet and instant tea factory in Etah district in Uttar Pradesh. In addition, several cost restructuring measures were also adopted.

The profitability of the edible fats business was improved through higher volumes and better management of working capital and costs. A range of speciality fats were successfully launched which contributed to the improved results of this business. Due to the abundant availability of milk and milk powder, margins in the milk powder business were under pressure. However, dairy volumes registered an impressive growth.

The animal feedstuffs business had another good year with significant increase in volumes. The business continued to make a steady and substantial contribution to the company's profitability. However, volumes were adversely affected in the new foods business mainly due to lower than anticipated market growth in the fruit drinks segment. This resulted in losses on account of accumulated slow moving stock which had to be written off as well as higher cost of operations. The company is reviewing its future strategy in this segment.

The company took energy conservation measures with some success in certain areas. Electricity consumption per tonne was brought down in the dairy business from 661 kwh in 1989 to 656 kwh in 1990, although it went up from 29 kwh to 33 kwh in the tea business and from 336 kwh to 350 kwh in the edible fats business. Similarly, furnace oil consumption per tonne declined from 173 kl to 168 kl in the dairy business. Although coal consumption per tonne declined from 220 kgs to 197 kgs in dairy business, it increased from 253 kgs to 267 kgs in the edible fats business. As regards energy from other sources, consumption per tonne declined from 28 kgs in 1989 to 17 kgs in 1990 in edible oil business and spurted from 1,276 kgs to 1,344 kgs in others.

The company continued its efforts in technology absorption and research and development. About Rs 35 lakh, i.e., 0.06 per cent of net sales, were spent by way of recurring expenditure on R and D. Access to Unilever research facilities and the R and D facilities of the company situated at Andheri, Bombay, secured for the company new technology in the field of manufacture of vanaspati by introducing pressure leaf filters in vanaspati factories. R and D has helped use of cheaper raw materials in poultry feed and reduced prices to the advantage of farmers. Similarly, R and D helped in producing cattle feed which gives increased milk yield.

The export earnings of the company exceeded the expenditure on account of imports of raw materials and spares, etc. Foreign exchange earnings amounted to

Rs 11.94 crore in 1990 as against Rs 12.48 crore in the preceding year. As against this, the expenditure on import of capital goods, raw materials and spares totalled Rs 38 lakh each in the two years. In addition, the company spent Rs 49 lakh (Rs 16 lakh in 1989) by way of selling commission, travel, payment of central excise on export and others. Dividend remitted to Unilever, UK, amounting to Rs 1.15 crore in 1990 as against Rs 57 lakh in the preceding year.

The company improved its assets utilisation ratio (sales/assets) from 2.54:1 to an impressive 4.27:1. This resulted from the liquidation of inventories and the lowering of the assets base. In fact, as against a 22 per cent rise in sales, the operating profits showed a decline by 4 per cent and net profits by 44 per cent during 1990. As a consequence, all the profitability ratios plummeted during the year.

STATE BANK OF HYDRABAD

All-Round Growth

STATE BANK OF HYDERABAD crossed the Rs 2,500 crore mark in aggregate deposits in 1990-91 and at the end of March 1991 they stood at Rs 2,500.91 crore. The bank recorded a growth of Rs 409.55 crore in aggregate deposits and the growth rate at 19.58 per cent is far higher than the all scheduled commercial banks' growth rate of 13.7 per cent.

Total advances of the bank at Rs 1,764.27 crore recorded a growth of Rs 248.52 crore. The bank has fulfilled/exceeded all the norms prescribed by the government of India/RBI, as before, except under direct agricultural lending. The priority sector advances of the bank at Rs 664.76 crore constituted 40.80 per cent of net credit against the norm of 40 per cent. Advances under differential rate of interest constituted 1.02 per cent of the net credit outstandings as at the end of previous year against the norm of 1 per cent. Assistance to weaker sections at the end of March 1991 stood at Rs 167.13 crore and constituted 10.26 per cent of net credit against the norm of 10 per cent. The percentage of direct lending to agriculture to net credit stood at 16.19 per cent against the norm of 18 per cent, the shortfall being due to the agricultural and rural debt relief scheme.

The bank's lending to agriculture at the end of March 1991 stood at Rs 294.49 crore despite its extending relief under ARDRS to the tune of Rs 66.42 crore. During the year 1990-91, the bank's assistance to small-scale industries rose by Rs 38.74 crore and stood at Rs 243.49 crore, benefiting more than 51,000 entrepreneurs. The bank's assistance to rural artisans and cottage and village industries stood at Rs 10 crore, covering 28,102 beneficiaries, despite its extending relief

The bank's small business finance increased by Rs 20.33 crore during the year and touched Rs 126.78 crore covering 1,64,692 beneficiaries.

The bank's advances under SEEUY meant for promoting self-employment increased from Rs 41.33 crore covering 21,677 beneficiaries as on March 31, 1990 to Rs 45.67 crore benefiting 23,637 beneficiaries as on March 31, 1991. During the year, the bank extended assistance of Rs 4.11 crore to 1,852 beneficiaries. Under self-employment for urban poor (SEPUP), the bank extended financial assistance of Rs 11.08 crore to 31,397 beneficiaries as on March 31, 1991. During the year, the bank provided financial

assistance of Rs 1.38 crore under the scheme.

The bank's export credit recorded a growth of Rs 28.42 crore representing a growth rate of 43.10 per cent and stood at Rs 94.24 crore as at the end of March 1991. Forex business turnover during the year stood at Rs 826.68 crore. During the year the bank opened nine NRI cells taking the total to 13 and a dealing room at its overseas branch in Bombay. The bank has identified/designated 21 authorised branches for release of forex permits to students going abroad.

The bank has installed 72 advanced ledger posting machines at 33 branches to improve customer service. Two major projects, viz, total branch mechanisation at

acquisition of a mainframe computer for the head office have been taken up during the year 1990-91. Mini computers have been installed at four zonal offices and a fifth is under way.

With the opening of 11 branches in 1990-91—five rural, four metropolitan and one each semi urban and urban—the total branch network reached 691.

The bank has drawn up an ambitious plan for 1991-92 which is its golden jubilee year. The highlights of the plan are a deposit budget of Rs 525 crore, opening of at least 25 branches including specialised branches for NRIs, SSIs, housing, etc., and increase in advances to priority sector by Rs 133.50 crore.

IN THE CAPITAL MARKET

Sarigam Steels

SARIGAM STEELS will be entering the market on July 8 with a public issue of 24 lakh equity shares of Rs 10 each at par aggregating Rs 240 lakh. The company is engaged in the manufacture of stainless steel/alloy steel castings. It proposes to expand its production capacity of alloy steel castings to 15,000 MT per annum by installing a 5 MT furnace and incorporating a 5 MT open forging plant along with facilities for a 1 to 2 tonne closed die forging plant. To streamline its production the company proposes to acquire balancing equipment. For this purpose the company will be acquiring additional land at GIDC Industrial Estate at Sarigam in Valsad district in Gujarat where the existing plant is situated. It is to part finance this project that the company is coming out with the public issue. The company is promoted by Shyam Lal Yadav, a metallurgist and technocrat, who is the managing director. Equity capital will finance the project to the extent of Rs 350 lakh (promoters contributing Rs 110 lakh and the public Rs 240 lakh), term loans will bring in Rs 20 lakh and unsecured loans Rs 30 lakh, all together netting an amount of Rs 400 lakh. The items manufactured by the company have an extensive area of use—in railways, earth moving equipment, steel plants, sugar factories and power generation equipment, agricultural and industrial machinery, bogies and draft gear assembling components. Castings are used in refineries, paper, chemical and petrochemical industries. The promoters have already made arrangements for export purchase of 100 per cent of the company's output in forgings. PNB Capital Services and Subhash Dalal Financial Consultants are the lead managers to the issue.

NEPC-MICON

NEPC MICON is entering the capital market with a public issue of 25 lakh shares of Rs 10 each at par for a project

of Rs 5 crore to manufacture wind turbine generators and wind driven water pumps. Commercial production is expected to start by September. Highlights of the issue include equity participation of world leader MICON, Denmark, for a project in the core sector with low break even at 10.42 per cent. The issue for public investment will open on July 15. A unit of Khemka group, Madras, the company has manufactured and supplied more than 1,000 water pumping wind mills throughout the country. In collaboration with Morup Manufacturing, MICON A/S of Randers of Denmark, it manufactures and installs wind turbine generators. It undertakes windfarm installation on turnkey basis, from preparation of project report to commissioning of wind turbines. Within a period of three years it could in collaboration with MICON, successfully install two 250 KW wind turbines in Gujarat in 1989-90 which recorded its debut in wind power generation. Their activity was further geared up with the subsequent order for 10 MW windfarm project consisting of 50 wind turbines of 200 KW each for Tamil Nadu Electricity Board under DANIDA aid during the same year. The project was completed in a record time and the wind turbines are generating power at a plant load factor of 32 per cent which is one of the highest in the world. Seeing the performance of the wind turbines and enthused by the government incentives of 100 per cent tax depreciation, etc. the company bagged orders of Rs 3.5 crore for 1.5 MW wind farm project of six machines of 250 KW each from three private companies for their captive power generation. The successful completion of this project gave a fillip to the commercialisation of wind energy system and the company is the first in Asia to introduce wind power system in the commercial area. Enthused by the achievement in previous years a new company NEPC MICON has been incorporated in technical and financial collaboration with MICON of Denmark

for implementing the project. In 1991-92 it has bagged orders for a project of 1.5 MW with six machines of 250 KW each for TNEB apart from a host of orders from the private sector. The company is expected to achieve a total turnover of Rs 26 crore in the current year from this innovative concept of national interest.

Lunar Diamonds

LUNAR DIAMONDS proposes to enter the capital market in August. Necessary formalities for filing of prospectus have almost been completed. Incorporated in August 1989 for manufacturing studded jewellery with diamonds and precious gems, the company has its factory at Okhla Industrial Area in New Delhi which is fully operational. The company also has approvals from Noida Export Processing Zone (NEPZ) to set up a 100 per cent export oriented unit (EOU) at Noida for diamond cutting and polishing as well as manufacturing diamond studded jewellery. The establishment of the expansion unit at NEPZ will give the added advantage of liberal imports at cheaper rates and more incentive for value added exports. The total cost of the project is Rs 545 lakh of which Rs 470 lakh will be financed through equity (promoters Rs 168 lakh, public Rs 252 lakh). Sophisticated Israeli faceting machinery has been installed for cutting and polishing of precious gems. The company has already commenced its export business and a letter of credit for \$ 3,00,000 has been established in its favour for the initial export order. Export orders from USA, Canada and Hong Kong to the tune of Rs 5 crore are in hand for which letters of credit are expected shortly. The worldwide market for jewellery is estimated at Rs 36,000 crore and India expects an unprecedented boom in exports of gold jewellery, especially precious stones and diamond studded jewellery. Exports from India are placed at Rs 15,000 crore in 1995. The company hopes to have a good share in this boom.

FORM IIIA

(See Rule 4A (1))

NOTICE

(1) It is hereby notified for the information of the public that Greaves Chitram Limited and Greaves Cotton & Co Ltd propose to make an application to the Central Government in the Department of Company Affairs New Delhi under sub section (2) of Section 23 of the Monopolies and Restrictive Trade Practices Act 1969 for the approval of a Scheme of Amalgamation of Greaves Chitram Limited with Greaves Cotton & Co Ltd. Brief particulars of the scheme are as under:

- (i) Name & address of the applicants
Registered Office
Regd Office
- (ii) Management structure of the undertaking(s) proposed to be merged/amalgamated
- (iii) Capital structure of the undertaking(s) proposed to be merged/amalgamated

Greaves Chitram Ltd
38 Main Road Royapuram Madras 600 013

Greaves Cotton & Co Ltd 1 Dr V B Gandhi Marg Bombay 400 023

Transferor Company is managed by Board of Directors
Transferee Company is managed by the Managing Director under the control and direction of the Board of Directors of the Company

Transferor Company (as per Balance Sheet as at 31 03 1990)
Share Capital
Authorised
25 000 Equity Shares divided into 10 000 Class A Shares of Rs 100/ each
15 000 Class B Shares of Rs 100/ each
Rs 25 00 000

Issued Subscribed & Paid Up
20 492 Equity Shares of Rs 100/ each fully paid up
8 118 Class A Shares of Rs 8 11 800
12 304 Class B Shares of Rs 12 30 400
Rs 20 42 800

Transferee Company (As per Balance Sheet as at 31 3 1990)
Authorised
25 000 15% Cumulative Redeemable Preference Shares of Rs 100/ each Rs 25 00 000
10 50 000 Equity Shares of Rs 100/ each Rs 10 50 00 000
Rs 10 75 00 000

Issued Subscribed & Paid Up
20 265 15% Cumulative Redeemable Preference Shares of Rs 100/ each fully paid Rs 20 26 500
* 9 85 687 Equity Shares of Rs 100/ each fully paid Rs 9 85 68 700
Rs 10 05 95 200

* Since subdivided into shares of Rs 10/ each

- (iv) Present activities of the undertaking(s) proposed to be merged/amalgamated

Transferor Company carries on the business of Civil Structural and Mechanical Engineers
The Transferee Company carries on the business of Manufacturers Merchants Bankers Agents of Joint Stock Companies Commission Agents Manufacturers Agents Brokers Exporters Importers of Engines Boilers and Machinery of all kinds etc

- (v) Brief particulars of the proposed scheme of merger/amalgamation indicating the objective proposed to be achieved
The amalgamation of the transferor company with the transferee company will be effected by a Scheme of Amalgamation under Section 391 read with Section 394 of the Companies Act 1956 (hereinafter referred to as the Scheme)

The main features and effects of the Scheme are as follows

- (a) The whole of the undertaking comprising the assets and liabilities of the Transferor Company will be transferred to and vest in Applicant
- (b) The Transferee Company shall allot such number of Equity Shares of Rs 10/ each as may be necessary to satisfy its obligation for allotment of its Equity Shares to the members of the transferor company in terms of the Scheme
- (c) The transferee company shall cause a Special Resolution to be passed at a general meeting pursuant to Section 81(1A) of the Act for allotment of its Equity Shares to the members of the transferor company in terms of the Scheme
- (d) The amalgamation of the transferor company with the transferee company shall take effect from the commencement of business on 1st April 1990

The main objectives of the Scheme will be as follows

The proposed amalgamation would be in the best interest of both the companies and their respective shareholders and would also be in the best interests and for the welfare of the employees of Transferor Company. The amalgamation of the Transferor Company would enable the amalgamated company to carry the combined business more economically and efficiently. It would bring in economies in operation would ultimately benefit the consumers. The amalgamation would also result in enlarging the activities of the amalgamated company which would avoid duplication and reduction in administrative and other overhead expenses besides optimum utilisation of the managerial and other resources

- (vi) Details of the exchange ratio/consideration proposed for shareholders/creditors of the amalgamated/merged undertaking

Members of Greaves Chitram Limited will get

For every 412 Equity Shares of Rs 100/ each held by them in the Transferor Company one equity share of Rs 10/ each credited as fully paid up in the Transferee Company

(2) Any person interested in the matter may make a representation (in quadruplicate) to the Secretary Department of Company Affairs, Government of India Shastri Bhavan Dr Rajendra Prasad Road New Delhi within 14 days from the date of publication of this notice intimating his views on the proposal and indicating the nature of his interest therein

For **GREAVES CHITRAM LIMITED**
(M N KARADIA)
DIRECTOR

For **GREAVES COTTON & CO. LTD.**
(K SITARAMAN)
SECRETARY

Bombay Dated 11th June 1991

Financial Leadership at Any Cost?

D N Ghosh

The competition among London, New York and Tokyo for financial leadership is growing intense and each is striving hard to innovate and promote high value-added financial activities. However, the instances of financial disruption witnessed in the last two decades are clear warnings of the deep systemic risks and fragilities which pose serious threats to the stability of the financial centres.

NO single centre today dominates the financial transactions of the world. With the consolidation of the British empire, London emerged, in the late 19th and early 20th centuries, with undisputed pre-eminence and authority. After the Second World War, London had to share financial leadership with New York, and now comes Tokyo with seemingly unassailable economic strength and power. While New York and Tokyo derive their importance from the size and diversity of their domestic economies, London still continues to be an international centre specialising in bringing together borrowers and lenders from all over the world. The three are not equivalent financial centres, but among them, they dominate the world financial scene.

The competition among the three centres is intense and each is striving hard to innovate and promote high value-added financial activities. The driving forces behind this effort are well known: increasing interdependence of national economies, the development of new financial instruments, deregulation of financial services, and technological advances in computers and telecommunications. A growing percentage of financial services activity and employment is, however, no longer captive to any particular location but is extremely mobile.

Governor Mario Cuomo of New York State recognises that the present dominance of New York is no guarantee of its future leadership, and the mobility of financial services is a potential threat to its leadership. How then to keep its pre-eminence? He appointed in 1988 an advisory panel on financial services to study the challenges faced by New York, "as the financial services industry is of central importance to New York and the nation and is a key source of jobs, economic activity and finances". The panel was made up of 30 industry leaders, experts from the fields of banking, securities, insurance, investment banking, law and management con-

sultancy, telecommunications, pension fund management, and related fields. Over 60 recommendations were posed for New York policy-makers for striving to keep the State a national and world leader in financial services. The panel's work provides an illuminating insight into the psyche of the money market practitioners of New York.¹

Clearly, New York has certain essential inbuilt advantages for maintaining financial leadership: concentration of borrowers, investors, financial intermediaries and support business services. Also, it continues to thrive as a principal centre for innovative product development and expertise. However, the threat of dispersion is real: the links of financial markets with specific regional economies are at best tenuous. As dispersion of financial markets and jobs can take place without loss of efficiency, the impact of cost is becoming increasingly critical in the locational decision-making of firms looking for lower cost centres with adequate labour force, telecommunication facilities, technology and infrastructures. The panel finds that New York could position itself as a relatively low cost international location, though it may find it difficult to maintain its relative attractiveness as a financial centre, by continuing to create more and more new business opportunities.

Overall, the recommended strategy for policy-makers consists of four basic elements: location cost and advantages, labour force and human resources, telecommunications and technology, and regulation and taxation. Quite clearly, the first three elements in the proposed strategy can provide the most sophisticated and responsive environment for financial markets to capture the largest share of employment and economic gain. What seems disturbing is the attitude of the panel towards regulation. The focus is on increasing the market share and, in that process, in order to maintain the

dominance of New York, regulation has unfortunately taken a secondary place. "Given the new competitive pressures on firms, burdensome State and local regulations and taxes can be obstacles to the industry's growth in an area. As part of an overall strategy in regulation, governments should review their current financial services regulations in order to ensure that the regulatory environment does not hinder the expansion of financial service. A comprehensive review of all regulations affecting financial service firms should be undertaken, with the specific charge of identifying archaic and unnecessary regulations that can be revised or regulated." The implied policy recommendation is clear: allow free play to technology and cost to overcome the competitive pressures and business will come from other markets and centres.

The fascination with innovation is overpowering. The virtues of competition and technology-driven innovation have undeniably cast their spell, not unexpected from a panel comprising important market practitioners. However, the financial history of the last two decades is not one of unblemished financial innovation, but of financial disruptions as well. There were breakdowns in the supervisory process despite all the illusion of liquidity created by the magic of financial innovation. These disruptions are clear symptoms of deep systemic risks and fragilities and did pose serious threats to the stability of the financial centres.

The report breathes complacency. Issues that are going to dominate the international financial arena in the coming decade will necessarily have a focus on prudential regulation, rather than on innovation, on measures to strengthen and safeguard the system rather than on competitive behaviour to skirt round regulations and on building effective fences for protection of customers and investors from the lure of short-term speculative ventures. The global climate is slowly changing. Blind adherence to competition and innovation are being sought to be tempered by the need for regulation. In the major financial centres there are hopefully encouraging signs of serious discussion on the efficacy of the present regulatory structure.

In the decades to come, the agenda for the financial centres should be that of stability, for stability would have to be the basic plank. A financial centre has to look for more business, but not at the cost of risks and fragility. It must search for durable long-term stability in the interests of investors. This demands co-operation

goals, but for "self-interested mutual adjustment of behaviour". This may not be exciting, but in financial transactions, it pays to be bland rather than impetuous. If the eclectic position sounds too unsatisfying, read the following:

Suppose one is being lectured by a *dirigiste* official of an European ministry of finance, asserting that Eurocurrencies are legions without commanders roaming the financial markets of the world. One's mind should promptly flood with thoughts of the mischief caused by anachronistic government regulations, the beneficial discipline of inter-bank and intercountry competition, the wide range of substitutes for existing financial instruments, the merits of lending decisions decentralised to where information about credit risk is most reliable, and the potential for improved resource allocation and faster growth resulting from savings being channelled to investment projects yielding the highest returns. Conversely, suppose one should be cornered by a vice-president of Citicorp or the Hongkong and Shanghai Banking Corporation, arguing that across-the-board financial deregulation will work supply-side miracles in the world economy. The mind should then overflow with thoughts of bank executives who behave like sheep in choosing a Latin American loan portfolio, drug smuggling proceeds laundered through banks in offshore financial centres, exchange rates fluctuating in response to false rumours started by market participants in order to make explosive trades, and competition in laxity between governments trying to attract financial institutions to their jurisdictions by reducing taxation and the stringency of supervision—not to mention the failures of the Herstatt and Franklin National Banks in 1974, the Credit Anstalt in Vienna in 1931, and the South Sea Company in London in 1720.²

Aggressiveness is the name of the game today, is regulation then for the weak-hearted? Will anyone listen to what Bagehot had to say nearly 120 years ago in *Lombard Street*: "An immense system of credit now exists. The whole rests on an instinctive confidence generated by use and years. If some calamity swept it away, generations must elapse before at all the same trust would be placed in any other equivalent. Nobody would understand or confide in it. *Credit is a power which may grow, but cannot be constructed.*"

Notes

1 Richard McGrahey, Mary Malloy, Katherine Kazanas, and Michael P J Jacobs, *Financial Services, Financial Centres. Public Policy and the Competition for Markets, Firms and Jobs*, Westview Press, New York, 1990. (The book is based on the recommendations of the Advisory Panel on Financial Services appointed by the governor of the State of New York.)

2 Ralph C Bryant, *International Financial Intermediation*, The Brookings Institution, 1987.

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SOCIAL ACTION AND THE LABOURING POOR

An Experience

PRIMI A LEWIS

The author of *Reason Wounded: An Experience of India's Emergency* (1978) judged the best book on the Emergency by The Times of India has 12 years later written this candid account of her return to work with the migrant and village labouring poor of rural Delhi from 1978 to 1989. Tracing the change from a politics and strategy of organising for agitation to organising for development, Lewis documents the uphill struggle of the landless villagers, farm and stone quarry workers of Mehrauli to gain control over the conditions of their existence. Through a process of discarding doctrinaire Marxist positions under the compulsions of direct grassroots experience, Lewis and the group she worked with arrive at a fresh and unorthodox understanding of the dynamics of social change in India.

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India and Amnesty

A G Noorani

Amnesty International is not anti-Indian. On facts, like any mortal, Amnesty's observers can go wrong. The answer is a corrective response, not condemnation; a dialogue, not a stand-off.

ONE must hope that the new government of India will revise the old negative attitude that had been adopted by the Congress(I) towards Amnesty International. Sadly, the National Front government also backtracked after deciding to let Amnesty's representative in Amnesty is not anti-Indian. Consider its criticisms of Britain and the US.

On June 7, Amnesty published a 64-page report entitled *United Kingdom Human Rights Concerns*. Richard Reoch, old India hand in Amnesty who has been interested in the country for well nigh two decades, is now its head of publications. Releasing the report on UK to the press, he said "It is the persistent failure of the government to adequately address the issue of the protection of human rights which has motivated us to put together this report."

The report is wide ranging, covering well-documented cases of injustice such as the Birmingham Six and the Guildford Four and the investigation into the West Midlands Serious Crime Squad and allegations of confessions being obtained under duress in Northern Ireland. According to the report, "the issues of concern are of such gravity as to seriously undermine confidence in human rights safeguards in the United Kingdom."

The report condemns the arrest and imprisonment of 90 Arabs, mostly Iraqis and Palestinians, during the Gulf war and the deportation of some of them. It says, "All the arrests were carried out under the 1971 Immigration Act on the ground that the detainees posed a threat to national security. The government is not obliged under United Kingdom law to detail its reasons for treating them as a threat." The only appeal allowed was to a non-statutory advisory panel of three people appointed by the home office. The hearings usually lasted less than an hour and the detainees were still not told why they were being held. Amnesty says

Such procedures contravene international treaties, which are binding on the United Kingdom as a state party, and other international standards. These require that all persons under any form of detention be told the specific reasons for their detention before a court with legal representation.

Among those arrested were people who had not used or advocated violence but were detained because of their non-violent political views or activities and/or their

nationality and not because of being genuine security risks.

Amnesty also criticises restrictions on those seeking political asylum in Britain, including the lack of official information given to asylum-seekers, inadequate guarantees on access to independent advice and legal representation and the absence of a right of appeal that can be exercised prior to expulsion from Britain.

On February 21 Amnesty had asked the governments of the US, Britain, Turkey, Egypt and Israel not to violate human rights under the guise of security. It launched an international drive 'Human Rights in the Shadow of War' whose object was "to ensure that human rights issues are not sacrificed to political and military concerns." Iraq was also censured for its brutalities.

On April 12, Amnesty condemned the kidnapping of two Swedish engineers, Jan-Ole Loman and Johann Jansson, by the Kashmiri militants on March 30.

We oppose the torture and killing of prisoners held by anyone—whether these acts are threatened or carried out either by governments or armed groups.

We condemn the torture and killing of prisoners regardless of any reasons that may be given to justify them. To make such threats in connection with human rights is just unacceptable.

What is causing concern to Amnesty, while observing the situation in India, is no different from what agitates thinking Indians themselves: the terms and the actual operation of those hideous laws—the Terrorist and Disruptive Activities (Prevention) Act, 1987, the National Security Act, 1980 and the Armed Forces Special Powers Act, as applied to Manipur, Jammu and Kashmir—and the encounters.

On October 10, 1990, Amnesty published a report on Manipur entitled *'Operation Bluebird' A Case Study of Torture and Extrajudicial Executions in Manipur*. It runs into 73 pages and is duly documented. As is well known, while the State government condemned the Assam Rifles for staging fake encounters preceded by torture, the governor, General K V Krishna Rao, differed, predictably. This man lowered the prestige of the office of governor. The report contains an able analysis of the provisions of the Armed Forces (Assam and Manipur) Special Powers Act, 1958.

On May 10, 1991 Amnesty published a

62-page report titled *India. Human Rights Violations in Punjab—Use and Abuse of the Law*. This report contains a careful analysis of the TADA of 1987. The report does not censure the security forces alone. Contrary to the common impression, Amnesty condemns no less the unlawful imprisonment, kidnapping and torture by militant groups as well. Nearly four pages of the report narrate in detail what the heading of the section sums up, 'Violence by Armed Sikh Groups'.

After narrating the facts the report sums up 'Amnesty International's Position' on such violence. It deserves to be quoted.

Amnesty International condemns the torture or killing of prisoners by anyone, including the various armed groups resorting to such practices in Punjab. Murders of people for expressing their views can never be justified, whether the perpetrators be governments or those opposing them. Governments have a specific obligation to uphold and protect human rights: arbitrary detention, torture and extrajudicial killings of opponents are specifically prohibited by international law. In the case of armed non-governmental groups also there can never be a moral or legal justification for arbitrary or indiscriminate killing of people. Such acts are particularly reprehensible when committed against individuals solely for the peaceful expression of their conscientiously held views or for doing so in a certain language or simply because they may be related to such persons.

Yet, however provocative, the abuses committed by armed groups can never justify the security forces themselves resorting to arbitrary detentions, torture or extrajudicial executions of suspected opponents—the violations of human rights which are the subject of this report. Such practices are not only specifically prohibited in Indian law and in the Constitution itself but they also contravene basic principles of international law. International human rights standards have been made by and are addressed specifically to governments. Countries which have become a party to the International Covenant on Civil and Political Rights (ICCPR) are legally bound to respect and ensure the rights protected in it. Although the ICCPR permits derogations from certain rights in strictly defined circumstances, it stipulates that even in times of emergency threatening the life of the nation all governments must, as a minimum and in all circumstances, protect the right to life and the freedom from torture. India accepted a legal obligation to observe these standards when it signed and ratified the ICCPR in 1979, thereby clearly stating to the international community that it considered itself bound to uphold and protect these fundamental human rights. This report describes how the government has persistently failed to do that.

No one is infallible. On facts, like any mortal, Amnesty's observers can go wrong. The answer is a corrective response, not condemnation, a dialogue, not a stand-off. For Amnesty has amply proved that while on some facts it can be in the wrong, it is incapable of ever being with the wrong. The world would be poorer without Amnesty International.



BANQUE INDOSUEZ

(Incorporated in France with Limited Liability)
BOMBAY BRANCH

BALANCE SHEET AS AT MARCH 31, 1991

| Particulars | Year Ended 31.3.1991 Rs. Ps. | Year Ended 31.3.1990 Rs. Ps. | Year Ended 31.3.1991 Rs. Ps. | Year Ended 31.3.1990 Rs. Ps. |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | | | | |
| LIABILITIES | | | | |
| 1 Capital | | | | |
| Nominal Value of Securities Deposited with Reserve Bank of India under Section 11(2) of the Banking Regulation Act 1949 (included in Investment per contra) | 250 00 000 00 | | | |
| 2 Reserve Fund & Other Reserves | | | | |
| Reserve under Sec 11(2) (b)(ii) of the Banking Regulation Act 1949 | 100 00 000 00 | | | |
| 3 Deposits & Other Accounts | | | | |
| Fixed Deposits | | | | |
| (i) in Banks | — | | | |
| (ii) from Others | 109 76 71 686 70 | | | |
| Savings Bank Deposits | 1 26 65 4 18 47 | | | |
| Current Accounts | | | | |
| (i) from Banks | 1 20 87 990 57 | | | |
| (ii) from Others | 10 18 38 231 77 | | | |
| Contingent Accounts | 11 69 26 252 14 | | | |
| 4 Borrowings from Other Banking Companies, Agents etc. | | | | |
| (i) in India | 18 67 125 60 | | | |
| (ii) outside India | 42 68 907 82 | | | |
| 5 Bills Payable | | | | |
| 6 Bills for Collection being Bills Receivable as per Contra | | | | |
| (i) Payable in India | 12 92 97 530 55 | | | |
| (ii) Payable outside India | 2 55 59 440 58 | | | |
| 7 Other Liabilities | | | | |
| (i) Held Office Capital Account | 7 65 90 407 27 | | | |
| (ii) Branch Adjustments | 8 68 281 58 | | | |
| (iii) Others | 21 00 00 068 07 | | | |
| 8 Acceptances Endorsements and Other Obligations as per Contra | | | | |
| Carried forward | 2 34 99 62 961 76 | | | |
| ASSETS | | | | |
| 1 Cash | | | | |
| In hand with Reserve Bank of India and State Bank of India (including foreign currency notes) | | 10 12 85 717 41 | | 27 14 42 474 12 |
| 2 Balances with Other Banks: | | | | |
| (A) On Current Account | | | | |
| (i) in India | — | | | |
| (ii) Outside India | 5 57 45 745 74 | | | |
| (B) On Deposit Accounts | | | | |
| (i) in India | — | | | |
| (ii) Outside India | — | | | |
| 3 Money at Call and Short Notice | | | | |
| 4 Investments (at cost) | | | | |
| (i) Securities of the Central and State Governments and other Trustee Securities including Treasury Bills of the Central and State Government | 19 83 97 545 00 | | | |
| (ii) Shares | 3 60 000 00 | | | |
| (iii) Debentures or Bonds | 19 27 02 177 00 | | | |
| (iv) Other Investments | — | | | |
| (v) Gold | — | | | |
| (Market value) | | | | |
| Rs 38 41 88 570 00 | | | | |
| 1990 Rs 31 63 89 000 00) | | | | |
| 5 Advances: | | | | |
| (Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors) | | | | |
| (i) Loans Cash Credits Overdrafts etc. | | | | |
| (i) in India | 33 14 32 659 50 | | | |
| (ii) Outside India | — | | | |
| (ii) Bills discounted and purchased (Excluding Treasury Bills of the Central and State Governments) | | | | |
| (i) Payable in India | 17 97 46 430 93 | | | |
| (ii) Payable outside India | 1 10 08 528 41 | | | |
| 6 Bills Receivable being Bills for Collection as per Contra | | | | |
| (i) Payable in India | 12 92 97 530 55 | | | |
| (ii) Payable outside India | 2 75 59 340 59 | | | |
| 7 Constituents' Liabilities for Acceptances, Endorsements and Other Obligations as per Contra | | | | |
| Carried Forward | 1,99,97,39,186 02 | | | |



BANQUE INDOSUEZ

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BOMBAY BRANCH

BALANCE SHEET AS AT MARCH 31, 1991

| Year Ended 31.3.1990 Rs. P. | CAPITAL AND LIABILITIES Rs. P. | Year Ended 31.3.1991 Rs. P. | Year Ended 31.3.1990 Rs. P. | PROPERTY AND ASSETS Rs. P. | Year Ended 31.3.1991 Rs. P. |
|--------------------------------|--|--------------------------------|--------------------------------|---|--------------------------------|
| 2 4 7 49 15 400 39 | Brought Forward | 2 44 90 62 363 76 | 2 20 82 89 644 21 | Brought Forward | 1 99 97 49 186 02 |
| | 9 Profit and Loss Account | | | 8 Premises Less Depreciation: | |
| 1 92 10 777 54 | Balance as per last Balance Sheet | 2 28 72 555 66 | 4 10 69 118 14 | Cost as at 1st April 1990 | 4 70 64 718 21 |
| 1 70 46 687 00 | Less: Remitted/Transferred to Head Office | 2 17 88 604 19 | 66 92 600 08 | Additions during the year | 9 03 468 71 |
| 1 64 590 54 | | | 4 77 61 718 21 | | 4 79 68 186 92 |
| | Profit for the year as per Profit & Loss A/c annexed | 2 75 64 127 77 | 6 97 000 00 | Less: Deductions/written off during the year | 4 79 68 186 92 |
| 2 85 90 691 57 | Less: Transferred to Statutory Reserve | 55 12 825 55 | 1 70 64 718 21 | Less: Depreciation written off to date | 71 58 505 60 |
| 57 18 148 91 | | | 52 76 781 02 | | 1 05 09 681 42 |
| 2 28 72 555 66 | | 2 20 51 402 3 | 4 17 87 947 19 | | |
| | 10 Contingent Liabilities | | | 9 Furniture and Fixtures Less Depreciation | |
| | (i) Claims against the Banking Company not acknowledged as debts | 7 05 78 000 00 | 1 85 16 772 16 | (Including Vehicles and Equipment) | |
| | (ii) Money for which the Banking Company is contingently liable in respect of Guarantees | 84 54 24 799 77 | 62 99 140 85 | Cost as at 1st April 1990 | 2 46 15 892 49 |
| 136 29 50 619 44 | (iii) Liability on Bill of Exchange rediscounted | 78 00 00 000 00 | 2 48 15 914 31 | Additions during the year | 51 61 040 00 |
| 82 75 00 000 00 | (iv) Liability on account of outstanding Forward Exchange Contracts | 1130 44 99 073 09 | 2 00 020 82 | Less: Deductions/written off during the year | 3 98 134 01 |
| 387 98 44 005 49 | | | 2 46 15 892 19 | Less: Depreciation written off to date | 2 04 20 799 18 |
| | | | 1 18 12 776 98 | | 1 36 21 435 97 |
| | | | 1 28 04 115 51 | | |
| | | | | 10 Other Assets: | |
| | | | | (i) Stamps and Stamped Documents | 19 284 00 |
| | | | | (ii) Accrued Interest and Discount | 12 16 66 40 55 |
| | | | | (iii) Prepaid Expenses | 1 23 02 809 82 |
| | | | | (iv) Sundry Advances Deposits etc. | 18 52 09 073 77 |
| | | | | (v) Branch Adjustments | — — — — — |
| | | | | 11 Non-Banking Assets Acquired in Satisfaction of Claims | |
| | | | | | 51 92 27 914 14 |
| 249 99 51 546 58 | TOTAL Rs. | 237 30 98 217 45 | 249 99 51 546 58 | TOTAL | 237 30 98 217 45 |

See Notes Attached

This is the balance sheet referred to in our report of even date
Sd/

P. N. GHATAKIA
Partner

For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

Bombay June 20 1991

Sd/-
J. P. IMBERT
Chief Executive Officer (India)



BANQUE INDOSUEZ

(Incorporated in France with Limited Liability)
BOMBAY BRANCH

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 1991

| Year Ended 31 3 1990 Rs Ps | EXPENDITURE | Year Ended 31 3 1991 Rs Ps | Year Ended 31 3 1990 Rs Ps | INCOME (Less provision made during the year for Bad and Doubtful Debts and other usual or necessary provisions) | Year Ended 31 3 1991 Rs Ps |
|----------------------------------|--|----------------------------------|-------------------------------------|---|----------------------------------|
| 27 75 19 667 14 | 1 Interest paid on Deposits Borrowings etc. | 25 65 71 154 52 | 40 01 44 295 49 | 1 Interest and Discount | 27 66 97 919 70 |
| 77 71 752 47 | 2 Salaries Allowances Provident Fund etc. | 86 22 553 32 | 5 70 54 757 04 | 2 Commission Exchange and Brokerage | 5 82 22 461 74 |
| 21 000 00 | 3 Directors and Local Committee Members fees and allowances | 14 000 00 | — | 3 Rent | — |
| 74 08 670 96 | 4 Rent Taxes Insurance Lighting etc. | 66 51 896 52 | — | 4 Net Profit on sale of investments gold and silver land premises and other assets (not credited to reserves or any particular account) | — |
| 1 91 750 00 | 5 Law Charges | 84 545 00 | — | 5 Net Profit on revaluation of investments gold and silver land premises and other assets (not credited to reserves or any particular account) | — |
| 34 52 185 67 | 6 Postage Telegrams and Stamps | 27 91 592 17 | — | 6 Income from non banking assets | — |
| 55 000 00 | 7 Auditors fees | 55 000 00 | — | 7 Other Receipts | — |
| 69 86 977 33 | 8 Depreciation on and the repairs to banking company's property | 70 14 891 61 | — | 8 Loss | — |
| 16 92 116 94 | 9 Stationery Printing Advertisement etc. | 17 14 420 19 | — | | |
| — | 10 Loss from sale of or dealing with non banking assets | — | — | | |
| 2 35 08 237 35 | 11 Other Expenditure (including H O administrative expenses) | 2 38 34 231 35 | — | | |
| 2 85 90 694 57 | 12 Profit for the year | 2 75 64 127 40 | — | | |
| 35 71 98 052 42 | TOTAL | 35 49 20 301 44 | 35 71 98 052 42 | TOTAL | 35 49 20 301 44 |

NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 1991

1 Significant Accounting Policies

These accounts have been prepared under the historical cost convention in accordance with statutory requirements prescribed under the Banking Regulation Act 1949

A) Investments in securities

Investments in securities of the Central and State Governments and other trustee securities including treasury bills of the Central and State Governments shares debentures or bonds other investments are valued at cost

B) Advances

i) Provision for Bad and Doubtful Debts The management reviews the advances/loan portfolio each year in addition to periodic reviews and based upon their judgment sets aside specific provision for bad and doubtful debts The provision for bad and doubtful debts is made to the satisfaction of the auditors after considering present value of realisable security held by the Bank in respect of such advances and other related factors

ii) Advances are stated net of bills of exchange rediscounted and specific provision in respect of bad and doubtful debts

iii) Provisions have been made on a gross basis Tax relief which will be available when the advance is written off will be accounted for in the year of write off

C) Premises, Furniture and Fixtures

Premises furniture and fixtures have been valued at cost less depreciation Depreciation has been provided

i) On written down value basis for the full year (including additions during the year) in respect of assets at the rates generally specified by Schedule XIV to the Companies Act 1956

See Notes Attached

This is the Profit and Loss Account referred to in our report of even date

Sd/

PN GHATAIA

Partner

For and on behalf of

PRICE WATERHOUSE

Chartered Accountants

Bombay June 20 1991

D) Income recognition :

i) Interest income is recognised on accrual basis and in the case of non performing advances the same is recognised on recovery and settlement

ii) Commission and fees charged/realised are credited to income at the time of effecting the transactions to which they relate

E) Other Appropriations/Disclosures:

i) Provision for gratuity to staff has been made on an accrual basis as certified by the actuary The Bank has a separate trust for gratuity

ii) Assets and Liabilities in foreign currencies are converted at the rates ruling at the year end and the contingent liability in respect of foreign exchange contracts is converted at the contracted rates

2 Remuneration paid to Chief Executive Officers in India

| | Year Ended 31 3 1991 Rs | Year Ended 31 3 1990 Rs |
|--|-------------------------------|-------------------------------|
| Salary | 430 667 | 226 900 |
| Perquisites evaluated in accordance with Income Tax rules | 106 798 | 98 890 |

3 The money for which the Bank is contingently liable in respect of Letters of Credit and Guarantees includes Rs 110 605 00 (previous year Rs 2 15 414 00) in respect of officers of the Bank

4 Other Liabilities and Other Assets include amounts pending transfer to appropriate accounts

5 Previous year's figures have been regrouped/rearranged wherever necessary

Sd/

J P INGBERT
Chief Executive Officer (India)



BANQUE INDOSUEZ

(Incorporated in France with Limited Liability)

BOMBAY BRANCH

Schedule of Particulars of Advances required by the Banking Regulation Act, 1949 Act X of 1949) annexed to and forming part of the Balance Sheet as at March 31, 1991

| For the Year Ended March 1990 | | For the Year Ended March 1991 | |
|--|--------|-------------------------------------|--------|
| Rs | Ps | Rs | Ps |
| 46 14 96 | 131 69 | 19 82 85 | 084 57 |
| 8 58 04 | 401 79 | 7 44 51 | 189 07 |
| 14 96 69 | 189 29 | 25 05 51 | 445 00 |
| 69 69 69 | 722 77 | 52 21 87 | 618 64 |
| 1 Debits considered good in respect of which the Banking Company is fully secured | | | |
| 2 Debits considered good for which the Banking Company holds no security other than the debtor's personal security | | | |
| 3 Debits considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors including amount due from a sick company | | | |
| 4 Debits considered doubtful or bad not provided for | | | |
| 5 Debits due by Directors or Officers of the Banking Company or any of them either severally or jointly with any other persons | | | |
| 6 Debits due by companies or firms in which the Directors of the Banking Company are interested as directors partners or managing agents or in case of private companies as members | | | |
| 7 Maximum total amount of advances including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other persons | | | |
| 8 Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the directors of the Banking Company are interested as directors partners or managing agents or in the case of private companies as members | | | |
| 9 Due from Banking Companies | | | |

Auditors' Report on the Indian Branch of Banque Indosuez under Section 30 of the Banking Regulation Act, 1949.

We have audited the attached Balance Sheet of the Indian Branch of Banque Indosuez as at March 31 1991 and the relative Profit and Loss Account of the Indian Branch of the Bank for the year ended on that date signed by us under reference to this report

In accordance with the provisions of Section 29 of the Banking Regulation Act 1949 read with the provisions of Sub-Sections (1) (2) and (5) of Section 211 and Sub-Section (5) of Section 227 of the Companies Act 1956 the Balance Sheet and the Profit and Loss Account together with the notes thereon are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act 1956 The accounts are therefore drawn up in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act 1949

1) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory

(2) The transactions which have come to our notice have been in our opinion within the powers of the Indian Branch of the Bank

(3) In our opinion proper books of account as required by law have been kept by the Indian Branch of the Bank so far as appears from our examination of these books

(4) The above mentioned Balance Sheet and Profit and Loss Account of the Indian Branch of the Bank dealt with by this report are in agreement with the books of account

(5) In our opinion and to the best of our information and according to the explanations given to us the Balance Sheet and Profit and Loss Account together with the notes thereon give the information required by the Companies Act 1956 as amended in the manner so required for Banking Companies and on such basis the said Balance Sheet gives a true and fair view of the state of affairs of the Indian Branch of the Bank as at March 31 1991 and the Profit and Loss Account gives a true and fair view of the profit of the Indian Branch of the Bank for the year ended March 31 1991

Bombay June 20 1991

Sd/
P N GHATAIA
Partner
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

ASSAM

Congress Returns to Brahmaputra Valley

Kamarupee

Rejected five years ago as a party hostile to the Assamese-speaking people of the Brahmaputra valley, the Congress(I) has scored notable triumphs this time in precisely these areas where also the ULFA writ runs unchallenged. The inference that the party has struck a deal with the ULFA is inescapable.

FEW tears are likely to be shed over the defeat of the Asom Gana Parishad (AGP) which, after holding office for five years in the State, has suffered a humiliating defeat in the recent elections to the assembly and the Lok Sabha. The party, which had made a spectacular debut in the December 1985 general elections in the State, capturing political office within a few weeks of taking birth, has now suffered an even more spectacular defeat. The Congress(I), which five years ago had been able to win only 25 seats in the 126-member assembly has come back with a bang capturing 65 seats. It has also won eight Lok Sabha seats while the AGP has won only one. The BJP has won two seats (Karimganj-SC and Silchar, both in the Barak valley) and the CPI(M) has won the Barpeta seat. The remaining two seats both reserved for Scheduled Tribes have been won by the Autonomous State Demand Committee (Autonomous District ST) and the 'independent' candidate supported by the All Bodo Students' Union and the Bodo Peoples' Action Committee (Kokrajhar ST).

It is however too early to say whether this defeat of the AGP, the first regional formation in the State to capture political office, marks the demise or even the weakening of regionalism as a political force in the State. For, the factors that contributed to the emergence of the AGP, which in the event turned out to be the 'acceptable face of regionalism', in Assam have deep roots in the social, economic and political history of the 'people of Assam'—indeed in the inescapable necessity to use the inverted commas to denote that ascription, something that is not necessary when one discusses corresponding dilemmas of other nationalities of India. Thus, the expectations, anxieties and rages that have contributed to the emergence of the AGP will not disappear merely because the AGP has suffered a humiliating electoral reverse.

The disaster that has overtaken the AGP has been entirely predictable and was being anticipated in numerous reports from the State. The sheer incompetence of the government leaders, the brazen cronyism, the total indifference to the very issues (some of them non-issues) which the AGP leaders in their earlier manifestation as leaders of the All

Assam Students' Union (AASU) had exploited to launch themselves on a political career only to kick off the ladder they had used to climb—these have clearly not been forgiven.

Indeed, the emergence of the United Liberation Front of Asom (ULFA) which turned out to be the nemesis of the AGP government was causally related to some of these failures that arose out of the hubris of AGP leaders. The AGP leaders' ambivalence regarding ULFA which they could neither suppress nor make a deal with left them with no escape route when finally the crackdown from above came. Ultimately it is the Congress(I) that appears to have struck a deal with ULFA—an inference inescapable in the light of the sweep of the Congress(I) candidates in areas where ULFA's writ used to run unchallenged.

Above all were the unseemly wrangles among the top leaders of the AGP and the rampant factionalism that culminated in the split in the party. Quite in character, this split which had an allegedly 'ideological' basis came about not when the AGP was in office, but after the dismissal of the government—a development which indeed aggravated the internal crisis in the party and made the split inevitable. Hopelessly debilitated by these various self-inflicted wounds, neither the AGP, nor, much less, its various even more feeble clones each posturing more and more extreme forms of an exclusivist regionalism, could carry conviction among the electorate.

Several features of the return of the Congress(I) to the political centre stage in Assam deserve to be noted. Reviled for long and rejected as being allegedly totally hostile to the genuine aspirations (and even more importantly, the apprehensions) of the majority of the Assamese speaking people of the Brahmaputra valley, an area of crucial political and cultural pre-eminence in the State, the party has affirmed its relevance precisely in the very same areas of the State from where it had been so ingloriously ousted by the AGP a little over five years ago. In the demonology of the AGP and its supporters, the Congress(I) (and especially Hiteswar Saikia) had sold itself out to the 'vote banks of illegal foreigners'. The argument acquired some substance in the light

of the pattern of vote and boycott of polls in the controversial general elections of February 1983 when, defying the call for poll boycott by the AASU, the voters in the periphery of the Brahmaputra valley and outside the valley had voted the Congress(I) to office, while in dozens of constituencies in the areas which the Assam agitation leaders were to claim as their own in the December 1985 elections, hardly a few hundred voters cast their votes.

However, the results of the present elections indicate that the grudges and bitterness generated in those bloodstained elections of February 1985 have largely been set aside, though not perhaps forgotten. For it is precisely in the very same areas where AASU's boycott call of February 1983 had a near total response and where two-and-a-half years later the very same AASU leaders in their manifestation as AGP leaders made their spectacular debut that the Congress(I) has scored its most notable triumphs. This affirmation of the Congress(I) as a party no less responsive indeed according to Hiteswar Saikia's pronouncements in the election campaign, far more responsive—to the aspirations (and anxieties) of the people of the State, including the Assamese people, than self-proclaimedly regional political formations like the AGP is perhaps the most significant feature of the election results. Of the 65 seats the Congress(I) has won (which is likely to go up to 66), only three seats are in the 'Bengali dominated Barak valley districts', and a further dozen or so had been held by the United Minorities Front (UMI) and were presumably from the so-called 'immigrant inhabited areas'. But the overwhelming bulk of the Congress(I) victories have been in the heartland of the Brahmaputra valley.

All these still do not add up to an obituary for regionalism in Assam, much less in the north-east region. For accompanying the set back to the AGP and indeed substantially contributing to that set back are the notable triumphs of the movements based exclusively among certain tribal groups in the State seeking greater autonomy within or total separation from Assam. The Autonomous State Demand Committee (ASDC) which has been agitating for the constitution of the two autonomous hill districts of Karbi Anglong and North Cachar Hills into an autonomous State within Assam has swept the Karbi Anglong district winning all the four assembly seats from that district, its nominee has been returned to the Lok Sabha. Nine 'independent' candidates supported by the All Bodo Students' Union and the Bodo Peoples' Action Committee have been returned to the assembly while another such 'independent' has won the Kokrajhar-ST Lok Sabha seat.

Given the widely held belief at least among the AGP supporters, that much of these agitations had received covert backing

of the Congress(I) merely to create more problems for the AQP government, it would be interesting to see how the government will tackle these problems, especially in the light of the repeated affirmations of Hiteswar Saikia that his first priority will be to tackle

these problems (including the issues raised by ULFA), and his known desire to go down in history as a leader more passionately 'Assamese' than the most perfervid proponents of an exclusivist and extreme Assamese nationalism

ANDHRA PRADESH

Two Elections, Not One

M Shatrugna

Rajiv Gandhi's assassination and the postponement of the second phase of the elections by three weeks, during which period the Congress(I) made an elaborate show of exhibiting the slain leader's ashes in the constituencies where elections were put off, changed the electoral fortunes of the Congress(I) quite dramatically

WHILE the rest of the southern States have gone in favour of the Congress(I) in the tenth Lok Sabha elections, the performance of the party in Andhra Pradesh has not been as impressive. It was defeated in as many as 17 important constituencies with wide margins of votes.

Elections were held in Andhra Pradesh in two phases, on May 20 and June 15, with 17 constituencies going to the polls in the first phase and 24 in the second phase after Rajiv Gandhi's assassination. The results of the first phase clearly showed that opposition to the Congress was strong with the party being defeated in 14 of the 17 constituencies, conceding 10 seats to the TDP and one seat each to the CPI, CPI(M), BJP, and MIM. Out of the 108 lakh valid votes polled in these 17 constituencies, the TDP and its allies polled 45.61 lakh (41.9 per cent) and the Congress(I) tally was 43.08 lakh (39.6 per cent). In the ninth Lok Sabha poll in 1989, the TDP and its allies had polled 43.2 per cent votes and the Congress(I) 50.8 per cent in these constituencies. In 1989, all the coastal Andhra seats had been bagged by the Congress(I) barring Narsapur and Bobbili. Apart from the overall poor showing at the polls in the first phase, the party suffered heavy political losses in the area. It lost prestigious seats in the agriculturally prosperous Godavari belt in coastal Andhra. The emergence of the Godavari basin as an industrial area with the discovery of oil and natural gas there has eroded the Congress's political and economic influence. Also, the support of the prosperous Kapu community to the TDP has further added to the discomfiture of the Congress(I). In the Krishna basin also, the Congress(I) reverses have been heavy. For the first time since 1983, Chintur, the most prestigious seat of the area, slipped out of Congress(I) hands.

The defeat of the 92 year old N G Ranga, the doyen of the early Kisan movement in Andhra and a contemporary of the late Chaudhury Charan Singh, by a relatively unknown Muslim youth, Lal Jan Pasha, of the civil contractor tycoon, K S Rao, by K P Reddiah, a backward class leader in Machilipatnam, of Chennupati Vidya by

Vadde Sobhanadeswar Rao in the highly political Vijayawada constituency, of Singam Basavapunniah by Reddy Venkateswarlu in Tenali seat will all have serious consequences for the stability of the present Congress(I) ministry in the State. The Congress(I), which masterminded the Kamma Kapu riots in December 1988, appears to have paid a heavy price for its misdeeds now. Also, the popular theory that the TDP is a Kamma party has been called into question by the fact that it was the Congress(I) which fielded three Kamma stalwarts against Telugu Desam in the Krishna Guntur belt and all three of them lost. The defeat of Chennupati Vidya particularly is a blow to the party as it had specially chosen her—a Brahmin by birth and married to a Kamma—for the Kamma Brahmin dominated Vijayawada seat.

While the reiteration of the Narasaraopet seat by Kasu Venkatakrishna Reddy can be attributed to the enormous influence of the Kasu family in that area, the success of liquor baron Magunta Subbarami Reddy can be traced to the enormous funds Reddy could muster for the election. Chief minister Janardhan Reddy had a personal stake in the Nellore (SC) seat where his hand-picked candidate, Kudumula Padmasri, won the seat with a majority of 45,000 votes. Of the four seats in Ikongana that went to the polls in the first phase, Nalgonda, a traditional stronghold of the communists, was won by Dharma Bhiksham of the CPI with a majority of 68,000 votes. In the CPI(M) bastion of Miralguda, veteran communist Bheem Reddy Narasimha Reddy managed to wrest the seat from the Congress(I) with a slender margin of 8,000 votes. His other rival, the young radical medical doctor Sudhakar supported by the ML parties, garnered about 27,000 votes, mostly at the expense of the CPI(M). For the Secunderabad Lok Sabha seat, a young backward class leader, Bandaru Dattatreya of BJP, who had been detained during the Emergency, trounced T Manemamma Anjaiah of Congress(I) by a massive margin of 85,000 votes. Manemamma, widow of former chief minister T Anjaiah (Reddy) was set up to cash in on the 'sympathy vote' for her late husband,

who had a humble background, beginning as a daily-wage worker in the local Allwyn factory five decades ago. The Congress(I) had picked her in 1984, though she was new to politics. With the loss of Secunderabad, the entire Hyderabad urban area has slipped out of Congress(I) hands. For the Hyderabad seat, the Congress(I) could put up only a token fight by fielding an unknown local functionary as the chances of winning the seat from MIM supremo Sultan Salauddin Owaisi were very remote. The Congress(I) nominee polled only 33,000 votes, losing his security deposit.

In the first phase of the elections, it would appear, the minorities went over to the TDP in the coastal region. A closer look at the voting pattern indicates the emergence of the BJP as a third force. The BJP cut into the vote of the TDP in Nellore (SC) where it polled about 95,000 votes and the Congress(I) won the seat by a 45,000 vote majority. In Ongole also the BJP, with a tally of 28,000 votes, might have altered the result in favour of NTR had there been an alliance with TDP.

The results reflect the dissatisfaction of the people with the 16 month rule of the Congress(I). Apart from not providing any imaginative and creative political programme to the people, the party has sought to scuttle every measure of the TDP government when it was in power, like the subsidised rice scheme, the setting up of mandal level administration at the taluka and the abolition of the age-old village officers system. Congress(I) rule has been replete with internal dissensions, factionalism and worse, affecting the entire administrative set-up even though it is endowed with the services of efficient and honest officers like K Madhava Rao and Mohan Kanda. The internecine battle between the irrepressible N Srinivasulu Reddy and M Chenna Reddy and the final sack of the latter following the December 1990 communal riots have demoralised the civil service. Srinivasulu Reddy is known to refer to Chenna Reddy as 'tax' chief minister, apparently referring to the tax messages sent by the chief minister from the US when he was undergoing treatment for a kidney ailment.

The failure of the government in tracking down the perpetrators of the December 1990 communal violence in the twin cities has also shaken the voters' confidence in the party. The rejection of the Congress(I) in Secunderabad corroborates this. It appears that the voters regarded any political party ranging from BJP/MIM to CPI(M), as preferable to the Congress(I).

However, Rajiv Gandhi's killing and postponement of the second phase of the election by three weeks during which period the State Congress(I) had taken special measures to transport urns containing Rajiv Gandhi's ashes to the constituencies where elections had been postponed, appear to have swayed voters in favour of the Congress(I). Through a splendid combination of political chicanery and unashamed misuse of the state machinery, the

exhibited all over the State. In the second phase of elections, held on June 15, the Congress(I) tally of votes went up to 67 34 lakh (48 per cent), whereas the TDP and its allies secured only 48 34 lakh (34 per cent). Of the 24 seats that went to the polls in the second phase, the Congress(I) bagged 21, sweeping the whole of Rayalaseema and winning major chunks in Telengana. The TDP could wrest from the Congress(I) the relatively prosperous Nizamabad seat and the economically most backward Adilabad seat. The victory of the Congress(I) in Warangal, Hanamkonda, Kareemnagar, Medak, Peddapalli(SC), and Siddipet(SC) has been impressive with huge margins of votes. The BJP factor played a major role in Nagarkurnool(SC) where the party polled about 77,000 votes and the Congress(I) retained the seat with a 51,000 vote majority. Similar was the case in Mahaboobnagar where the BJP polled 1 25 lakh votes and the Congress(I) retained the seat with a 33,000 vote margin over the TDP. Interestingly, in the Peddapalli(SC) constituency where the Congress(I) had polled 2 51 lakh votes the voter turnout was less than 50 per cent. Out of the 10 97 lakh electorate, only 5 21 lakh votes were polled. Though the TDP polled about 1 41 lakh votes there, the poor turnout, most probably due to the poll boycott call given by the Peoples' War Group, appeared to have upset its chances. This is a sprawling constituency covering the entire Singareni Coal belt where the PWG has considered following and dedicated cadres. A low voter turnout generally helps the Congress(I).

The 'sympathy factor' appears to have helped the Congress(I) more as one moves closer to the epicentre of the assassination. Barring Cuddapah, where polling was countermanded due to the death of an Independent candidate, all the seven seats in Rayalaseema have been retained by the Congress(I) with huge margins.

An important feature of the present polls is the emergence of the BJP as a third force. Winning one seat, it polled about 20 lakh (8 per cent) valid votes. This is a sizeable improvement over its tally of 2 2 per cent in 1984 and 2 per cent in 1989. The entry of all the CPI(M) parties, barring the PWG, is also a new development in the State's electoral politics. For the Karimnagar seat N V Krishnaiah, the sitting MLA from Sirsilla was fielded by the CPI(M), Chandra Pulla Reddy group. He polled over one lakh votes, emerging runner up to the successful Congress(I) candidate, J Chokka Rao. Similarly, Gaddam Venkatramaiah of the CPI(M), Pyla Vasudeva Rao group polled about 46,000 votes in Khammam where the CPI(M) candidate was defeated by a narrow margin of 5,918 votes by the Congress(I) candidate, a retired IPS officer who had been the State home secretary.

The election results show that opposition to the Congress is very much alive in the State but is yet to get consolidated through systematic work at the grassroots level by the other parties.

INSTITUTE OF RURAL MANAGEMENT ANAND

Institute of Rural Management, Anand is looking for a suitable person for RBI Chair in Rural Economics

The Institute of Rural Management, Anand (IRMA) was set up in 1979 to provide management education, training and research support to rural organisations especially in the co-operative sector. The Institute operates a two-year post-graduate programme in rural management offered every year to a class of 80-90 students. In addition, the Institute offers a one year diploma programme in rural development management exclusively for young officers sponsored by rural co-operatives, a 3-month General Management Programme is offered as a mid-career reorientation programme to a group of 35-40 senior management personnel from rural co-operatives. The faculty of the Institute also conduct 15-20 shorter duration specialised training programmes/workshops in functional areas such as rural marketing, field organisation, financial planning in management, etc. The faculty are also involved in managerial and policy research relevant to rural organisations and programmes.

The Institute is now looking for a senior academic for the Reserve Bank of India Chair in Rural Economics. The incumbent would have a five year appointment and will be placed suitably in the Professors grade (Rs. 5100-7300). The RBI Chair also offers resources for research assistance and limited travel support. Resources are also available from Institute's research fund and project grants. Benefits include campus housing, superannuation, provident fund, etc.

The RBI Chair Professor would participate in all educational and training programmes of the Institute. He would also be expected to provide leadership to the Institute's young faculty in undertaking research programmes which directly contribute to the Institute's mission. The incumbent should have a Ph.D. in Economics or a record of publications in professional journals. He/She should have 15 years or more of teaching/research experience. Candidates with proven record of research in rural economics would be preferred.

Interested candidates may apply with a sample of published work to
Director, IRMA, P.O. Box No. 60, Anand 388 001, Gujarat.

Planning for a National Commission on Bhopal Gas Disaster

Six years after the Bhopal gas disaster, not only do the victims continue to suffer, but several crucial issues, such as the manner in which injuries should be evaluated for compensation, remain unresolved. A national commission should be urgently set up to go into these and other matters.

MORE than six years have passed since the Bhopal gas leak disaster, three governments have changed, yet very little has been done to bring succour to the victims of this tragedy, to effectively rehabilitate them or to draw correct lessons from this catastrophe for the country as a whole. With these observations Nikhil Chakravarty inaugurated the Second National Convention on Bhopal, held at Constitution Club, Delhi on April 8-9, 1991. The convention jointly convened by Bhopal Gas Peedit Mahila Udyog Sangathan, Bhopal Group for Information and Action, and Bhopal Gas Peedit Sangarsh Sahyog Samiti was attended by representatives of trade unions, mass organisations, women's groups, environmental groups, legal, medical and science professionals as well as political parties. Four sessions had been organised with the objective of arriving at a broad consensus regarding (a) issues arising out of the Bhopal settlement, (b) the proposed National Commission on Bhopal, (c) legislation on hazardous industries, and (d) a national action plan.

Briefly reviewing the history of the six year long battle against Union Carbide Corporation, speakers pointed out that legal proceedings against UCC were initiated by the government of India initially in the New York southern district court on April 8, 1985 and later in the district court of Bhopal in September 1986. On December 17, 1987 the district court of Bhopal ordered an interim compensation of Rs 350 crore, but the high court of Madhya Pradesh modified that order and instead granted an interim compensation of Rs 250 crore. Both the Union of India and the Union Carbide Corporation appealed against that order.

Supposedly to circumvent a lengthy legal battle, the Supreme Court by its orders on February 14 and 15, 1989 directed that there be an overall settlement of the claims in the suit for 470 million US dollars and termination of all civil and criminal proceedings. The settlement evoked widespread protest from victims' organisations, their supporters and concerned citizens from all over the country and from abroad. As a result a number of review and writ petitions were filed

before the Supreme Court. These petitions pointed out that the victims had neither been consulted nor heard in the matter, that the settlement amount was pitifully inadequate and questioned the termination of all civil and criminal proceedings. The settlement was also challenged because a petition challenging the validity of the Bhopal Gas Leak Disaster (processing of claims) Act of 1985 (by which the government of India took upon itself the sole right to represent the victims) had yet to be heard.

A special bench was set up in March 1989 to hear this petition (on the Bhopal Act) and on December 22 this bench delivered their judgment which upheld the constitutional validity of the Bhopal Act, but recognised the right of the gas victims to be heard before any settlement was made. The judges further ruled that the act did not empower the government to terminate all criminal proceedings relating to the case.

Calling the settlement of February 1989 the 'second Bhopal disaster', speakers said the settlement was immoral, wrong in law, and a sell-out. The settlement had been arrived at by placing half-truths before the court. While the initial value of all claims arrived at by the government was 3,000 million US dollars, the court was led to believe that they should decide the amount of compensation between the maximum of 426 million US dollars offered by UCC and the minimum of 500 million US dollars suggested by the government of India. Victims' groups, who had protested earlier when an attempt was made in 1987 to settle for an amount of 600 million US dollars, were not informed of this shift in the government's stand.

Supporting the settlement on humanitarian grounds the government and the court had stressed the need for immediate relief to tens of thousands of suffering victims. However, in the four years till the settlement the government had done little to provide relief and rehabilitation to the victims. The government had ignored this fundamental responsibility towards its citizens and had instead focused on getting compensation from UCC. It was only in June 1990, under the V P Singh government that interim relief of Rs 200 per per-

son per family was granted to the affected people.

The humanitarian considerations of the government were further belied when they presented the court with a completely distorted picture, grossly underestimating the magnitude and grievous impact of the disaster. Of the 6 lakh claims for compensation filed by the victims, the government placed hypothetical figures of gas victims before the court, dismissing as many as 4 lakh claims without even evaluating them. According to an affidavit filed in the Supreme Court by the MP government in July 1990, as of January 31, 1989 only 3,13,292 claimants had been medically examined until then and only 29,320 had been categorised. Thus at the time of the settlement as many as 4 lakh claims had not even been evaluated, let alone categorised. The speakers alleged that the court had, therefore, arbitrarily arrived at the number of victims and the compensation amount to be paid to them. As a substantial number of claims were evaluated after the settlement, the MP government was trying to tailor the results of the categorisation in order to obtain predetermined results. This they said was evident from the fact that several necessary tests were not being conducted in evaluating all the claims.

The callousness of the government was further evident from the fact that in arriving at the settlement amount, only eight of the 15 categories of claims originally decided upon were taken into consideration. The sad and sorry plight of the victims was merely an excuse, because even if the settlement had not been challenged, not a single victim would have received any compensation from the settlement amount even in April 1991 (over two years after the purported settlement) for the simple fact that the process of evaluation and categorisation is still not complete. Victims can claim compensation only on the completion of this process as per the order of the court in May, 1989.

The settlement was strongly criticised for quashing all civil and criminal proceedings against UCC. Till now, no comprehensive enquiry has been initiated to look into the magnitude and toxicity of the world's worst industrial disaster. Also, by ordering the settlement, the Supreme Court failed to look into questions of economic exploitation of developing countries by multinationals and their pursuit of dangerous technologies for economic gain—questions which the court itself considered of seminal and far reaching importance, and of great relevance to the democracies of the third world.

Thus six years after the gas leak disaster, victims continue to suffer without

to the case still remain unresolved. The most basic is the question of evolving a scientific and just method to evaluate nature of injuries and the number of persons injured. While the February 1989 settlement had arbitrarily decided on the number of persons falling into various categories of injured without any actual assessment having been made, the method used by the MP government was viewed as being arbitrary and unrelated to the nature of diseases suffered by the victims. The evaluation made by the State of Madhya Pradesh is a one-time exercise without any provision for monitoring and follow up. Such a system can never reflect the correct number of persons injured as it fails to take into consideration the fact that asymptomatic persons are becoming symptomatic, that the disease is progressively deteriorating, that the immune system is damaged and that such damage has cyclical manifestation, that new diseases/impairment might emerge and that there is a possibility of long-term genetic damage. The result is that they have come up with an absurdly low and unrealistic figure of the number of persons injured.

An equally vexing problem is the amount of compensation to be paid to the various categories of the injured. All compensation legislation is based on value of life, i.e., measures of income that the victim loses, and not on the nature of injury and the need for medical treatment and rehabilitation.

Another crucial issue is that the settlement vacates the order of the Bhopal district court for UCC to be obliged to maintain US dollars 3,000 million worth of unencumbered assets. UCC is now at liberty to dispose of their present assets and unless the court restores the past binding on UCC, the victims may find themselves confronted by a bankrupt corporation if not a non-existent one.

Confronted with this dismal scenario, speakers expressed a lack of trust in the bureaucracy and the government. They also felt that not much could be expected from the court. Though the Supreme Court has heard the review petitions twice—once between January and August 1990 and again from November 13 to December 18, 1990, its decision on these petitions is still awaited.

WHY A NATIONAL COMMISSION

The setting up of a national commission was also discussed at length. The Justice N K Singh enquiry commission on the Bhopal gas leak disaster was wound up by the government of MP in December 1985 without allowing it to complete its public enquiry and submit its

report. The scientific commission on Bhopal, working directly under the cabinet secretariat, apparently submitted a top secret report to the government of India on the medical effects of MIC on life systems and, by mid-1988 withdrew from the scene without making any known impact on the situation. The Supreme Court settled the entire compensation against Union Carbide without eliciting any worthwhile information either about the cause of the disaster or the medical implications of exposing Bhopal's population to the deadly toxic emission from the multinational plant. Speakers felt it was imperative that the new government provide an opportunity for the truth to emerge and justice to prevail.

The responsibilities of the commission, to be set up under parliament, were outlined as follows: (1) Collect and disseminate information regarding all aspects of the disaster from both the pre- and post-leak periods. (2) Monitor, supervise and co-ordinate all relief operations, rehabilitation programmes, medical documentation and research, irrespective of whether undertaken by State or Central agencies. (3) Assist the ministry of law to evolve and implement an effective legal strategy in both the compensation and criminal suits against Union Carbide or its officials. (4) Reorganise the entire research programme undertaken by State and Central government agencies concerning the impact of the toxic emission from the Union Carbide plant on life systems, including the human body, with the primary objective of formulating an effective strategy for detoxification and prevention of further long-term health damage to the victims. (5) Devise a scientific system of medical record keeping and ensure its implementation. (6) Redesign medical documentation and epidemiology exercises and formulate a long-term policy of monitoring the health status of the victims. (7) Ensure a community-based approach to medical relief of gas victims in place of the hospital-based system whose inadequacies are now more than evident. (8) Prepare a protocol of investigation that needs to be carried out for proper assessment of injury of the victims. (9) Evolve and monitor an integrated programme of medical, vocational and social (including psychiatric) rehabilitation of the victims. (10) Monitor disbursement of interim monetary relief and later of the damages awarded to the victims in the compensation case.

A large number of speakers including gas-affected women from Bhopal demanded that the government launch criminal prosecution against Union Carbide so as to deter future corporate malfeasance. They also called for comprehensive legislation to regulate industrial hazards, to

prevent such disasters and to evolve a comprehensive code for hazard elimination and regulation.

Since the Bhopal tragedy there have been several legislative acts and amendments but these ignore the important lessons of the Bhopal gas disaster. Perhaps the most important was the Environmental Protection Act of 1986, which brought poisonous substances under its purview. However, this act has several flaws. The distinction made under the act between 'pollutant' and 'substance' is highly dangerous as it allows endless judicial quibbling. Further, the act reveals a fundamental misunderstanding of the nature of hazards by making all its categories exclusive rather than inclusive; it thus fails to take into account the fact that technologies constantly change and new hazards and processes develop, as well as the fact that our knowledge of hazards is still in its infancy.

Similarly, where the act deals with the setting up of standards to maintain the quality of the environment, it fails to define terms by which such standards are to be set, taking neither risk nor any wide definition of injury into account, it also fails to lay down that liability for filing information about risk should be with the researchers or their employer, as well as with the company using the process thus developed. Finally, the act is fundamentally flawed when it comes to the question of punishment/controls, relying on fines and or imprisonment, rather than compulsory compensation, ecological restitution, compulsory equity participation in share capital of the company by its potential victims, and 'positive' sanctions such as putting a company on probation.

The recently passed Public Liability Insurance Bill has also been severely criticised for its many inadequacies. Though aimed at providing immediate relief to the victims of industrial accidents and incidents occurring while handling hazardous substances, the provisions of the bill suffer from several pitfalls. Under this legislation while the victim does not have to prove any 'wrongful act, neglect or default' to receive interim relief, this relief is not in addition to compensation. Compensation is to depend on the existing tort liability which requires fault or negligence to be proved. The bill thus takes away the legal gains made after the Bhopal tragedy, particularly the judgment in the Delhi Oleum Leakage Case, where the Supreme Court had laid the principle of absolute enterprise liability for hazardous substances. Any manufacturer of hazardous or inherently injurious substance was to be held liable without having to prove fault or negligence of the defendant. The legislation has not defined 'hazardous

De-Centring the Centre Page

P R K Rao

Instead of exploring and critiquing the instability and the usurpative drive of modern scientific enterprise, the media has allowed itself to be appropriated by the ideology of modern science. The newspaper centre page exemplifies this.

THE news composed, the images recreated and the views pronounced in the *Times of India* (TOI) of May 25, 1991, exemplify how the media, instead of serving as a critique of the ruling ideology, can be appropriated by that ideology of modern science and technology to function as its cultural apparatus and consciousness industry. The centre page is par excellence in this respect. With an obvious suggestion of complacent innocence it begins with Byron: "The day without a cloud hath passed and thou were lovely to the last." Now that the last is over yesterday, the periodic poser with the implied question mark 'India after X' is elevated to the significance of a rare two-column long editorial on 'India after Rajiv'. The editorial discovers that "Rajiv Gandhi's instincts all along were sound". The soundness consisted in the early recognition that "India could never hope to enter the next century with a measure of confidence unless it massively inducted science and technology, accepted modern methods of management, opened up the economy to competition".

The decade old *jehad* cry for 'scientific temper' and the accompanying ideology of modernity made in the name of Nehru by Indira Gandhi's for a while mentor Haksar, public men of science and others of the tribe to explain away 30 years of failed developmental effort in the country with apparently one of the largest scientific human power and the heated debates that ensued were not recalled. Instead the soundness of the instinct was sought to be reinforced at the bottom right of the centre page by resurrecting from *The Times* archives the 60 year old letter to the editor on 'Scientific Investigation and India'. The letter begins by affirming the new convert's faith in the miracles of science, "It would be sheer truism to say that science is the foundation of modern life, the backbone of modern civilisation and the crown of modern culture." It concludes with the condemnation of politics because apparently "Politics in this country is deadly infectious. It is at once fascinating and easy job because Indian politics or politics in general too is mere talking *ad infinitum* and *ad nauseam* and its singular merit is that it is the shortest cut to bring a man into the limelight". As if scientific activity does not aspire to go on *ad infinitum* and *ad nauseam* regardless of the blinding

limelight of nuclear explosions, revolting degradation of the environment, convulsive dislocations of the prevailing social arrangements it unleashes in its search for ever inaccessible 'truth' of matter and in its unceasing desire for manufacturing ever new realities. As if people—even scientists and technologists—with their historically and socially differing partisan interests, thanks to science, will come to have totally shared interests at a future moment in time predetermined by science. As if the endless talking in politics which is the art of mediating differing interests can forever be silenced by the technical-instrumental rationality of modern management and the zero sum logic of competitive economics.

Instead of exploring the instability and insatiable usurpative drive of modern scientific enterprise and its incapacity to provide a telos for our lived lives, the centre page seeks to link the future of India with the future of cotton crop in its bottom-middle columns. Relying on the truths of that dismal science called economics, ignoring the by now well known disastrous aspects of 'green revolution' energy-intensive farming techniques, the 'Current Topics' advocates the introduction of the allegedly more rational choice of high yielding single variety of superior seeds if necessary by governmental enforcement. It wants us to believe that the urban rural nexus thus provided through this major cash crop is dynamism.

Karkaria's 'Shove in Shimla' provides a delightful, if romantic, escape from such dynamism, called Mallitude sickness when specialised to the modern consumerist hordes summer holidaying in mountain resorts.

Then comes the doyen of the media, Sham Lal, on to the 'National Scene' with his 'A System in Distress'. He has all the tools and techniques needed—Habermas, Gadamer, Foucault, Derrida, Daniel Bell, Leszek Kolakowski to name a few of the more powerful ones. He identifies that the root cause of the distress is the failure of the political system. He sees that "it will be once again the same rot affecting the nerve and bone of the system" even if the elections do not produce a hung parliament. But then he does not go beyond suggesting some unhelpful commonplaces like 'enforcing' fiscal and political disciplines, or the necessity of consensual or strict-adherence-to-the-rules-of-the

game mode of democratic functioning or the desirable capacity of some gifted one in position to take a decision and make it stick based on sufficient authority, moral or otherwise. For, in this 'crisis situation' what the society needs is a new paradigm, a new ideology, or world-view if you will, that will render possible fiscal and political disciplines, democratic functioning, moral or other authority adequate to the tasks of lived life in that society. Whether India as a society will succeed in finding such a paradigm which can help it found a new identity, a new stability and a new meaning to growth only the future will reveal. Meanwhile one would expect that accomplished men like Sham Lal would facilitate the emergence of a new paradigm by performing the necessary critical task of demystifying the ideology of modern science and technology while not throwing the baby along with the bath water. Unfortunately however, it would seem that they are hindered in that task by their oscillation between affirming the 'end of ideology' thesis prematurely celebrated in the early sixties, and rejecting the capacity of human aggregations not to eliminate but to escape the irreducible element of the 'irrational' in any ideology. When they swing to the 'end of ideology' thesis pole they construe modern science and technology as offering the unique non-ideological, self-sufficing rationality that can meet all the needs of the society and serve as an infallible critique of every ideology, and assume that politics can be subsumed under modern management techniques. Hence the editorial certificate of the soundness of Rajiv's instincts. Hence Sham Lal's irritation with the ideologues who claim that "when genuine grievances are allowed to fester for too long (we are told) they cannot but explode into violence". For sure we do know of numerous instances when long is not long enough to precipitate an explosion of violence depending on the incapacitating 'invisible' violence against those who nurture the grievance. In fact the article 'Denying the Right to Minimum Wages' by Bunker Roy in the right most columns of the centre page provides an example. According to Bunker Roy, Mandatta Singh, brother-in-law of V P Singh, in-charge of the rural development portfolio in Shekhawat's government in Rajasthan has publicly proclaimed that he never paid minimum wages to any one irrespective of the law. Not merely this Roy neatly summarises his 'story' with "To protect a corrupt *sarpanch* against whom there is a written evidence of an illegal act, to prevent the payment of a mere Rs 4,000 to 12 hungry and impoverished workers, to send a clear message to petty officials that they should carry on their corrupt practices in JRY, the State government has squandered lakhs of rupees on pointless enquiries, site inspections by engineers,

sending the police from Udaipur to forcibly lift the hunger strikers and take them back to Udaipur.' And he points out that in Rajasthan the maximum wage is actually the minimum wage.

Instead of exploring the conditions in and the causes by which grievances do or do not explode into violence, Sham Lal distracts himself with the unyielding question whether "the grievances of the Sikh youth in Punjab are more genuine and gone unredressed for a longer period than of youth in Bihar and West Bengal or for that matter, in any other State?" To the extent he can be said to subscribe to the 'end of ideology' thesis he would have us believe that he has the universally acceptable non-ideological rational criteria by which he can answer his own question in the negative. In fact he must surely be aware of the difficulty involved to overcome which he switches to an unconvincing rhetoric: "There are millions in the country without a job, without even a room to live or without someone to take care of them in sickness or old age. Should they all take to the gun?" He knows that they all have not taken to the gun, whether or not they should, whereas the Sikh youth have not only taken to the gun but their terrorist organisations have grown and they have not been politically isolated--the two counts by which Sham Lal adjudges the political system to have failed. In both situations political dialogue does not exist. In one case it has almost not been initiated and in the other it has nearly become impossible. The millions for whom Sham Lal is understandably concerned entertain the hope that the dialogue will soon be initiated because they believe their cognitive interests and material practices are not considered illegitimate or incompatible with those of the rest of the society. Politics is still possible as long as they share with the rest of the society the basic interests and practices if not the same rights, privileges and responsibilities. In the case of Sikh youth, presumably, the differences have become unbridgeable. Perhaps violence is the only thing the state and Sikh youth can exchange. Violence is the refusal by both parties to adjust their respective incompatible cognitive interests and material practices. Politics is the readiness to consider that adjustment. Maybe the tension between violence and politics, given the diversity of cognitive interests and material practices of human formations, can never be overcome. But then human beings are neither intrinsically a violence-seeking or violence-shunning animals. And as of now they have not altogether lost their capacity to subject to critique their own and others' ideological convictions and material practices. Their capacity for talking *ad infinitum* and *ad nauseam* is almost real. They have as of now the ability to put themselves into the shoes of the other and watch things and

events of the world in which they know, they are embedded along with the 'other'. Except of course the cognitively centred, fixed paranoid people like the unknown author of the six-decade-old letter from the archives. Violence is neither inevitable nor arbitrary. Violence and politics are two sides of the same coin and how often violence shows up depends on the shifting bias of the coin as determined by historically changing complex of cognitive and material forces which, if at all, can only be estimated very crudely.

Even so it can perhaps be said with a fair degree of validity, violence is more likely to occur in a society in which the compulsions for being fascinated by the ideology of modern Western science and technology are considerable and the society does not have enough critical resources to resist it. This is particularly true of Third World countries in which, because of the essentially alien character of that science and technology, it is not perceived as an ideology even by its intellectual community. Notwithstanding the numerous functional successes of modern science and technology based on its instrumental-technical rationality, the status of scientific theories is riddled with problems at the ontological, methodological and epistemological levels. The confidence of the scientist and the lay person alike in the non-ideological character of modern science is simply misplaced. But owing to its great many functional successes--although the list is shrinking after the renewable resource limitations and environmental degradations are beginning to be noticed--the ideology of modern science creates two illusions on a scale which hitherto no other ideology has been able to accomplish. The first consists in the belief that modern science and technology can secure unlimited material prosperity and unceasing progress for all humanity. The Third World countries, given the abject level of poverty that obtains in them, are easily taken in by this whereas the truth of the matter is, as reports after reports of UNCTAD, ILO

have shown, that modern science and technology can help meet only the growing material needs of some and that too at the expense of the others. To attend to the civilisational, cultural and spiritual needs of humankind is well beyond its capacity.

The second illusion that it creates is the insane idea that peace can be achieved through an abundant deployment of ever more sophisticated instruments of violence which modern science and technology can help manufacture. Hence the desperate anxiety with which nations and terrorist organisations alike seek to match each other's violence to usher in regimes of peace as they construe them to be. Under the disrupting impact of modern science and technology, the more inchoate and inadequate our once valid conceptions of sovereignty, autonomy, identity, nation, constitution and the like become, the greater will be the necessity to place reliance on the use of violence to secure peace and stability within the framework of our destabilised conceptions.

Nothing that is said above is meant to deny the obvious benefits mediated pursuit of the ideology of modern science and technology can bring to the society. But only to suggest that if the baby should not be thrown out along with the bath water we cannot also afford not to throw the bath water for fear of throwing away the baby either. For, such is the human condition. We are no less vulnerable to our so-called latest knowledge systems as we were to our now discarded ideologies that claimed the status of knowledge systems much the same way the present ones do. We have to somehow muddle through and as of now we have not lost that pragmatic capacity. And it is for our senior media persons and their disciples, as it is for anyone engaged in the public space, to resist that tendency to conflate our capacity to muddle through with a capacity for acquiring a non-ideological master-key to the riddles of our individual and collective universes no matter how

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Selections of Articles from *Economic and Political Weekly*

General Editor: Ashok Mitra

Poverty and Income Distribution

Edited by

K S Krishnaswamy

While there has been over the years a perceptible increase in per capita income and expenditure and possibly some decline in the incidence of poverty in India what still remains is massive and of a kind that is not remedied quickly or smoothly. Even with radical policies the shifts in income and occupational structures to make a serious dent on it will take more than the rest of this century. In the welter of recent exchanges between the government and the opposition as well as between planners and market advocates on the strategy of growth these issues have been largely obfuscated. It is therefore more than ever necessary today to recognise the magnitude of the problem and the inadequacy of the measures adopted so far to deal with it.

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vehemently our knowledge-producers may claim to be in the possession of such a key and no matter with what abrasive confidence our men of action in their search for that key assert the soundness of their instincts

Failure to do so, given the power of the media in the public space, would not only mean the appropriation of the media by the dominant ideology but also to detract from what little capacity we still possess to muddle through. An illustration of this, whether intended or not, is provided by the letter to the editor of the *TOI* under the title 'BJP's attraction'. Seized with the phenomenon of a large number of retired military personnel and other high ranking defence officers joining the BJP, Kapahy, the author of the letter argues that "it is only natural for retired military personnel to join the BJP because it offers a continuation of the ideology that they had been practising while in service. Nationalism, patriotism and dedication to duty and discipline are the cornerstones of the defence services". An unquestioning, uncritical acceptance of the ideologies of nationalism, patriotism, duty and discipline may or may not be alright to the army personnel qua army personnel. With so many of them in BJP the distinction between BJP and the defence services will cease to be relevant. Such unflinching commitment from them as members of the party BJP, whether or not that party comes into power, in a situation in which each one of those once meaningful ideologies are unrelentingly being destabilised, under the unsuspecting impact of the ideology of modern science and technology, to signify different and incommensurable things to different people, can only lead to continued impossibility of any dialogue of politics and thereby a correspondingly increased reliance on violence through Operation Blue Stars and terrorist massacres and assassinations. When that happens or when it is already happening the media cannot absolve itself of its complicity by issuing certificates of soundness of instincts or publishing Kapahy's letters or reproducing 60-year old letters from its archives in its centre page. To do so would be to add fuel to the fire while pretending to extinguish it. Sham Lal in his article laments the ascendancy of the 'irrational' in national politics. One would have thought that in politics there is no scope for the 'irrational' if one is anxious to retain the original sense of the term. In politics there can be differences of opinions and interests, and the desire to sort them out through dialogue for purposes of action is what makes politics politics. When that desire does not obtain there is no possibility of politics, we have the surd, the irrational and the incommensurable. Violence is an expression of the surd. Is there an ascendancy of the surd in the centre page of the national press?

NOTICE LARSEN & TOUBRO LIMITED

It is hereby notified for the information of the public that Larsen & Toubro Limited propose to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of section 22 of the Monopolies and Restrictive Trade Practices Act 1969 for approval to the establishment of a new undertaking. Brief particulars of the proposal are as under:

| | |
|---|---|
| 1. Name and address of the applicant | LARSEN & TOUBRO LIMITED Registered office — L&T House Narottam Moharjee Marg Ballard Estate Bombay 400 018 A/c 31 03 90 |
| Capital structure of the applicant organisation | Rs. 80 00 00 000 Issued capital Rs. 68 08 44 060 Subscribed capital Rs. 68 08 44 060 |
| 3. Management structure of the applicant organisation indicating the names of the directors including the managing whole time directors and manager if any | The company is managed by the Managing and whole time directors subject to the supervision and control of the Board of Directors |
| Names of Directors | Chairman Emeritus Managing Director & Chief Executive Officer Managing Director designated as President Joint Managing Director Wholetime Director designated as Vice President |
| 1) Mr H. Holck Larsen | do |
| 2) Mr U.V. Rao | do |
| 3) Mr S.R.R. Subramanian | do |
| 4) Mr C. R. Ramakrishnan | do |
| 5) Mr S.P. Kashyap | do |
| 6) Mr C.T. Kulkarni | do |
| 7) Mr M.P. Wagh | do |
| 8) Mr A.M. Naik | do |
| 9) Mr M.D. Ambani | do |
| 10) Mr R.M. Gandhi | do |
| 11) Mr Klaus Henseler | do |
| 12) Mr K.A. Brier (Alternate to Mr Klaus Henseler) | do |
| 13) Mr A.S. Gupta | do |
| 14) Mr S.S. Marathe | do |
| 15) Mr S.N. Shencar | do |
| 16) Mr M.L. Bhakta | do |
| 17) Mr A.D. Ambani | do |
| 18) Mr D.V. Kapur | do |
| 19) Mr J.S. Salunkhe | do |
| 20) Mr V.P. Kamath | do |
| 21) Mr A.G. Karkhanavala | do |
| 4. Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division | New manufacturing unit is sought to be established. The proposal relates to manufacture of gear boxes/torque multipliers as diversification within the current annual licensed capacity of 40 000 nos. of hydraulic & pneumatic equipment in the existing manufacturing unit. |
| 5. Location of the new undertaking unit/division | Village: Byatarayanapur District: Bangalore State: Karnataka |
| 6. Capital structure of the proposed undertaking | Not applicable |
| In case the proposal relates to the production, storage, supply, distribution, marketing or control of any goods/articles, etc.: | |
| 1) Name of goods/articles | Gear boxes/Torque multipliers |
| 2) Proposed licensed capacity | 600 nos. within the existing overall licensed capacity of 40 000 nos. per annum of hydraulic & pneumatic equipment. The proposal does not envisage creation of new capacity. |
| 3) Estimated annual turnover | Approximately Rs. 120 lakhs at full capacity. |
| 8. In case the proposal relates to the provision of any service, state the volume of activity in terms of usual measures such as value, income, turn over, etc. | Not applicable |
| 9. Cost of the project | Rs. 30 lakhs by way of additional working capital. |
| 10. Scheme of finance indicating the amounts to be raised from each source | The project will be financed by internal cash accruals from existing operations. |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein.

Dated this 13th day of June 1991

For LARSEN & TOUBRO LIMITED

S.D. Kulkarni
Vice President (Finance)

Images of Women and the Feminine in Maharashtra

Meera Kosambi

The series of international conferences on 'Maharashtra: Culture and Society' has, over the years, produced scholarship remarkable for its depth as well as breadth, allowing an appreciation of what is uniquely Maharashtrian while treating the region as a microcosm of the Indian subcontinent. A report on the fourth conference which was devoted to the theme 'Images of Women and the Feminine in Maharashtra'.

THE interplay, correspondence and contradictions between the images and the reality of women in Indian society have continued to intrigue scholars and citizens alike for a long time. An in-depth exploration of this phenomenon was recently done in the context of Maharashtra, stressing the images as they affect and shape reality—images of women and the feminine from ancient to the present times, as reflected in folk and Sanskrit traditions, as expressed in spontaneous unself-conscious outpourings and in ideological polemic. The forum was the Fourth International Conference on Maharashtra Culture and Society, organised by Anne Feldhaus at the Arizona State University, USA, from April 6 to 8

I

Regional conferences are likely to arouse, as an automatic reaction, apprehensions of parochialism and local chauvinism. However the series of International Conferences on Maharashtra Culture and Society has, over the years, successfully refuted these fears by producing scholarship remarkable for its depth as well as breadth, allowing an appreciation of what is uniquely Maharashtrian while treating the region as a microcosm of the Indian subcontinent.¹ This latest conference succeeded the previous ones in the series held at the Universities of Toronto (March 1984), Poona (January 1987), and Heidelberg (June 1988). The very wide spectrum of topics discussed at the first two conferences had inevitably led to a grouping of papers around two themes at the third conference.² The fourth conference confined itself to only one specific theme 'Images of Women and the Feminine in Maharashtra'. Another innovation, made in the interests of encompassing indigenous vernacular scholarship, was the provision that presentations and comments could be made in English or Marathi, and that English summaries of Marathi contributions would be made available.³ The sharp substantive focus,

with its wide ranging appeal, helped not only to transcend the regional demarcation, but also to cut across cultural boundaries. The assembled scholars also brought with them a diversity of their own disciplinary and regional cultural backgrounds to the conference whose international scope may be judged by the fact that the 23 participants who presented papers were drawn from six countries in four continents (11 from the USA, seven from India, two from Canada, and one each from Germany, USSR, and Australia), in addition to other participants who were present mainly in the capacity of observers (three from the USA, and one from Canada). It may also be of interest, given the theme of the conference, that 12 of the paper givers were women and 11 men.

The tone of the conference was set by the preliminary note circulated by Anne Feldhaus which clearly outlined its objectives.

India, the land of *sati*, dowry deaths, and female infanticide and suicide, is also one of the very few modern nations to have had a woman as its prime minister, as well as in extraordinary number of women in top positions in a wide variety of fields. The plight of the lowly Indian daughter-in-law has its inverse reflection not only in her powerful mother-in-law, but also in the goddesses of Sanskrit literature and village shrines. A nation which has had female suffrage since Independence, India still allows women agricultural labourers to be paid significantly less than men. In this conference we propose to investigate some of the images of women and femininity that underlie these and other seemingly contradictory facts. We plan to study such images as they are found in the Marathi language traditions of Maharashtra.

In investigating the images of women and of femininity, we will not be studying the lot of women, but rather one important set of conditions which have influenced women's lot. We will not be listing the 'famous women of history' rather, we will be studying the ways that men (and those women whose thoughts have been recorded) have viewed femininity and power, status, and potential

of women. We will be studying not so much actual women as ideas.

Some of the most prominent Indian ideas about women and the feminine are to be found in the classical literature of the Sanskrit tradition, as well as in English language materials. Important though these sources are for an understanding of Indian views of women and the feminine, our conference will focus on local and regional levels of the tradition in an effort to discern grassroots views, views that are widespread in a local rather than a geographical sense. In order to do this in India, it is absolutely necessary to work with materials in the regional languages. Hence our focus on Maharashtra, and on Marathi language materials.

Our conference will be interdisciplinary, with special emphasis on the fields of religion, literature, anthropology, sociology, and history. Religious studies specialists will focus on goddesses and on conceptions of women's sacred powers. Literary historians and critics will be concerned with feminine images in the writings of men and women Marathi authors from the thirteenth century to the present. Economic, political and social historians will concentrate on views of women's status, powers and abilities that have been influential, or in some cases have failed to have an effect, in the public arena. And anthropologists and sociologists will present studies of views of women current in the rural and urban areas of Maharashtra.

The conference is not likely to produce an exhaustive or definitive account of Maharashtrian images of women and the feminine, nor is it likely to bring about a consensus on the relationship between such images and the realities of women's and men's lives. Nevertheless, the conference will undoubtedly provide an occasion for its participants to search out new materials, reinterpret old ones, and develop fresh perspectives on Maharashtrian culture and society.

II

The conference was fittingly inaugurated by a keynote address by Suma Chitnis, vice-chancellor of the SNDT Women's University, Bombay, following the welcome addresses on behalf of the Arizona State University by the associate dean of the Graduate College and by the director of the Centre for Asian Studies. These addresses initiated the presentations of papers and intensive discussions organised into five panels over two and a half days.

The Identity of Maharashtrian Women' was the theme of the keynote address by Suma Chitnis, which presented a historical perspective on the Maharashtrian women's quest for their own identity, drew parallels with developments elsewhere in India and in the West, and posed questions for further exploration. The dissonance between the current democratic ideology and commitment on the one hand and reality on the other is striking all over the world. The Judeo-Christian

ideology in the west is patriarchal as is the predominantly Hindu ideology in India, but the context is different. The problems are identical, but the responses have had to be different and culture specific. The cry for liberation is universal, but its substance is different. Within India, again, regional variations abound. What has constituted feminism in the Indian, and specifically Maharashtrian, context?

Historically, Maharashtrian women have provided several distinct categories of feminist responses.⁴ Firstly, there were the saint poets (e.g. such as Rahinabai, Janabai, Mahadaya, who trod a path different from the saint poetesses of the north (exemplified by Meerabai). Secondly, women from royal and aristocratic families of the seventeenth to the nineteenth centuries, such as Shivaji's mother Jijabai and Ahilyabai Holkar, shone as capable administrators. Thirdly, Pandita Ramabai presented the unique case of an indomitable individualist and committed social reformer fighting for women's emancipation in the late eighteenth and early nineteenth centuries. Fourthly, women like Ramabai Ranade (Justice M. C. Kanade's wife) and Anandibai Joshi (the first Maharashtrian lady doctor who received medical training in the USA in the 1880s) followed in their husbands' footsteps but also travelled their own paths. Fifthly, Tarabai Shinde was a little known solitary figure of a totally articulate woman who sought to dispel stereotypical male prejudices about women: an unusual phenomenon in the 1880s. Sixthly and finally, there has been a group of activists in the twentieth century, including Geeta Sane who worked with dacoits, Godavari Parulkar who organised tribals, Mrinal Gore who is a political force, and Medha Patkar who has figured so prominently in the Narmada agitation.

This set of responses spans a wide spectrum. It is the cry for autonomy, space, visibility, equal access to all spheres of life and freedom to express thoughts and feelings. It is also a battle about biology, a battle to be liberated from a socially constructed biology. How does all this relate to the current feminist movement? The articulation of feminism post dated World War II, but its reality spanned several previous centuries of quest. It displayed in a variety of ways, the courage of women to step out and 'do their own thing' in spite of the loneliness it involved, to keep company with their cause at the risk of being isolated. Today feminism in India has reached a point where living with one's cause is the most important thing. How does the Western woman face this challenge?

Another important element involved in the process is to move out of the trappings

of the body. From the feminist perspective it is a woman liberating herself from the body. What does it achieve? Over the generations, the woman's response has changed from being awkward and shrinking into her body to being proud of her body. In Maharashtra, women have traditionally used very little ornamentation (*shringar*) of the body, compared to women in other parts of India. Maharashtrian women have been dowdy, and have moreover been proud of being dowdy. Special measures (such as cutting off salt) were taken in the past to stunt bodily growth in order to facilitate marriage. In extreme cases such as widowhood, bodily disfigurement (especially shaving off the head) was common or rather, mandatory. Attitudes have changed now to such a degree that today *shringar* appears on a large scale among women of the younger generation. But to what extent is it a liberation, and to what extent a narcissism born out of loneliness?

Outstanding women of the nineteenth century, like Ramabai Ranade and Laxmibai Tilak⁵ were devoted wives who 'followed after'. After their husbands' death, they came into their own, but on the path earlier chalked out by their husbands. Progressive husbands of the time encouraged their wives' freedom, but in order to further their own careers. Women of today are trying to strike out on their own. It is their liberation but it threatens the traditional family institution. Concepts of liberation, again, are culture specific. In India 'selfhood' and individuality for women mean learning to contain conflict within oneself, in the West it means the ability to fulfil one's self.

The choices available to women today are a set of alternatives, without their being right or wrong. But the real question is of a different order: these choices involve an inner psychological battle—in addition to the political battle with the existing socio-economic structure.

III

Panel I 'Images of Women in Marathi Literature' was an exploration of male writers' perceptions of women and of women writers' self-perceptions. Mahadev Apte (USA) in his paper 'Male Playwrights and Female Characters: Are Marathi Plays about Men or Women?' started with a set of premises: that there exist dominant socio-cultural gender role models for women, these models create social behavioural constraints on women, conflicts occur because women's desire for self-development through fulfilment of personal ambitions clashes with societal gender role related obligations and responsibilities, failure to conform to these societal expectations result in strong

negative attitudes towards women; sexual inequality and the overall dominance of men over women is all-pervasive; and men perceive women as sexual objects for pleasure and exploitation. Men's attitudes to women in general pivot around the basic contradiction that women as members of the family are to be protected, but women as members of society are to be exploited. These attitudes were analysed through the plays of Jayawant Dalvi, a popular contemporary Marathi playwright, who portrays the urban middle class world. A recurring theme in Dalvi's plays is that the woman is primarily a wife and a mother, and can achieve fulfilment only through this role, the moment she steps outside the domestic sphere and takes up a job, the stability of the family is disrupted.

A somewhat different set of attitudes underpinned the writings of a popular contemporary poet, according to Philip Engblom's (USA) analysis in 'Woman and Goddess in the Poetry of P. S. Rege'. The most common reading of Rege's poetry emphasises his absolute surrender to the physical charms of women and his incapacity to view women as mothers. Understandably, this has evoked two contradictory types of male reactions: one which applauds his celebration of female sensuality in the socially sanctioned male dominant tradition, and the other which condemns it as male chauvinism. The female response to Rege is more complex, and suggests that the usual mother-child duality is irrelevant in Rege's case. Rege's poetry thus lends itself to a profoundly different interpretation revolving around the woman as *shakti* emphasising the feminine in the divine and the divine in the feminine.

Travelling back in time to the devotional poetry of the 'Varkari' tradition, Irina Glushkova (USSR) analysed 'The Concept of Woman in the Poems of Tukaram'. Two basic premises underlie these poems: one being the parallel between God and Mother concomitant with the parallel between Bhakt (devotee) and Child, the other being that the concept of woman is dichotomised into the two categories of 'Aspired for' and 'Repulsed'. In this poetry, the mother-child relationship between God Bhakt has been expressed allegorically, by identification, and metaphorically, where God possesses all the attributes of a mother—unselfish love, protectiveness, and nurturing. In this manifestation as a mother, a woman is 'Aspired for'. Her anti-thesis, a woman as woman or as wife, is a perennial source of carnal temptations. Furthermore, a woman who does not have a child (e.g. a barren woman, a harlot) is to be especially avoided because a woman who

does not desire to give birth to a child is, by definition, immoral. This entire category of women is to be 'Repulsed'. Thus the relationship of the Bhakt to women contains an antithetical duality: the Bhakt-Mother relationship is highly valued, while the Bhakt-Woman relationship is shunned as a symbol of danger. This duality suffuses Tukaram's poetry.

Women's self-expression through poetry provided a refreshingly new angle against this backdrop, with the added dimension of the oppressed castes, in Eleanor Zelliot's (USA) paper 'A New Voice: Dalit Women's Poetry'. The sophisticated poetry of a few educated Dalit women selected for analysis revealed four different but not necessarily conflicting voices: an identification with gender across caste; a sense of double oppression by caste Hindus and by Dalit men; a sense of unity as members of the Dalit movement spearheaded by Ambedkar; and a strong criticism of the current Dalit social and political leadership as lacking genuineness.

IV

Panel II 'Feminine Religious Images in Maharashtra' was opened by Mary McGee's (USA) paper 'In Quest of Saubhagya: The Roles and Goals of Women as Depicted in Marathi Vrata-Kathas'. *Vratas* are the votive performances observed primarily by women, and the body of stories related to them, though simple in narrative format, serves a more complex purpose of reinforcing the traditional duties and responsibilities of women (*stridharma*) in general, and of the devoted wife (*pativrata*) in particular. Most of the *vratas* are performed by women for strengthening their *saubhagya* which is a quality of well-being contingent upon having a living husband. The *vrata-kathas* or *kahanis* tell of women rescuing their husbands from accident, disease, or even death (though rarely of men rescuing their wives), and impart two subtle additional messages. First, that marriage itself is not enough to maintain *saubhagya* but that children are also essential; and secondly, that *vratas* possess a central significance and power to enhance *saubhagya*.

A specific *vrata*, that of Rishi-panchami which is also celebrated as a festival in Maharashtra and southern Gujarat, was singled out for study by Tara Bhawalkar (India) in 'The Taranetar Pilgrimage, Rishi-Panchami, and the Changing Image of Women'. It is customary in Maharashtra that on the Rishi-panchami day, no food obtained by the labour of bullocks is to be eaten. This custom and the associated *vrata* were interpreted, on the basis of the symbolism of the existing folklore, as a celebration

of the natural creative power of women dating back to the time when agriculture was primarily the woman's responsibility and when bullocks were not yet used for cultivating the soil.

'All the God's Wives' by Gunther Sontheimer (Germany) focused on Khandoba (an earthly incarnation of God Shiva) and the songs sung about his five wives: the first wife Mhalsa, of the Lingayat merchant caste (often identified with Parvati); Banai, the shepherdess (often identified with Ganga); Phulai of the gardener caste; Rambhai, the tailor woman; and Chandai Bhagvani, the Muslim woman (or sometimes the woman of the oilpresser caste). Rambhai (sometimes identified with Banai) is the semi-divine 'Murali' or temple dancer. The songs traditionally sung in Maharashtrian villages by bards (*Vaghyas*) and temple dancers (*Muralis*) on special festive occasions are a mixture of entertainment and spirituality dwelling upon, among other things, the portrayals of the five wives of Khandoba, their personalities, inter-relationships, jealousies—and, through all these, the Maharashtrian folk images of women.

The cult of the 'Muralis' or temple dancers was further explored by John Stanley (USA) in his paper with the same title. Over the centuries, the Muralis, with their ritual circuit of singing, dancing, miming, and begging, have kept away from prostitution; in fact, many of them are married women. In the *bhakti* poetry of the saint poet Eknath, the sexual imagery of the Murali has been sublimated into a self-surrendering devotion to God Khandoba (also supposed to be her husband). In many villages the special all-night vigil (*jagaran*) to celebrate a marriage requires the performance by a Murali to bless it for fertility, strength and prosperity.

Shifting from the marital to the sibling relationship of the gods, Anne Feldhaus (USA) read a paper on 'Goddess as Sister. The Case of Bhivai'. Goddesses having male protectors or servants abound in Maharashtra mythology, but the goddess Bhivai having the god Dhuloba as her adopted brother is an unusual case in that it is she who assists him in killing demons and in winning his wife. She also takes ritual precedence over him. Mythology contains two types of divine pairing: the usual marital pairing where the husband is dominant, and the other type where the goddess is ascendant. But this brother-sister relationship (by definition non-sexual, non-marital, and non-jealous) reflected in the Bhivai-Dhuloba case has no element of subordination or domination. Even the stories of their mutual challenges show no rivalry. To what extent this image is a projection of the normal or normative ideal in social reality is a

moot point. The fact remains that the brother-sister relationship is the only cross-gender, intra-generational, close but non-sexual relationship available to men and women.

Finally, the mother-son relationship was examined by James Laine (USA) in his paper 'Shivaji's Mother'. In the life of the great Maharashtrian hero Shivaji, his mother Jijabai is said to have played a crucial role especially in his formative years, moulding his political aspirations and religious disposition. (Her influence was reinforced by the fact that Shivaji's father Shahaji was living elsewhere with his second wife during this son's childhood.) This strong mother-son bond was examined from a psycho-analytical approach, using both historical and legendary biographical material about Shivaji, and in the light of the traditional Maharashtrian household in which a son often grows up with the contradictory and ambivalent image of his mother as nurturing but also as over-protective and demanding.

V

Panel III 'Images and Conditions of Women in Maharashtra in the Eighteenth, Nineteenth, and Early Twentieth Centuries' traced the social reality of relatively recent times based largely on archival materials. N K Wagle (Canada) prefaced his paper 'Women in the Kotvali Papers' with the observation that the common image of the female as inherently deceitful and of the male as her victim underlies the laws prescribed in the *Dharma-shastras*, but the social reality of the Peshwa times projected a far different code of behaviour as revealed in their records. The Kotval, an important officer of the Peshwa, was required to keep a register of all offences, including sexual misdemeanours (such as adultery, abortion, rape, etc., grouped under the term *badkarma*) which formed a sizeable proportion. The paper discussed four types of sexual misdemeanours citing a large number of cases recorded during the 1770s and 80s: illicit relations, pregnancy arising from illicit relations and resultant abortions, rape and violence (including wife-battering), and the loose behaviour of women slaves. The judgments in these cases were based on concrete proof (gossip alone being insufficient), a consideration of all relevant circumstances, and relative freedom from gender bias requiring both partners to pay equal penalty (although double standards did exist, while at the same time men were often charged higher fines and the woman's honour was upheld).

The Peshwa documents provided the data also for Stewart Gordon's (USA) paper 'Remarriage in the Eighteenth-century Maratha Polity' which concen-

KALIMATI INVESTMENT COMPANY LIMITED

NOTICE

whereby to inform the information of the public that Kalimati Investment Company Limited proposes to take an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (1) of Section 25 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval to take over part of the share capital of Stewarts and Lloyds of India Limited. Brief particulars of the proposal are as under —

(i) Name and address of the applicant

Kalimati Investment Company Limited
 15, Ambrosia,
 2, Hill Mounty Street,
 Fort, Bombay 400 001

(ii) Name and address of the undertaking the whole or part of which is proposed to be taken over and the manner of take over

Stewarts and Lloyds of India Limited
 59,000 equity shares of Rs. 10 each of
 Stewarts and Lloyds of India Limited
 11, Chowpatty Road,
 Fort, Bombay 400 001

(iii) Managing management of the applicant

The Company is managed by the Board of Directors

(iv) Capital structure of

(a) the Applicant

Kalimati Investment Company Limited

(b) the undertaking proposed to be taken over

Stewarts and Lloyds of India Limited

Rs Crs

Rs Crs

Share Capital

Authorised

Subscribed and Paid up

15.00

9.50

Share Capital

Authorised

Subscribed and Paid up

3.00

1.00

(v) Line of business of the undertaking which will or is likely to emerge as a result of the proposed take over

No new undertaking will emerge. Stewarts and Lloyds of India Limited produces industrial pipework and also takes contracts for pipework construction.

(vi) Consideration for the take over

It is proposed to acquire the shares at a price of Rs. 10 per share.

(vii) Scheme of finance indicating the source(s) of finance for the proposed take over

It is proposed to finance the acquisition through the internal resources of the Company.

Any person interested in the matter may make a representation to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, Dr. Rajendra Prasad Road, New Delhi, within 14 days from the date of publication of this notice intimating his views on the proposal and indicating the nature of his interest therein.

Dated this 17th day of June 1991

Signed and sealed

for and by

2, Hill Mounty Street

Fort, Bombay 400 001

KALIMATI INVESTMENT COMPANY LIMITED

(Ishaat Hussain)

DIRECTOR

trained on northern Maharashtra. The state required widow-remarriage (*pari*) to be registered along with the payment of a special fee or tax (*patdam*). A wide range of castes, including Brahmins, seems to have allowed this practice. The paper concluded that, firstly, the position of widows in the Maratha polity was such as to provide, in spite of the extremely negative view of widows, several possible alternatives, such as staying on in the husband's house, returning to the parents, or re-marrying (*sati* not being the norm). Secondly, the state was intensely involved in family and caste matters, in contrast to the later British regime; and the fate of the widows was important to the state. Thirdly, the post-Peshwa British colonial regime witnessed such a social change that great debates were held about the permissibility of widow remarriage, with the British government referring to the sacred Hindu texts to provide the necessary criteria, but not to the existing practice.

Anne Waters' (USA) 'Predicament of Women: Recovering Women's Experience from Eighteenth Century Historical Fragments' analysed five cases of offences against women (four suicides of daughters-in-law, and one murder) from the Peshwa records. They shed light on the family structure and politics of marriage, especially the fact that the state power extended into the family and other institutions. In the actual trials, the punishment, if not justice, was contextual, and included penance as well as a fine adjusted to the family's financial condition. The restitution of the family's ritual status was also a major concern. In attempting to recover the experience of the women concerned, it has to be realised that the situation of daughters-in-law was generally stressful, the most critical period being that between marriage and the birth of children. This leads to the interpretation of these suicides as a form not of rebellion but of marginalisation, caused not by role-failure but by over-emphasis.

J C Masselos' (Australia) paper on 'Sexual Property and Sexual Violence: Wives in Late Nineteenth Century Bombay' focused on the nature of cohabitation and conjugal rights, and whether or not British law applied to these. (An interesting sidelight was that the Peshwa courts had held both the man and the woman culpable in cases of conjugal offences, while the British system usually punished the woman.) The norm of the perfect Hindu wife and the actual practice did not always match; in spite of general conformity, some women tried to escape the established pattern and encountered social sanctions. In this connection, the domestic structure of power and violence was also considered.

Meera Kosambi (India) combined the interaction between the indigenous social

institutions and British legislation, with the different perspectives on women in the late nineteenth century, in her paper 'Child Brides and Child Mothers: The Age of Consent Controversy in Maharashtra as a Conflict of Perspectives on Women'. The upper-caste Hindu custom of pre-pubertal marriage for girls and immediate post-pubertal consummation of marriage through the 'conception ceremony' (*garbhadhan*) reflected the patriarchal view of women as primarily wives and mothers. This was challenged by social reformers who were instrumental in initiating the Age of Consent Bill in early 1891 and its almost immediate passage into an Act. Its purpose was to lay down the minimum age limit of 12 for girls at the time of cohabitation. The heated controversy ranged over a variety of issues: the correct interpretation of the ancient sacred texts, and the nature of contemporary practice; the harmful effects to the child bride (such as physical injury leading even to death), to her family (by causing barrenness or producing weak, sickly children), and to the society at large (by producing a population weak in physique, intellect and morals, which could be easily subjugated by a foreign colonial power); and the validity of foreign interference in Hindu domestic matters. What the new Act achieved, in addition to the physical and emotional welfare of the girl bride, was the legitimacy of a new and more humane (though not non-patriarchal) perspective on women.

VI

Panel IV 'Views of Women in Modern Maharashtrian Social Thought' revolved largely around three prominent women: Ramabai Ranade (1862-1926), Pandita Ramabai (1858-1922), and Tarabai Shinde (1850-1910). Sarojini Vaidya (India) in her paper 'Reform from Within and Without' examined two central and diametrically opposite tendencies in social reform in Maharashtra: namely, attempting to generate internal change in society, and attacking it from the outside. The two tendencies found their respective adherents among all the leading social reformers (almost entirely male) of the late nineteenth century. More interestingly, they were also represented by two of the very few leading women of the age. Ramabai Ranade, who ran the Seva Sadan in Pune after her husband's death, followed the traditional ideal that a woman's upliftment lay in the service of others. Pandita Ramabai, on the other hand, discarded both the Hindu norms of womanhood and the Hindu religion itself (through her conversion to Christianity), and promoted the ideal of the self-reliant woman. Ramabai Ranade's approach conformed to the mainstream social tradi-

tions and therefor bore fruit; while the Pandita's reform violated these traditions, antagonised society, and thus failed to bear fruit.

A comparison of the writings of Pandita Ramabai and Tarabai Shinde formed the central theme of the two papers (originally planned as a joint paper) by Vidyut Bhagwat (India) and Jayant Lele (Canada). Bhagwat's paper '*Stree Dharma Neeti* and *Stree-Purusha Tulana*: The Inner Unity of the Two Texts' outlined the subaltern approach and described the two books concerned. The former is a guide-book on morals and manners for women by Pandita Ramabai, and the latter a comparison of women and men (including a scathing attack on the negative male attitudes about and treatment of women) by Tarabai Shinde. Although the two texts appeared simultaneously in the early 1880s, they clearly reflected the authoresses' very different backgrounds. Pandita Ramabai, brought up as an orthodox Brahmin, was then in a transitional stage, having veered away from Hinduism towards the Brahmo-Prarthana Samaj on the way to Christianity; while Tarabai Shinde, a high-caste Maratha woman, was influenced by the Satyashodhak movement of Jyotirao Phule, with its emphasis on caste conflict and other forms of social discrimination.

Lele's paper 'The Modernity of Subaltern Consciousness: Some Reflections on Caste and Gender Through Pandita Ramabai and Tarabai Shinde' was framed within the context of the world capitalistic system, the decline of the British hegemony, changes in the economic domain, and their impact on the socio-cultural domain. Starting from the mid-nineteenth century, the era of optimism about the future development of India through colonial intervention gradually gave way to scepticism by the end of the century. But both Pandita Ramabai and Tarabai Shinde were located within the tradition of optimism characterised by 'modernity'. In this connection, the notion of 'reflexivity', or response to an alien culture, was discussed. The colonial encounter was clearly a shock to both the parties involved, but the early Maharashtrian intellectuals produced a 'modern' critique which involved a critique and appreciation of the other as well as of the self. It was this universalism and reflexivity which was kept alive by the two women, and it was the reflexivity in terms of liberation from gender oppression which united them.

Rajendra Vora (India) emphasised the political context of the struggle for the women's cause in 'Conservatism and the Status of Women in Maharashtra'. Conservatism emerged in nineteenth century Maharashtra as a response to the colonial socio-political intervention and to the ideology of liberal social reformers which

centred around improving the upper caste family and marriage institutions and enhancing the status of their women. In the last quarter of the nineteenth century the Conservative programme gradually established itself as a viable alternative in political as in social matters in Maharashtra. As its foremost champion, Tilak systematically opposed reforms such as female education, widow remarriage, ban on child marriage, and other measures aimed at bettering the status of women. By the end of the century, Tilak's viewpoint had become the dominant viewpoint, and the women's cause was relegated to the background.

VII

Panel V was labelled 'Women in (on) temporary Maharashtrian Villages and Towns'. Sharon Kemp (USA), in 'Women as Bullocks: A Self image of Village Women', showed that in contrast to the well known and dominant images of Indian women as wives and mothers, village women have constructed a model about themselves as bullocks. Within the context of their everyday lives and economic activities, bullocks provide an apt metaphor especially regarding the issues of work, autonomy, and control. Both women and bullocks are perceived as strong, touched only by the *Malak* (a term which ordinarily means the owner, but which is also used to refer to the husband), separated from the outside world, and kept under control (including sexual and procreative control, through castration for a bull, and through the birth-control operation for a woman). Control can be exercised also on another level through a young woman being yoked to an older woman (mother in law) who can withhold food and administer beatings. Work alone entitles both the woman and the bullock to food, and both must please the *Malak*. Both are considered to be dull-witted, and the muteness of bullocks is paralleled by the loneliness of women who are not allowed to talk to other women and often not even to visit their natal families. The same women recognise that men's work is hard and requires mastery over animals, but their life is perceived as being easier because it is not controlled and has the freedom of birds. The women see this freedom in stark contrast to their own lack of it.

Lee Schlesinger (USA) examined other sets of images expressed by villagers in relation to the women who live there, in his paper 'Women in and of the Village: Two Instances from Western Maharashtra'. Two different types of source materials were used to analyse these. The literary source was a recent Marathi short story about a woman teacher who joins a village school and then asks for a transfer

almost immediately: the villagers react with mild curiosity and gossip but not with sympathetic interest, their chief concern being the possible reflection this episode might have on the village reputation. The ethnographic source was the ritual celebration of the festival of Nag-panchami in which the social divisions within the village community played an important part. These two specific situations focus on the place and significance of women in relation to the external reputation and internal organisation of a village. They also raise some broad conceptual issues about social structure and theory relevant to the analysis and representation of gender (and/or women) in Maharashtrian social life and culture.

Maxine Berntsen (India) presented the real life story of a woman from one of the most oppressed castes, in 'Sharada: A Mahar Woman's Path to Selfhood'. Sharada's life paralleled that of the majority of her sisters in terms of misery and in social and economic marginalisation, but her uniqueness lay in her power to overcome the obstacles in her own way. After the customary early marriage, Sharada continued her education in spite of oppression from her husband and in laws. When she attained sexual maturity, her husband no longer wanted her and eventually remarried. In spite of this rejection, she made repeated attempts, over a twenty year period, to be acknowledged as his wife because of the internalised ideal of the woman as a wife and mother. During this time while she developed the power to digest unhappiness, she also obtained job skills and economic self-reliance, and got involved in politics through the Ambedkar movement. Spiritual sustenance was provided by the family's legacy of the Mahanubhav tradition. Sharada's story provides a glimpse of the struggles of an oppressed woman from an oppressed social stratum, and of the development of her personhood and capacity to cope, in the rich social context of the caste realities, the ideology of womanhood, and the prevalent religious and political streams. From the Western standpoint, Sharada is a 'not liberated' woman. But in the Indian sense, she is liberated—she may have fallen short of her goal, but she has attained selfhood.

VIII

In the concluding discussion which rounded off the conference, the major themes which emerged through the papers and discussions were recapitulated. These included the role of Brahminism (*vratas*, pilgrimages, etc), the role of patriarchy defining the household as the focal point of women's existence, the role of colonialism, whether perceived positively as a

liberating influence or negatively as a theatre of oppression; the structure of the polity, economy, and culture; women as subjects as opposed to objects, and the nature of modernity in the context of oppression and liberation.

It was felt by some that a compromise had inevitably been made with the original objective of the conference, namely, to investigate the images of women and of femininity, to focus not on the lot of women but on the perceptions of women which have influenced their lot. Another reaction was that the Brahminical and urban women's perspective was dominant throughout the conference, and that the other world views which also co-exist in Maharashtra did not receive the same attention. This was probably due to historical reasons: the effort to improve the status of women among the upper castes has gone on for a hundred and fifty years, but has been very limited among the lower castes whose women tend to be self-reliant but not free of male dominance.

In spite of these differences, the fact remains that the awareness of the asymmetrical man/woman relationship is very clear and strong among the women of Maharashtra, across social and spatial divisions.

Notes

- 1 The proceedings of the First International Conference on Maharashtra have been published in two volumes: *Religion and Society in Maharashtra* and *The City, Country and Society in Maharashtra*. The proceedings of the Third Conference are currently in press in two volumes.
- 2 The two themes were 'Folk Culture, Folk Religion and Oral Traditions as a Component in Maharashtra Culture' and 'Reformers, Writers, Editors: Transformation of Maharashtra Culture 1830-1930'. For a report of the Third International Conference on Maharashtra see 'In Search of the Indian Concept of Tradition' by G. Sontheimer and M. Kusanibi, *Economic and Political Weekly*, September 3, 1988, pp. 1835-36.
- 3 This provision however was utilised only in a small way. Only one paper, by Tara Bhavalkar, was presented in Marathi, and the comments and discussion in Marathi were also limited.
- 4 The names and contributions of women who have made a mark in Maharashtra through history may not be familiar to non-Maharashtrians. Unfortunately, it is not possible to give a fuller background in a report of this nature. Some details, however, will appear in the descriptions of the actual papers.
- 5 Laxmibai Tilak was the wife of the Rev. Narayan Vaman Tilak who is described as a Christian saint poet of Maharashtra. Her famous Marathi autobiography *Smriti-Chitre* has been translated into English with the title *And I Follow After*.

IMF-World Bank Recipe for Soviet Economy

R G Gidadhubli
Abhijit Bhattacharya

In the context of the openly expressed view of the Soviet leadership that economic assistance from the West is critical to Soviet economic survival, the report on the Soviet economy jointly prepared by the IMF, the World Bank, OECD and the European Bank for Reconstruction and Development and its recommendations assume special significance.

AMONG the various responses and reactions in the West to Gorbachev's perestroika for the Soviet economy, the report published under the joint auspices of the four leading international economic organisations, namely, the IMF, World Bank, OECD and European Bank for Reconstruction and Development (in short, IMF-WB report) is very important. The report is quite comprehensive as it analyses all aspects of the Soviet economy and the recommendations are significant as the implicit objective is to evaluate conditions under which the big financial institutions in the West should extend financial support to facilitate the Soviet efforts in implementing economic reforms. While developments in the USSR are taking place very rapidly and make any analysis or recommendation a formidable task, the IMF-WB report may retain substantial relevance in the long term for the Soviet economy. Hence it is worthwhile to examine the essence of the IMF-WB report and the recommendations they make for the Soviet economy.

In the first instance, an effort has been made to analyse the overall development of the economy under the leadership of Gorbachev. As per the IMF-WB report, initiatives undertaken in 1985-87 were more in the nature of campaigns (anti-alcohol campaign, acceleration campaign, etc), but economic growth was affected by the decline in world oil prices (oil being a major export-earner for the country). The economy was stagnating while money supply increased and the fiscal deficit rose from 2.5 per cent in 1985 to 8.5 per cent in 1987.

During 1987-88 among the major reform measures were the enactment of the Law on State Enterprises giving greater autonomy to firms and decentralisation of foreign trade activity. However, in practice the system of state order and inflexibility of prices continued which negated the reform laws. On the external economic front there was deterioration caused by worsening terms of trade and growing domestic im-

balances. External debt in hard currency shot up to \$ 54 billion in 1988.

While the rate of growth of capital stock, net investment and output of essential industrial goods declined, the military burden remained significant. The concentration of the highest quality of labour and material inputs in the defence sector seriously retarded the growth of productivity in civilian production. However, the policy of converting defence industries for civilian goods was gaining momentum in 1988-89.

ECONOMIC DECLINE

In 1990 it was becoming evident that perestroika had failed to halt the secular deterioration of economic performance with the fall in NMP by 4 per cent and GDP by 2 per cent. The rate of inflation was about 12 per cent with excess liquidity estimated at Rbl 250 bn, i.e., about one-third of the stock of financial assets. The budgetary deficit was about 8.5 per cent of GDP and was a major source of money creation. The USSR could not take advantage of the rise in the world oil price due to a decline in domestic production of oil. For the first time in Soviet history, unemployment was informally estimated at 1.5 per cent of the labour force.

The hard currency BOP deficit was \$ 14 bn and out of foreign exchange reserves and accumulation, arrears to foreign suppliers was estimated at \$ 5 bn. Gross external debt in convertible currency was to decline to \$ 52 bn. Trade with the non-convertible area was in deficit due to decline in oil exports. Quoting Soviet sources it is noted that BOP in convertible currency worsened, particularly in 1989 (-\$ 3.7 bn) and 1990 (-\$ 14 bn projected) as compared to 1986 when it was +\$ 0.6 bn. Similarly, non-convertible BOP position also worsened during the last five years, from +\$ 1 bn in 1986 to -\$ 6.6 bn in 1989. This shows the overall deterioration of the external financial position of the USSR.

On the whole, NMP growth rate in

1986-89 was 2.7 per cent as compared to 3.2 per cent in 1981-85. This declining trend got accentuated in 1990. Even as per official estimates, NMP growth was to go down to -4 per cent. In fact many Soviet and Western specialists opine that real growth of the Soviet economy has been negative during 1986-90.

As per the IMF-WB report, the traditional centrally planned system had collapsed but had not been replaced by the market system. Growing imbalance between money supply and supply of goods resulted in too many roubles chasing too few goods. Domestic trade system was collapsing with barter arrangements becoming common among republics, regions and even cities. There was a growing shortage of consumer goods.

In an effort to marketise the Soviet economy, alternative programmes for transition were presented to the Supreme Soviet in 1990 which differed in modalities, timing and sequencing of reforms. However, on the question of transition to market there was no alternative. For economic transition four stages were identified: (1) stabilisation of the economy and beginning of commercialisation and privatisation; (2) gradual liberalisation of prices, introduction of social safety net and maintenance of tight financial policies; (3) introduction of structural reforms, and housing market; and (4) achieving convertibility of rouble and opening up of Soviet economy for foreign companies.

These stages were in fact contained in the 'Guidelines for Stabilisation of the Economy and Transition to a Market Economy', a framework for a reform programme spelt out by Gorbachev. The programme is essentially a gradualist one which also envisaged price reform, both wholesale and retail. Under this programme subsidies on retail prices were to be reduced. Distortions in relative prices at producer and wholesale level were to be reduced administratively in 1991. It is observed in the report that Soviet privatisation policy was vague and lacking a specific time horizon and that it may be stretched to a long period. Soviet industrial restructuring may lead to reduction in employment in industry by between 1 and 6 million persons.

In the IMF-WB report an effort has been made to analyse the problems facing different sectors of the economy. On the agricultural sector, the report points out the following major shortcomings: (a) wastage and losses are heavy, ranging from 20 per cent in the case of grains to 40 per cent in that of fruits and vegetables which equal the quantum of imports; (b) losses arise due to shortages of packaging material, storage facilities, prevalence

of outdated processing technology and inadequate and poor transport facilities; (c) irrational price structure has led to heavy subsidies, causing excess consumption demand and affecting production efficiency; and

(d) about one-third of total investment in the economy has been diverted to the agricultural sector during last 25 years and yet its development has suffered due to wrong priorities and macro imbalances.

As regards the energy sector which is a crucial one for the Soviet economy as the main foreign exchange earner, the report points out that the policy of energy exploitation has relied upon techniques aiming at short-term expansion at the cost of long-term recovery prospects. Besides inefficiencies in production, transport and storage problems are affecting this sector. Pricing of energy is highly irrational, oil prices for consumers being lower than the cost of production and world market prices (Soviet domestic oil prices are \$ 40-53 per metric ton as compared to world prices of \$ 200). This has led to wastage and uneconomical use of energy resources at consumption level and lack of incentive at production level.

The manufacturing sector in the USSR, it is observed, is characterised by concentration of production leading to monopolies, mismatch of demand and supply, excessive administrative control over production units, inadequate infrastructure and managerial personnel, and so on.

THE CHOICES

In the opinion of the IMF-WB specialists, Soviets have two alternative approaches for economic reforms—a conservative approach and a radical one. In the conservative approach there is emphasis on tight or restrictive fiscal policy while prices remain under administrative control and structural changes take place at a slow pace. The radical scenario emphasises a macro-economic stabilisation programme with the intention to reduce the budgetary deficit to a level below 2-3 per cent of GDP, decontrol of prices and privatisation of small-scale enterprises.

The authors of the report have recommended the radical approach as the appropriate strategy for the USSR although they are aware of certain consequences for the economy—there will be hardships for consumers, particularly for some vulnerable groups, price decontrol may lead to a wage-price spiral and large monopoly profits, there may be undue burden on enterprises. To overcome these consequences, remedial measures are suggested during transition period to the market—for instance, retaining price control over public utilities and housing, promoting greater domestic and external

competitiveness, and so on.

Among various important recommendations made in the IMF-WB report are

- (a) a hard budget constraint on government expenditure to eliminate various forms of budgetary and extra-budgetary support to loss-making enterprises;
- (b) a more integrated approach to manpower and wage policies for the government sector;
- (c) higher interest rates for effective monetary control;
- (d) absorption of excess liquidity through monetary reform by freezing part of financial assets held by households and enterprises, by reducing the real value of assets by price increases and by sale of financial assets of longer maturity (bonds) or shares or of physical assets;
- (e) opening up of the economy to foreign competition through trade liberalisation which requires, among other things, introduction of a realistic and unified exchange rate, reduction of trade and BOP deficits, phased introduction of convertibility of the rouble and introduction of separate foreign exchange markets in each of the major republics;
- (f) income policy be made effective with wage determination being left to collective bargaining, protecting purchasing power of incomes through indexation and wage tax being supplemented by a ceiling on wage increases;
- (g) freeing of prices to guide allocation of resources, comprehensive price decontrol to eliminate shortages and macro-economic imbalances; introduction of market clearing prices and transition to world prices;
- (h) agricultural reforms to be directed to price liberalisation, land reforms with emphasis on privatisation, disbanding state and collective farms, termination of state orders, phased withdrawal of state distribution of agricultural inputs, encouragement to small scale and co-operative production, improvement in infrastructure facilities, including development of all weather roads, etc, and promotion of joint ventures with foreign collaboration in food processing activities with introduction of modern technologies;
- (i) elimination of monopolies and creation of competitiveness among production units, dissolution of branch ministries, elimination of restriction on range of products, introduction of commercialisation and privatisation for the transition to market economy, facilitating growth of small business sector; and
- (j) revision of prices of fuel and energy

resources to increase export potentiality of energy resources (1 per cent reduction in domestic consumption will lead to \$ 1 bn increase in export earnings), improvement in field management practices and secondary recovery techniques, creation of favourable investment climate for foreign investment and know-how; it is also proposed in this context to the Soviet government that fuel deposits may be leased out to attract foreign investors.

There is an unambiguous recommendation for privatisation as a part of the strategy for successful transition to market economy of the USSR. It is noted in this context that before substantial privatisation was implemented, the locus of ownership of state property must be conclusively determined either through a new union treaty or some other means. This is considered important since the experience in the recent past showed that decisions taken by the Soviet government with regard to leasing and private farming ran into difficulties in the absence of clarity as to the locus of ownership of land.

THREAT OF POLITICAL BACKLASH

Although specialists who have prepared the IMF-WB report have met several Soviet policy-makers and organisations in the USSR, there is no reference to some of the important reports published in the USSR itself. For instance, on June 21, 1990 the Soviet government had instituted a committee of 24 members under the chairmanship of Abel Aganbegyan to 'Evaluate Alternatives for the Transition to a Market Economy'. Among its members were Nikolai Shmelev (vice-chairman), Oleg Bogomolov, Tatyana Zaslavskaya and A Emelyanov. The commission published its report in October 1990 (*Voprosy Ekonomiki*, No 10, 1990, Moscow, pp 109-148). According to this publication, the proposals put forward by the Soviet economists fall into three broad categories: (1) variants of non-market development, (2) market extremist variants, and (3) variants for the transition to a regulated market. Though the third category of variant itself can be divided into various sub-categories (from conservative to radical versions), the IMF-WB recommendations broadly fit into the third group. Similarly, there is no reference to the Ryzhkov, Shatalin plan and so on.

The IMF-WB report has not given specific suggestions or recommendations to certain key problems of reform. For instance, when the Republics are at loggerheads with the Centre over the question of resource sharing, the report has only acknowledged the importance of a

new framework of inter-governmental fiscal relations. Though the IMF-WB specialists support a system which gives each level of government autonomous and well-defined revenue raising powers, the Soviets may not buy this idea considering their present level of about 9 per cent deficit and little possibility of it being brought down to 2½-3 per cent in the short run. On the other hand, they are aware of the fact that decentralised fiscal policies have given a boost to budgetary deficits in various countries.

On the question of the 'monetary overhang' which has assumed huge proportions causing the present macro-economic imbalances, the IMF-WB has mentioned three alternative approaches (or some combination of them):

- (1) through monetary reform which would confiscate or freeze a part of financial assets held by households and enterprises,
- (2) by letting the real value of existing financial assets be reduced by price increases; and
- (3) by sales of financial assets of longer maturity (bonds or shares) or of physical assets.

Although debate has been going on in the USSR on these issues, Soviet prime minister Pavlov introduced an ill-conceived and badly managed demonetisation of 50 Rbl and 100 Rbl notes in March 1991. His demonetisation measure, which was meant to fight black marketeers and 'Western saboteurs', inadvertently hit hard the genuine embryonic Soviet private sector and new class of entrepreneurs which has shaken their confidence in government policy. Added to this is the price revision and partial price liberalisation in April 1991 which may turn inflation into hyperinflation.

In other words, while IMF-WB alternatives are not infeasible, they require further preparation and have to be weighed against the possible political backlash. Regarding the second element of the above mentioned alternatives, valuation of assets in the absence of a real capital market is a serious practical problem which may create tension as was evident in the case of Hungary.

On the question of systemic issues the necessity of an early price reform has now been accepted by more or less all the reformists. In this regard the IMF-WB suggestion is interesting for its practicability since it throws some light on how to squeeze the already miserable population. This has to be done since there is no other alternative.

On the whole, unlike various already published proposals for reform the IMF-WB recommendations seem to be more coherent since any radical reform of the

whole system has to be a package deal with logically interconnected elements. The report has highlighted one very important aspect (though very briefly) which is extremely important in a grandiose social experiment like perestroika. That is, the speed and timing of the reform. The opportunity cost of implementation of various elements of the reform changes very fast with time. If one element is not introduced at the right moment, at a later stage the same step may throw the whole system into a tail-spin if politically and economically much tougher back-up measures are not taken simultaneously. Pavlov's April 1991 price revision is an example of this. In 1987-88 this reform measure could have given some tangible results when a financial crash was not looming large over the Soviet economy. The IMF-WB report rightly mentions that "the speed and sequence in which they [macro-economic stabilisation, price reform and ownership reform] and the necessary accompanying legal and other measures are introduced will determine the cost: of the initial adjustments, and the speed with which the benefits of reform are through".

The IMF-WB recommendations on foreign direct investment are in tune with its well known recipe for all closed or semi-closed economies. Since joint ventures are supposed to do magic in international business, the IMF-WB specialists have advised the Soviet Union to create necessary condition enabling multinational companies to operate freely in the Soviet economy. In fact, foreign investment may not contribute significantly to Soviet gross domestic product and to improving other macro-economic indicators, though foreign collaborations may have an educative function for Soviet managers and entrepreneurs who will learn how the cream of the capitalist world operate in a real market.

Postscript

The Soviet economy is passing through crisis of historic dimensions. The situation has worsened as compared to early 1990 when the IMF-WB report was prepared. For instance, according to Soviet official data, as compared to the first quarter of 1990, the growth performance in the first quarter of 1991 was as follows: GNP - 10 per cent, national income - 6 per cent, industrial production - 9 per cent and agricultural production - 13 per cent. The decline in Soviet foreign trade was even worse with imports declining by 45 per cent and exports by 18 per cent.

Against this significant decline in economic growth, there has been a sharp increase in money supply. In the first two

months of 1991 it was 88 billion roubles against 11 billion roubles in the corresponding period in 1990. Thus inflationary pressures are further building up aggravating the crisis in the country. Added to these are problems arising out of Centre-Republic relations over the new Union treaty, sharing of economic resources and political power, and the declaration of independence by six republics from the Union.

While the task of finding a temporary solution to these issues looks very formidable, Soviet economists and policy-makers are also confronted by the need for an unambiguous choice of a model for their economy. There seem to be only two probable alternatives. Either to continue the old system and improve upon it or to abandon the socialist system and accept capitalism (be it in the form of the *laissez-faire*, convergence or any other model). But the problem of making such a choice lies in the fact that sufficient theoretical work has been done neither on the improvement of the socialist system (for many economists it is even futile to work in this direction since they are convinced that the efficiency of the Hungarian economy is the limit of what a socialist system can achieve) nor on the transition from socialism to capitalism. It is indeed a great challenge to the leadership of the Soviet Union to select and work out a theoretical and practical framework for one of these two alternatives. Right now the trial-and-error method seems to be the official approach.

Catalogue of Coins illustrative of the History of the Rulers of Delhi upto 1858 A.D. in the Delhi Museum of Archaeology

R.B. Whitehead

1990(Repr.), Demy 8vo. 96p.
Rs.125

MANOHAR PUBLICATIONS
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New Delhi - 110 002

The Price of Security

S R Sen

Unless something drastic is done to arrest the growth in defence, police and other non-development expenditures, India is likely to miss the second technological revolution and world trade boom that seems to be in the offing in the Nineties, just as she had failed to take advantage of the enormous technological changes and world trade expansion of the Sixties

IN spite of the Second World War and the post partition riots, India's expenditure on external and internal security, viz. defence, police and general administration, remained reasonably low in the Fifties compared to many other countries.

In 1950-51 defence expenditure was 1.8 per cent of GNP (Rs 168 crore/Rs 9,325 crore), police expenditure was 0.6 per cent of GNP (Rs 56.9,325 crore) and 'other non-development' (OND) expenditure (largely general administration excluding interest on public debt and defence and police) was 2.4 per cent of GNP (Rs 224.9,325 crore). These ratios were even lower prior to the Second World War. The British policy of maintenance of the buffer status of Afghanistan, Tibet and Thailand, command over the sea routes, strategic defence and prompt drastic police action during emergencies made this feasible. Potential backing from strategically located government forces enabled a small posse of troops or even unarmed constables to keep peace.

In the interest of development, Pandit Nehru succeeded in maintaining these low ratios up to the China War. In 1960-61 defence expenditure was 1.7 per cent of GNP (Rs 281/16,129 crore), police expenditure was 0.6 per cent of GNP (Rs 99/16,129 crore) and other non-development expenditure was 2.2 per cent of GNP (Rs 355/16,129 crore).

The China and Pakistan wars substantially changed all that. In 1965-66 defence expenditure was 7.4 per cent of GNP (Rs 885/25,981 crore), police expenditure was 0.7 per cent of GNP (Rs 190/25,981 crore) and OND expenditure was 1.8 per cent of GNP (Rs 479/25,981 crore). For people in the Planning Commission in those days, it was a traumatic experience to dismantle the Third Plan and divert resources from development to defence purposes. They tried to partly compensate for this by cutting down OND expenditure from 2.2 per cent to 1.8 per cent of GNP.

But these two unfortunate wars did in fact much greater real damage than these

figures by themselves indicate. India failed to take advantage of the new technological revolution and world trade boom of the Sixties unlike Japan and Germany.

Severe drought, devaluation, the Bangladesh war and the oil crises followed in quick succession and the Sixties and Seventies turned out to be two bleak decades for India. By 1980-81 defence expenditure was brought down to 2.8 per cent of GNP (Rs 3,867/1,36,157 crore) but police expenditure went up to 0.9 per cent (Rs 1,163/1,36,157 crore) and OND expenditure went up very substantially to 3.1 per cent (Rs 4,286/1,36,157 crore). Corresponding figures for 1970-71 were 2.8 per cent (Rs 1,199/42,879 crore), 0.8 per cent (Rs 335/42,879 crore) and 2.5 per cent (Rs 1,071/42,879 crore), respectively.

Throughout the Eighties, the earlier restraint on defence, police and OND expenditures was very much relaxed although there was no war or other special emergency. In 1989-90 defence expenditure went up to 3.3 per cent of GNP (Rs 14,350/4,33,500 crore), police expenditure to 1.0 per cent of GNP (Rs 4,460/4,33,500 crore) and OND to a very high level of 4.3 per cent of GNP (Rs 18,506/4,33,500 crore). The total of these three items stood at 8.6 per cent of GNP (Rs 37,316/4,33,500 crore) in 1989-90 as compared to 6.1 per cent of GNP in 1970-71, 5.9 per cent of GNP in 1965-66 and 4.8 per cent of GNP in 1950-51. The budgetary gap not covered by revenue went up from Rs 12,282 crore in 1980-81 to Rs 45,600 crore in 1989-90. In contrast with the revenue surplus and balance of payment surplus of the Seventies, there was a colossal deficit in both in the Eighties. India's total external debt which stood at \$20.6 billion or 11.9 per cent of GNP in 1980 went up to \$62.5 billion dollars or 23.3 per cent of GNP in 1989 and is much higher now. The country is facing severe domestic inflation, budget crunch and foreign exchange crisis.

It appears that unless something drastic is done to halt this rake's progress, India

is likely to miss again the second technological revolution and world trade boom that seems to be in the offing in the Nineties (somewhat comparable to that in the Sixties), without any excuse like war or famine this time.

SOME REMEDIAL MEASURES

The minimum that needs to be urgently done is to revert at least to the 1980-81 ratios if not to the 1970-71 ratios, of non-development expenditure, including defence, and implement the suggestions for reducing bureaucratic delays made in the article 'Too Late and Too Little' (EPW June 18). This can be done partly by augmenting the denominator and partly by reducing the numerator. Legal, procedural and financial constraints on Indian NRI and foreign investors should be removed or reduced if they undertake to earn net 10 per cent more of foreign exchange than their total foreign exchange liabilities per annum or over a specified period, irrespective of how much they sell in the domestic or foreign markets. While special incentives may be provided for products designed for export markets, their domestic consumption should be curbed, if necessary by excise duties rather than physical controls. Special free trade cum free foreign exchange zones should be set up for attracting entrepreneurs from, say Hong Kong or the Gulf region. Any net inflow of foreign exchange especially from NRIs, should be free from personal income tax and related hassles. The national benefit would then far outweigh hypothetical departmental loss. These and other comparable measures would help considerably to augment our GNP and foreign exchange earnings and bring down the three ratios mentioned above.

It would help substantially to bring down these ratios if very careful annual scrutiny is undertaken of each important element of our defence, police and OND expenditure.

So far as the last two, viz. police and OND expenditure, are concerned, it would help if a 'zero based budget' procedure is followed and the Estimates Committee of parliament considers these as specially susceptible to Parkinson's Law and therefore priority areas for its scrutiny. Every item of additional personnel and facilities since 1980-81, if not 1970-71, should be carefully checked. Each time more efficient modern equipment is asked for, appropriate economy in obsolete or surplus equipment and personnel should be insisted upon.

INDIA IS A RELATIVELY MORE LITIGIOUS field because it is usually regarded as a 'holy cow'. There are in this country very few MPs and competent analysts who specialise in defence matters. Foreigners are often able to collate more data from various sources which are now denied to our own MPs and analysts. Government would do well to provide at least such information as is now being collated by foreigners to those Indians whose credentials are above board. Many senior defence officers themselves have expressed serious concern about the Parkinsonian growth of defence expenditure in undesirable and counter-productive directions, and are themselves recommending greater analysis and scrutiny by experts from outside the establishment.

Annual scrutiny needs specially to be made about the 'teeth-to-tail' ratio and the composition of the 'teeth' in our defence forces.

'Teeth' in particular have to be very different for 'blitzkrieg' and conventional war. For the latter, self-sufficiency is undoubtedly important. But for countering the former, our defence forces must have the most up-to-date and efficient 'teeth', whatever be the source. Since many of these are subject to rapid obsolescence, the populist slogan for self-sufficiency for these also may be very risky. We must periodically update these items of 'teeth' up to a reasonable critical mass in the light of our risk perception and provide adequate resources for this purpose.

Relatively small but well-trained and well-armed forces, with the most modern and highly effective 'teeth' (as in say, Israel), when used boldly in minimum critical mass and against carefully identified vulnerable points of the enemy, have usually proved much more successful than large inadequately trained and armed forces which have lacked such teeth. This is a lesson of history which we can ill afford to forget.

We should have no compunction in getting rid of any equipment or personnel adjudged unequal to the challenge faced in such a life and death matter as war. If the potential enemy knows our preparedness and determination to hit back very hard at any place and time of our own choice and inflict unacceptable damage on him, that alone should prove an effective deterrent and help avoid war. Whether he plans overt aggression or covert subversion, the knowledge that our retaliation will be prompt and drastic (or more than equivalent) would make him prefer a peaceful resolution of his differences with us. Readiness to take calculated risk and strategic deterrent action is also a useful way to keep down the cost of defence.

LESSONS OF HISTORY

India has repeatedly suffered in the past because Indians were not careful enough in this regard.

At an informal discussion, an American defence specialist once observed that the Indian soldier has usually been among the best in the world. He referred to the Duke of Wellington saying that he had faced the toughest challenge of his career at Assaye against the Marathas and not at Waterloo against the French. But Indian commanders were often defeated because they depended unduly on large ill-equipped armies and were unfamiliar with the latest weapons and strategies evolved in other parts of the world. The American specialist's British counterpart added that Hindus had written tomes on the art of warfare and were often brave fighters but they lost most wars against foreign conquerors because they were too rule-bound and unable to react effectively enough against the surprise moves of the enemy.

The *Encyclopaedia Britannica* says: "The subjection of a whole sub-continent containing a unique civilisation has long been a source of historical wonderment [this was] made possible by the innate divisiveness of Hindu society, rent by class and caste divisions, which rendered it unusually willing to call in unwelcome outsiders to defeat the still more unwelcome neighbour. The foreigners, asked in the first resort to assist in defeating a rival, were in the last resort accepted as masters in preference to dominance by a rival. Thus Marathas preferred the British to the Mughals or Muslims, and the Nizam, the British to the Marathas. Long historical memories can be inhibiting as well as inspiring. Britain enjoyed the advantage of overseas reinforcement through its sea power. A lost battle for the British was an incident in a campaign for the Indian prince, usually the end of the chapter. Then there were the technical advantages of arms and military discipline and the immense general advantage of a disciplined civilian

by the rising self-confidence of the Europeans in general. For the Hindu, on the other hand, his world was at its lowest ebb—in the Kali or dark age—while the Muslim believed in inscrutable fate."

These observations may not represent a thorough analysis. Nevertheless, they contain important elements of truth which deserve to be carefully kept in view when considering questions of our external and internal security. Our present lack of 'disciplined civilian morale', fratricidal 'caste and class divisions', turning to 'unwelcome outsiders to defeat the still more unwelcome neighbour', extreme political confrontation and factionalism, undue reliance on 'large ill-equipped' security forces and bureaucratic inability to 'react quickly and effectively enough' against surprises resulting partly from some special features of the sub-continental policy and partly from our social milieu, all indicate that the shortcomings highlighted by these commentators still persist although we are now in the fifth decade of our independence.

Yet it need not be so. Our geopolitical position in Asia is somewhat comparable to that of Switzerland in Europe *vis-à-vis* the relevant big powers. We could learn valuable lessons from the security and diplomatic policies of that country, which is no doubt much smaller but has faced comparable problems of heterogeneous society and querulous neighbours. These policies which are less moralising and more down to earth compared to ours have enabled Switzerland to enjoy an enviable long period of peace and prosperity at relatively low defence and police cost. If we do that, we need not seek international leadership. International esteem will automatically come to us as it has come to Switzerland.

But for this to happen, our various deficiencies noted above need to be clearly recognised and appropriate corrective actions initiated by our statesmen as early as possible.

JANATA

A Journal of Democratic Socialism

Editor: H K Paranjape

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BALANCE SHEET OF INDIAN BRANCH AS AT CLOSE OF BUSINESS ON MARCH 31, 1991

| Previous Year Rupees | CAPITAL AND LIABILITIES | Rupees | Rupees | Previous Year Rupees | PROPERTY AND ASSETS | Rupees | Rupees |
|---|--|---|---------------------------|---|--|--|--------------|
| 52 00 000 | 1 Capital : Face value of Securities deposited with Reserve Bank of India under Section 11(2) of the Banking Regula- tions Act 1949 | | 80 00 000 | 3 44 70 955 | 1 Cash In hand and with Reserve Bank of India and State Bank of India (including Foreign Currency Notes) | 10 59 46 743 | |
| 9 99 391 26 79 943 36 79 334 | 2 Reserve Fund and Other Reserves Reserve under Section 11(2) (b) (ii) Balance at the beginning of the year Additions for the year | 46 79 344 34 33 731 | | 6 27 527 7 03 545 7 03 062 | 2 Balances with other Banks On Current Account — i) In India ii) Outside India | 23 61 588 11 95 550 | 35 57 138 |
| NIL 36 96 65 635 36 96 65 635 61 41 914 | 3. Deposits and Other Accounts Fixed Deposits— i) From Banks ii) From Others Savings Bank Deposits — Current Accounts & Contingency Accounts etc.— i) From Banks In India Outside India ii) From Others | NIL 38 92 47 031 38 92 47 031 41 21 046 NIL 1 00 86 098 3 27 20 180 | 71 13 065 | NIL 12 03 68 984 NIL 70 00 000 NIL NIL 12 73 68 984 | 3 Money at Call and Short Notice. 4 Investments (See Note 2) i) Securities of the Central and State Governments and other Trustee Securities including Treasury Bills of the Central and State Governments ii) Equity Shares iii) Debentures or Bonds iv) Other Investments v) Gold (Market value of Investments Rs. 14 20 66 000) (1990)— Rs. 12 62 76 750) | 14 01 48 500 NIL 19 17 500 NIL NIL | 14 20 66 000 |
| 49 81 075 4 49 38 685 42 57 27 309 | 4 Borrowings from Other Banking Companies Agents etc (including approved institutions) (i) In India (a) Secured (b) Unsecured (ii) Outside India | NIL 1 00 86 098 3 27 20 180 23 17 70 555 NIL | 44 61 73 377 | 31 22 80 508 NIL 31 22 80 508 | 5 Advances (Other than bad and doubtful debts for which provision has been made to the satisfaction of the auditors) i) Loans (cash & credits Overdrafts etc ii) In India iii) Outside India | 39 39 02 390 NIL 39 39 02 390 | |
| NIL 18 22 50 150 NIL 18 22 50 150 36 06 148 | 5 Bills Payable : 6 Bills for collection being Bills Receivable as per contra (i) Payable in India (ii) Payable outside India | NIL 1 20 79 484 1 97 69 095 | 24 17 70 535 38 77 667 | 47 51 65 508 6 14 63 115 74 948 09 131 | ii Bills Discounted and Purchased (excluding Treasury Bills of the Central and State Governments) (i) Payable in India (ii) Payable outside India | 58 28 39 704 3 94 27 810 1 01 61 69 904 | |
| 43 19 647 6 63 374 49 83 021 | | | 4 18 48 584 | | | | |

[illegible]

Notes See bottom of page

**This is the Balance Sheet referred to in our report of even date
for S R BATLIBOI & COMPANY
Chartered Accountants**

**PER NAWSHIR H. MIRZA
A Partner**

BOMBAY 22nd June 1991

R W S. JOLL
Chief Executive Officer—India

THE BANK OF NOVA SCOTIA

(INCORPORATED WITH LIMITED LIABILITY IN CANADA)

NOTES ANNEXED TO AND FORMING PART OF ACCOUNTS AS AT MARCH 31, 1991

PARTICULARS OF REMUNERATION RELATING TO THE CHIEF EXECUTIVE OFFICER IN INDIA FOR THE YEAR ENDED MARCH 31, 1991

| | Year ended 31 3 1991 Rs | Previous Year ended 31 3 1990 Rs |
|---|-------------------------------|--|
| (i) Salaries | 3 00 000 00 | 3 00 000 00 |
| (ii) Allowances | NIL | NIL |
| (iii) Sitting Fees | NIL | NIL |
| (iv) Bonus | NIL | 37 355 00 |
| (v) Employer's contribution to Provident Fund Pension Fund (or any other Superannuation Fund) | NIL | NIL |
| (vi) Payments made by way of gratuities, pensions or otherwise in excess of the employer's contribution or interest thereon | NIL | NIL |
| (vii) Estimated monetary value of any other benefit or perquisites (as per Income Tax Rules) | 1 08 436 00 + 08 436 00 | 1 10 601 00 + 7 956 00 |

AUDITOR'S REPORT ON THE INDIAN BRANCH OF THE BANK OF NOVA SCOTIA UNDER SECTION 30 OF THE BANKING REGULATIONS ACT, 1949.

We have audited the Balance Sheet of the Indian Branch of The Bank of Nova Scotia Incorporated with limited liability in Canada as at March 31, 1991 signed by us under reference to this report and the relative Profit and Loss Account of the Indian Branch of the Bank for the year ended on that date annexed thereto with the books of account maintained and produced to us at Bombay and report as under:

- a) the Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulations Act 1949 read with Section 211 of the Companies Act 1956
- b) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory.
- c) the transactions during the year which have come to our notice have been in our opinion within the powers of the Indian Branch of the Bank
- d) in our opinion proper books of account as required by law have been kept by the Branch so far as appears from our examination of these books
- e) the Accounts of the Indian Branch of the Bank dealt with by this report are in agreement with the books of account
- f) in our opinion and to the best of our information and according to the explanations given to us the Accounts together with the notes thereon give the information required by the Companies Act 1956 in the manner so required for Banking Companies and on such basis give a true and fair view in the case of the Balance Sheet of the state of affairs of the Indian Branch of the Bank as at March 31, 1991 and in the case of the Profit and Loss Account of the profit of the Indian Branch for the year ended on that date

For S R BATLIBOI & CO
Chartered Accountants
Per NAWSHIR H. MIRZA
A Partner

BOMBAY 22nd June 1991

1 FOREIGN CURRENCIES

Assets and Liabilities in foreign currencies are translated into Indian Rupees at the rate current at the Balance Sheet date. Resultant gains or losses are taken to the Profit and Loss statement. Transactions during the year are translated into Indian Rupees at the rate current at the date of transactions. As per the present practice of banks in India, the Foreign Currencies Non-Resident Account balances are valued at the Balance Sheet date at the rates specified by the Reserve Bank of India at the date of the transaction and not at the currency rates current at the Balance Sheet date.

2 INVESTMENTS

The bank values all investments it intends to hold at the lower of cost or market value and purchase cost after amortisation of discount or accretion of premium from the date of purchase to the maturity of the investment. Till last year the basis of valuation was at cost amortised as above. The effect of this change is the reduction in the value of investments by Rupees 1 34 444.

3 FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation. Depreciation is on a written down value method at the rates specified in Schedule XIV of the Companies Act 1956. Rupees 1.1 million payable by the bank in respect of purchase of its premises shall be accounted for on the matter being resolved in a court.

4 ADVANCES

- a) Provisions for doubtful advances have been made to the satisfaction of the auditors in respect of identified advances based on a periodic review of advances and after taking into account the portion of advance guaranteed by Deposit Insurance and Credit Guarantee Corporation, the Export Credit and Guarantee Corporation and similar statutory bodies.
- b) Provisions have been made on a gross basis. Tax relief which will be available when the advance is written off will be accounted for in the year of write off.

5 STAFF BENEFITS

Provisions for gratuity benefits to staff has been made on an accrual basis.

6 NET PROFIT

The net profit disclosed in the Profit and Loss Account is after

- i) provisions for taxes on income in accordance with statutory requirements
- ii) provisions for doubtful advances
- iii) adjustments to the value of investments in government and other approved securities in India valued on the basis stated in note (2) above
- iv) transfers to contingency
- v) other usual and necessary provisions

7 Contingency funds have been grouped in the Balance Sheet under the head Current Accounts & Contingency Accounts

8 Previous year figures have been regrouped wherever practicable

Mandalisation under British Rule in Bengal

G K Lieten

Caste, Politics and the Raj: Bengal 1872-1937 by Sekhar Bandyopadhyay; K P Bagchi, Calcutta, 1990.

MUCH of the later life, and the final assessment, of the Janata Dal government of V P Singh has been tied up with the issue of reservation in Central government jobs for members of the backward castes. The vociferous antagonists, supported by practically the entire establishment, confronted the equally vociferous but less endowed protagonists. A middle ground appeared impossible.

Strangely enough, the slanging-match was conducted without much empirical base as to how reservation in the past and in the various States had or had not caused the various distortions and aberrations, or benefits and consonance which both sides have claimed. A dispassionate debate was made impossible by the recourse to direct democracy by the powerful and by the adamancy of the pro-Mandal lobby.

It is, therefore, fortuitous that an excellent study on the politics of preferential treatment, as practised by the colonial administration in Bengal, has been published. Fortunately for Sekhar Bandyopadhyay, his book got finished before the 'Mandalisation' of Indian society took place. It has been possible to take a scholarly, detached and unbiased look at the subject.

Of course, it is not the first book on the subject. A limited number of studies have been published in the past, particularly on caste associations in South India and (by Marc Gallanter) on the changing legal framework. It stands the author in good stead that he has absorbed the secondary sources comprehensively. He has furthermore delved into archival material and has recovered, from government sources and from the files of caste associations, interesting material which should go a long way in helping us to inquire into the real motivations behind positive discrimination policies.

The wide canvas—government and the various backward castes in a mega-state over a span of half a century—has prevented the author from making a systematic search and utilisation of the archival materials of the various caste associations. This shortcoming, however, does not diminish the importance of this contribution.

Caste associations, it is admitted, have never played the important role in Bengal which they played in South India and Maharashtra. In the latter case there was a joint connecting the aspirations of the backward caste elite with the spirit of pro-

test against social humiliation and material deprivation of the community. The associations, far from being vehicles of progress and democratic politics, as the Rudolphs have suggested, in fact were vehicles of material rewards through council policies and petitions. The more these concessions were forthcoming under the benign state patronage, the less necessary it became for the leaders to continue their mobilisation of the caste community.

In Bengal, the process of patronage started in fact before the process of mobilisation and framing of caste identities could proceed beyond its embryonic stage. The intentions of the colonial administration to create a loyal leadership with a caste-based mass appeal thus clearly misfired.

The author has marshalled solid evidence to conclude that the administration from the mid-nineteenth century on increasingly realised the divisive potentiality of caste and religion, and engaged administrators like Hunter and Risley to do an ethnological mapping of the presidency as a resource base for effective social control. During the first decades of the twentieth century, the caste dichotomy was successfully turned into a political dichotomy. "the civilian ethnographic perception of a system of ritualised ethnic division of an antagonistic character thus became a reality—largely as a result of British appointment policies, constitutional and electoral arrangements, political and administrative innovations" (p 53).

Considerations of expediency prompted the government to take these measures, but the fact that it took till the middle of the 1930s for these policies to become firmly established (without actually really threatening the hold of the Rarhi Brahmins) indicates that the divisive scheme was not paramount in colonial policy. Considering the denouement of the various policy initiatives, one is left with the view that the caste-isation of politics was at least as much due to the stubborn refusal by the highest caste 'bhadralok' to allow any infringement on their exalted position in the social and political structure.

For example, when in 1932 two members of the Central Legislative Assembly introduced the Untouchability Abolition Bill, the government of Bengal, after hearing its Hindu members, advised refusal of consent to the introduction of the bill, and actually hushing up of any discussion on the civil rights of the depressed classes. At least one

civil servant suggested to the government that it would be politically preferable not to follow the high caste Hindu members and to have a public discussion since this would split Hindu society into warring groups. The fact is that the government did not follow this advice, until much later when it became politically expedient.

Bandyopadhyay is hence, in our opinion, imprudent in his indictment of the British colonial administration. There is some tendency to overstate the reach of government policies (e.g. pp 80/81: "offering all conceivable facilities to the members of the Scheduled Castes"; and p 82: "the government system of patronage distribution became dependent on caste-identity") and a tendency to understate the citadel mentality of the upper caste Hindus in not granting any of the privileges to the members of the other Indian nation.

In the introduction and conclusion, and at a few places in the main text, the author, it is fair to add, balances his approach. He observes that the continued exclusion of the Namasudras, Mahishyas, Tilis, Sahas and Rajbansis from the socio-economic privileges and the newly-aroused spirit of self-respect filled them with a sense of alienation from the better privileged higher castes and from their political agitations.

His overall conclusion, hence, reads as follows (p 203, emphasis added): "The colonial policy of protective discrimination *only contributed further* to this development... The colonial regime appeared in their consciousness to be their most trusted friend—nay their 'liberator'. Such a different perception of history, in which the colonial rule appeared to be more egalitarian than the traditional regimes of the Hindu and Muslim rulers, stood in sharp contrast to the practice of glorifying the pre-colonial past by the nationalists."

Protective discrimination, when it finally materialised for a small section of the depressed classes, then called forth the denunciation and condemnation by upper caste Hindus, some of them no doubt well meaning. They argued that the alien government, for ulterior motives, was politicising caste and was reinforcing it as a cleavage factor in society. A perfect example of a self-fulfilling prophecy: the cleavage was brought about as much, if not much more, by the unwillingness of the upper caste leaders, many of them in the nationalist movement, to concede some (symbolic) concessions.

The parallel with the recent Mandal agitation is all too obvious.

Bandyopadhyay acknowledges the philanthropic urge of the government, but gives it relatively less weightage, probably because he overestimates the degree of upward caste mobility in Bengal and underestimates the extent of real cleavage, exploitation and caste oppression. The social and economic struc-

ture underneath is hardly touched for the simple reason that the archival sources did not provide material on this aspect. The abundant archival material on other aspects, however, makes up more than adequately for this void.

Upward mobility was definitely on the cards, and the chapter on Caste and Social Mobility gives a good deal of information, but it was a mobility restricted to the uppermost families within the extensive caste—the maharajahs, zamindars, big jotedars and wealthy traders. The gap between these elite folks and the caste base was probably so vast that an integrated movement was hardly possible, the more so since the caste associations in Bengal hardly ever were a protest movement.

'Depressed Class' politics, right from the start, was aimed at the promotion of the agricultural and business pursuits of the

well-off sections, with some fall-out in terms of charity and endowments for educational uplift. They could hardly ever lose "their early protestant character" under the impact of government patronage, for, unlike in southern India, they were loyalist movements to start with and to end with. They were hence never in a position to attract a mass following and carve out vertical support structures along caste lines. Ultimately, the poor rural population went along under the banner of the Krishak Praja Party of Fazlul Huq in the eastern territories and the Kisan Sabha in the western territories.

Only a more detailed study, along the lines of Robert Hardgrave's study of the Nadars in Tamil Nadu, would explain the peculiar dynamics of politics in Bengal, sidelining the caste associations in the decades to follow. Sekhar Bandyopadhyay, with an excellent study, has brought us up to this stage.

labour productivity, reflecting incidence of technical progress.

SICK MAN OF ASIA?

India's relative position *vis-à-vis* comparable developing countries has deteriorated over the seventies and eighties. The data from the review presented in the accompanying table are pertinent in this connection.

While the comparisons with China and the NICs are useful, South-east Asia (Indonesia, Malaysia, Philippines, Thailand) appears to have overtaken the NICs, China and India, over the last two or three years, in the rate of growth of exports and of real GDP per head. India's inability to achieve a breakthrough has earned it the notoriety of being described as "the sick man of the region" (*The Economist*, May 5, 1990).

The beginning of the decade of the 1990s does not seem to augur well for Indian economic development. International economic and political developments have marginalised the significance of India and China. In international business and industrial fora, inter trading and inter-investment amongst United Europe of 1992 (to be united further with Eastern European countries by 2000), the North American bloc (USA and Canada and Mexico), linked to other Latin American countries, and the Asia Pacific rim (Japan, the Dragons—Taiwan, Hong Kong, South Korea and Singapore—and South-east Asia—Indonesia, Thailand, Malaysia and the Philippines), are alone increasingly analysed, discussed and built up. China and India have been added to the laggards of Sub-Saharan Africa. China, of course, will always be a natural market and investment outlet for Japan. Sub-Saharan Africa could, hopefully, emulate at least India in agricultural development. This leaves India to muddle through as best as it can, hopefully using the potential of SAARC. On the other hand, this benign neglect may be a welcome development and lead to introspection and internal restructuring.

PERCEPTION: WORLD BANK VS UNIDO

The World Bank group and the United Nations agencies are perhaps an exception in this milieu of emerging neglect of the Indian sub-continent. The World Bank published last year its report on 'Recent Developments and Medium Term Issues in India'.

The perceptions of UNIDO and the World Bank as to the causes and consequences of recent industrial growth are basically similar. While the UNIDO study goes more into branches within the industry sector, the World Bank study relates the industry sector to the other economic and social sectors. The broad conclusions of the two studies are summarised below.

World Bank

In manufacture, a growing awareness has developed that the performance of manufac-

Indian Industry: Stagnation or Growth?

S Nanjundan

India: New Dimensions of Industrial Growth, Industrial Development Review Series, United Nations Industrial Development Organisation (UNIDO), published by Basil Blackwell, Oxford 1990, pp xxiii + 253, \$79.95 (North America), £ 20 (developing countries), £ 50 (other countries).

UNIDO has over the past 10 years or so published 55 country and regional reviews covering more than 85 developing countries as non sales (or free distribution) publications. These reviews have presented an analysis of the country's industrial development, both as a service to those within UNIDO and other international agencies concerned with industrial policy, planning, project development and implementation and as a ready source of information for governments, financial and industrial enterprises, research institutions and other agencies connected with aid. Having gained experience and strengthened its data base and information flow, UNIDO has now launched a new review series of sales publications for a wide range of international readership associated with industry, finance, trade, business, research and governments. India is the first country covered in this series; fourteen other developing countries are to be featured in forthcoming reviews.

The data contained in the review are analysed and interpreted by this reviewer as follows: Growth of India's GDP (annual average 4 per cent to 5 per cent) and of its MVA (annual average 7 per cent to 8 per cent) during the eighties, have been insufficient to reverse the structural retrogression of the preceding decade and a half. The share of industry (manufacturing, construction, electricity, gas and water supply) in GDP was 20.67 per cent in 1970-71 and 21.91 per cent in 1985-86 (at 1970-71 prices). While between 1970 and 1980, gross domestic capital formation (GDCF) and gross domestic savings (GDS) as percentage of

GDP at current market prices increased by 6 per cent, these ratios have remained stagnant over the eighties: GDCF (22.8 per cent in 1980-81 and 22.5 per cent in 1987-88), GDS (21.2 per cent in 1980-81 and 20.2 per cent in 1987-88). As regards the composition of manufacturing value added (MVA), structural changes have been slow or static or even retrogressive. Between 1977 and 1986, the share of food products in MVA increased from 8.3 per cent to 7.9 per cent; of textiles from 20.1 per cent to 15.6 per cent; of iron and steel from 7.4 per cent to 6.2 per cent; of wearing apparel from 7.0 per cent to 5.8 per cent; of footwear from 1.4 per cent to 1.0 per cent; and of transport equipment from 5.9 per cent to 5.6 per cent. The shares of leather products (0.3 per cent), furniture (0.3 per cent to 0.4 per cent), rubber products (1.2 per cent), non ferrous metal (0.7 per cent to 0.8 per cent), fabricated metal products (2.5 per cent) and professional and scientific equipment (0.4 per cent) remained more or less the same. Increases were mainly in industrial chemicals (from 4.5 per cent to 6.1 per cent) and electrical machinery (from 5.0 per cent to 8.6 per cent). Furthermore, the share of value added in gross output decreased from 23.2 per cent in 1975 to 18.6 per cent in 1986, which is indicative of import cost escalation and of increased 'kit culture' or assembling from imported components. Of 28 ISIC categories of manufacturing, 8 showed negative growth of value added per employee during 1975-85. Notable exceptions, as in the case of increase in shares of sub-sectors in MVA—were in industrial chemicals and electrical machinery, where there was a 5.5 per cent increase in

turing between the 60s and the end of the 70s did not generate the growth, employment and foreign exchange that the economy required.

The growth was slow and the combined productivity of capital and labour also rose slowly. The technology used often was outmoded and the goods produced often did not match world market standards of quality and price. India's share of LDC (less developed countries) manufactured exports, once among the highest, fell substantially.

The causes of this less than hoped for performance are generally recognised to lie in lack of internal competition, import competition and export rivalry. The licensing system, reinforced by controls on large firms (MRIP) and preferences for small scale industry and public enterprises, tended to maintain a seller's market and reduced incentives for cost cutting and quality control.

The complicated and case by case nature of licensing and import controls diverted entrepreneurial talent from cost cutting, innovation and quality improvement to dealing with the government. Though many of these problems persist, they have been reduced by recent policy changes.

Over the longer term, attaining at least a 5 per cent per annum growth rate will depend on continued improvements in productivity.

The investment rate will need to be maintained or even increased from the current high level in order to further 'drought proof' agriculture, modernise the capital stock and provide the necessary infrastructure. To finance this investment, India can largely rely on its own high savings rate.

Although India's recent performance deserves some congratulation, there is little room for complacency. Industry has done well but agricultural performance will need to improve.

With reasonable incentives, Indian exports could expand rapidly even in a slowly growing world market, because at the moment India's exports are too small to have much effect on the market.

UNIDO

The 1980s have witnessed a new era of industrial growth. A quantum leap in industrial output has been accompanied by a new accent on modern technology. Although limited structural change has taken place within manufacturing, the base of Indian industry has widened considerably with the public sector playing the pivotal role in the production of coal, steel, machine building, ship building, non ferrous metals, fertilisers, and electronic items apart from power generation. The private sector for its part has revealed its potential for massive investment in response to periodic activation of capital market. Large investments in the automobile, petrochemicals, food processing, engineering and other industries, with foreign participation and an inflow of funds from non resident Indians have continuously accelerated the pace of expansion.

The bright picture of Indian industry, however, is not without its blemishes. The number of large, medium scale and small enterprises that were sick increased from 93,282 in December 1984 to 159,262 in June 1987. Management deficiencies, inaccurate market forecasting, inefficient use of working capital,

labour unrest and cost escalation are cited as key factors affecting industrial performance.

A fall in the share of value added in gross output from 23.2 per cent in 1975 to 18.6 per cent in 1986 is indicative of input cost escalation in industrial production, adversely affecting the price competitiveness of products. Imported inputs are becoming increasingly expensive in the wake of the decrease in value of the Indian rupee against key currencies. In general, there has been a fall in the non wage share of value added, reflecting an increase in wages with no proportionate improvement in productivity.

The new policy of the government attempts to lower the level of protection, with a view to promoting a competitive environment that should reduce industrial concentration and discourage unfair trade practices. Infant firms are expected to become competitive in the domestic and international markets.

With the share of manufactured exports in total exports increasing from 50.3 per cent in 1970-71 to 63.6 per cent in 1987-88, India's export profile has undergone significant changes. Exports of textiles, garments, gems and jewellery, handicrafts, leather goods, engineering, marine and chemical products have risen spectacularly in the 1980s. The fact that Indian firms are capable of supplying complete plants for manufacturing sugar and cement, a significant proportion of machinery for large plants in pulp and paper, boilers for industrial use and power generation, and the technology needed for chemical industries, demonstrates the country's notable achievements in the development of heavy industries.

Apart from the fact that the strong domestic market pull tends to improve the relative profitability of internal sales as compared to exports, a host of other constraints, such as high cost of production, low productivity, substandard quality, inefficient marketing initiatives, etc., inhibit the export drive. The inflow of foreign assistance is yet to produce a favourable balance between imports used and exports achieved. A major cause for concern

is the rapidly rising import bill of foreign firms playing a catalytic role in the development of new industries, modernisation has become highly capital and import intensive.

The response of the Indian industry to the impetus stemming from the liberalisation policy has changed the character of manufacturing activities. However, there has been overcrowding in several areas and some industries are unable to function profitably. The break even points of some new projects have gone up because of heavy initial outlays. In any event, the broad base of the industrial economy can be utilised to greater advantage with proper emphasis on cost effective methods, energy saving devices and constant upgrading of technology.

A faster pace of industrial expansion is within the realm of possibility given a major policy initiative to improve enterprise efficiency levels. Attention should be paid to redeployment of labour and capital from enterprises that are not financially viable to work in the long run. For such a strategy it would be essential to supplement wage and productivity agreements with extensive retraining facilities in order to allow easy movement of the workforce from sick enterprises to more promising ones.

The present liberalisation initiatives are justified in terms of exposing firms to a competitive environment where efficient firms thrive. But industrial concentration should be reduced to help improve the distribution of employment and income. While the extensive subcontracting and ancillarisation programmes have been helpful in fostering medium and small industries, the enterprises concerned have not grown to the stature which they should have attained because of continuing dependence on support from larger firms and failures on the part of the managements of medium and small producers to take advantage of the emerging opportunities in a developing phase. It is thus desirable that the ancillarisation policy should be reoriented with a view to increase its impact on the upgrading of technological and

TABLE INTER-COUNTRY COMPARISON OF SELECTED INDICATORS

| Indicator | Unit | Brazil | China | India | South Korea | Mexico |
|--|-----------------|--------|-------|-------|-------------|--------|
| Population growth (1980-87) | Per cent | 2.2 | 1.2 | 2.1 | 1.4 | 2.2 |
| GPD (1987) | \$ billions | 299.2 | 293.4 | 220.8 | 121.3 | 141.9 |
| Annual growth rate of GPD (1980-1987) | Per cent | 3.3 | 10.4 | 4.6 | 8.6 | 0.5 |
| GNP per capita (1987) | \$ | 2,020 | 290 | 300 | 2,690 | 1,830 |
| Annual growth rate of GNP per capita (1965-87) | Per cent | 4.1 | 5.2 | 1.8 | 6.4 | 2.5 |
| Agriculture (1987) | Per cent of GDP | 11 | 31 | 30 | 11 | 9 |
| Manufacturing (1987) | Per cent of GDP | 26 | 34 | 20 | 30 | 25 |
| Services (1987) | Per cent of GDP | 51 | 20 | 40 | 46 | 57 |
| Gross domestic investment (1987) | Per cent of GDP | 20 | 38 | 24 | 29 | 15 |
| MVA (1986) | \$ billions | 69.4 | 91.5 | 38.3 | 29.4 | 32.0 |
| MVA per capita (1986) | \$ | 420 | 90 | 46 | 590 | 544 |
| Manufacturing exports (1986) | \$ billion | 9.07 | 20.0 | 7.2 | 31.9 | 4.9 |
| Manufacturing earnings (wages and salaries) | Per cent of MVA | 20 | — | 48 | 27 | 26 |

managerial ability of small- and medium-scale enterprises.

The weak correlation between output and employment reflects the increasing capital-intensity of production, implying that improving productive employment opportunities require further upgrading. Apart from a revamping of the national educational system and training facilities, the evolution of a set of monitoring and performance criteria should contribute significantly towards an enhancement of skills.

It is contended that the incentive system for small-scale industries has performed inadequately and would gain from restructuring. The Indian government is conscious of the vital role this segment of Indian industry could play in generating employment, ensuring industrial dispersal and eradicating poverty. The development of achievement-oriented criteria requires an identification of the product groups and locations in which the small-scale industries could function most efficiently.

Since the emphasis will be on improving general standards of living and eradication of poverty, the industries producing essential goods will have to grow significantly. There may be a boom in the industries producing essential goods such as sugar, textiles, processed foods, home appliances, footwear and various other items in daily use. There is a need to double or treble the capacity of these industries in the next decade.

The petrochemical, heavy chemical, automobile, cement, textile, electronics, food processing, leather and engineering industries are expected to grow rapidly in the private sector. In the heavy chemical, automobile and textile industries surplus capacity could be utilised to step up production.

The magnitude of the task facing the private sector in the Eighth Plan will be evident from the fact that the outlay on projects in various industries is expected to be higher by at least 70 per cent. Nearly 50 per cent of this can be met from internally generated resources, including provisions in respect of depreciation charges, and the balance of 50 per cent or Rs 125 billion of the annual outlay will have to be financed from external sources.

A larger inflow of foreign investment could supply the requisite technology and improve the quality of various products.

In considering the prescriptions of UNIDO or the World Bank for rejuvenating industrialisation in India, the specific nature of the malaise in India should be fully taken into account. Liberalisation, foreign investment and more competition may not do the trick in India, in the absence of measures to generate domestic demand. It has been shown in the review (Table II 6, p 28) that domestic demand accounted for 96.4 per cent of growth in manufacturing output during 1963-81. Export-led industrial growth is not a feasible strategy for India. Besides agricultural and rural development, measures to improve the distribution of incomes are necessary to push demand. India's industrialisation has been characterised not only by the lack of export culture, but also by an orientation towards short-term profits, 'kit-culture' and 'make-do' culture, and

an absence of the 'zero-defect' culture and of the urge for technical perfection and quality consciousness. Agricultural and rural development, management training, business ethics orientation, technology and research development, etc, may be more important than direct foreign investment and export promotion. The National Front government's initial enthusiasm for poverty-oriented and rural-oriented development makes more sense than it is generally given credit for.

SOME COMMENTS

A review of the kind prepared by UNIDO with multiple objectives and differing readership is bound to have limitations, especially when it relates to one of the most closed economies in the non-communist world, highly and bureaucratically controlled to the greatest detail in most aspects of industrial development. Firstly, the controlled nature of the economy renders the data and information on policies, plans and targets out of date soon after publication, no matter how much care had been taken by the authors. Much has happened since January 1990 and policies, plans and targets are as yet emerging and frequently changing. This affects the useful investment information given in the Annex, for example, on taxation and fiscal incentives, licensing requirements, and even contact points for investors (since some Indian Investment Centres abroad have recently been closed down). It also affects chapter VI: 'Contours of the Eighth Plan and Sectoral Prospects'. Secondly, arising from the highly controlled nature of the economy, the role of black money, and the parallel economy generated by it, has been growing, some estimates of it amounting to even 50 per cent of GDP. This fact distorts the meaning and significance of official data which relate to the organised sector. In the case of industry, there is a further complication arising from the role of the informal sector for which no reliable data is available.

Despite these limitations the review is fairly objective and takes account, wherever possible, of data on small-scale industry, e.g. cloth production p 54, growth of small scale industry p 34. It is unfortunate, however, that

a number of printing and other errors have crept in; e.g. exchange rate of 12.61 in June 1989 (xiii); population growth 2.1 per cent in Basic Indicators III and 1.8 per cent in Basic Indicators I; value of industrial output of Rs 5.34 billion, instead of Rs 534 billion in Basic Indicators II; first line of Table II.3, p 21, figures for total manufacturing have shifted to left.

The analysis in the text of the review has not been related to the technical co-operation projects of UNIDO. The latter are listed in Annex XIII. In the case of steel the pioneering role of UNIDO in initiating the production of sponge iron is mentioned (p 61). There is no mention, however, of the effect of the UNIDO project for enhancing productivity in the cement industry on this subsector (p 101). The discussion on the ancillary base of the automobile industry (p 73) could have been related to its declining role in engineering exports (p 80).

In this reviewer's opinion, the country focus of UNIDO and the need to prepare such country reviews is a moot question, deserving serious consideration. While the World Bank/IMF and the United Nations Development Programme (UNDP) have necessarily to have a country focus (since they deal with all sectors and provide or earmark resources on a country basis), UNIDO being a sectoral organisation should be concerned with the sector and its branches and subsectors, and develop expertise on policies, technology, processes, structural and productivity questions, efficiency criteria and methods and industrial management. Inter-country and branch studies on these aspects rather than country studies *per se* would appear to be more useful. Without detracting from the usefulness of the study under review it is the view of this reviewer that UNIDO's limited resources could be more optimally utilised through inter-country sector and sub-sector studies, including policy and evaluation studies related thereto, rather than by carrying out country studies *per se*. It goes without saying, however, that some studies of country industrial development potential may well be undertaken at the request of governments as part of the technical co-operation programme.

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Money and Monetary Policy in LDCs in the 1990s

Warren Coats
Deena Khatkhate

In this article an attempt is made to expand on and update the authors' earlier review of key issues concerning money's role in economic development by treating more extensively topics touched on in the original article that, with the benefit of hindsight, deserved much fuller discussion and by adding several topics that intervening developments and experience have brought to the fore. In the former category, this paper discusses:

- (a) the information gathering and processing, and risk assessment and management aspects of the financial system;*
- (b) the insights of public choice theory into the difficulties of actually obtaining welfare enhancing policies from highly centralised economic systems and the related problems of rent-seeking behaviour associated with several types of government intervention in economic activities; and*
- (c) the implications of openness and capital mobility for monetary and interest rate policies*

In the category of new issues, this paper discusses:

- (a) increased interest in 'buffer stock' models of the demand for money,*
- (b) the renewed debate over the most appropriate monetary anchor, and*
- (c) the problems associated with the liberalisation of repressed financial systems*

TWELVE years ago the key issues concerning money's role in economic development were summarised in an introductory chapter to a collection of articles on that topic.¹ The central theme was that a country's monetary policy and its monetary system are very important to the pace and nature of its economic development. At that time there was a newly developing consensus that inflation is primarily a monetary phenomenon, and that inflation and macroeconomic instability are generally harmful to growth. Of particular relevance for LDCs it was argued, is the role played by money (and the financial system) in allocating saving to its most productive uses. It argued that low or negative real rates of interest and directed credit policies both interfered with the functioning of the financial system and thus with the efficient allocation of saving.

These views have now become the conventional wisdom of the 1990s. However the focus of the debate has changed in several respects over the intervening decade in response to new objectives, institutional and political developments, new analytical insights and further experiences across countries at different stages of development.

In this article, an attempt is made to expand on and update the earlier review by treating more extensively topics touched on in the original article that, with the benefit of hindsight, deserved much fuller discussion and by adding several topics that intervening developments and experience have brought to the fore. In the former category, this paper discusses

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I

Role of Financial Sector

The earlier review stressed the importance of macroeconomic stability because it was needed for money to perform its vital role as a unit of account and a means of payment. It also stressed the importance of positive real rates of interest on financial assets (e.g. deposits) because they encouraged a larger share of saving to flow to investments via the financial system. Macroeconomic stability and positive real rates of interest contribute to the financial system's ability to allocate saving to the most productive investments at the lowest possible cost, thereby raising the level of income and its rate of growth associated with a given rate of saving. The efficiency of investment generally has been more important for a country's economic growth than has been its rate of saving (or investment). However, macroeconomic stability and positive real

rates of interest probably raise the rate of saving as well.

The above explanation of the financial system's contribution to growth, though correct, now seems to be overly simplified and unlikely to convey the full extent of the financial sector's role. The extent of economic specialisation, the foundation of economic development, is limited both by the (information and transaction) costs of trading and by the limited availability of investment financing. An efficient financial system reduces the information and transaction costs of trading and extends the availability of finance and lowers its cost. Market allocation of resources, including savings, has almost always been more efficient than government allocation. This reflects more than the differences in incentives facing decision-makers in private enterprises and government bureaucracies discussed in the next section. It also reflects the inability of centralised decision making to effectively utilise the complex mass of information on individual preferences and capabilities that can only be known in small part by any individual. The decentralised decision-making of market economies has evolved so as to better capture and utilise such information [Hayek (1945) and (1988)].

More indirect, impersonal, and complex economic arrangements and relationships are more risky, however. An agreement to repay in the future is more difficult to enforce than is an agreement to exchange assets now. The expertise and the contractual forms and arrangements that develop in the financial sector (e.g. the nature of specific financial instruments) are meant to reduce costs and to evaluate, allocate, monitor and minimise risk.² In addition to providing an efficient pricing and payments mechanism,

one of the most important contributions banks make to economic growth is to develop expertise in assessing creditworthiness. By collecting and analysing the information needed to determine the most profitable loans, including the prospects for repayment, and by monitoring the activities of borrowers, financial intermediaries increase the efficiency of resource use. In addition, access to a variety of financial instruments enable economic agents to pool price and exchange risk.

When bank credit is allocated at below market clearing interest rates, the allocative and risk management expertise of banks are replaced by political and bureaucratic mechanisms. Over time, the development of project and risk assessment expertise and mechanisms by lending institutions are discouraged, the lack of which can be a serious problem for financially repressed economies attempting to liberalise. In addition to lowering the productivity of investment, these policies have generally weakened the financial viability of the affected financial institutions to the extent that a staggeringly large number of them are now insolvent. The combination of these effects is a huge amount of economic waste.

II

Lessons of Public Choice Theory

The below market clearing interest rates and a somewhat directed credit policy discussed in the earlier review and common in many LDCs interfere with the financial sector's ability to allocate its most productive resources in the best way. The adverse consequence of the rent seeking opportunities created by below market interest rates is only limited in the free sector. Directed credit policies like other non-market allocation mechanisms create opportunities for personal gain that do not contribute to the overall productivity of the economy. The behaviour tends to be directed towards the free sector. Directed credit policies like other non-market allocation mechanisms create opportunities for personal gain that do not contribute to the overall productivity of the economy. The labour resource expended might have been more productive in other uses. The extraction in some areas of rent seeking and the corruption it sometimes encourages might contribute to the allocation of corruption in other areas and to a general decline in public trust in government.

Rent seeking opportunities also create constraints on both within and outside of government to limit their elimination. The interests of these beneficiaries of the present arrangements are often more direct, focused and intense than those of the general public that would benefit from reform. This fact can make the adoption and execution of reform difficult. It is just as true that a government be within inability to reform itself. The most unique and dramatic example of the difficulties of reform are currently in progress in the Soviet Union in Eastern Europe. Soviet president Gorbachev has demonstrated a strong skill at developing, encouraging and then managing internal political competition between ideological

and interest groups as the engine to force reform of the Soviet system.

The refinement and clarification of economic theory and especially the accumulation of evidence from years of experience with various policy approaches, have been essential and often decisive factors behind political support for economic reform. They provide the understanding of the consequence of policy from which a consensus can be formed on what is in the general public interest. Such consensus can then be used to oppose the often better placed special interests that are protecting the *status quo*. The recently expressed desires of the majority of the citizens of centrally planned economies to convert their economies to market based systems has a great deal to do with the failure of the centrally planned economies to deliver what was expected of them even after a long period of time and the current intellectual consensus on the superiority of market over centrally planned systems. One of the many dangers of partial reform is that the remaining rent seeking opportunities continue to support and encourage the special interests that benefit from them which then tend to resist or even reverse further reform.

III

Increased Economic and Financial Integration

As noted in the intellectual and political factors discussed above, growing economic and financial integration has been an increasingly important force behind economic and financial liberalisation over the last few decades. Technological advances in information processing and dissemination (computers and telecommunications) increased freedom of trade and financial liberalisation in the industrial countries have made policies that in autarky virtually impossible. Efforts to maintain and fortify the insulation required to enforce non-competitive prices, such as below market interest rates, have become increasingly hard to implement and to justify.

The increased worldwide integration of markets has improved resource allocation and economic efficiency but as indicated above has limited the policy options available to authorities in both developed and developing countries. The significant increase in international capital mobility, for example, has reduced the ability of national authorities to conduct domestic monetary and fiscal policies independently of external considerations even with flexible exchange rates. The increased ease with which capital flows internationally means that it is even more difficult and costly than before to exert direct control of interest rates and the allocation of credit even in the absence of capital flight to external markets. Added to the existing domestic (or external financial markets on lending and corruption) tending to undercut

such policies. These developments suggest that domestic interest rates now need to conform more closely than before to international levels. It is worth reviewing here the implications of capital mobility for domestic monetary and fiscal policies under both fixed and floating exchange rates.

Perfectly mobile capital renders the domestic money supply endogenous in nominal as well as real terms for (relatively small) countries that fix the exchange rates of their currencies in terms of some other currency. The fixed exchange rate makes the domestic price level exogenous, while freely mobile capital makes the domestic interest rate exogenous. This makes it impossible for the monetary authorities to change permanently the domestic money supply from the nominal quantity the public wishes to hold at the exogenously determined price level and interest rate.⁶

Given output growth, an increase in the quantity of money will depress domestic interest rates, leading to a capital outflow. If capital is perfectly mobile, no interest rate differential can persist across national boundaries and the capital outflow will continue until the initial interest differential is eliminated, i.e. until the domestic increase in the money supply is exactly reversed.

Allowing exchange rates to float restores to the central bank the ability to control the domestic nominal money supply, because the domestic price level becomes independent of the world price level. With highly mobile capital, however, floating exchange rates cannot restore domestic policy independence from the foreign sector because domestic policies that create a demand by foreigners for domestic assets (or vice versa) affect exchange rates, which affect the allocation of domestic resources.

Perfect capital mobility ties the level of domestic real interest rates to that of the world. Temporary differences in the level of domestic and international interest rates, such as might result from an unexpected change in the domestic money supply, cause exchange rate changes that lead to real resource transfers which in turn will eventually eliminate any real interest rate differential. The exchange rate changes imply changes in the relative prices of tradable and non-tradable goods which helps establish (or preserve) external and overall balance but can also cause a reallocation of resources between these sectors.

The mechanism by which capital mobility links interest rates and exchange rates may be summarised as follows. Capital flows internationally to the extent that savings are invested across national boundaries as a result of current account deficits or surpluses, i.e. to the extent there are net transfers of real resources across national borders. With freely floating exchange rates, the inducement for capital to flow internationally as a result of a change in relative interest rates is offset by exchange rate movements, capital flows will accrue only after exchange rate changes have brought

about current account adjustments.

An increase in the domestic money supply that reduces domestic interest rates relative to foreign rates, for example, would raise the premia in the forward exchange market of the domestic currency in terms of other currencies sufficiently to eliminate any financial gain from investing in foreign assets with higher interest rates. As a result of this increase in forward premia, the spot purchase and investment of foreign exchange, and the forward repurchase of the domestic currency would result in the same yield as would investing in domestic assets at the lower interest rate. However, investors prepared to take the risk could buy the foreign exchange spot and hold foreign assets uncovered by future commitments to reacquire the domestic currency, if they believed that the forward premia overstated the likely appreciation in the future spot exchange rates of the domestic currency. If this were the market's general view, speculation would immediately lower the spot exchange rate until it was expected to appreciate to the same extent as implied by the forward premia.⁸

Through these channels, market forces would tend to eliminate any net advantage from shifting financial assets across national borders, so that the public would be satisfied holding the existing stock of assets at the new interest rates. The depreciation of the spot exchange rate in the low interest rate country, however, would result over time in the current account surplus needed to realise the desired net capital outflow.

It can be seen in this simplified account that while floating exchange rates with capital mobility allow divergent inflation rates and nominal interest rates and therefore domestic control of the nominal money stock by the central bank, they do not isolate the domestic economy from the world economy, nor allow domestic monetary policy to operate without regard for the foreign sector. The freer capital is to respond to interest rate differences, the more efficient long-run resource allocation will tend to be, but the larger will be the exchange rate effects (and hence real economy effects) of such differentials. If these interest differentials and exchange rate effects are in fact temporary, but are not correctly perceived as such by market participants, they could impede the efficient allocation of resources by causing unnecessary and costly short-term reallocations between tradable and non-tradable goods sectors.

The resource reallocations resulting from exchange rate changes are costly, often involving a temporary increase in unemployment, idling of capital equipment, and heightened political strains that are associated with any redistribution of costs and benefits in a society. Moreover, frequent changes in exchange rates can cloud resource allocation decisions and lead to reallocations that prove to be mistaken; exchange rate movements that are expected to be temporary can lead to political support for protection in the form of trade and capital con-

trols. These costs of resource reallocation in response to exchange rate changes are the basis of the often expressed desire for exchange rate stability, and are simply a specific example of the general case against macroeconomic instability.

Artificially low real interest rates require capital controls to restrain the capital flight (in search of higher yielding and/or less risky investments) that normally accompany them. While capital mobility is not perfect in developing countries, the authorities' ability to control capital movements is increasingly limited by the proliferation of financial instruments internationally and the ease with which they can be obtained or traded. This, and an increased understanding of the shortcomings of 'low interest rate' policies and of the repressed financial sectors that result from the more extreme versions of such policies, have diminished the interest of authorities in adhering to them.

Fortunately, the policies needed to avoid capital flight, e.g. realistic exchange rates, acceptable fiscal deficits, attractive domestic financial assets, a healthy, competitive financial sector - and economic and political stability are the same policies that are needed for efficient resource allocation in general. Authorities wishing to liberalise their domestic economy's financial sector and the international movement of capital, should liberalise their domestic financial sector first in order to minimise the prospects of capital flights [Edwards (1984)].

IV

Estimating Demand for Money

A major theme of the earlier review was the recent move away from many of the conclusions of earlier short-run focused Keynesian models. The attack on Keynesian theory by Milton Friedman and others in the 1960s was further refined in the 1970s, primarily by efforts to incorporate behavioural assumptions into macroeconomic models consistent with those used elsewhere in economics (microeconomic foundations). Studies of earlier hyper-inflations, as well as an increasing number of contemporary ones in Latin America and elsewhere, supported monetarist models and revealed that Keynesian theory had little of interest to say about inflation. A growing understanding of the role of expectations in macroeconomic models advanced by Friedman (1968) and Ed Phelps (1967 and 1970) helped explain (in fact they predicted) the empirical failure of the alleged trade-off in industrial economies between inflation and unemployment (the 'Phillips Curve').

Major theoretical developments during this period resulted from refinements of the implications of forming expectations of the future values of important economic magnitudes in ways consistent with the information available to agents and their understanding of how the economy works (rational expectations). In some respects, however, the important insights and theoret-

ical refinements derived from the assumption that agents form expectations rationally have gone too far, especially, but not exclusively, in the underdeveloped economy context. While present treatments of rational expectations focus attention on the importance of information, they tend to abstract from the costs of obtaining it. In fact, the key functions of money (and of financial systems) of reducing the costs of transacting (including those of obtaining information on market opportunities) tend to be overlooked or down-played by current treatments of rational expectations [Laidler (1990)].

The 'buffer stock' view of money and its implications for empirical estimates of the short-run demand for money [Coats (1982a) and Laidler (1990)] attempt to correct the tendency of rational aspects models to ignore the role of money in reducing transaction costs. It has particular relevance to underdeveloped economies where market integration is incomplete, financial assets other than money are rather limited, and transaction costs are relatively high. The approach says that changes in the quantity of money (that are not themselves induced by changes in money demand) will to some extent be willingly absorbed into money holdings, which serve as a buffer stock to reduce the cost of transacting, including the costs of adjusting to changed circumstances. If the increased money stock proves permanent, then money demand will ultimately adjust fully.

In most models, money demand adjusts via changes in income, interest rates and the price level. The long-run independence of income and (real) interest rates from the quantity of money implies, however, that a permanent change in the quantity of money ultimately is fully reflected in adjustments in the price level. The long-run properties of buffer stock models are no different than those of traditional money demand models, but in the short-run they imply smaller adjustments of interest rates (and income) to changes in the money stock [Coats (1982a)]. As noted above, this result assumes that the change in the quantity of money was independent of the demand for it.

The money supply is 'independent' of its demand as a result of the relationship between the extension of credit and the creation of money by the banking system. An increase in bank reserves (e.g. as a result of a foreign capital inflow or of central bank financing of the government) leads banks to increase their lending (or purchases of financial assets). Lending rates may need to be adjusted to encourage the public to borrow what banks wish to lend. Additional deposits (money) are created as a by-product of bank lending. The interest rates that clear the credit market will not generally also clear the money market in the long run, i.e. the increase in the money supply that results from the increases in bank loans, and the associated interest rate, will not generally be the same as the increase in long-run money demand from that interest rate. The buffer

stock approach reconciles the discrepancy in money and credit demand in the short run and assigns the determination of the interest rate primarily to credit markets. Some of the apparent shifts in money demand over the last two decades found in conventionally estimated money demand functions for the US have been explained by the buffer stock approach.

Monetary Anchors

The establishment of price stability has become an unquestioned objective of macro-economic policy virtually everywhere. This is in sharp contrast to the views held by many economists and policy makers in earlier decades and is welcome. There remains considerable uncertainty, however, over how best to achieve and preserve price stability.

At the time the first review was written, the use of money growth rate rules or targets to anchor the price level had not yet come into vogue. Money growth rules of one sort or another were embraced in the very early 1980s by many industrial countries for several compelling reasons:

- (a) the link between inflation and money growth (the long run stability of the demand for money) had been empirically established beyond a reasonable doubt for a wide range of developed and developing countries;
- (b) the short run variability of money demand made the outcome of monetary fine tuning unreliable;
- (c) the experience of the 1960s and 70s suggested that discretionary monetary policy tended to have a rather strong inflationary bias for 'public choice' reasons, which could be avoided by replacing discretion with rules (the time inconsistency problem);⁷ and
- (d) the adoption of monetary rules meant the abandonment of exchange rate rules or targets and the grudging acceptance of floating exchange rates was relatively widespread by the early 1980s.

Several things have led to the more recent abandonment of monetary rules in many countries and the search for alternatives monetary anchors. One is that the demand for money proved less stable than some had expected. Monetarists such as Friedman, had always focused on the long-run stability of the demand for money and had warned that the unusually close relationship between money and the arguments in its demand function during the 1960s and early 70s was fortuitous and not likely to last. Contrary to the impression given by some critics, the long-run stability of money's demand has remained pretty much intact though some predictable drifts has occurred in response to the very dramatic growth in the range and nature of financial instruments that resulted from technical advances in information processing and dissemination and from regulatory liberalisation. Unpredictable short-

run variations in the demand for money, however, can be relatively large and troublesome for overly rigid monetary rules.

There is a special problem in adhering to monetary growth rules in developing countries, reflected in the use of government deficit limits as performance criteria in adjustment programmes financed by the IMF. In LDCs, which typically lack well developed financial markets, governments are limited to borrowing from their central banks to finance their deficits. In this context monetary policy and fiscal policy merge. Monetary growth rates cannot be kept to non inflationary rates unless the government's borrowing requirements are kept to low levels.

The short run instability in the demand for money, combined with a growing disillusionment with floating exchange rates, has increased interest in a fixed exchange rate as the monetary anchor. The phenomena of exchange rate overshooting described above in Section III explains why real effective exchange rates have been more volatile than was originally expected. Fixed rates are probably more conducive to freer trade, more rapid growth and greater efficiency in world wide resource allocation than are floating rates. The rub, of course, is that fixed exchange rates require subordinating domestic monetary and fiscal policy to external balance and most countries simply are unwilling or unable to do so. Under these conditions floating exchange rates are clearly preferable to fixed ones.

For countries prepared to play by the rules of a fixed exchange rate regime (sometimes called the gold standard rules), however, the fixed rate becomes the monetary anchor of the system. A country's money supply must be allowed to match whatever amount is demanded at the price level implied and imposed by the value of whatever the domestic currency has been fixed to. This makes any instability in the demand for money irrelevant. It is no longer necessary even to estimate it. Simply supplying or redeeming domestic money for foreign currency at rates implied by their values in terms of the one to which the domestic currency is fixed will insure that the economy has whatever amount of money it wants at that rate.

Another reason for interest in fixed exchange rates as monetary anchors is the potential for a fixed rate monetary system to give quick credibility to anti inflationary efforts. Renewed interest has arisen from the efforts of the centrally planned economies of Eastern Europe and the USSR to establish market based economies and monetary systems that integrate their economies more closely with existing market economies and to establish the convertibility of their currencies needed to support that integration. Similar interest arises from countries attempting to re establish macroeconomic and price stability after periods of high inflation.

Reducing monetary growth to rates consistent with stable prices causes very high real rates of interest and contraction of real out-

put until the public is convinced that prices are and will remain stable. The ability to reduce inflationary expectations quickly depends on the credibility of a non-inflationary monetary (and fiscal) policy. It has been argued that a publicly announced monetary growth rule with a consistent fiscal policy would help establish credibility and reduce the expected rate of inflation more quickly than waiting for the development of a non inflationary track record, which might take many years. Experience in this regard has been disappointing. The monetary rule embodied in a fixed exchange rate (or redeemability in terms of a commodity basket) with full convertibility supported by an adequate stock of reserves (or whatever the redemption asset might be) and a consistent fiscal policy, potentially could establish credibility more quickly. If the policies and the commitment to the policies are credible, the prices of tradable goods will be known to be stable from the very first instance because they can always be imported at a relatively stable price in terms of the local currency. The use of fixed exchange rates in this way has been an important feature of most stabilisation programmes in Eastern Europe.

The choice of the currency to which the domestic money is fixed determines the behaviour of the domestic price level measured in terms of the domestic currencies. Countries generally fix their currency's to others that have low inflation rates and thereby 'import' relative price stability. A system of fixed exchange rates relies on the good behaviour of the central bank that issues the currency the country's money is fixed to. The US dollar and the German mark have frequently been selected for this purpose because of the track records of the Federal Reserve and the Bundesbank in keeping inflation of their currencies low. Those records, however, have been far from perfect and the question has been raised whether countries couldn't do better.

Recent proposals to achieve zero inflation rates by fixing the value of money to a basket of commodities rather than to another currency answer the above question in the affirmative (Lats (1989)). In its broadest outlines such a system would work like a traditional fixed exchange rate system or the gold standard. Domestic money must be supplied and redeemed on demand at its fixed value in terms of an independently defined unit of account (an amount of foreign currency, a quantity of gold, a basket of commodities, etc.). The system would differ from these earlier systems in two important respects. While having a gold standard's advantage of protecting the value of the unit of account (and hence of the medium of exchange via the redeemability requirement) from political influences, the proposed system would not impose the relative price changes of a single commodity such as gold or silver on the price level. By defining the system's unit of account as a basket of goods, the quantities of which could be ad-

justification for the power against the broadest possible price index as suggested by Irving Fisher at the turn of the century [Fisher (1913)], the unit of account would have an almost constant real value day-to-day as well as in the long run. The other major difference with earlier monetary systems based on commodity standards is that money would not be redeemed directly for its unit of account. It would be redeemable indirectly for the commodity basket; i.e., it would be redeemable for something (a commodity or financial instrument) equal in current market value to the basket. Indirect redeemability eliminates the need to hold expensive and cumbersome inventories of all of the items in the valuation basket.

This 'new' technique of indirect redeemability has actually been in use for many years. Two examples, should suffice. If Austria's shilling is fixed in price to the German mark (DM), it is still possible and in fact common, to exchange (redeem) shilling for US dollars (or some other currency). The amount of dollars received per shilling will have the same market value as the fixed amount of DM to which shilling holders are entitled, i.e., the amount of dollars received will just enable the redeemer of shilling to buy in the market the amount of DM implied by the fixed shilling price of DM. As indicated, this example of indirect redeemability has been practised for centuries. A more recent example is provided by the SDR and the ECU, the assets of the IMF and the EC valued on the basis of currency baskets. While exchanges (redemptions) of SDRs or ECUs may be, and sometimes are, made for the appropriate amounts of all of the currencies in their valuation baskets, they are more often exchanged for an amount of a single currency that will just buy in the market the appropriate number of units of the entire basket.

An important challenge for any monetary system is to strengthen the incentives for, or constraints on, the system to adhere to the rules of the system adopted [Coats (1989)]. The failure to do so in the past has led to painful devaluations, and the abandonment of fixed exchange rates (even, eventually, to the abandonment of the gold standard). No system is insured to this risk, but systems based on an independently defined unit of account, because they are more transparent and less subject to manipulation, are likely to be more resistant to violations of their rules than others.

VI

Phasing of Financial Liberalisation

The truly newest topic since the original review was written concerns how to get from a repressed to a basically free market economy with the least damage and with political support intact. The totally unforeseen and considerably more difficult task of

creating market economies out of centrally controlled ones is an extreme version of this topic. This is a vast and complex topic about which there is much yet to learn. In this update of the original review of monetary policy in developing countries, the reasons for and objectives of financial sector reform and the lessons for designing successful reforms gleaned from the experiences of countries that have attempted them are revisited.

It has been common for developing countries, especially those that rely heavily on central economic planning, to tap their financial systems' resources and to direct them in accordance with their development plans. Controlled interest rates and government directed credit allocation are among the commonly used tools of central planners. Such policies have stunted the development of financial systems and invariably reduced the efficiency with which saving has been invested (to mention but one of the functions of financial institutions). The growing recognition that economic development requires greater scope for market allocation has its counterpart in the financial sector as well.

The superiority of market allocation of saving, which is the heart and soul of the financial system, and the basis for the financial sector's importance for economic development, is now well established. Many countries now recognise that their intervention in credit allocation has had an unfavourable impact on both financial and industrial development. The evidence from country experience also suggests that directed credit programmes have not been efficient tools for income redistribution or for overcoming imperfections in the real goods markets.

These lessons have prompted an increasing number of countries to liberalise their financial systems. The experiences of these countries vary. The liberalisation of financial systems in some countries led to financial collapse and the return to controls. In some others it succeeded, though in varying degrees, in improving the quality and lowering the cost of financial services and in raising growth rates. Some preliminary lessons can be gleaned from recent experiences.

Financial reforms generally include, *inter alia*, the freeing of interest rates; elimination of directed credit allocations; removal of barriers to entry into the market of new, or departure of existing, financial institutions; elimination of restrictions on the activities into which any given institution may enter; the removal of discriminatory taxes on financial transactions; the improvement of information available to borrowers and lenders in the making of their financial decisions, and the assurance of a supportive legal, regulatory and administrative structure, including the improvement of the prudential regulation and supervision of financial institutions, an adequate bankruptcy law and the effective and efficient enforcement of debt contracts.

One of the most important lessons to be learned far enough in implementing the above policies is the continuation and further entrenchment of weak and/or inefficient financial institutions, the continued misuse of resources, and slower growth and lower living standards than necessary. The cost of moving too quickly could be politically unsustainable levels of unemployment and loss of income resulting in the failure to achieve lasting reform and regression back to moré controls. In short, the manner and pace of reform seems critical for its ultimate success. The lessons of experience with financial liberalisation are tentative—some lessons are clearer than others.¹⁰

(1) MACROECONOMIC ENVIRONMENT

The first and strongest lesson is that financial liberalisation is very difficult, and unlikely to succeed, without a considerable degree of macroeconomic stability. The rocky liberalisations in Argentina, Brazil, Colombia, Mexico, and Uruguay and the temporarily derailed liberalisation in Chile in the mid-1970s through early 1980s were undertaken in the midst of serious inflation (generally 100 per cent per annum or more reflecting their governments' need to finance expenditures by borrowing from their central banks. Large government deficits, and rapid inflation invariably were accompanied by resource wasting, over-valued exchange rates.

Inflation has a number of pernicious effects. The informational content of prices is reduced so that the economy becomes less efficient. Investments, in fact long-term commitments of all types, become more risky and are therefore reduced. Additional resources are absorbed by efforts to overcome or adjust to the distorting effects of inflation. The real returns on financial assets are reduced and the profitability of financial institutions weakened. Both of these effects reduce the financialisation of saving which further reduces economic efficiency and growth.

Financial reform itself involves changes in relative prices that need to be assessed and absorbed by economic agents. When they take place in an environment of general price instability it is much more difficult to determine appropriate interest rates and to interpret those that result. Experience suggests that without macroeconomic stability it is very difficult to achieve the level of interest rates that are well aligned with the real sector's productivity, whether interest rates are market determined or regulated. Successful financial liberalisations either began in an environment of relative macroeconomic stability or addressed macro instability first. In addition, the continued health and viability of a liberalised financial sector requires the continued maintenance of a reasonable degree of macroeconomic stability.

A related lesson, seen repeatedly all over Latin America, is that once monetary virtue is lost, it cannot be regained easily or

without significant cost. The opiate of inflation, so seductive and pleasant in the beginning, loses its kick through time, requiring larger and larger doses just to continue its pleasurable stimulation. An addicted economy cannot function efficiently, but it cannot withdraw from its addiction without considerable pain. The failure to restrain government expenditures within the limits that can be financed without inflationary monetary growth, therefore, begins a very dangerous process. By reducing the attractiveness of financial assets, inflation reduces the tax base, particularly the base relevant for the inflation tax, and hence reduces government revenue, which, in the absence of improved fiscal discipline, further increases the need to borrow from the central bank. This increases inflation further and further until fiscal discipline is rediscovered (or there is monetary collapse) at which point a terrible price is paid to re-establish price stability.

A government's rediscovered commitment to price stability is not quickly believed, hence inflationary expectations are slow to adjust—once lost, government's credibility is hard to re-establish. As a result, real interest rates rise to high levels, and aggregate demand falls more rapidly than prices, temporarily increasing unemployment. Investment and growth are therefore low to recover after a period of inflation.

(2) INSOLVENT INSTITUTIONS

The second lesson is that liberalising insolvent financial institutions will not generally make them healthy again. Many financial institutions in developing countries are insolvent. Financial liberalisation generally reduces the earnings of financial institutions during the adjustment period. Until a restructured, healthier system establishes itself, financial liberalisation causes considerable strain for many banks and other financial institutions. To withstand these strains they need to be viable to begin with.

Insolvent institutions generally do not allocate resources in an efficient manner as the objective of their lending is to minimise or cover over their own portfolio losses in the hopes that they can recoup them in the future. Experience shows that insolvent institutions generally continue to make losses and therefore continue to waste valuable resources. They should be closed or restructured at the very beginning of any reform and steps taken to reduce the prospects that the practices that lead to insolvency will re-emerge in the future. These steps include the elimination of excessive priority lending, unrealistic interest rate ceilings on loans, and excessive directed credit, and the establishment of adequate prudential regulation. Because insolvent financial institutions are often the victims of the arrears of insolvent borrowers, closing or restructuring the offending firms (often state owned enterprises) will also be necessary.

(3) REAL SECTOR ENVIRONMENT

This leads to the third lesson, which is that increased market allocation of credit will not generally improve the allocation of resources in countries with a distorted price structure. In fact, market allocation of credit under these circumstances may increase misallocation by allowing finance to respond to incorrect price signals. For example, the overvalued exchange rate in Chile in the early 1980s continued to favour the non-tradable sector, leading among other things to excessive real estate development. By postponing the adjustment of relative prices between tradable and non-tradable goods the ultimate adjustment was made larger and more disruptive. In the subsequent crisis, real estate was one of the sectors hit the hardest. This, in turn, contributed to widespread defaults on bank loans and the collapse of the banking system. Trade and other real sector liberalisation should proceed or at least coincide with financial sector liberalisation.

Liberalisation of the real sector, however, creates additional stresses in the financial sector. Structural adjustment is meant to cause a reallocation of resources from the protected but less productive firms and activities to more productive uses and this often bankrupts or impairs the viability of these firms. Stress in the real sector can hardly avoid reflecting itself in the financial sector from which it has borrowed. Those countries that liberalised their financial systems during periods of rapid relative price changes, such as generally occur during stabilisation and structural adjustments, experienced actual (*ex post*) real interest rates often considerably in excess of the return to investment. Such excessively high real rates are symptomatic of distress borrowing.

Full liberalisation of bank interest rates and lending policies encounters two problems in this environment. One is that the bank management skills necessary to assess credit risks and properly control bank exposure in the new liberal environment generally takes time to develop. This exposes banks to unfamiliar and difficult to assess risks if their activities are not limited. The other is that those banks that do encounter difficulties may be tempted to continue lending to bankrupt or overly risky customers in order to maintain the appearance that outstanding loans to distressed firms are still viable. For a bank that has already lost its capital, gambling on risky long shots (betting the bank) is the only hope left to it. In the environment of significant corporate distress encountered in Argentina, Chile, the Philippines, Turkey and Uruguay, real interest rates were raised to unsustainable levels, which distressed firms willingly paid in order to avoid admitting insolvency in the hope that things would improve in the future.

Thus major structural reforms should be completed prior to complete financial liberalisation. Inefficient public enterprises and

highly protected domestic firms that would not be viable without public subsidy and trade protection should be restructured before financial liberalisation. In these early phases of reform, interest rates should be set at modestly positive real rates (reflecting the rate of return on capital), but should not be left fully to the market.

(4) PRUDENTIAL REGULATION

A fourth lesson is that when financial institutions are free to set interest rates and enter new lines of business, it becomes more important for investors, be they stockholders or depositors, to have accurate information on the condition and activities of these institutions. It may also be necessary to impose some prudential limits on their lending. In their effort to free the financial system of repressive economic regulation (and taxation) some governments failed to provide adequate prudential regulation (e.g., market value accounting, reporting, and capital standards, and lending and portfolio concentration limits) and were unprepared or unequipped to properly monitor bank behaviour on behalf of depositors. The liberalisation of the banking system in the absence of effective prudential regulation and supervision allowed banks to engage in imprudent lending and fraud, and led to widespread financial distress in the Southern cone. Privatisation of banks in the Southern cone without establishing adequate prudential regulatory framework also led to the heavy concentration of bank loans to their affiliated firms when they became part of industrial groups after privatisation.

(5) PACE OF REFORMS

A final lesson concerns the pace of reform. Although there are exceptions (e.g., New Zealand), most successful liberalisations were implemented gradually. Since financial reforms change the rules of the game, rapid implementation may impose losses on otherwise viable firms that entered into contracts and arrangements under the old rules with the expectation of their continuance. As already noted, a gradual liberalisation also allows time for financial institutions to develop the skills needed and to adapt to the new competitive environment. Undue delay, on the other hand, incurs the cost of perpetuating the inefficiencies of the repressed system. And the longer the period of government control, the more serious the shortcomings become. The lesson is that the authorities must anticipate how reforms and the consequent changes in relative prices will affect different groups. Both from the standpoint of equity and making change politically acceptable, it may be necessary to provide some form of transitional compensation to those most adversely affected while maintaining the incentive effects of the reforms. The appropriate balance among these considerations will depend on the initial degree of repression and other aspects of the economic environment already discussed.

The issue of the appropriate pace of reform has arisen again in the context of the conversion of centralised or command economies to market economies. The reform under way in Eastern Europe and potentially in the Soviet Union have no historical counterparts from which to learn. It is clear that the expertise and infrastructure of capitalism will take many years to develop. However, the macroeconomic, legal and regulatory environment in which private enterprises are established and developed, could and probably should be reformed as quickly as possible.

(6) TRANSITIONAL CONTROLS

As discussed above, complete liberalisation may not lead to equilibrium interest rates in countries with serious macroeconomic instability or in countries without adequate competition in financial markets. In countries in which these conditions have not been established, the government may need to manage interest rates to avoid serious misalignment and greater distortion in resource allocation. In those cases, the government should adjust the level of interest rates to reflect changes in inflation, cost of funds, and exchange rate movements. Countries with open economies need to pay close attention to the level of domestic rates as compared to international rates adjusted for expected exchange rate changes. Preferential interest rates should be phased out and the structure of interest rates should be set to allow different margins for loans of different maturity, risk, and administrative costs.

When substantial progress has been made in reforming industry and the financial system and when the economy is stable, the government can move toward more complete liberalisation of interest rates. Some countries have first set ranges on deposit and lending rates allowing banks to set specific rates within the ranges. The ranges were widened and ultimately removed as liberalisation progressed. Unfortunately, very few countries have succeeded in controlling interest rates in the manner prescribed above. Successful examples are Korea, Japan and Taiwan.

VII

Conclusion

Over the period since the original review was written, a consensus has developed that money plays a very important role in facilitating economic development and efficiency. It is now clear that the importance of a well developed, healthy, competition and market based financial system is even greater than suggested in the original review. Healthy and efficient financial institutions capable of allocating saving to the most productive investments and of prudently managing the risks involved cannot be built overnight and require a liberal but supportive environment. A supportive environment includes stable prices, accounting systems

and standards that depict the true conditions of firms, legal systems that clearly establish and enforce lender's rights (e.g. for collateral and foreclosure), and 'regulatory' or supervisory agencies that focus on the soundness and honesty of financial firms rather than on where they allocate saving. An increasingly integrated world economy has made it more costly and difficult to shelter the allocation of resources from market forces. It is clearer than ever that all economies benefit from market-related interest rates, exchange rates and resource allocation. Establishing and maintaining a healthy, stable monetary system is not and will not be easy but it is important for the pace of development.

Notes

[The views expressed here are the authors' own and do not necessarily reflect the view of their respective institutions.]

- 1 This chapter was first published in *Economic and Political Weekly*, November 17, 1979 (Volume XIV, No 46). The book *Money and Monetary Policy in Less Developed Countries* was published by Pergamon Press in 1980.
- 2 These aspects of the financial sector's contribution to economic growth were expanded upon in the *World Development Report 1989: Financial Systems and Development* to which both authors contributed.
- 3 The Savings and Loan and banking insolvencies in the United States have other causes. These are primarily the consequences of excessive risk taking without effective supervision encouraged by deposit insurance (moral hazard), regional (state) limitations on the activities of individual banks, and other restrictions on the nature of the financial services bank may provide.
- 4 If the objectives of the directed credit policy were ill advised in the first place, activities that circumvent and thwart those objectives might improve the social welfare, but to a more limited extent and at a higher social cost than would unrestricted market allocation. See Gordon Tullock (1967) and Jagdish Bhagwati (1982).
- 5 For evidence that there is considerable capital mobility even for many countries generally considered relatively closed, see Haque and Montiel (1990).
- 6 The real quantity of money is basically demand-determined in any event. This observation is not meant to deny that the rate of growth of nominal money supply, by determining the rate of inflation, influences the cost of holding money, and hence is an important determinant of the demand for real money balances.
- 7 Borrowing abroad for the purpose of financing the purchase of foreign goods, of course, results in an immediate current account adjustment (and therefore capital flow) with no effect on exchange rates (except as might result from changing foreign perceptions of credit-worthiness, etc).
- 8 This is the overshooting phenomenon in the Dornbusch sense. See Dornbusch (1976).
- 9 A so-called political business cycle could be observed in many industrial countries as a

result of governments' attempts to exploit the short-run Phillip Curve to increase employment in periods preceding major elections. The long-run effect of these increases in aggregate demand was an increase in inflation. See Kydland and Prescott (1977).

- 10 The following draws heavily on Khatkhate and Cho (1989) and Coats (1990).

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Optimising Customer Service in Telecom Operations

Beyond Holding Companies and Protocorporations

S K Bhattacharyya

The Athreya Committee was set up last year to recommend an appropriate organisational structure for telecom operations. This article reviews the recommendations it has made, the objections which have been raised and the pros and cons of the alternative proposed and concludes by proposing a third alternative model.

IN December 1990, the Union communications minister appointed a committee to recommend an organisational structure to make the telecommunications operations more effective and efficient consistent with the objectives of the national telecommunications strategies and policies. The committee was headed by M B Athreya, a distinguished management professional. The members of the committee included Sam Pitroda, the chairman of Telecom Commission, N Vittal, secretary, department of electronics, V Krishnamurthy, former SAIL chairman, M P Shukla, managing director, Mahanagar Telephone Nigam, H P Wagh, member (services), Telecom Board, P V Desai, controller general of accounts and O P Gupta, a leading trade unionist. The committee was required to finalise its recommendations by early February 1991. Several specialists in the management field were puzzled by the move which assigned the task of designing the organisational structure of a large and complex technology driven operations to a disparate group of experts with no particular common professional or experiential linkage or expertise in the area of designing organisational structure.

Within the very short time available to the committee, it met and heard a number of senior officials of department of telecommunications, user ministries, business associations, representatives of customers, and managers' and employees' associations and unions. It is to the credit of the committee that it met the deadline of early February and that the summary recommendations arising from the report was available to the public and the press by first week of March 1991.

As was to be expected, the divergent and disparate background of the committee members led to differences of opinion. A majority of the committee members recommended the setting up of an 'umbrella' holding company with four subsidiary regional corporations for the western, southern, eastern and northern regions. The committee has also recommended the creation of a long distance communication related corporation based at Hyderabad. It has also been recommended that the Telecom Commission should continue as the policy-making and regulatory body, while the holding company and the subsidiary

regional corporations function as autonomous bodies charged with the responsibility of effective and efficient telecom operations. The committee has also recommended the creation of a Telecom Finance Corporation to raise funds from the market. An important recommendation of the committee was that a centralised training institute be set up at Ghaziabad by clubbing together the regional training institutes into an autonomous body. Telecommunications Consultants India, Indian Telephone Industries and Hindustan Teleprinters were recommended to be placed under the supervisory and administrative control of the Telecom Commission.

Predictably the member of the committee representing the Telecom Commission, the controller general of accounts and the trade union representative opposed the recommendation relating to the creation of the holding company and the formation of regional autonomous corporations for telecom operations. P V Desai, the controller general of accounts presented a new concept called 'protocorporation', which would be in place for three to five years, before switching over to a corporate organisation. According to him, such protocorporations would function within the governmental structure but be guided by three basic considerations, namely, they would function (i) As genuine customer oriented work culture based organisations, (ii) With growth and profit orientation and (iii) Without doles or subsidies from the parent organisation or government.

This intermediate stage of a protocorporation based structure—a concept which is conspicuously missing from all management literature relating to private as well as public sector business enterprises—was in the opinion of Desai, necessary to build up the required financial reserves. Such reserves were seen to be needed to meet the additional requirements of cash expenditure which would have to be incurred as interest and financial charges after the corporate structure was brought into place. This somewhat unique concept is based on the premise that if more financial and operational powers are granted within a governmental set up, the telecom employees will be concerned about customer service and satisfaction in order to generate surplus for

the creation of reserves notwithstanding the fact that neither their compensation nor their performance would be based on the earning of such surplus. If past history is any indication, such surplus creation is likely to take place in a governmental set up essentially by increasing the administered price, i.e., the telecom tariff. It is unlikely that such action will either be seen as providing excellence in service or generate satisfaction amongst customers. Since the protocorporation concept is basically without substance (and structural merit) it was sought to be camouflaged by accounting gimmickry. It was assumed that the additional charges that might come about when telecom operations function under a corporate set up would be accounted for by what was termed by Desai as 'proforma' entries in various reserve funds (which will be later used for meeting the additional cash requirements at the corporate stage) while any charges such as interest on loan, etc., will be made by way of notional book entries without any requirement of actual payment of cash.

If the authors of the Generally Accepted Accounting Principles (GAAP) prevalent in the industrialised countries of the West or members of the International Accounting Standards Board were confronted with the Desai plan, they would most probably, have severe problems in comprehending the accounting innovation suggested and in trying to absorb the shock of traditional financial accounting norms being replaced by expediency driven simulation based accounting.

When gameplaying of this kind replaces genuine analysis and exploration of basic issues and objectives for conducting such an organisational exercise, it is only to be expected that substance will be replaced by shadow and sleight of hand tricks will pass off as organisational innovation and will focus on pedestrian varieties of managerial acrobatics.

At this stage, it is perhaps useful to go back and examine the basic objectives which were specified at the time of the constitution of the Athreya Committee. These were:

(i) Formulating an appropriate organisational structure for the management of telecom services in the country with a view to upgrading operating efficiency and customer services,

(ii) Development of infrastructure of telecom services to meet the growing needs of industry, commerce and administration.

(iii) Improvement of operational productivity and introduction of changes for technological upgradation.

(iv) Establishment of an effective regulatory framework for telecom services.

(v) Improvement in the industrial harmony and quality of worklife in telecom operations.

(vi) Raising of adequate resources to meet the massive expansion programme of the telecom sector and

(vii) Fulfilling the commitment of providing telecom services in rural areas and meeting other social objectives.

A close and detailed examination of these objectives would reveal that several of these objectives essentially relate to operational considerations while others relate to resource generation, technology upgradation and regulatory tasks for ensuring the attainment of national objectives with the required commercial and operational efficiency. It should also be clear that these two streams of organisational objectives have distinctive structural design considerations even though they relate to the same continuum of telecom operations. The complexity in organisational design in such operations primarily arises on account of the fact that the objectives which underpin such performance have considerations often related to the requirements of time, resources, funds and priorities in operations. Therefore their design requirements are distinctive in the context of conflicting demands in terms of allocation of funds, tariff pricing of services, surplus generation (versus development) requirements, short term revenue considerations which are at variance with long term capital expenditure allocations. For example, the quality of telephone service can be significantly improved by scrapping Stowger exchanges and replacing them by electronic exchanges. But such a step will require such a large outlay of funds that significant future development and expansion will not be possible, leading to some improvement now but chaos later. The need for such temporal balance is perhaps best illustrated in the case of some other public service operations, i.e. railways which have been starved of capital expenditure on account of the totally unrealistic tariff structure addressed to satisfy politically sensitive constituencies like the huge population which commutes from the suburbs to metropolitan city centres. The result is that the system is truly creaking at the joints.

The painless (and expensive) solution in such a situation is to opt for structural palliatives like the umbrella holding company, which was conveniently adopted by the committee. As has been evident for quite sometime—almost in a Pavlovian manner since the days of the Arjun Sengupta Committee report—it is assumed that any complex organisational problem will disappear if there is an umbrella holding company

which acts as the benevolent but firm Godfather who will provide enough leeway to the children but ensure that they behave themselves (and come up to parental expectation). The utter lack of structural efficacy of this alternative without the required organisational strategies—which tie and bind them—and the operational culture and systems which insure that they function effectively has been apparent for several years. Yet the emotional attraction of prescribing an umbrella holding company is a sure all for organisational ills is so extensively prevalent that neither the political overlords or the omniscient bureaucrats are willing to look at this phenomenon of structural failure in the eye. The umbrella holding company has the implicit merit of permitting all operations below to be run on a decentralised basis and accordingly delegating a portion of power to operating levels relating to operational planning, resource allocation, decision making and control. Decentralisation has become such a virtuous cult that it is assumed that it is a panacea for all organisational ills. There is very considerable evidence that decentralisation is extremely beneficial for achieving organisational effectiveness and efficiency when it is clearly related to those operations and activities at the delegated level which determine the success of the operations of the enterprise. This dimension related to decentralisation has also to be related to such contextual factors like:

(i) Ability to make quicker decisions and provide expeditious responses based on local knowledge and understanding.

(ii) Greater knowledge and insight about the matters to be decided upon because of the operational involvement in such activities and localised presence.

(iii) Access to information which is available at the locus of such decentralised decision making.

(iv) Availability of prior experiential knowledge which allows decentralised decision making on the basis of guidelines.

(v) Better judgement relating to the level of risk involved in it.

(vi) The implications of the current decisions on the future financial health of the organisation and continuing success of the enterprise.

It should be reasonably clear that there are several aspects relating to strategies, policies, systems (and even operational planning) and decision making involving activities which are of such magnitude or involve such risks that they have implications for long term health and success of the enterprise which cannot be decentralised. In such a situation it is clear that the strategic and policy aspects of organisational functioning need to be centralised. The managerial dimensions which will bind decentralised operational decision making, with centralised strategy and policy formulation and implementation are:

(a) Mutually agreed target setting—both for financial and operational performance.

(b) Performance reporting in relation to targets both for the period under review as well as the cumulative period from the beginning of the operational plan or budget.

(c) Data relating critical variables and related effectiveness indicators (e.g. average time taken to respond to customer complaints and system faults, waiting period for application for new line, response time for operational services provided, trunk call maturity time, idle PC (%) percentage, settlement time for disputed bills, etc.) and

(d) Periodic personal meetings and discussions for two way information sharing and briefing as well as identification of alternatives for shifts in current policies and procedures.

The concept of an umbrella holding company and autonomous regional corporations, therefore, fall prey to the unsubstantiated and unwarranted assumptions about the efficacy of decentralisation unless the context and validity of such decentralisation is determined with reference to the distinctive criteria for organisational effectiveness in the telecom service based operation.

Decentralisation is indeed a vital necessity but it must be related to organisational aspects where such decentralisation is relevant, beneficial and appropriate. It must also be related to what is often referred to as critical determinants of operational success—i.e. those resource allocation and implementation decisions which ensure organisational success. In the telecom context such operations would probably relate to response to customer complaints, expeditious resolution of transmission and communication problems, prompt settlement of disputes and settlement of claims, allocation of funds, equipment, etc. It is a human power where a critical choice of determination on the basis of relative organisational requirements for activities etc. The Ashree Committee seems to have been so preoccupied with the form of the structure that it has lost sight of the *purpose*. The information base that has been lost sight of and missed in a debate about ideological issues like privatisation versus government department based operations and in recent concepts such as centralisation versus decentralisation.

If one accepts the premise that the telecom operations are essentially meant to provide communication service to customers for purposes of communication between point A to point B most effectively at the best economic cost in the context of customer need for facilities, timing, etc. it is not clear why an umbrella holding company provides the required response. One must ask the following question: which are the organisational strategies which telecom operations must adopt in the unique locational and customer need contexts to satisfy different customer segment needs? This is the basic *raison d'être* for telecom operation. In such an event if these customer group specific strategies can be identified following

the classic recommendations of Alfred Chandler—the structure should be designed so as to ensure that it becomes an effective tool for implementing the chosen strategies. While it is not feasible to identify such strategies in relation to telecom operations in any significant detail in this paper without a detailed exploration of the variables which underpin such strategies, it is possible to identify the broad-order objectives which need to be achieved by such strategies. These are

(a) Availability of telecom service—both by way of local and trunk services in a free and abundant measure be it at the customers' home or office or in public call offices at airport or other such public places,

(b) The time taken to locate and communicate with the respondent party,

(c) Quality of service in terms of speed of service, and clarity and ease of communication

(d) The economic price for such services consistent with the cost of rendering such services on the one hand, the benefit derived by the customer from such services (dependent on the duration of the call, time of the day, when the call is made, logistics of transmission of the call, distance of destinations involved, etc.) on the other

(e) Variety in terms of services provided to respond to the distinctive needs of the customer keeping in view the manner, mode, timing, process of communication adopted by the customer, and

(f) Expedient response to the problems encountered in terms of functioning of the customers' facilities, transmission, responses from the exchange, problems of locating the called party, billing, settlement of claims (including excess billing), etc.

It was Raymond Corey and Steve Starr who in their path-breaking book on organisational design for marketing driven and service based organisations pointed out that the structure of such corporations should not only be related to providing the most effective and efficient service but should be differentiated in terms of customer segmentation such as the size of operations of the customer, unit value of transaction, distinctive needs of the buyer in relation to his operations, specialised customer needs required to be served, etc. Corey and Starr illustrated their proposition by many examples such as IBM defying organisational wisdom and structuring their operations neither according to the hardware categories or software classifications, but on the basis of the customer group sought to be served, in structuring its organisation. The net result was that IBM divisions follow such unusual structural modules (or profit centre based operating divisions) as government operations, education and scientific institutions, business corporations, individuals, etc.

The author and his colleague Ishwar Dayal used—while they were at the Indian Institute of Management, Ahmedabad—a similar model for restructuring the very large

operations of the State Bank of India at the time of the transition to social banking by moving from a deposit-and-loan based structure or domestic or international operation based structure to a customer group structure related to five distinct categories of bank customers, i.e.

(a) Personal banking customer,

(b) Commercial and institutional customers,

(c) Agricultural banking customers,

(d) Small industries and small business customers, and

(e) International banking customers

However the organisational design problem of structuring such service enterprise operations is a complex matter beyond merely identifying customer groups. It is also required to identify both on consideration of strategic and policy control as well as on economic cost and operational effectiveness—common services and managerial functions to be assigned to the identified customer segment modules in the organisational structure. The 'eager beaver' proponents of the cure all profit centre or strategic business unit concepts often recommend with missionary zeal that all customer segment based profit centres must have the entire range of services and functions such as accounting, personnel, maintenance, R and D, purchase administration under them individually in order to have the level of autonomy necessary for making such structures effective. In their view only then will accountability be matched by authority and access to resources. Unfortunately this prescription suffers from an emotional hang up and has all the problems which usually result from blindly believing old wives' tales. In fact neither mechanical decentralisation nor routine allocation of services and functions are necessary unless a detailed examination and analysis is carried out as to which services and functions are critical to the success of that customer group's operations and are therefore, required to be structurally placed within the customer group module. Those who have extensive experience of designing organisational structure for service enterprises know that the requirements of such services and functions vary hugely. They are dependent on the nature of the service provided and the context of the requirement for effectiveness and efficiency in providing such services. The support functions and services which require to be provided in cargo customer module in an airline structure are vastly different from those in a corporate banking module in a bank structure. In other words there is no simple rule which will be universally applicable to all service organisations either regarding decentralisation or allocation of directly available functions and services. They have to be related to—as has been highlighted earlier—the critical needs of specific customer groups. It is clear that in the telecom context the structure must admit of another dimension, namely, the regulatory requirement of a public utility service

with all its connotation about investment, dispersion, tariff, linkage with equipment and accessory suppliers, co-ordination with external agencies, particularly foreign governments and telecom agencies.

The Athreya Committee model does not at all attempt to explore these very basic and critical issues in relating customer servicing needs to organisation structure criteria possibly because the compulsive requirement of resolving the ideological debate relating to privatisation and government department-based operations, and managerial merit of decentralisation versus centralised operation became matters of such obsessive concern and anxiety that the basic assumption that telecom services exist primarily to serve the needs of the customer was perhaps never identified as the basic structural reference point. It is, therefore, natural that the further step of grouping these customers in terms of their distinctive needs, unit size of operations, specialised requirements of communication, requirements of newer services and products and transaction volume (and revenues) in different operational segments as differentiating criteria never arose.

CUSTOMER SERVICE BASED STRUCTURE

If these criteria were in fact applied, it would immediately be apparent that there are basically three customer segments whose needs are significantly different so as to merit structural differentiation and accordingly, would need to be structurally spaced in the organisation design. These are: (a) individual customers, (b) business customers, and (c) government and administrative bodies/departmental customers.

It is entirely possible—and appropriate—to further sub-divide each category of customers in sub-categories such as: (a) domestic local operations, (b) domestic trunk and STD operations, (c) international trunk operations, and (d) other services (including telex, fax, etc.)

There can be many structural problems—as is the case with several service organisations—in relating such a customer segmentation configuration to the operational context. There are preponderant needs of combining the customer segment operations in terms of common functioning, e.g. common exchanges, transmission lines (overhead and underground), switching lines and other services. In addition, of course, there are common considerations relating to personnel policy administration, human resources development, fund raising, common administrative facilities at locations, capital expenditure sanctions, technology acquisition, government and regulatory agency related relationship, etc. which would need to be administered and managed from a common organisational perspective. Yet it is entirely possible and necessary, to transit from a purely locational structure, recommended by the Athreya Committee to a customer-based structure to optimise the efficiency and effectiveness of telecom operations. Dramatic evidence of the need,

... vividly provided in March 1991 when British Telecom changed its organisational structure from 27 common districts serving business, domestic and international clients to a new customer-based structure which differentiated the 7 million lines-based business customers from the 18 million lines-based domestic customers operated with the support of a worldwide network and guided and managed by common group headquarters and selected zonal offices.

The question which will need to be answered in this context is what will be gained by a customer-market centred organisation. The first and foremost of these will of course be the homogeneity of the structure in terms of the common tasks of serving a specified group of customers, e.g. business customers, individual customers or institutional/administrative customers. The requirements of services of these three groups are so widely different that by tailoring the structure to the customer segment, the understanding and insights about customer requirements which are so critical to customer servicing will emerge. This will lead to several other benefits such as specialisation, expeditious response to problems and, most importantly, identification with the customer. Such a structure would then be able to deal with the operations on an 'entrepreneurial' basis by constantly endeavouring to optimise its performance. Such optimisation will have to be backed up by provision of required support function and services to the customer segment structure based on the test whether such support functions and services are truly critical for the effective and efficient servicing of the customer group's needs. On similar considerations the authority for planning, resource allocation and implementation of action plans would need to be delegated to the customer segment structure for responding to the needs of the customer group. The affiliation with a specific customer group will also lead to a mutuality of purpose which is clear in its objectives and goal of subserving the customer group. The operations would then be uncluttered by the need to simultaneously respond to requirements of other customer groups who have other distinctive needs, often at variance with the primary group of customers, and leading to conflicts of time and resource allocation and determination of priorities of managerial action.

It is, however, necessary to understand that the effectiveness of a customer group-based structure is substantially dependent on how efficiently a common network of exchanges and transmission facilities meet the needs of all the customer divisions. This is indeed a complex question because such an operational set-up would not be structurally affiliated to any customer division and would, therefore, have to determine priorities in serving these divisions as also the economic costs for providing such services. In relation to the first issue

... support to a customer division, it would be important to develop from the very beginning ground rules regarding such operational priorities in terms of time and resource allocation. Even in a functional organisation these ground rules are essential and are usually dealt with by using electronic equipment which are programmed to deal with problems of prioritisation based on instructions incorporated in their memory as the basic logic in dealing with such prioritisation problems. To give an illustration, non-linear programming models of optimisation between transatlantic international calls are swiftly handled and prioritised thanks to the linear programming (LP) model logic incorporated in their relay and switching systems. This has been accomplished notwithstanding the immense complexity involved, including the fact of several international telephone companies at different locations being involved as active participants in carrying out the complex task of international communication.

The problem of pricing of operational services between various divisions is much more complex. No matter which structure is specified, a transfer price for operational services would have to be worked out after taking into account the relative volume, duration, complexity of transmission and administrative and technical support required. However, what has emerged reasonably clearly in structuring telecom operations is that the exchange and transmission operations should not be constituted as profit centres as any build-up of profit in their financial and cost accounting format cannot only be an extremely complex task but would also substantially vitiate the process of rational decision-making. This will happen due to such notional profits obscuring the managerial economics of the transaction primarily because such operational profit would be a national amount or a shadow price unrelated to actual financial cost in carrying out the switching and transmission operations.

The questions that has to be addressed is that if in the Indian telecom context, a customer-based structure is to be adopted, what would be the specific dimensions of such an organisational design. In the first place, each of the three customer divisions would, no doubt, have a common regional office in the west, south, east and north regions so that they could interact at a common operational level to resolve any problems of co-ordination. These regional set-ups would be the extended operational arm of the corporate office for simultaneously providing the integrated organisational perspective in the differentiated customer-group based operational structure. However, the concept of tailoring the structure to customer needs would mean in practical terms that the branch organisations of the three divisions need not be at the same location. Such locational decision would have to be based on the optimal

... considering the size of the customer division's customers. The span of operational control of the branches of the three divisions should be determined by the dispersion of the customers in the specified territory or district.

The operational division responsible for the transmission and exchange operations would be basically concerned with the physical dimensions of the communication, switching and transmission operations. Given this specification, the need for making the changes in the location of the major exchanges, or transmission and relay stations or maintenance divisions would not be significant. It is worth repeating again that the operations division would not be a profit centre and the reference point for its performance would be in terms of physical parameters of operational efficiency and ef-

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activities (for which predetermined targets of operational performance will have to be jointly agreed upon and specified).

The national headquarters or corporate office in this scheme would be staffed by the heads of activities of not only the three customer divisions and the operational division, but also the functional departments relating to personnel, finance, planning, projects, research and development, etc. While the corporate functional departments would be basically concerned with the formulation of their respective functional strategies, policies, procedures and systems, the administration of such functional activities in the customer-based divisions as well as the operating division would essentially be accomplished by providing functional support to these divisions on the basis of their specific requirements of such support service functions. In this scheme, the functional managers assigned to the customer divisions or the operating division would be a part of their respective division organisations. They would be responsible for ensuring that the administration of their functions is carried out in relation to the division's operations in conformity with the functional strategies and policies specified by the corporate office procedures and systems. In such an organisational design, the functional managers in the divisions will report functionally to the heads of functional activities in the corporate office but be operationally or administratively responsible to their divisional managers.

ROLE OF TELECOM COMMISSION

This still leaves the requirements of organisational design of regulatory and policy functions regarding telecom operations open. These functions would essentially be performed by the Telecom Commission in the ministry or a regulatory set-up in the Central government. In actual practice, the Telecom Commission represents the government in planning, monitoring and guiding the operations of the National Telecom Corporation (referred to earlier as the corporate office for telecom operations). The Telecom Commission would also have the responsibility for the following:

- (a) Formulating the telecom strategy in the longterm;
- (b) Ensuring that operational, technological, financial and personnel policies flowing from the longer term telecom strategy are also clearly formulated and reviewed from time-to-time to ensure that they are in alignment with the national needs of effective and efficient telecom communication requirements;
- (c) Ensuring the availability of equipment and accessories for carrying out telecom operations (which will include supporting and sponsoring the design, technology and manufacturing of such telecom equipment and accessories both in the public and in the private sector);
- (d) Raising resources for the longer term

funding needs of the National Telecom Corporation;

(e) Providing support to the upgradation and induction of technologies which ensure that telecom operations are carried out taking advantage of developments in technology and equipment which make them truly effective and efficient; and

(f) Ensuring the technical and managerial training and development of telecom personnel, so that both their operations and management are carried out at the highest level of effectiveness and efficiency.

It will be seen that in the proposed structure the role of the Telecom Commission is envisaged essentially as a regulatory body which oversees the constant development of telecom facilities in the country to meet the communication needs of its population, administration and business. The Commission will also have the longer term responsibilities regarding technology development, financial resource generation and human resources development which would be the pressing needs for the continuing effectiveness and viability of telecom operations. Translated into specific terms, the Telecom Commission, representing the ministry of communications, would be a major (say 51 per cent) shareholder in the proposed National Telecom Corporation (along with individual investors who might wish to subscribe to the shares of that corporation). The Telecom Commission would also have under it fully-owned subsidiary corporations charged with the responsibility of the longer term organisational requirements of an effectively run telecom operations. These would be:

- (a) Telecom Finance Corporation;
- (b) Telecom Research and Development Corporation;
- (c) National Telecom Training Institute; and
- (d) National Telecom Planning Organisation

The first three organisations would be profit centres offering their professional services to the National Telecom Corporation (and their respective regional set-ups) for a fee. They will act as the specialised bodies in their respective areas of functioning and would be free to provide such services to other telecom organisations outside the country, to telecom-related organisations in the public and private sectors and to carry out advisory and consulting activities in their own respective fields.

The National Telecom Planning Commission would essentially be concerned with preparing the longer term telecom strategic plan which takes into account the requirements of the users, the operational and technical requirements for future telecom operations, the need for financial resources, equipment and personnel in formulating the long-term corporate plan for telecom operations.

CONCLUDING REMARKS

While the above structure is not offered as a panacea it needs to be seriously considered as an alternative structural model which focuses on customer servicing as the key reference point for organisational design while recognising the distinctive needs of operational and regulatory planning and control. The debate can then shift from the meaningless squabble about relative merits of privatisation or functioning as government-based corporations or as protocorporations. It will also steer clear of the emotional debate on the merits of centralisation or decentralisation in operations, and proceed to blend the distinctive requirements of customer servicing, technology-based operational efficiency, and policy planning, monitoring and control as distinct, but necessary, parts of a total organisational design for telecom operations.

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Editor S Bhagwan Dahiya

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BARCLAYS BANK PLC

BOMBAY BRANCH

(Incorporated in the United Kingdom with Limited Liability)

BALANCE SHEET AS AT 31ST MARCH, 1991

| CAPITAL AND LIABILITIES | Rs | P | Rs | P | PROPERTY AND ASSETS | Rs | P | Rs | P |
|--|----------------|---|----------------|---|--|---------------|---|----------------|---|
| Brought Forward | | | 382 585 003 07 | | Brought Forward | | | 407 431 827 00 | |
| 8 Acceptances, Endorsements and Other Obligations as per contra | | | 40 039 075 00 | | 6 Bills Receivable being Bills for Collection as per contra | | | | |
| 9 Contingent Liabilities | | | | | (i) Payable in India | 14 035 300 00 | | | |
| (i) Liability on account of outstanding forward exchange contracts | — | | | | (ii) Payable outside India | 16 000 00 | | 14 051 300 00 | |
| (ii) Liability on bills of exchange rediscounted | 100 000 000 00 | | | | 7 Constituents Liabilities for Acceptances, Endorsements and Other Obligations as per contra | | | 40 039 075 00 | |
| (iii) Guarantees given on account of customers | 4 748 312 00 | | | | 8 Premises less Depreciation | | | | |
| (iv) Guarantees given on account of officers | 120 577 00 | | | | Opening Balance | 0 00 | | | |
| | | | | | Additions | 3 280 044 23 | | | |
| | | | | | | 3 280 044 23 | | | |
| | | | | | Less Depreciation written off to date | 311 525 00 | | 2 965 519 23 | |
| | | | | | 9 Furniture and Fixtures less Depreciation (including Vehicles and Equipment) | | | | |
| | | | | | Opening Balance | 0 00 | | | |
| | | | | | Additions | 5 959 293 38 | | | |
| | | | | | | 5 959 293 38 | | | |
| | | | | | Less Depreciation written off to date | 579 305 00 | | 5 379 988 38 | |
| | | | | | 10 Other Assets | | | | |
| | | | | | (i) Stamps Sundry Advances Deposits and other Accounts etc (including advances and deposits for premises furniture and fixtures) | 14 687 760 69 | | | |
| | | | | | (ii) Accrued Interest and Subsidy | 969 153 21 | | 14 656 913 90 | |
| | | | | | 11 Non Banking Assets Acquired in Satisfaction of Claims | | | | |
| | | | | | 12 Profit and Loss | | | | |
| | | | | | Loss for the period transferred from Profit and Loss Account | | | 8 099 454 56 | |
| TOTAL | | | 1 22 6711 807 | | TOTAL | | | 422 624 078 07 | |

See Notes attached
This is the Balance Sheet referred to in our report of even date.

Sd/
R D HINGWALA
Partner

for and on behalf of
PRICE WATERHOUSE
(Chartered Accountants)

Bombay 22nd June 1991

FOR BARCLAYS BANK PLC —BOMBAY BRANCH

Sd/
NAKUL MADHAVJI
Financial Controller

Sd/
B G D REYNOLDS
Manager Operations

Sd/
C MIDDLETON
Chief Manager India



BARCLAYS BANK PLC

BOMBAY BRANCH

(Incorporated in the United Kingdom with Limited Liability)

PROFIT AND LOSS ACCOUNT FOR THE PERIOD 8TH OCTOBER, 1990 TO 31ST MARCH, 1991

| EXPENDITURE | Rs P | INCOME (Less Provision made during the year for bad and doubtful debts and other usual or necessary provisions) | Rs P |
|---|----------------------|--|----------------------|
| 1 Interest paid on deposits borrowings etc | 6 337 342 04 | 1 Interest and discount | 14 813 458 89 |
| 2 Salaries allowances Provident Fund etc | 4 793 818 83 | 2 Commission exchange and brokerage | 1 248 614 49 |
| 3 Directors and Local Committee Members fees and allowances | — | 3 Rents | — |
| 4 Rent taxes insurance lighting etc | 2 052 419 37 | 4 Net Profit on sale of investments gold and silver land premises and other assets (not credited to Reserves or any particular Fund or Account) | 153 764 08 |
| 5 Law charges | 1 008 957 00 | 5 Net profit on revaluation of investments gold and silver land premises and other assets (not credited to Reserves or any particular Fund or Account) | — |
| 6 Postage telegrams and stamps | 1 395 928 40 | 6 Income from non banking assets and profit from sale of or dealing with such assets | — |
| 7 Audit fees | 20 000 00 | 7 Other receipts | 000 00 |
| 8 Depreciation on and repairs to the banking company's property | 5 401 161 80 | 8 Loss | 8 099 454 56 |
| 9 Stationery printing advertisement etc | 802 492 75 | | |
| 10 Loss from sale of or dealing with non banking assets | — | | |
| 11 Other expenditure | 2 504 271 93 | | |
| TOTAL | 24 316 292 02 | TOTAL | 24 316 292 02 |

See Notes attached

This is the Profit & Loss Account referred to in our Report of even date

R D HINGWALA

Partner

Sd/

for and on behalf of

PRICE WATERHOUSE

Chartered Accountants

Bombay 22nd June 1991

FOR BARCLAYS BANK PLC -BOMBAY BRANCH

Sd/

NAKUL MADHAVJI
Financial Controller

Sd/

B G D REYNOLDS
Manager Operations

Sd/

C MIDDLETON
Chief Manager India

Notes forming Part of the Accounts for the Period ended 31st March 1991

- The branch was formally opened to the public on 8th October 1990 and hence there are no figures pertaining to the previous year
- Infrastructural expenditure towards setting up of the branch amounted to Rs 14 077 538 89 of this an amount of Rs 7 886 107 09 incurred during the period from 16th June 1989 to 8th October 1990 has been charged to the Profit and Loss Account for the period ended 31st March 1991. The balance amount of Rs 6 191 431 80 has been capitalised
- No provision for taxation has been made as the taxable income is nil
- Principal Accounting Policies
 - The accompanying financial statements have been prepared on the historical cost basis and conform to the statutory provisions and practices prevailing in the country
 - Transactions involving foreign exchange
 - Monetary assets and liabilities have been translated at the exchange rate prevailing at the close of the year. Non monetary assets have been carried in the books at the contracted rates
 - Income and expenditure items have been translated at the exchange rates ruling on the date of transaction
- Investments
 - Investments in Government and other approved securities in India are valued at cost
 - Advances
 - Advances have been stated net of Bills re-discounted
 - Fixed Assets
 - Premises and other fixed assets have been accounted for at their historical cost
 - Depreciation has been provided for on the straight line method at the rates specified by Head Office. In respect of subsequent additions depreciation is provided for the relevant quarter in which the additions are made
 - Staff benefits
 - Contribution to the Gratuity Fund (pending approval of the authorities) has been made as per actuarial valuation report
- Remuneration paid to the Chief Manager, India
 - Salary, bonus and allowances
 - Perquisites evaluated in accordance with the Income Tax Rules

Rs

217,639

50,707

268,346



BARCLAYS BANK PLC

BOMBAY BRANCH

(Incorporated in the United Kingdom with Limited Liability)

SCHEDULE OF PARTICULARS OF ADVANCES REQUIRED BY THE BANKING REGULATION ACT, 1949 (ACT X OF 1949) ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 1991

| PARTICULARS | Rs P | PARTICULARS | Rs P. |
|---|----------------------|---|------------|
| (i) Debts considered good in respect of which the banking company is fully secured | — | (v) Debts due by the directors or officers of the banking company or any of them either severally or jointly with any other persons | 153,396.08 |
| (ii) Debts considered good which the banking company holds no other security than the debtors' personal security | 229 921 10 | (vi) Debts due by companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or, in the case of private companies, as members | — |
| (iii) Debts considered good, secured by the personal liabilities of one or more parties in addition to the personal security of the debtors | 52,783,307 10 | (vii) Maximum total amount of advances, including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other persons | 157,086.08 |
| (iv) Debts considered doubtful or had, not provided for | — | (viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or in the case of private companies as members | — |
| | | (ix) Due from banking companies | — |
| TOTAL | 54,013 228 20 | | |

Auditors' Report on the Indian Branch of Barclays Bank PLC under Section 30 of the Banking Regulation Act, 1949

We have audited the attached Balance Sheet of the Indian Branch of Barclays Bank PLC as at 31st March, 1991 and the relative Profit and Loss Account of the Indian Branch of the Bank for the period from 8th October, 1990 to 31st March 1991, signed by us under reference to this report. In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956, the Balance Sheet and the Profit and Loss Account, together with the notes attached thereto, are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act, 1956. The accounts are therefore, drawn up in conformity with Forms 'A' and 'B' of the Third Schedule to the Banking Regulation Act, 1949.

We report that subject to and read with the foregoing remarks

- (1) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory.
- (2) The transactions which have come to our notice have been, in our opinion, within the powers of the Indian Branch of the Bank;
- (3) In our opinion, proper books of account as required by law have been kept by the Branch so far as appears from our examination of those books maintained and produced to us at Bombay.
- (4) The above mentioned Balance Sheet and Profit and Loss Account of the Indian Branch of the Bank dealt with by this report are in agreement with the books of account.
- (5) In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and Profit and Loss Account, together with the notes thereon, and read in particular with Note 2, regarding infrastructural expenses, give the information required by the Companies Act, 1956, as amended in the manner so required for Banking Companies, and on such basis give a true and fair view in the case of the Balance Sheet of the state of affairs of the Indian Branch of the Bank as at 31st March, 1991 and in the case of the Profit and Loss Account of the loss of the Indian Branch for the period ended on that date.

Sd/-

R. D. HINGWALA
Partner

For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

Bombay, 22nd June, 1991

Political Economy of Struggles for Democracy and Human Rights in Africa

Yash Tandon

Western popular and journalistic literature often ascribe the quite evident failure of bourgeois democracy in Africa to the 'African' tendency towards dictatorship and one-partyism, or simply tribalism. African politicians on the other hand, argue that it is the European 'democrats' who for a century or more smashed all existing pre-colonial institutions and practices of tribal democracy and instituted unbridled authoritarian rule. Some African countries turned to the Soviet Union and China for a different model of democracy, only to learn that in later years what existed in practice was yet another variant of dictatorship. For Africa, therefore, there are no more models of democracy. For once African masses must work out their own system of governance.

IT is often forgotten that John Stuart Mill the father of western liberal democratic theory, was not in favour of universal suffrage. He was against giving vote to those who were illiterate and who did not pay taxes. Even amongst those who qualified for vote should not, he argued, have equal vote for those who were better educated and therefore more capable of political judgment, deserved more votes than those less educated. A century and half later Ian Smith of the then Rhodesia was to use the same argument to deny franchise to Africans. By Mill's standards Ian Smith was a 'liberal democrat'. Or was he? What has changed—the theory or the reality?

The neo-classicals from Adam Smith onwards argued that the capitalist free market system maximised 'utility' for all, and everybody got his or her due as the market tended towards an equilibrium until, a hundred years and a few fiascos later, the English political economist Keynes showed that theoretically equilibrium could be reached at any level of unemployment and that the utility was not automatically maximised or equalised. The state, he argued, had to intervene to correct the disequilibrium which was the natural tendency of capitalism (and not equilibrium). Clearly the reality had changed, free competition was already history and Keynes was writing in a period when pricing in the world market was no longer set by competition but by the few monopolies who financed and controlled commodity production and marketing.

Bourgeois democracy reached its highest theoretical peak with social democracy. The free market, this theory admits, will not equalise utility for all, there will always be those who are 'disadvantaged' by the system, and therefore the state must intervene to provide them 'welfare', a chance to 'equalise' access to material (and social) goods. The Scandinavian countries are today regarded as the models of 'social democracy'. Now however, there are increasing complaints that the system encourages parasitism—the lazy and the socially marginalised feeding on an increasingly small section of the active working population. In Margaret Thatcher's Britain they are reverting to 'privatisation' of the social services, away, that is, from the hitherto respected tenets of social

democracy. Social democracy, thus, has its own limitations, but above all a lack of considerable significance for the Third World—Western social democracy, let us be clear about this, thrives on the backs of the severely exploited peoples of the Third World. Social democracy, in other words, is no less imperialist than its more 'honest' liberal democratic variant.

Both these variants of bourgeois democracy—liberal democracy and social democracy—are paraded in Africa as 'models' to emulate, but neither of these has succeeded in taking roots—and never will. Liberal bourgeois democracy will not take roots because there is no African bourgeoisie that is strong enough to fight against imperialist hegemony whilst at the same time keep at bay the threat of working class takeover where imperialist hegemony weakens. As for social democracy, that was a peculiar compromise between certain class forces at a certain time in Europe's industrial development: the objective conditions for which do not exist in Africa (or, for that matter, in the rest of the Third World).

Western popular and journalistic literature, in their simplicity and naivety, ascribe the quite evident failure of bourgeois democracy in Africa to the 'African' tendency towards dictatorship and one-partyism or simply to tribalism (the catch all root cause of all problems in Africa). African politicians, on the other hand, argue that the European 'democrats' have no moral authority to preach them about 'democracy' when for a century or more what they did in Africa was to smash all existing pre-colonial institutions and practices of tribal democracy and institute unbridled authoritarian rule.

Some African countries turned to the East (the Soviet Union and China) for a different model of democracy—workers' democracy. At least this is what they thought. 'Marxism-Leninism' was offering them, only to learn two or three generations later that what existed in practice in these countries—at least in later decades after the socialist revolutions—was yet another variant of dictatorship, the dictatorship of state or bureaucratic bourgeoisie. The awakening was all the more shocking because of its suddenness and because the existing dictatorial rul-

ing cliques in these countries, forced by a groundswell of opposition from below, themselves acknowledged their own 'historical crimes'. Over a period of barely six months in 1989/90, Eastern European regimes fell like dominoes, and erstwhile 'Party loyalists' fell over one another in an indecent haste to distance themselves from past practices, an inward guilt transformed into an external witch hunt with the 'Party' as the main culprit. In Hungary, for example, the Communist Party committed suicide and was reborn, Sphinx like, as a 'social democratic' party.

For Africa, therefore, there are no more models of democracy. The situation is excellent. For once African masses must work out their own systems of governance.

Of course, African masses are not likely to be allowed by powerful global economic forces and local political interests to think out their own solutions. There is too much at stake. At the political level all the current dust blowing about one two or multi-party system (and the condemnation of African countries for their tendency to one partyism) is a nice piece of political propaganda for the bottom line is the preservation of the capitalist system and western dominance of Africa. Yesterday, for example, it served French interests to back one-party rule in Africa and they were actively involved in smashing all opposition to one party rule; today it no longer serves their interest and they now talk about political pluralism. The preservation of western hegemony is a shared value of all the ruling oligarchies of the West, no matter whether the party in power is 'liberal' democratic or 'social' democratic. What is not politically acceptable to them is for the masses in Africa to seize power and control their economies: this is the single biggest obstacle to democracy in Africa. The collapse of workers' democracies in Eastern Europe has added grist to the mills of bourgeois democrats of all hues. The only game in town they say, is free market capitalist democracy.

This essay argues that democratic rights are never conceded from on top by the ruling oligarchies, that they are always won by the oppressed and exploited people themselves as a result of intense struggle against

the ruling oligarchies, and that therefore the only route for the African masses to expand their democratic rights (because by securing political independence from colonial rule they have already won partial rights) is to continue in their opposition to the present capitalist rule in their countries. However, there are obstacles on the way, not insurmountable in the long run, though in the short run quite formidable.

DEMOCRATIC RIGHTS AS A DIALECTICAL OUTCOME OF PEOPLES' STRUGGLES

There is a debate going on, initiated in Africa first but now joined in by scholars and human rights activists in the West, as to whether it is correct for western nations to make judgments on the character of the regimes in Africa on the basis of western value systems. Those who say it is not correct to do so argue that Africans can be understood only within their own cultural context, and therefore judgments about Africa derived from western values are apt to be at least misleading if not downright dangerous and chauvinistic. The opposite is argued by those who say that there are certain principles that are universal by which to evaluate the performance of governments in relation to their populations, and therefore all deviations from these principles must be universally condemned.

Like all debates on such fundamental philosophical issues a simplistic rendering of the alternative perspectives robs reality of its complexity and contradictoriness. The debate becomes all the more obscure because of political undercurrents.

In the rejection by African democrats and human rights activists of 'Western' values there is an anti-imperialist undercurrent. It is part of the rejection of the dominance of the west over Africa. The same argument—i.e., that Africans must be judged by their own value systems—in the hands of Western democrats and human rights activists, however, becomes a patronising deference to violations of human rights by Africans as if to say that African actions must be judged by a 'lower' standard of morality. Africans find this patronising attitude highly objectionable. Torture or the taking of human life pains African conscience as much as it does a Western heart. The fact that there is more torture and killing in Africa than say in Western Europe is a reflection of the historical and current economic and political realities of the two continents (and a reflection, in fact, of the historical relations between the two continents), and not a reflection of the implied 'lower' standard of African morality.

To be sure, every society has its own value systems, but to lapse into cultural relativism as an excuse for condoning violations of human rights and detractions from democracy is dangerous and unacceptable.

In all this philosophical muddle amidst a dynamic and contradictory reality, what is at least clear is that throughout his or

the lower classes have never won a single democratic right (the right to vote, the right to organise into a trade union, the right to form a political party, the right to free expression, the right for their children to education, and so on) without intense struggle on the part of the oppressed and exploited peoples. Western scholars and human rights activists sometimes forget their own history. They think that these rights, having been won in the west by their struggling masses, can now be 'parachuted' on to the soil of Africa without the African masses having to struggle for them.

The 'liberal relativists' amongst them apply variations of the theory of cultural relativism to patronisingly 'explain' African detractions from democracy and civil liberties; the 'universalists' stubbornly cling to western models of democracy and the theory that "rights are inherent in the individual"—a 'natural rights' theory—to make one-sided and abstract (i.e., out of context) judgments on African political realities. Contemporary organisations like the Amnesty International and the recently founded 'World Watch' and 'Africa Watch' are examples of 'universalists' who are judgmental about the Third World but who are silent about violations of human rights by the First World.

Both the liberal relativists and the universalists in the west are guilty of two 'crimes'. First they are guilty of forgetting their own history, and of failing to draw the right conclusion from it, namely, that democratic rights are won through struggle and not 'given' or 'parachuted' from outside. The second crime is that they abstract African reality from its total historical and economic context; they myopically concentrate on the 'current affairs' journalistic perspective thus losing the historical perspective, and they focus purely on the political rights (freedom of speech, etc) leaving out the economic rights (right, in particular, to a just reward for labour).

No 'Amnesty International' existed challenging the rule by Europe over Africa as a violation of the 'inherent' rights of nations to political independence. Every inch of the way, from the diplomatic fora of the League of Nations and the United Nations to the battlefields of Algeria and Kenya, the people had to fight for these rights which were only *post facto* recognised by the imperialist powers as 'inherent' in colonial peoples.

Political independence of Africa was not a gift from heaven. It was an outcome of struggle, although the intensity of the struggle and the degree to which it penetrated to the levels of the lower classes varied from country to country and from time to time. For example, for a certain period in Kenya (in the 1950s) the struggle was extremely intense and involved what amounted to partial insurrection by a section of the lower peasantry (the Land and Freedom Army of the Mau Mau), whilst in other countries (such as in neighbouring Uganda) the struggle, though intense, was less violent.

In the later years of the struggle for independence, the imperialist powers became even more stringent in conceding independence than during the 1950s and the 1960s. We are talking here of the Southern African countries. This was largely because of the presence of the white settler communities in these countries (which introduced the racial factor into the equation, thus complicating the responses of the imperialist powers), and the perceived strategic interests of the United States still fighting the 'cold war' in Africa against the threat of Soviet penetration. Because of the presence of the whites it was necessary to find a settlement that accommodated the interests of the whites with those of African nationalism. The Lancaster House Settlement of Zimbabwe negotiated in 1980 was the classical test case. In addition to 'solving' a problem which agitated both imperialism and the nationalists and which delayed Zimbabwe's independence for nearly two decades, the Lancaster Settlement provided a formula which was later 'successfully' applied to Namibia, and which is being 'worked out' in relation to the prize nation—South Africa.

Negotiated settlements, even those that came after years of bush war, were an accommodation between the conflicting demands of nationalism and imperialism. In practically every case, the African petty bourgeois classes that expressed the nationalist sentiments of the masses, split along tribal or religious or regional lines, and the colonial powers offered their 'mediation' to patch up these differences to put in power a rough-and-ready alliance of petty bourgeois factions who, with the backing of 'development aid' or even standing colonial armies (as mainly in Francophone Africa), continued to maintain the system of imperialist exploitation of the lower classes. Those who did not fall in line (for various reasons), such as Nkrumah and Lumumba, were couped or killed.

What we have witnessed in Africa over the last thirty years (that is since 1957 when the first black African country got its independence from colonial rule) are different (sometimes apparently 'progressive', sometimes utterly retrogressive) forms of neo colonial petty bourgeois 'democracies' arising out of forced and partial responses to demands from the lower classes—the working classes.

The demands from the lower classes have been incessant (without let-up even for a single day), and remarkably consistent and almost unchanging in content (e.g., demands for food and shelter, demand for employment, for land reform, for better prices for crops and lower prices for consumer goods at the economic level, and, at the political level, rights to participation in national policy making) throughout the period since the imposition of colonialism. The colonial powers themselves were either rigidly unresponsive (especially the weaker colonial powers such as Portugal) or partially respon-

demands. Even with those which were partially responsive, their efforts all the time, however, were to ensure that the concessions were made to the lower classes only when there was very little choice left, and even then to make as little concession as possible in order to maintain the system of exploitation which is what brought them to Africa in the first place. That situation continues to prevail in post-colonial Africa. There is an intense struggle between on the one hand the masses who desire democratic freedoms and economic justice, and on the other hand international corporate capital whose only interest is profit, notwithstanding clever public relations exercises to camouflage it.

MAIN OBSTACLE TO DEMOCRACY: CORPORATOCRACY

There is much talk these days about the definition of 'development'. A lot of this discussion is purely abstract, for indeed there are only two definitions of development, no matter how differently they might be presented for the sake of argument. There is first the corporate capital's definition of development which is economic and aimed at 'modernising' the economies of Africa to fit them within the overall structure of the international economy where the rule of capital is paramount. Any opposition to this is either firmly squashed or co-opted; for example, if there are people in the rural areas of Africa not yet fully integrated into the 'market economy' then they must be brought within its 'modernising' orbit, and if there are peasants still using their own local crop seeds and hand hoes, then they must be 'taught' how to use tractors and the 'fantastic' yields that can be realised through using the hybrids. The results of this strategy of 'development' are, for the bulk of humanity in the Third World, disastrous, as we shall soon see.

As opposed to corporate definition, the masses define development in terms of life itself in its totality. Life is not neatly compartmentalised into 'economics', 'politics', 'culture', etc.

Life is one whole. It has to do with the total well-being of humanity in harmony with nature. In trying to control both nature and man (labour) western capitalist civilisation has brought resistance from both nature and labour, as well as from all marginalised and oppressed communities in the world. Whilst the skies are bursting through the ozone layer in protest against the industrialising 'modernisation' of the capitalist world, at the human level the workers, the oppressed peasants of the Third World, the minority communities, the women, the deprived children—all of whom constitute the majority of mankind—are in revolt against this aggressive rule of capital over man and nature. In other words, the definition of development is opposition to the rule of capital and building parallel structures and institutions outside the control of

It is important to put our vision of this dialectic in such broad terms, because only in these broad terms can we appreciate the limits to democracy in Africa. Concretely, the collision course between democracy and corporatocracy is defined in Africa by these conflicting conceptions of 'development' held, on the one hand by corporatocracy and its chief agents, the IMF and the World Bank, and on the other by the masses of Africa.

The corporate strategy, however, is the dominant strategy of 'development' in Africa, as indeed in the whole world. In the case of Africa, the IMF/WB have designed African strategies over the last thirty years and used all the powerful tools at their command, including direct pressure from capitalist countries, to force African countries to adopt these strategies.

Over these 30 years these strategies have failed abysmally. Every time conclusive evidence has mounted showing the failure of these policies, the World Bank has shifted gear and introduced a new set of measures. In the 1960s and the first half of 1970s the strategy was 'import substitution' until it was found that the bills for importation of proprietary technology and know-how (i.e. technology and know-how owned by corporate capital and hence purchased at very high cost) was higher than the predicted savings through reducing importation of finished products, and one African country after another fell into serious indebtedness with the providers of capital. Then, in the latter part of 1970s and the decade of the 1980s the strategy shifted to 'export promotion'. This too, we now know, is failing, although the WB has not given up on this yet.

In pursuance of this strategy the IMF/WB have tightened their 'adjustment' screws on Africa. This involves radical restructuring of the economy in order to remove its 'inefficiencies'. Some of these alleged inefficiencies are: (i) low productivity of African labour; (ii) low capitalisation of industrial and agricultural production; (iii) a low rate of saving and therefore of investment; (iv) a high demand for social service investment leading to reduced net investment for the 'productive' sectors of the economy; (v) a mass consumer demand pushing for higher wages leading to inflationary pressures; (vi) corruption in high places; (vii) a tight import programme against inputs for modernising industry and agriculture; (viii) low producer prices that act as disincentive to agricultural production; (ix) a lax fiscal and monetary policy that act as a disincentive to investment; and so on so forth.

In line with this one-sided and economic analysis, the IMF/WB have suggested a package of 'reforms' to recondition the economies of Africa to make them 'more efficient'. The package makes extremely high demands for sacrifices by the people. The 'social cost' of the restructuring exercise is astronomical. Some of these costs have been

publication, *Adjustment with a Human Face* had this to say about the social effects of the SAP on Third World countries:

The analysis above has shown that among IMF-assisted countries improvements in current account balance were recorded in 56 per cent of countries in the 1980s, but in almost 60 per cent of these countries growth deteriorated or did not improve in the first programme year, and real investment levels also declined or stagnated between 1980 and 1983 in almost 60 per cent of the countries with Fund-assisted programmes. With falling output and, at best, mixed evidence about changes in income distribution in many developing countries, *the number of people in poverty in many 'adjusting countries' increased* (emphasis added).

The authors go to say:

Alternatives must be found. The urgency of finding new solutions is especially pressing when considering the *poverty-inducing effects* that the current approach tends to have, and the *direct negative effects* that some macro-economic policies have on the health and nutritional status of the poorest, and of children in particular, unless they are accompanied by *compensatory measures*...¹ (emphasis added).

Thus there is clear evidence that the IMF/WB strategies have been anti-people.

The one 'social cost' no one mentions is the pressure that the exercise in restructuring puts on the democratic rights of the people. It is clear that no government in Africa (or anywhere) can demand such enormous sacrifices from the masses of the people without setting into motion waves of resistance. In Zambia, for instance, there were food riots in the copper towns of Ndola and Kitwe in 1988 when the government, in following the restructuring exercise at the behest of the IMF, raised the price of bread putting this necessary item out of reach of the bulk of the working people, leave alone the teeming unemployed. Similar revolts (now called 'IMF revolts') are a frequent occurrence in other parts of Africa as well as in other places in the Third World.

What is the answer of African governments to these 'IMF revolts'? Obviously, the governments have very few options. They must please the IMF if they want IMF's seal of legitimacy which is a condition for procuring the capital that the IMF says these countries badly need for their capital-starved industries. On the other hand, they cannot allow anarchy in the streets and factories. The governments have to either displease the IMF or hit at the people. The threat from the IMF is organised and immediate (for all loans can be immediately stopped, as indeed happened in the case of Zambia in 1987) whereas the opposition from the people is disorganised and it manifests itself in the very long run. Therefore, governments find it easier, in the short run, to hit at the people than at the IMF.

And this is what most African governments have done. They have been forced to throw the burden of 'restructuring' on to the

masses. When the masses have revolted they have been cracked down. This has cut deep into the civil liberties of the people. The masses find that the very parliaments (or national assemblies) to which they have sent their elected representatives are endorsing the decisions of the executives (often one-man presidential executives) to adopt IMF/WB SAPs. The parliaments have thus ceased to be the organs through which to protest at the governments. So the masses have no choice but to take to the streets. Parliamentary democracy has given way to street democracy.

AFRICAN NEO-COLONIAL REGIMES IN POWER

Though the struggle for the democratic right to independence in Africa was broadly based, its outcome was not to put in power the lower classes but a section of the petty bourgeoisie—the teachers, the traders, the professionals, the educated, the 'progressive' farmers, and the emerging businessmen.

To be sure, successive regimes in independent Africa have made some changes in the political landscape, bringing in new classes or new fractions of the petty bourgeois classes, and significantly the army in many cases into positions to exercise power but these overall have not changed the economic landscape. If anything the imperialist control over the economies of Africa has increased though the forms by which this control is now exercised are no longer what they used to be in the 1960s and 1970s. Instead of direct control exercised through ownership of assets in the legal sense the control mechanisms are more varied and more subtle: management contracts, marketing deals, controls through technology and know-how, and so on.

The neo-colonial regimes which speak in the name of the people as a whole may in some cases be voted into power through duly held western-style elections, or they may have been ushered in power through military coups. The difference between the two ways of coming to power is important for African democrats: just in our view accept the first with all its weaknesses and reject the second. But what is important at this point of the discussion is that as long as the economic reality remains neo-colonial, both kinds of regimes objectively serve imperialism and the extent to which the masses win democratic rights and economic well-being can only be a result of their struggles from below.

There are, for sure, differences between one African regime and another. But, in general, recent history shows that African petty bourgeois regimes are prepared to be even more ruthless and brutal than the colonial governments they replaced. Whereas the stronger colonial powers (such as Britain and France) could afford to make concessions here and there without effecting their overall strategic and economic interests, the petty bourgeois regimes that have come to

power since independence have very little margin of manoeuvre. Why?

Because, speaking in a general way, the petty bourgeois class owns nothing. Its 'ownership' of property, such as it is, is only as a servicing arm of international corporate capital. It services imperialism while it whines for a bigger share. Since it cannot accumulate private property for capitalist reproduction on its own behalf, it accumulates personal wealth for consumption.

The petty bourgeoisie are also the most insecure class in history. They either hide behind a stronger force that protects their petty interests (as in developed countries of the West) or, if put into the seat of government (as in African countries), they try (with varying degrees of success) to monopolise all instruments of state power in their 'petty' (but dangerous) hands, as well as to control all avenues of speech, information and even of thought and ideology in their shallow, narrow and short-sighted petty bourgeois minds.

If they lose power they lose all. Members of this 'governing class' could, overnight, lose all the personal wealth they might have accumulated through ill means; they could land themselves in jail, or they could, if lucky, escape into exile, and live to fight for coming back to power, or, finally, dissolve into obscurity. The petty bourgeois dictators of the 'Third World' are a pathetic lot—you can take your pick from "Emperor" Bokassa to the 'puppet' Marcos—the range in between and at both extremes is varied and colourful.

Fearfully insecure as they are, especially when they are in the seat of power, the petty bourgeois classes show their timidity—especially when forced in a tight corner—through exercising the instruments of power with the utmost ruthlessness not only against the lower classes but also amongst one another. This explains why the incidence of violation of human rights have intensified in almost every African country barely a few years after the gaining of political independence. The Amnesty International has amply documented the continuous devaluation of human rights in Africa.

Insecurity about losing power breeds fear. Fear leads to intolerance towards all opposition whether it comes from political parties in opposition or to workers organising into independent trade unions, or students daring to challenge the sacred shibboleths of, in most cases, one-party rules. The petty bourgeoisie are really the 'emergency regimes' (i.e. those who use arbitrary and emergency regulations) left behind by colonial powers, and they use state authority with even greater crudity and lesser inhibitions. The monopoly of power that the petty bourgeoisie want to exercise does not allow for any alternative voice to appear independent of control by those in power.

The question might be raised as to whether we are not being too cynical, rashly judgmental and uncaringly sweeping in our blanket condemnation of African regimes?

Aren't there some governments better than others? Is it not too simple a generalisation to describe all regimes in Africa as 'petty bourgeois'? Haven't changes come about in the class composition of those in power over the last 20 or 30 years of independence? Have not new classes come into the process of decision-making? Haven't some old classes died away (e.g. a feudal landed gentry) giving place to new classes?

It is a hallmark of academic scholarship to create classes where none exists or where some exist only as a shadow of their former historical selves. Such is the case, for example, with the so-called 'landed oligarchy', or 'the modernising elite' or 'the reformist bourgeoisie'.

There is no so-called 'reformist bourgeoisie'—whatever that means—in Africa. If it means a bourgeoisie that aims to 'modernise' the economy to bring it more in line with contemporary western models, then such a 'bourgeoisie' does exist but it is not 'reformist' in any real sense, for whatever 'reforms' they have introduced (a 'democratic reform' here and a 'liberalised economy' there) is in order to accommodate pressure from the grassroots since their objective mission (no matter how carefully disguised) is to restructure or rearrange the political alliances to make the masses even more subservient to the rule of corporate capital. It is often forgotten that the secular movement of contemporary history is not the creation of 'national' capital (and thus of a 'national' bourgeoisie) but of centralisation of capital into the hands of ever larger and ever fewer international agencies of private corporate interests—mostly American, European and Japanese.

As for 'landed oligarchy' this one does not exist in Africa either. If it does in caricature, it is a mere shadow of its pre-colonial past long shorn of its power and glory in the service of the colonial state and the economy. The 'bourgeoisie' on land is 'landed' all right, (that is, by definition—i.e. they exist 'on land'), but it is not part of the ruling 'oligarchy'. Those on land, rich or poor, are all at the mercy of industrial and bank capital to whom they have mortgaged their land, their crops, cattle, and their lives.

Desperate scholarship has always sought to discover 'new classes' and new 'class alliances' to justify their PhDs and research grants. But all they have ended up with are 'discoveries' of new tribal affiliations in a pattern of changing alliances, or new 'fractions' of the petty bourgeoisie now in civilian attire, now military. So the only 'new' classes that have ushered themselves into the seat of decision-making are social groups belonging to the same petty bourgeois classes. These, to give but a few prominent examples, are

- (a) An increasing bureaucracy in the top echelons of the state
 - (b) A professional elite
 - (c) A military elite
 - (d) A comprador business class
- Excluded from these decision-making,

power structures have been:

- (a) A petty bourgeois 'nationalist' business class
- (b) An increasing number of unemployed college graduates
- (c) Masses of the unemployed in the rural and urban areas
- (d) The lower ranks of the military
- (e) Women (except the wives of those in power)
- (f) The poor and middle peasantry
- (g) The working classes in all sectors of the economy—agricultural, industrial and service

We have found that even the petty bourgeois nationalist business class, though a part of the independence 'accommodation' is now increasingly marginalised. The so-called 'emergent' African businessmen have remained submerged as governments and international credit institutions have tried—and failed—to lift them up from their morass of debt and extended family obligations. Unlike other parts of the Third World, the African urban propertied class was never allowed during the colonial period to develop. It was always either the Indians (as in East Africa) or the Lebanese (as in West Africa) or the whites and Indians (as in Southern Africa) who were encouraged to occupy middle positions in the transmission belts linking the African peasant, miner and worker with corporate power in Europe. So the African businessman has never really emerged as a strong economic or political force. It is the institutions of the state and the professions which hold better hopes for the African petty bourgeoisie to accumulate personal wealth rather than the world of business (barring a few exceptions here and there, of course).

Above all, the only classes which can bring about a fundamental change in the whole political and economic system—namely, the landed and industrial working classes—have not participated in policy-making anywhere in Africa. In some cases, such as in Burkina Faso under Sankara, in Ghana under Jerry Rawlings and in Uganda under Museveni, certain populist regimes claimed (or claim) to speak on behalf of the people and to have transferred decision-making powers to the 'grassroots', but a close scrutiny of these would show not only that what was transferred to the grassroots was insubstantial but also that they were used to prolong and camouflage the continuing exploitation of the peasantry and the workers by international corporate capital. In no country in Africa does the IMF fly its banners higher than in Ghana today.

If we appear to be summarily dismissing the petty bourgeois regimes in Africa, it is because, after over a generation of independence of most of Africa, there is very little to show by way of the masses enjoying even bourgeois democratic rights, and the right to a decent meal and a safe shelter.

The petty bourgeoisie are the class caught between on the one hand the big bourgeoisie (international corporate capital) and on the

other hand the working classes. They rule by scraping and bowing before the first and hitting at the second.

However, the immediate threat to petty bourgeois rule, at least in Africa, are not the working classes but other factions within their own class who are out of power and who, whilst out of power, champion the cause of free press, plurality of political parties, openness of economy and an independent judiciary and who, when in power, behave exactly in the manner of the ousted faction. So the faction that is in power shows no mercy to those of its class who wait in the wings to seize power at the first opportunity—now openly known in Africa as 'the opportunists'.

Normally, the petty bourgeoisie are loath to hold elections, but they have sometimes to accommodate grassroots pressure for an occasional confirmation of hard-won independence and loyalty to a (fragile) constitution. The ruling party then first holds a 'party congress' at which leaders are chosen 'by acclamation' and then brought to the people to be 'elected'. The key determinants of electoral victory are

- (a) Appeal for ethnic support,
- (b) A monopoly of state information apparatus,
- (c) Willingness to gerrymander the elections and to use the 'Party youth wingers', and the army, if necessary, against the opposition,
- (d) Populist slogans and
- (e) Playing on the fears and general ignorance of the population.

Practically everywhere in Africa dissent is generally not tolerated by those in power. Or at best, the limits to tolerance are very narrow. There is an extremely low threshold for tolerance of dissent, and the reasons for this we have already described above, namely, the fear to lose power, for unlike in the fully developed capitalist states, when you lose power in Africa you lose all.

Nonetheless, two kinds of dissent may be identified: (a) Critical dissent, and (b) Oppositional dissent. Critical dissent comes from those who have neither the intention nor the capacity to challenge the government or to overthrow it. Its intention is to influence the government to make reformist changes in policy or practice. Oppositional dissent, on the other hand, comes from those who would want to overthrow the government.

But the boundaries between the two, however, are not always clear. Those involved in dissent may think they are being 'helpfully or constructively critical' of the government in order to strengthen the progressive forces that there may be amongst those who hold state power, but the state may not think it that way, they may think that those who are involved in 'critical' dissent may in fact be involved in 'oppositional' dissent. Often both forms of dissent are clamped down without discrimination, leading dissent to its third form—underground and illegal dissent, or to its fourth form—dissent in exile.

How then are civil and political rights guaranteed in such a situation?

The liberal as well as social democratic bourgeois tradition has it that the civil and political rights are guaranteed by certain jealously guarded institutional means that have emerged out of long and bitter struggles of the masses against authority. These are the countervailing forces against excessive abuse of state power, and they include

- constitutional protection of these liberties,
- a free and independent press,
- a free-thinking intellectual fraternity,
- a free and independent trade union,
- multi-party system,
- an independent judiciary,
- periodical accountability to the voters through elections to the parliament, and
- a free and independent church as an interpreter of alternative morality to state's interpretation of it.

Having listed these, we must immediately caution that in times of crisis the bourgeoisie in western 'democracies' are apt to abrogate or set aside some or all of these safeguards to individual liberties and protect what is dearest to the bourgeois heart—bourgeois property. And it is not just in war times only that these safeguards are 'set aside'. Margaret Thatcher (but not she alone) has shown that these things can be done even during peace times too.

But in Africa these countervailing forces to state power as guarantors of civil liberties do not exist—or are extremely fragile where they exist in some form—and they have no solid roots in society. The colonial period made sure that whatever traditions existed in the distant past were torn into shreds and replaced by unchallenged authority. All civil rights are a gift from the state. It can give, and it can take them away. Those replicas of democratic institutions (such as the Constitution, the parliament, the independent judiciary, multi-party system, etc., etc.) which were hastily assembled on the eve of independence have not acquired civic roots to counter against a century of colonial authoritarian tradition deeply embedded in the body politic of the African state.

However, it is not true to say, as some do, that there is absolutely no 'free press' in Africa. There isn't a particular kind of free press—a press that consistently and steadfastly articulates the views of the lower classes about the nature of their oppression and exploitation, but some kind of 'free press' does exist. Theoretically, the press has two sources of power.

(a) The 'rightist' press has as its source of power a firm footing in finance capital. And it does, from time to time, hit at the excessive abuse of power by governments in Africa for fear that such abuse could have a destabilising effect on the climate of investment and profit-making.

(b) A 'leftist' press has as its source of power the barely audible voice of the weak and the disinherited. Few newspapers dare

act as their spokesmen, and so a few intellectuals of left inclination bring out periodicals and journals which are tolerated by the state because these periodicals are generally dismissed as being 'academic' or 'intellectualist'. They generally have a limited circulation, and pose no real threat to those in power, although, of course, the state will clamp down on such journals if they go beyond a certain threshold of tolerance.

The rightist press is found in every African state, often owned and financed from outside, and usually championing the cause of 'free enterprise' whilst condoning every instance of crackdown on the working classes daring to ask for a fair return to labour or, failing that, daring to withdraw their labour in 'illegal' strikes.

In most developed countries in the West it is the working classes and left intellectuals who form the backbone of the opposition to the ruling capitalist oligarchies. In Africa, the left intellectuals are weak and divided. Often they have mortgaged their integrity to official 'Marxist-Leninist' or 'socialist' parties in the vain hope that they would "influence the state from within". Some of them are engaged in the universities or in the media, and play an important role in the conscientisation of the broad masses of the students and the working classes, but their impact as yet in Africa (compared for instance, to Latin America and the Far East) is still marginal.

As for the working classes and the trade unions, they too are generally weak and divided. Many of the unions and confederations of unions in Africa are ideologically confused as a result of massive infusion of American trade-unionist and European social democratic finance, literature and 'workshops' that aim at depoliticising the working class struggles. As for governments that claim to be 'socialist' or 'Marxist-Leninist', they attempt to put the unions under the umbrella of the ruling parties on the alleged grounds that the workers are their allies in ushering in the socialist millennium. However, whatever the political or ideological hue of the government in power, labour strikes in Africa are generally difficult, either made illegal by law or made impossible by administrative encumbrances. The 'free' enterprise belongs to the arena of free withdrawal of capital if there is inadequate profit, not to the arena of free withdrawal of labour-power if there is not a fair return to labour.

Thus the trade unions, the students, the leftist press, the independent judiciary, etc. are recognised either in their obscurity or in their utter passivity.

Only three 'institutions' have retained varying degrees of independence in post-independence Africa: One, the churches² because of their international connection, although they too are under pressure to conform; two, the army, itself part of the instrument of oppression but often able to stand aside from the 'governing' elite and threatening to take power for themselves; and three,

local agents of international financial corporate power, which we have discussed earlier. However, all these three have shown in practice that they scream to high heaven in protest against governments only when their own narrow interests or narrowly conceived value systems are threatened, and they join authoritarian forces to clamp down on the working classes and radical intelligentsia (sometimes justified as fighting 'communism') whenever the ownership of property of the big bourgeoisie is threatened.

NEW AGENDA OF DEBATE

Reality is fastidious. It confounds the best theoretician. The debates of the 1970s and the 1980s on the question of democracy and development have already been outpaced by events. The most destructive of past theories and past illusions have been the changes in the Soviet Union and the Eastern European countries. These events have destroyed, once and for all, the myth that socialism can be achieved from on top by an intellectual vanguard seizing state power at the behest and on behalf of the workers.

The second reality is the failure of all the strategies offered to Africa by Harvard-or-Sussex-trained so-called 'experts in development theories' who thought they had the answers to Africa's problems in their word-processors. These foreign and foreign-trained experts simplify African reality and turn it into an economic abstraction. In September 1990, Adebayo Adedeji, the Executive Director of the Economic Commission for Africa, himself a well known economist and also trained in the West, finally came down to state the truth that conventional economists have misled Africa for the last three decades. The theories of the western economists have failed, and so, as we have seen, the practices of world institutions such as the World Bank and the IMF who speak on behalf of international corporate capital.

These events have cleared the decks of the reigning theories on development and democracy banded about Africa for the last thirty years. In the mid-to-late 1980s the concerns of the dominant ideologists have shifted thrice. The first shift came around 1986-87, when the World Bank ideologists finally acknowledged that the social cost of the Structural Adjustment Programmes (SAP) was very high, and that something had to be done to mitigate its effects. The second shift came a couple of years later when the WB and many other donor agencies decided that the so-called non-governmental organisations (NGOs) might be better agencies through which to channel aid than the central government agencies, though, of course, the latter could not be ignored. And the third shift came with the appearance in 1989 of the World Bank's Study, *Sub-Saharan Africa: From Crisis to Sustainable Growth*, which, for the first time, put the political aspects of 'governance' on the agenda of the World Bank in addition to its con-

ventional economic agenda.

Our earlier quote from the UNICEF Study *Adjustment with a Human Face* talks of the high 'social cost' of the Structural Adjustment Programme. Normally, of course, capitalism is not concerned about 'social costs' of profit maximisation, but in the mid-1980s it did look as if the masses in Africa were abandoning parliamentary methods of protest and taking to the streets. Something therefore had to be done to pacify this groundswell of political opposition. Hence was born the idea of 'adjustment with a human face'. Let the World Bank speak for itself:

The Bank seeks to assist governments in identifying ways and means of mitigating adjustment costs and to modify the design of the policy and institutional measures accordingly. During the implementation of the adjustment programme, the government and the Bank need to monitor closely any negative impact of the programme on the most vulnerable sections of the population and help to develop compensatory programmes, targeted on the affected groups as required³ (emphasis added).

So the task of masking the ugly face of adjustment became an urgent agenda for corporate capital expressing itself through the World Bank.

The first major experiment at this 'masking' was undertaken in Ghana. According to WB's own reports, since the adoption of the WB-induced Economic Recovery Programme, about 75 per cent of all households in Ghana dipped below the poverty line, and the death rate had risen dramatically. Ghana's Finance Minister, Kwesi Botchwey, warned at the New York meeting of the IMF that no recovery programme could succeed if it pushed a long-suffering people into rebellion. It was to forestall such a possibility that the Ghana government, at the behest of the IMF/WB, introduced the Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD). PAMSCAD instituted four sets of measures. First, food-for-work jobs, mainly for the urban poor; second, more credit for small-scale farmers and miners and to concerns that employ women; third, special funds to community self-help projects that "create employment and address the needs of vulnerable groups"; and finally, a 'basic needs' strategy through financing projects in water, sanitation, health care, nutrition and housing. Immediately Ghana introduced PAMSCAD, it received pledges of US\$ 85 million (\$1 million more than it asked for) from a variety of western donors and UN agencies.

Whilst the WB was celebrating the 'success' of PAMSCAD and considering introducing similar measures in other parts of hard-pressed Africa, things continued to deteriorate in Ghana. In an interview with the BBC, Adebayo Adedeji spoke against adopting the Ghana model. "You can take each of the indices in the social sector, one by one", Adedeji said, "and compare Ghana of today with Ghana of 20 years ago. It is

but a shadow of what it used to be." This was echoed in early 1990 when Jerry Rawlings, at the aid consortium meeting in Paris, expressed his disillusionment with PAMSCAD.

That more or less killed PAMSCAD in Ghana, but not yet WB's attempt to try the same experiment out in another country in Africa, and the country chosen was Uganda. In 1988, once again at the behest of the WB, the Uganda government introduced the Programme for the Alleviation of Poverty and the Social Costs of Adjustment (PAPSCA). What made Uganda attractive was the acclaimed success of its 'Resistance Council System'. The system was born during the guerrilla days of the present ruling party in Uganda when it was fighting against the rule of Milton Obote. This, the RC system, introduced a hierarchical structure of decision making from the village level onwards to higher levels. What was attractive about the system was its promise of 'direct democracy' at the village level. Here, finally, it was said, was the answer to creating a development organ that went down directly to the grass roots and was accountable to the people. Of course, this experiment is going to be as illusory as the Ghanaian one.

The Uganda project fitted neatly into the second shift in the World Bank strategy—the idea of channelling aid through the NGOs. In a 1990 publication called *How the World Bank Works with Non Governmental Organisations*, the Bank explained thus:

Over the last generation there has been significant worldwide growth of NGOs, and their capacity to contribute to the development process has expanded. Meanwhile there is growing recognition worldwide that the public sector is limited in what it can do. As societies come to terms with these limitations, many look to citizens' organisations and non profit groups to assume a greater role.⁵

The emphasis on 'citizens' organisations' coincided with changes in Eastern Europe where too civic associations took the lead in challenging the domination of the old state apparatus. So it seemed a good idea to use grassroots civic organisations to channel aid to African countries where, above all, the public sector corporations were fast losing their credibility and coming under a massive attack from the WB and donor agencies for their inefficiencies.

The third shift in the World Bank's strategy came around 1989 when the Bank squarely faced what it called the problem of 'governance' and of accountability of African governments to their populations. The 'Crisis to Sustainable Growth' document of the WB, after having laid out some of the economic measures of 'structural adjustment' and measures to improve the management necessary to improve the delivery system, goes on to add:

None of these measures will go far nor will much external aid be forthcoming, unless governance in Africa improves. Leaders must become more accountable to their peoples. Transactions must become more transparent, and funds must be seen to be properly ad-

ministered, with audit reports made public and procurement procedures overhauled.⁶

The WB's demand for 'good governance' and 'accountability' had since been echoed by many bilateral donor agencies, some of whom, like Britain, have come out openly to accuse African governments of corruption and mismanagement.

All that is left now for us is to explain this latest turn of events where you have the odd spectacle of the World Bank the arch exploiter of African labour, preaching democracy.

PARADOX OF DEMOCRACY

We argued earlier that democracy and development are never 'given' as 'concessions' by the ruling oligarchies. These are always fruits of victories won by the people engaged in intense struggle against these oligarchies. What has happened in Africa is that the people at the grassroots level are becoming increasingly conscious politically. They had fought for independence but they have now realised that political independence from colonialism was only partial victory, for whilst it created some political space for them to exercise their right to vote, long denied them under pretext that Africans were not 'civilised' enough to qualify for the vote, the post independence era, if anything, has tightened the noose of neo colonialism even more securely round their throats.

African governments have few options. As a class they have no property. As individuals incapable of accumulating private capital they can only indulge in personal consumption. Above all, they have very little leverage against the dictates of international finance capital at whose behest they 'make policies' for economic 'development', now based on 'import substitution', now on 'export promotion'—in an endless cycle of illusions. All the time, however, international corporate capital continues to declare massive profits in their annual reports. Part of these profits go into the extraordinary (and, one might add, foolish) forms of consumption of the people in the West, which 'dirty habit' is now beginning to take its toll on the forests of Europe and the ozone layer. However, apart from their worries about the ozone layer and (until the Gorbachev turnaround) the possibility of nuclear war, the populations in the West are almost completely depoliticised, and their concerns for the poverty in the Third World is spasmodic and constitute an irritant to be removed from their TV screens by occasional handouts of 'relief' to the destitute or, to use the WB vocabulary, the 'vulnerables' of Africa.

Naturally, the bulk of African masses get no relief from these measures. Instead, over the years the standard of living of the masses of African people has declined. The economic immiserisation of the African population, caused by the intensification of exploitation by corporate capital, is at the root cause of the spate of civil wars and internecine violence in Africa, presented in the Western

media as expressions of 'tribalism'.

In sheer desperation, African masses have taken to the streets. As we said earlier, the parliaments in Africa do not provide adequate organs for protest against governments' policies, for these policies in any case are not made in Nairobi, Lusaka, Accra or Dakar but in Washington, London, Bonn, Paris and Japan. So in which arena do the African masses fight for their democracy? Naturally, in the streets of their capital cities and in the mining towns.

The paradox of 'democracy' is that every slave master eventually turns his whip against the slave supervisors for allowing things to deteriorate so badly that the slaves are in revolt. This is what the World Bank and the donor agencies are now doing with African governments. Their call for 'accountability' and 'good governance' is but a call for the governments in Africa to discipline themselves, not to be self indulgent, and to begin to listen to the reasons why the slaves are revolting and to make sure that things do not seriously deteriorate so badly that there is a groundswell of revolutionary upsurge from below throwing the whole edifice of the present international system into jeopardy. We started out by describing the demise of extant democratic models in Africa—both of the left and of the right. We suggested that this was a positive development since for the first time since African countries became independent, there are no models of democracy to emulate and so African masses can begin to think for themselves. We argued, however, that this was not going to be easy because there are powerful global and local interests in Africa who are simply not interested in democracy or to give it a more current description: empowerment of the people.

Democracy, however, cannot be separated from economics. The demands by the grass roots for democracy have arisen out of the increasing immiserisation of the masses of African populations. The masses have realised that the solution to their low wages and low crop prices does not lie in economics alone. The task before them is essentially political. The politics of struggle against the present international system has arisen from the economics of the system, but the remedy for the crisis does not lie in economics alone. What the world economic crisis has brought to the fore is the politics of struggle by the oppressed and exploited classes against those the financial oligarchy who own and or control the means for the exploitation of the world's productive resources for exclusive consumption by a very tiny percentage of the world's population.

The first concrete step to the dismantling of this system is thus the further extension of the democratic rights of the people of the Third World beyond the formal act of political independence. Of course, these democratic rights are not likely to be defended and made effective by those who wield social power in the Third World countries. These classes have acquired a vested interest

in not rocking the boat, which is why reformist solutions presented by such as Willy Brandt and social democrats are so appealing to them. They cringe from mass politics, and clutch on to these reformist solutions even when these have demonstrably failed to 'reform' the system. What this means therefore is that the struggle to exercise the right to democratic freedom must also be spearheaded by the working classes themselves, just as they spearhead the struggle for a fair return to their labour in the sphere of production.

The bulk of the producing classes in Africa are peasants, and a vast majority of these are poor, even destitute. The politics of land is therefore the politics of those who labour on land for the control of cattle, of water, of cultivable land, of the forests, the fish, the air and, above all, for the control of the institutions that make decisions. The peasants are daily crushed by the demands of corporate capital (in the form of hybrid seeds, fertilisers, pesticides, tractors, rising diesel prices, state credit and state marketing boards) and all the intermediate classes that benefit from this form of exploitation. In one study we carried out in the Zambezi Valley in Zimbabwe we found that less than 10 per cent of the value produced by the peasants in the Valley is retained in the Valley for the benefit of the people; over 90 per cent seeps out in the form of expenditure on inputs, repairs, and maintenance, transport costs and interest on borrowed capital. We also found that all the main resources in the Valley—fish, forest and wildlife—are commercialised as concessions in the hands of big companies, whilst the peasants themselves are prevented, by law, from using these resources. They have to subsist by producing cotton and maize—neither of them indigenous to the area.

Where there is oppression, however, there is also opposition. The peasants in the Valley that we know, as indeed peasants everywhere in Africa, are waging a war of survival and resistance. It takes many forms. At the economic level, the peasants 'cheat' the state and the marketing boards; they cheat the laws that prevent them from hunting and fishing; they collaborate with lower level state officials who are closer to them on the ground to undermine the dictates of higher level desk-bound autocrats, who, since they never leave their desks, do not know what is happening on the ground. People have to survive first. Then they can organise themselves. They use traditional institutions—such as spirit mediums—in order to legitimise their acts of defiance (subtle, not open defiance) against state authority. They illegitimise certain agricultural practices imposed upon them as 'taboos'—as has happened in some areas against the practice of using fertilisers. They use traditional medicine and, in some cases witchcraft, to cure illnesses, 90 per cent of which, in any case, are either psychosomatic or socio-somatic, incurable by western medicine. Hence the peasants are on the one hand

'modernising' under pressure from the state and on the other hand 'traditionalising' their strategies to gain control over their resources and decision-making structures.

Of course, it would be wrong to romanticise the struggles of the peasants, and it would be wrong to separate their struggles from those of the workers in factories. In another study of five industrial trade unions in Zimbabwe we have found that the dichotomy between 'workers' and 'peasants' is a false dichotomy—a theme we cannot get into here.

The point is that certain clever agents of the World Bank and corporate capital have done research into the rural areas of Africa, and have discovered the new social forces that are emerging on the ground. They may yet not be formidable. They are as yet isolated and unorganised. And yet, who can say, in a global movement of awakening of oppressed peoples everywhere, from the ethnic minorities in Europe to the indigenous peoples of America and Canada, and the forest peoples of Africa, Asia, Brazil and Australasia, there may yet be a new social movement gathering force at the grassroots level. It is not without reason that

the World Bank is increasingly focusing on the 'grassroots' so-called 'non-governmental organisations'. That is the terrain of battle for the 1990s. That is where the struggles for democracy and human rights are being daily waged... and, we are witness to some that have been won, even if, for the time being, ephemerally. That process has still to be recorded.

Notes

- 1 *Adjustment with a Human Face*, Vol 1, *Protecting the Vulnerable and Promoting Growth*, a study by UNICEF, edited by Giovanni A Cornia, Richard Jolly and Frances Stewart, Oxford: Clarendon Press, 1988, pp 67-68.
- 2 We refer here only to Christian churches because the question of the Islamic church and the traditional African churches is too complex and needs a separate discussion.
- 3 Quoted in *Adjustment*... op cit, p 4.
- 4 See *Financial Gazette*, Harare, September 2, 1988.
- 5 The World Bank, *How the World Bank Works with Non-Governmental Organisations*, June 1990, Preface.
- 6 World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth*, 1989, p 13.

APOLLO TYRES LTD.

CORRIGENDUM

Further to our corrigendum dated 14.3.91 under sub-section (4) of section 23 of the Monopolies and Restrictive Trade Practices Act, 1969 for approval to take over the whole or part of Gujarat Perstorp Elektronik Ltd published in the News papers the following changes may be noted.

| 1. (iv) Capital structure of | Share Capital | Authorised (Rs.) | Issued Subscribed & Paid up (Rs.) |
|--|--|------------------|-----------------------------------|
| b) the undertaking proposed to be taken over | Equity Shares of Rs.10/- each | 100 Lacs | 70 |
| | Initial paid-up Equity Share Capital shall be Rs.940 lacs. Apollo Tyres Ltd. proposes to acquire 45,59,000 Equity Shares of Rs.10/- each amounting to Rs.455.9 lacs. | | |
| (vi) Consideration for the take over | Rs.455.9 lacs by subscribing 45,59,000 Equity Shares of Rs. 10/- each. | | |

Dated this 18th day of June 1991

For APOLLO TYRES LTD,
(PN WAHAL)
COMPANY SECRETARY

Regd Office 6th Floor, Cherupushpam Building, Shanmugham Road,
Kochi-682 031 (KERALA)



CREDIT LYONNAIS

BOMBAY BRANCH

BALANCE SHEET AS AT MARCH 31, 1991

(Currency: Indian Rupee)

| March 31 1990 | CAPITAL AND LIABILITIES | March 31 1991 | March 31 1990 | PROPERTY AND ASSETS | March 31 1991 |
|------------------|--|------------------|------------------|--|------------------|
| | 1 Capital | | | 1 Cash | |
| | Face value of securities (previous year Cash) deposited with Reserve Bank of India under Section 11(2) of the Banking Regulation Act, 1949 included under Investments on the opposite side | | 5 487 716 45 | In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes) | 996 005 909 17 |
| ₹ 000 000 00 | | | | 2 Balances with Other Banks | |
| Nil | | 8 991 735 70 | 10 933 937 72 | On Current Account - | |
| | 2 Reserve Fund and Other Reserves | | 511 480 94 | (i) In India 41 349 301 03 | |
| | | | 11 444 657 96 | (ii) Outside India 116 270 36 | 41 465 571 39 |
| | 3 Deposits & Other Accounts | | | On Deposit Accounts | |
| Nil | Fixed Deposits - | | Nil | (i) In India Nil | |
| 949 341 867 86 | (i) from banks 324 000 000 00 | | Nil | (ii) Outside India Nil | Nil |
| 949 341 867 86 | (ii) from others ₹ 073 997 475 51 | ₹ 397 997 475 51 | 11 444 657 96 | | 41 465 571 39 |
| 505 597 52 | Savings Bank Deposits - | 753 320 74 | | | |
| | Current Accounts | | 690 000 000 00 | | |
| Nil | Contingency Accounts etc | | | 3 Money at Call and Short Notice | 350 000 000 00 |
| ₹ 183 078 90 | (i) from banks Nil | | | | |
| ₹ 183 078 90 | (ii) from others 117 866 141 45 | 117 866 141 45 | | 4 Investments | |
| 958 030 543 58 | | ₹ 516 616 937 70 | ₹ 34 930 500 00 | (i) Securities of the Central and State Governments and other Trustee Securities including Treasury Bills of the Central and State Governments | 757 179 135 99 |
| Nil | 4 Borrowings from Other Banking Companies, Agents, etc | | Nil | (i) Share | Nil |
| Nil | (i) In India Nil | | Nil | (ii) Debenture or Bond | 134 230 615 00 |
| Nil | (ii) Outside India 4 452 06 | 4 452 06 | Nil | (iv) Other Investments | Nil |
| Nil | Particulars | | 234 230 500 00 | (v) Gold | Nil |
| Nil | Secured Nil | | | | 1 091 609 750 99 |
| Nil | Unsecured 4 452 06 | | | 5 Advances | |
| Nil | | | | (Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors) | |
| 11 818 433 55 | 5 Bills Payable | 34 911 608 10 | | (i) Loans Cash credits, Overdrafts etc | |
| | 6 Bills for Collection being Bills Receivable per contra | | | (i) In India 270 700 413 63 | |
| Nil | (i) Payable in India 4 109 821 41 | | 52 653 586 25 | (ii) Outside India Nil | 270 700 413 63 |
| Nil | (ii) Payable outside India 5 587 422 68 | 9 697 244 09 | Nil | | |
| Nil | | | | (ii) Bills discounted and purchased (excluding treasury Bills of the Central and State Governments) | |
| 156 492 378 90 | 7 Other Liabilities | | 52 653 586 25 | (i) Payable in India 661 706 166 87 | |
| 27 486 858 09 | (i) Head Office capital account 156 492 378 90 | | | (ii) Payable Outside India 39 518 90 | 661 745 685 77 |
| 8 863 086 30 | (ii) Accrued interest 55 150 439 68 | | 151 197 771 17 | | |
| 880 908 53 | (iii) Branch adjustments Nil | | 45 276 18 | | |
| 199 792 471 89 | (iv) Others 77 695 064 19 | 289 137 875 97 | 151 173 049 35 | | |
| | 8 Acceptances, Endorsements and Other Obligations on per contra | 298 148 171 48 | 903 896 635 60 | | 932 446 099 40 |
| ₹ 160 667 58 | 9 Profit and Loss Account | | | 6 Bills Receivable being Bills for Collection as per contra | |
| Nil | Loss as per last balance sheet (3 873 564 13) | | | (i) Payable in India 4 109 821 41 | |
| | Add Profit for the year as per Profit and Loss Account 44 608 678 50 | | Nil | (ii) Payable Outside India 5 587 422 68 | |
| Nil | Less Transferred to Reserve Fund and Other Reserves (8 991 735 70) | 31 813 378 67 | Nil | | 9 697 244 09 |
| Nil | | | | | |
| 1 165 732 116 53 | Carried Forward | 3 119 471 403 77 | 1 074 989 510 01 | Carried Forward | ₹ 721,224,574 97 |



CREDIT LYONNAIS

BOMBAY BRANCH

BALANCE SHEET AS AT MARCH 31, 1991

(Currency: Indian Rupee)

| March 31 1990 | CAPITAL AND LIABILITIES | March 31 1991 | March 31 1990 | PROPERTY AND ASSETS | March 31, 1991 |
|------------------|---|------------------|------------------|---|------------------|
| 1,165,732,116.53 | Brought Forward | 3,119,471,403.77 | 1,074,989,510.01 | Brought forward | 2,791,224,574.97 |
| | 10. Contingent Liabilities: | | | 7. Constituents' Liabilities for Acceptances, Endorsements and Other Obligations per contra: | |
| 112,360,957.74 | (i) Guarantees on behalf of (a) Customers 434,323,291.00 | | 2,160,667.58 | | 928,148,171.48 |
| 707,273.00 | (b) Officers 373,390.00 | | | | |
| 10,000,000.00 | (c) Underwriting commitment Nil | | | 8. Premises Less Depreciation | Nil |
| 123,068,230.74 | | | Nil | 9. Furniture and Fixtures including office equipment less depreciation | |
| Nil | (ii) Liability on Bills of Exchange rediscounted 27,500,000.00 | | Nil | Original cost beginning of the year 7,701,090.52 | |
| | (iii) Liability on account of outstanding forward exchange contracts 233,990,174.00 | | 7,701,090.52 | Add: Addition during the year 2,898,892.85 | |
| 1,204,219.00 | | | 7,701,090.52 | 10,529,983.37 | |
| | | | Nil | Less: Deletion during the year (42,658.00) | |
| | | | 7,701,090.52 | 10,487,325.37 | |
| | | | (406,798.91) | less: Accumulated depreciation (2,058,689.14) | |
| | | | 7,994,991.61 | | 8,428,636.23 |
| | | | 7,108,284.69 | 10. Other Assets | |
| | | | 69,832,158.51 | (i) Accrued interest 42,991,101.31 | |
| | | | Nil | (ii) Prepaid expenses, deposits and amounts receivable 78,333,695.69 | |
| | | | Nil | (iii) Tax deducted at source 33,051,706.00 | |
| | | | 473,640.00 | (iv) Branch adjustments 7,635,870.79 | |
| | | | 77,414,083.80 | (v) Vehicles less depreciation 757,648.00 | |
| | | | Nil | | 161,670,021.79 |
| | | | 3,871,564.13 | 11. Non-Banking Assets Acquired in Satisfaction of Claims | Nil |
| | | | | 12. Profit and Loss | Nil |
| 1,165,732,116.53 | TOTAL | 3,119,471,403.77 | 1,165,732,116.53 | TOTAL | 3,119,471,403.77 |

The accompanying notes are an integral part of this statement

Arthur Andersen & Associates
Chartered Accountants

Cd

Attested by
Partner

Bombay
May 29, 1991

Credit Lyonnais
Bombay Branch

Sd/

P. A. Muzil
General Manager



CREDIT LYONNAIS

BOMBAY BRANCH

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 1991

(Currency Indian Rupee)

| 1991 (Note 4) | EXPENDITURE | 1991 | 1990 (Note 4) | INCOME (Less Provision made during the year for bad and doubtful debts and other usual or necessary provisions) | 1991 |
|------------------|---|----------------|------------------|---|----------------|
| 27 645 338 89 | 1 Interest paid on Deposits Borrowings etc | 17 641 749 57 | 18 097 131 19 | 1 Interest and Discount | 283 536 462 49 |
| 7 987 653 69 | 2 Salaries Allowances Provident Fund Bonus etc | 7 240 183 54 | 216 963 46 | 2 Commission Exchange and Brokerage | 4 721 097 86 |
| Nil | 3 Directors and Local Committee Members fees and allowances | 95 000 00 | Nil | 3 Rents | Nil |
| 1 901 283 11 | 4 Rent Tax Insurance Lighting etc | 3 599 364 93 | 10 380 196 92 | 4 Net Profit on sale of Investments Gold and Silver Land Premises and Other Assets (not credited to reserves or any particular fund or account) | Nil |
| 196 999 07 | 5 Law Charges | 56 643 00 | Nil | 5 Net Profit on revaluation of Investments Gold and Silver Land Premises and Other Assets (not credited to reserves or any particular fund or account) | Nil |
| 1 595 499 70 | 6 Postage Telegrams and Stamps | 2 732 684 62 | Nil | Income from non banking assets and Profit from sale of or dealing with such Assets | Nil |
| 100 000 00 | 7 Auditors Fees | 150 000 00 | 32 552 00 | Other Receipt | 1 738 404 72 |
| 1 617 211 61 | 8 Depreciation on and repairs to the Banking Company's property | 3 654 718 36 | 3 873 664 11 | 6 Loss for the year | Nil |
| 442 731 67 | 9 Stationery Printing Advertisements etc | 1 294 900 58 | Nil | | |
| Nil | 10 Loss from sale of or dealing with non banking assets | Nil | | | |
| 14 992 393 66 | 11 Other Expenditure (including Head Office Supervision charges) | 48 991 971 97 | | | |
| Nil | 12 Balance of Profit | 44 608 678 50 | | | |
| 52 530 411 70 | TOTAL | 989 995 965 07 | 52 530 411 70 | TOTAL | 289 995 965 07 |

The accompanying notes are an integral part of this statement

Arthur Andersen & Associates
Chartered Accountants

Sd/

Bombay
May 29 1991

Vijay Sahni
Partner

Credit Lyonnais
Bombay Branch

Sd/

P A Murali
General Manager

NOTES AND SCHEDULES TO FINANCIAL STATEMENTS AS AT MARCH 31, 1991

1 Principal accounting policies

(a) General

The accompanying financial statements have been prepared on the historical cost basis and conform to the statutory provisions and practices prevailing in the country

(b) Transactions involving foreign exchange

Monetary assets and liabilities have been translated at the exchange rates ruling at the close of the year

Income and expenditure items have been translated at the exchange rates ruling at the date of the transaction

Profit or loss on outstanding forward contracts have been accounted on an accrual basis

(c) Investments

Investments are valued at the lower of cost or market value

(d) Advances

Provisions for doubtful advances have been made to the satisfaction of the auditors. The provision has been made based on management's estimates of potential exposure and taking into account guidelines issued by the Government of India and the Reserve Bank of India

Advances are shown net of Bills Rediscounted under the New Bill Market Scheme of the Reserve Bank of India

(e) Fixed assets

Fixed assets have been accounted at their historical cost

Depreciation has been provided on the straight line method at the following rates per annum:

| | |
|-----------------|-----|
| Furniture | 10% |
| Vehicles | 20% |
| Computers | 25% |
| Other equipment | 20% |

(f) Staff benefits

The Bank has entered into an Employees Group Superannuation Scheme with Life Insurance Corporation of India (LIC) for providing pension benefits to employees. The Bank also makes a provision for any additional liability not covered by the LIC Scheme

(g) Taxation

The balance of profit disclosed in the Profit and Loss Account is after provision for taxes on income in accordance with statutory requirements



CREDIT LYONNAIS

BOMBAY BRANCH

2 Schedule of Particulars of Advances required by the Banking Regulation Act, 1949

| March 31 1990 | PARTICULARS | March 31 1991 | | | |
|------------------|--|------------------|--------------|--|----------------|
| 27 378 436 60 | (i) Debts considered good in respect of which the Banking Company is fully secured | 8 716 13 98 | | (v) Debts due by the directors or officers of the Banking Company or any of them either severally or jointly with any other persons | 8 089 930 41 |
| 15 310 836 18 | (ii) Debts considered good for which the Banking Company holds no other security than the debtor's personal security | 714 3 953 | 1 304 882 60 | (vi) Debts due by companies or firms in which the directors of the Banking Company are interested as directors, partners or managing agents or in the case of private companies as members | Nil |
| 161 117 369 82 | (iii) Debts considered good secured by the personal liability of one or more parties in addition to the personal security of the debtors | 2 35 886 730 62 | Nil | (vii) Maximum total amount of advances including temporary advances made at any time during the year to directors or managers or officers of the Banking Company or any of them either severally or jointly with any other persons | 8 349 477 84 |
| Nil | (iv) Debts considered doubtful or bad not provided for | Nil | 1 304 882 60 | (viii) Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the directors of the Banking Company are interested as directors, partners or managing agents or in the case of private companies as members | Nil |
| 201 826 635 61 | Total advances | 25 446 334 4 | 143 98 195 | (ix) Due from Banking Companies | 487 224 453 82 |

3 Remuneration paid to the Chief Executive Officer in India

| March 31 1990 | March 31 1991 |
|---------------------------------------|------------------|
| Salary to the Chief Executive Officer | 496 603 |
| Perquisite and other allowances | 85 69 |
| Total | 581 29 |

4 Prior year comparatives

Figures in prior year are for the period from March 23 1989 to March 31 1990

Auditors' Report on the Financial Statements under Section 30 of the Banking Regulation Act, 1949

We have examined the balance sheet of the Bombay Branch of Credit Lyonnais (incorporated in France with limited liability) as at March 31, 1991 and the related profit and loss account for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have also obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our examination and have found them to be satisfactory.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 and the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956, the financial statements are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act, 1956. The financial statements are therefore drawn up in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act, 1949.

In our opinion, the accompanying financial statements give a true and fair view of the state of affairs of the Bombay Branch of Credit Lyonnais at March 31, 1991 and of its profit for the year then ended.

Furthermore, in our opinion:

- the transactions of the Bombay Branch which have come to our notice have been within the powers of the Bombay Branch of the Bank,
- the balance sheet and the profit and loss account are in agreement with the books of account and give the information required by the Companies Act, 1956 in the manner so required for banking companies; and
- the Bombay Branch has maintained proper books of account as required by law insofar as appears from our examination of those books.

Arthur Andersen & Associates
Chartered Accountants

Sd/-

Vijay Sahni
Partner

Bombay
May 29 1991

From 'DEFENDUS' to Consensus

Jyoti K Parikh

A DEVELOPMENT focused End-Use Oriented Electricity Scenario for Karnataka published recently^{1,2} offers three major suggestions, viz, (a) Integrating energy conservation options in supply planning, (b) Consideration of decentralised energy options with 26,000 rural energy centres, and (c) Development focus while giving electricity connections

Are these suggestions viable? Is it possible to ensure co operation of the consumers or is the government required to intervene making for an even bigger government than now? Are the claims of saving 60 per cent of investment costs credible? This note comments on the first two abovementioned suggestions made in the article

Many of us non government organisation (NGO) professionals are unanimous about the need for integrating the demand side management (DSM) options into supply planning. DSM is a general term which includes conservation as one of the measures. Least cost planning approach has been around for a decade in the West, but has not yet been formulated for India. Therefore, the development focused end-use (DEFENDUS) approach is timely. However, is it ready for implementation in the Indian conditions? In answering this, the following conceptual, factual and institutional points are relevant

LEAST COST PLANNING

The least cost planning approach in the Indian context involves three (or four) actors—utility (existing plants) consumers, Central and State governments (new plants). DEFENDUS does not distinguish whose costs are being minimised. Mixing these costs may give unrealistic and unimplementable results for several reasons.

Typically, a consumer uses a much higher discount rate (18 per cent to 40 per cent) than a utility does (15 per cent). Central and State governments may decide to take other discount rates depending upon the aid, loan or other finances raised, but generally 10 per cent to 12 per cent. The investment comparison is made by the consumers not on the basis of what it costs the utility to invest in new plants, but what they save in electricity and demand charges and whether the savings pay back for the investment in retrofits at reasonably high discount rates (ranging from 20 per cent and up). No doubt, if consumers do not find it worthwhile, the government can finance them rather than the utility. But these calculations imposing an additional burden have to be accounted for.

The loan offers of Industrial Development Bank of India (IDBI) for conservation measures have not been taken up by the industries, partly because they add to their

liabilities, which does not impress their shareholders and reduces their borrowing ability.

It is for this reason, that DSM technologies are different than DSM programmes. The Indira Gandhi Institute of Development Research (IGIDR) is currently working on this. In a *consensus approach* a set of technologies should be put before the industries so that *their* ideas of least cost curve and the expected costs and benefits can be obtained.

In the West, there is two-actor negotiations. We have a three-actor problem, where the government is the third actor making it difficult to arrive at bilateral solutions practised in the West, where the utilities finance DSM projects. First of all, in India, utilities do not have any legal obligations to consumers to provide 'interruptions-free' electricity. Secondly, their pricing policy is politicised and dictated by consumer groups and politicians. Thirdly, on the other hand, the utilities do not have to raise much of the resources internally for investment in future plants. This makes it difficult to get the utilities interested in the DSM options because simplistically "they have no responsibilities to consumers and the investment for new plants is also not their responsibility". Therefore, in the 'four actor' situations, (when one includes State government and Central government as separate actors) it is the government that may have to negotiate directly and bilaterally with consumers, however, with the price that is set by the utilities. This is the institutional set up we have to keep in mind for the DSM. The best strategy will be to implement promotional (and punitive) policies where the consumers participate at their own will and do not expect the government to invest. A larger government role will eventually defeat the original purpose of DSM.

IGIDR has carried out an extensive survey of High Tension (HT) industries.³ In addition to differential discount rates and price considerations, the consumers also compare the efforts for conservation and DSM with other preoccupations they have, such as inventory management, reduction in delivery time, increasing capacity utilisation and so on, many of them also have just a much potential for cost savings as energy management. In response to our question "how much load will you shift for 30 per cent cheaper electricity at off-peak times", most of them said none! What could explain this partially is that the 'lost-plus' nature of pricing of outputs prevents them from taking cost saving measures.

As far as discouraging power intensive industries like aluminium is concerned,

especially on employment consideration, we have to bear in mind that such discretion does not lie with utilities in India (or perhaps anywhere) if the industry is willing to pay the price. Moreover, aluminium is a commodity required by poor or middle class in their households for cooking and construction and much of it is used by the power industry itself. So who is to manufacture it? In a centrally planned economy, it is the government which can take a decision whether it is worth importing it.

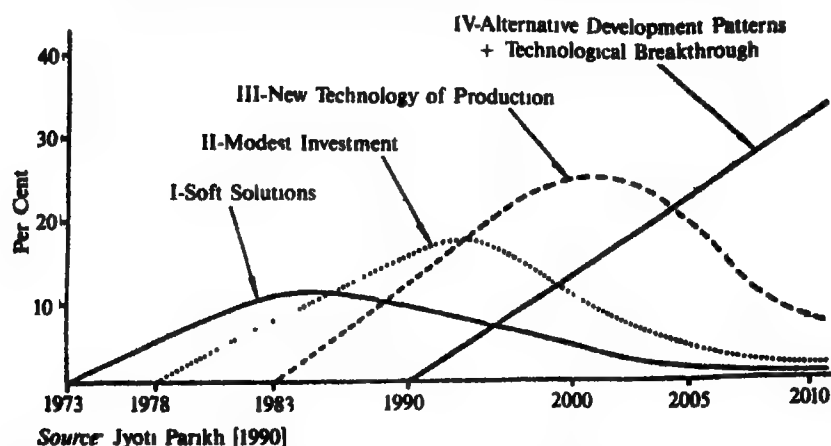
DEFENDUS would have to be less technocratic, working on dictates of energy efficiency, no matter, howsoever benevolent. It works on the same principles as the conventional system, namely implementation of a set of technologies. Such a concept like the DSM needs innovative ideas of management which are more participative. Consumers must have stake in the measures. For example, four major types of changes are already to be seen in the economy.⁴ All of these need to be encouraged, viz, (i) Soft (or managerial) solutions requiring no investment, (ii) Modest investment solutions requiring retrofits in the existing plant and equipment, (iii) New Technologies of production, (iv) Alternative way-of-life and societal change.

We will have to reckon with some energy inefficiencies in the system as trade-offs with other resources such as time, investment, water (irrigation), other inputs and so on which are always necessary to achieve overall production efficiency. For example, do we (or the authors of DEFENDUS) ride buses and trains because they are energy saving compared to cars and planes? If not, then why cannot the industries also be given a range of energy efficiency within which to operate? No doubt, energy audits must be compulsory for consumers beyond 2 MW load per connection, in view of national needs. However, having done that, the ultimate goals should be to lead to overall efficiency, while giving them a range options to choose from. It need not be a case of either motors or compact fluorescent lamps (CFL).

TECHNOLOGY FOCUS: MOTORS AND CFL

Narrow technocratic interpretation of end-use is taken here, instead of taking ultimate goal oriented end-use focus. For example, improvement in motors may not be possible, once the equipment is already installed. The best way to ensure this, is directly at the motor manufacturing plants. After that, one has to go in for overall process optimisation. For example, optimisation of cooling system will lead to more energy savings than changing motors in the air-conditioning plant. Often, it could have more to do with reducing leakages and improving cooling system design than changing motors. The same holds for heating systems, ventila-

FIGURE: SCHEMATIC REPRESENTATION OF DYNAMICS OF DIFFERENT DSM MEASURES, EXTENT OF THEIR CONTRIBUTIONS OVER TIME HORIZON



tion systems, crushing operations and so on. Giving them a freedom of choice will lead to more least cost strategies. This requires promotional policies and not 'technology fixes'.

The overall options for lighting systems may be considered. Why is CFL technology promoted before even trials are made in India? The CFL lamp (we have one in our house, purchased in UK) does not give light of uniform intensity in India. It could be that the manufacturing requires better quality control and frequency fluctuations may affect it more seriously than ordinary lamps. A \$ 15 lamp, if imported could cost Rs 600

unless duty (100 per cent) is waived. Therefore, unless the lamps are manufactured in India, imports of these lamps for households could hardly be justified. It appears far fetched to assume before successful trials of CFL that factories will be set up and lamps will be available in required quantities (But no harm in considering it a possible scenario). What is wrong with good old tubelights which are at least made in India and achieve considerable energy savings, if electronic ballasts and capacitors are provided. It could easily compete with CFL in India for some portions of the market. The portion needs to be determined from appro-

prate surveys.

Decentralised energy sources should be viewed also as supply technologies minus the transmission and distribution costs. The figures 19 and 20 giving unit costs of energy and power for energy efficiency centralised and decentralised energy schemes are valuable. What we also need are factors that determine upper limits for the contributions from each of the options. Though here, subjective judgment may enter. However, in the words of a CEA official "They neither provide power nor energy" needs some thought. Micro-hydel that we examined in Kerala gave power only during the rainy season, when the reservoirs were overflowing anyway.

Some of the renewable sources need to include storage, (especially those which do not use fuel)—such as solar and wind. They are subject to daily and hourly fluctuations and not available when needed. For example, watering at early mornings (no sun then) minimises evaporation losses and reduces water requirements. Every percentage point on loss of reliability has to be accounted for and costed. Alternatively, unreliable supply could be matched with demand where reliability has no premium such as windmills with overhead tanks. The efforts and costs of financing and maintaining some 26 000 decentralised rural energy centres appears not to have been given sufficient thought. It could be sizeable. However, in view of '100 per cent rural electrification' it may be worthwhile to consider renewables feeding the grid. More homework is needed for this.

CHART TYPES OF DEMAND SIDE MEASURES AND THEIR IMPLICATIONS

| Types of Conservation Efforts | Necessary Measures | Economic Criteria | Indicative Values of Possible Energy Savings (Per Cent) | Timeframe* |
|---|---|--|---|--|
| I Soft solutions zero or negligible investment | <ul style="list-style-type: none"> Turning off lights Guarding leakages Better understanding Vigilant management Education and co operation of labour | Justified at any price | 1 to 15 | Immediate from 1973 up to 1995 till the life of old machines |
| II Modest investment | <ul style="list-style-type: none"> Replacement of spare parts Updated boilers furnaces, motors Introduction of checking procedures | Savings of energy costs should cover investment at certain interest | Modest energy savings 10 to 30 | Gradual after 1976 onwards till the life time of current technology say 2010 |
| III Alternative process or technology of production | <ul style="list-style-type: none"> For newly set up industries of all types Large industries with large savings have already done R and D | The same as above (and below) New process and machines may not be more expensive than old, e.g. mainframe vs minicomputers | 20 to 50 | Begins in early eighties, could go on past 2010 |
| IV Different structural and technological breakthroughs | <ul style="list-style-type: none"> Replacing old way of life with Substitution of energy intensive materials such as steel, aluminium, Solar and other renewables Superconductors | Some of these changes are done for other purposes but the end result is reduced energy use | 30 to 80 | Also early eighties Would go on continuously |

Note: Role of microprocessors is all pervasive and could enhance the effect of the last three measures considerably.

* As shown by the experience of the developed countries

CASH FLOWS AND INVESTMENTS

Let us imagine a situation, where planning is actually done using DEFENDUS. Can such a system survive financially, despite being 'least cost'? With millions of households and agriculture consumers added, the share of consumption from well-paying consumers (viz industries) considerably reduced, the system load factor and revenue collection will be low in comparison to the costs, to get the required financial returns. It is seen from a number of examples, that SEB's profitability declines sharply when the shares of industrial and commercial consumption go down. It is unlikely that decentralised systems can be financed by households and agriculture without major price-hikes. DEFENDUS does recommend these price-hikes but the uproar that will emerge from such price-hike has to be reckoned with. Remember, they do not have connections at present because they cannot pay for it.

The investment requirements for DEFENDUS scenario are shown to be a third of other projections. The differences look exaggerated because of the absurdity⁴ of the other projections which have institutional origin. Inherent suggestions made by the DEFENDUS can be correctly compared by the authors themselves by comparing with or 'without' certain options. Any other comparisons cannot be taken seriously and do not do justice to the work put in by DEFENDUS. When all constraints are considered, it is doubtful that DSM options will save more than 5 per cent to 10 per cent investment costs. However, this should not be considered small. We have to think of nuclear and renewable options which have not contributed to this extent despite several decades of efforts. In addition, they will save fuel costs and corresponding environmental costs which is also very important.

A word about environmental priorities. The environmental gains from DEFENDUS should have been better expressed in terms of local pollutants such as fly ash, SO₂, NO_x as well as other effects such as radiation, submergence and so on rather than global pollutant like CO₂. Not many of us agree with the idea of imposing carbon tax on ourselves to solve the problems created by developed countries.

The departure from the conventional thinking is a major contribution of the DEFENDUS. How to make DEFENDUS a participative model is a challenge for the authors. It requires a management focus (see annexure 1) rather than a technology focus. A number of suggestions such as improvements in motors, use of CFL, decentralised energy sources and so on would require a very different kind of financing, management and promotional efforts and participation of consumers of a mix of decentralised systems where household and agriculture connections are increased dramatically, needs to be established in terms of cash flow from each consumer category. Prior to implementation, the financial viability of all

the suggestions made, requires careful analysis. One hopes that the authors of DEFENDUS would come up with more innovative options encouraging participation from the consumers and ensure the financial viability of their suggestions in a comprehensive way and in a long-term sense and not in terms of investment alone.

ANNEXURE: MANAGEMENT FOCUS— A CONCEPTUAL FRAMEWORK

Energy conservation activities could be grouped into four different categories. They take different amounts of lead time to be effective, resulting in varying degrees of energy savings and requiring different levels of investments. The chart indicates the lead times, extent and periods of effectiveness. These are based on the experience of the developed countries in energy conservation. The former two types concern the existing plants and equipment and the latter two new plants and equipment (figure). To the extent that energy conservation takes place through technical progress that is embodied in new capital, savings of type III and IV may be realised only when the new investments are made. But in a developing country like India, with more than 8 per cent industrial growth rate, this happens on a significant scale. The cumulative energy savings would be due to contributions from all the four measures in which the first two measures pertaining to existing industries dominate for the first 10 to 20 years the latter two subse-

quently. The share of each of the measures in a given country at a given time will not be easy to differentiate since all of them take place at the same time.

Notes

- 1 Amulya Kumar N Reddy, Gladys D Sumithra, P Balachandra, Antonette D'Sa, 'A Development-Focused End-Use-Oriented Electricity Scenario for Karnataka' in *Economic and Political Weekly*, Vol XXVI, No 14, April 6, 1991, pp 891-910.
- 2 Amulya Kumar N Reddy, Gladys D Sumithra, P Balachandra, Antonette D'Sa, 'A Development-Focused End-Use-Oriented Electricity Scenario for Karnataka' in *Economic and Political Weekly*, Vol XXVI, No 15, April 13, 1991, pp 983-1001.
- 3 Jyoti Parikh, S Modak, S O Deshmukh, C B Kagalkar, *IGIDR-HT Industries Survey in Maharashtra*, Discussion Paper No 43, January 1991, IGIDR, Goregaon (E), Bombay 400 065.
- 4 Jyoti Parikh, 'Energy Conservation in Indian Manufacturing Industries', *Journal of Productivity*, Vol 30, No 4, 1990, Reprint No 13, 1990, IGIDR, Goregaon (East), Bombay 400 065.
- 5 These inflated projections have institutional origin because these projections are further cut by the CEA, then by the ministry of energy, at the State and the Centre and then by the Planning Commission, not once, but several times. Arbitrary cushions are provided for these anticipated cuts. It is unfortunate that such meaningless exercises are carried out wasting everyone's time.

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Population and Agricultural Growth

The emergence of the agrarian class in India can be properly understood only in terms of the class structure and class relations not only of post-Independence India but also of the pre-Independence period under native and foreign economic and political powers

A-46

An analysis of the interrelationships between the components of population growth and the characteristics of agrarian change offer some interesting insights. Have prosperous regions experienced higher population growth through natural increase or immigration? What is the demographic picture of stagnation and decline?

A-63

Playing Safe

While the Ramamurti Committee Report on Education shows evidence of a certain independence of mind and boldness of assertion, the political circumstances in which it worked may have persuaded it to conform to conventions rather than stick out its neck

1605

What Now?

The Congress Party's internal cohesion is bound to be in question and its break up will remain very much on the agenda as part of the wider realignment of forces. Its validity as an all class all purpose party no longer holds

1589

The present crisis in the Congress Party and the political system has given rise to no talgia about the past and a yearning for a centrist ideological consensus along Nehruvian line. Is such an option available at all today?

1598

Many Gujarats

There is evidence of growing regional inequalities in Gujarat which, if left uncorrected, may lead to serious social and political instability in the State

1618

Impact of Technology

While the impact of the Green Revolution on the development of capitalist farming has not been as rapid as anticipated by some critics, technology induced changes have contributed to growing proletarianisation and casualisation

A-69

Election Fall-Out

Now that the Janata Dal has been reduced to a near insignificant political rump, it must examine the performance of its government at the Centre. Why did the party fail to live up to the high expectations it had raised?

1585

Congress Culture

Though grief was the ostensible excuse for the election related violence in Tripura directed by Congress(I) heavyweights including ministers and MLAs, the main aim was to eliminate all opposition

1588

Saffron Hues

The BJP's electoral gains in West Bengal are evidence of the fact that it has been able to establish linkages with rural social forces which could in time adversely affect the ongoing none too radical agrarian reforms

1592

The BJP is already preparing for the political battles of the next poll. It will not whip up strikes nor encourage agrarian unrest, but will focus on further alienating the middle class from the Congress(I)

1582

Labour Markets

Kerala's performance in the social sectors has indeed been creditable. But can the State sustain this pattern of development? An analysis of the relationships between wages, employment and output in the agricultural sector gives some insights

A-82

Going Nowhere

President Bush's enthusiastic education proposals have no chance of success because of the unwillingness of the government to devote resources to education

1593

LETTERS TO EDITOR

Protecting the Unjust

THE Union home ministry has decided to assign National Security Guard (Black Cats) for the protection of the chief election commissioner (CEC). It is a pity that the institution of the Election Commission has come to such a pass after 40 years of existence. Even during the worst days of Indira Gandhi, when the institution became almost a part of the executive, no such protection was needed for its chief.

For the last three months, the CEC has been acting strangely, to say the least. He seems to have got an impression that he is a super-government. In fact the CEC is only a figurehead of a vast and prestigious institution. He has no authority of his own. He is like the president of India. Even the local officers of the government act for and on behalf of the president, but the president has no authority to act on his own, except in rare cases. Similarly the CEC is a respected figurehead. He has to act through others.

The CEC has no authority to order a repoll, much less to countermand an election. Both the sections 52 and 58 of the Representation of the Peoples Act (RPA) make this very clear. Under section 52, if a candidate dies before the beginning of poll, the Returning Officer (RO) has to be satisfied of the same and then countermand the election. Under section 58, which is an amendment to the act passed in 1988, the returning officer can countermand an election if there is violence and malpractice. In neither case is the CEC in the picture. The only provisions in these sections are that the RO should inform the CEC of the developments. The CEC comes into the picture only when a new date and time is fixed for the countermanded poll. But T N Seshan, the CEC has been behaving like a king. He countermands election even without a report from RO; threatens to cancel (!) a notified election; and demands that such and such forces should not be deployed. If one commits such atrocities on an helpless people, I dare say that, leave alone Black Cats, even wild cats cannot save one.

T V ACHUTHA WARRIER

Ollur

Two Questions

BRINDA KARAT has claimed (May 4) that 'on all major issues facing the women's movement the CPI(M) and the left parties have taken an unambiguous pro-woman stand'. Being a citizen of West Bengal, I would like to raise two questions in relation to her argument.

Archana Guha, who was brutally tor-

tured in detention in the seventies, has been carrying on a sustained legal battle in West Bengal for some years. The case is still pending in the court. Meanwhile, a demand has been raised by APDR (Association for Protection of Democratic Rights) and concerned citizens in Bengal for suspension/punishment of the responsible police officers. In a pamphlet published by APDR (1987), it has been alleged that the main accused officer in the case has got promotion under the Left Front regime. What does this signify?

In her well known reminiscences (1989) of prison life in different jails in West Bengal in the seventies, Jaya Mitra has vividly portrayed the unbearable living conditions and inhuman treatment of women prisoners with special reference to downtrodden women. Also evident in her account is rampant corruptions in prisons. What sort of reform has been initiated by the Left Front government of conditions in the prisons that distinguishes it from the earlier regimes in West Bengal?

The protagonists of a left-democratic movement cannot remain silent on these questions.

ARIJIT KUMAR SEN

Calcutta

Assault on Dam Oustees

BEING a social worker, I am deeply involved in the movement against the Icha dam near Chaibasa, Bihar. Almost all the signatories of the letter published (EPW, May 25) are personally known to me. I can vouchsafe that all the arraignments made by them are more than 100 per cent correct. Fraudulence by the project officials and contractors apart, the tribals of the

to-be-submerged villages are being regularly harassed and cheated. Even today, a tribal youth is rotting in Seraikela jail with some false criminal charges.

I request the government to order a high-level judicial enquiry into the matters highlighted by the signatories, and bring the real culprits to book.

It should be noted here that, while on the one hand the tribals may perish due to non-rehabilitation, on the other, monetary monkey-tricking by the contractor-official machination may cause substandard construction of the dam and bring on a catastrophe.

VICTOR DAS

Bihar

Soviet Developments Anticipated

MUCH attention has been paid to the recent changes in the Soviet Union and Eastern Europe in your journal. These have been discussed over and over again from many viewpoints. But one finds a certain one-sidedness in the whole affair. Many regarded these changes as the 'restoration of capitalism' in the USSR and the East European countries—this aspect has not found attention. A lot of literature has been produced regarding the nature of the changes wrought by the Khrushchev-Brezhnev regime. We have reprinted one of these rare books, *Red Papers—How Capitalism Has Been Restored in the Soviet Union and What This Means for the World Struggle* (first published in 1974). Copies of the book are available from Post Box No 244, Patna-1.

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No Room for Consensus

THE government has sought a national consensus on the economic policy measures it proposes to take. Admitting that "the economy is in a crisis", prime minister Narasimha Rao said in his address to the nation on June 22 that in dealing with the crisis "we should rise above sectional interests and partisan politics". The newly-appointed finance minister, at his first press conference three days later, similarly called for a general agreement on the tackling of the economic problems facing the country. The fact of the matter, however, is that, in the brief period the government has been in office, it is amply evident already that, even as it has talked about the need for a consensus, its approach to the problems facing the economy is nothing if not partisan, revealing which sectional interests it considers sacrosanct and which expendable. This is true not only of what has been disclosed so far about the specific economic measures the government intends to pursue or of its view of what causes have led to the present impasse, but even of its perception of the content of the economic crisis itself.

Official pronouncements on the gravity of the economic situation have sought to focus attention exclusively on the difficulties on the external payments front. Of course, the country is—has been for some time now—on the brink of external bankruptcy in the sense of being in danger of defaulting on its debt servicing obligations which have ballooned as a result of the borrowing spree indulged in by successive Congress(1) governments which were in office in New Delhi for all but one year of the decade of the 1980s. But in what sense is it any less a disturbing aspect of the performance of the economy that during this very period the pace of growth of employment has dropped off rapidly so that the numbers of those unemployed are currently at record levels? It is a well-documented fact that the rate of growth of employment in the so-called organised sector of the economy throughout the eighties was barely one-half the rate of growth of the workforce and that in manufacturing industry itself there was hardly any expansion of employment at all over this long period of years.

But it does not evidently suit the government to acknowledge this crisis—the relentless growth of the already huge mass of the unemployed and the underemployed in the country. This is not only because the threat of external bankruptcy is so immediate. It is more calculated than that. Very clearly, the one thing the government is least inclined to do is to talk about the series of policy changes, the

so-called economic reforms, introduced by the government of Indira Gandhi and speeded up under Rajiv Gandhi, which have been responsible as much for the slowing down of employment growth to a tiny trickle as for bringing the country to the brink of external bankruptcy. This was made clear by the finance minister's attempt at his press conference to suggest in all seriousness that the country's foreign exchange difficulties were to be traced to the steep decline in the quantum of concessional aid flows!

It is obvious why the government wants to keep attention away from the import-guzzling, employment-destroying patterns of investment and growth promoted in the eighties in the wake of the 5bn SDR loan from the IMF through the simultaneous relaxation of regulations governing domestic industry and of controls on imports. It is these policies which led to the boom in imports and, given the compulsion to borrow on progressively more onerous terms to bridge the growing gap between imports and exports, the sharp rise in debt servicing obligations. But what the government is proposing to do, once again under the garb of economic reform and restructuring, is to pursue precisely these same policies ever more vigorously with the IMF and the World Bank cracking the whip. Industry and business are to be rendered even freer to invest in and produce what they will, untrammelled by all considerations of social needs and priorities, and residual restraints on imports, both of the tariff and the non-tariff varieties, are to be dismantled further according to the time-table so helpfully chalked out by the World Bank in its report on 'trade reform'.

The government's calculation is a simple one in essence. If it can manage to convince the IMF and the World Bank of its bona fides in respect to pursuing these policies then these institutions will come forth with large fresh instalments of loans which in turn will raise the country's creditworthiness in the eyes of the international private bankers so that the government can in addition resume borrowing abroad commercially as well. So the continuing excess of imports over exports can be paid for, the mounting debt obligations can be met and the boom in the life styles of the top decile of the population can go merrily on. All the while, the real economic crisis will persist and intensify—unemployment will grow, economic disparities will widen and the threat of disruption and devastation of the economy once the flow of foreign funds, temporarily resumed now, dries up, will loom ever larger.

All told, there is not much room for a consensus.

KERALA

Polarisation Helps UDF

THE Left Democratic Front (LDF) in Kerala is no doubt rueing its decision to terminate the life of the State legislature before completion of its full term and opt for assembly elections along with the general elections. Following the elections the LDF, which had a strength of 78 MLAs in the previous house, has been reduced to 50 while the United Democratic Front (UDF) has increased its tally from 60 seats to 89 seats.

It is not difficult to see the source of the LDF's optimism which prompted its decision. As recently as January-February 1991, in the district council elections the LDF had swept to power in 12 of 14 districts indicating a lead for it in 93 assembly segments. On that occasion the LDF had polled over 64 lakh votes as against the UDF's 58.4 lakh votes and the BJP's 9.1 lakh votes.

The outcome of the district council elections had been influenced chiefly by three significant factors. One was the divisions within the UDF particularly between the Kerala Congress groups as also between the rival factions of the Congress(I). Equally important was the increase in the votes polled by the BJP. The Ayodhya issue was also of some relevance to the extent the Indian Union Muslim League (IUMI) alienated a section of the Muslim voters owing to the Congress(I)'s prevarication leading to some restlessness in the IUMI's attitude to the UDF. The IUMI's brief separation from the UDF only fuelled the LDF's optimism.

Where the LDF miscalculated was in assuming that once it had rejected the IUMI's overtures for an alliance the latter would not return to the UDF fold. And when the IUMI did rejoin the UDF, the LDF blundered once again in assuming that the League would be unable to carry with it a significant section of the Muslims.

Had the conjuncture not altered within the space of a few weeks the LDF's calculations would have been vindicated. Though the LDF has been removed from government it has not suffered any real loss of votes. In this election too the LDF has secured 64,62,739 votes which is 45.1 per cent of total votes polled whereas in 1987 it had polled 56,96,827 votes or 44.7 per cent. In effect what changed was the UDF's vote which went up from 55,59,447 votes (43.6 per cent) to 67,14,933 votes or 46.8 per cent of votes polled.

Precisely those factors which the LDF was banking on failed to materialise. The LDF's losses are primarily concentrated in Thrissur, Idukki, Kottayam, Idukki, Kollam and Thiruvananthapuram districts. In 1987 the presence of rebel UDF candidates contesting as independents had its effect on the outcome. Independent candidates in Kottayam, Idukki, Pathanamthitta and Ernakulam took 10.2 per cent, 10.8 per cent, 7.4 per cent and 5.8 per cent of the votes respectively as against the State average of 3.8 per cent votes

polled by independents. In 1991 not only did the number of independent candidates come down but votes polled by them fell from 4,43,197 votes to 2,17,812 votes bringing the State level average down to 1.5 per cent. It is reasonable to relate this phenomenon with the visible dilution of factional unrest in the UDF.

Another critical factor which worked to the detriment of the LDF was the decline in the votes polled by the BJP. In 1987 the BJP polled 8,22,058 votes from 127 constituencies. Since then the total strength of the electorate has gone up from 1.58 crore to 1.95 crore while the total votes polled has gone up from 1.28 crore to 1.43 crore. In keeping with this it was therefore not surprising that in the district council election, the BJP polled over nine lakh votes. But in the 1991 assembly elections, despite the turnout of 73 per cent being the same as in the district council elections, the BJP's votes have declined to 6,77,385 votes or 4.7 per cent of total votes polled.

It is clear that a shift, not necessarily organised, took place from the BJP to the UDF. To some extent this is attributable to the CPI(M)'s rough and ready methods. For instance in Kazakkootam constituency in Thiruvananthapuram where three RSS workers were hacked to death, the BJP polled only 2,000 votes this time as against the 10,000 votes it polled in 1987. The UDF's margin of victory this time was a mere 650 votes. Given that in a number of constituencies the UDF's victory margins ranged from 400 to 2,000, the role of the BJP and the absence of independents assume crucial significance.

As for the IUMI not only was its base revealed to be intact but it was able to retain its hold despite tacit alliances involving the BJP in the Badagara Lok Sabha constituency and the Beypore assembly constituency.

ENVIRONMENT

Fading Green

OF late ecological issues have acquired a certain glamour. Not only are there innumerable high profile conferences on the environment, but because of the growing never say die popular movement environmental causes are instant attention getters. And Kamalnath, now at the helm of affairs, will ensure, just as Maneka Gandhi did in her own inimitable way, that environment will always be in the news. If his first press conference (and subsequent pronouncements) are anything to go by, Kamalnath does not appear to have a clue about the major problems facing his ministry. Or at least that would be the conclusion to draw if one were not aware of Kamalnath's background. But it is hardly likely that this ex-industry man does not see the issues. The attempt, a very deliberate one, is to shift the focus away from conten-

tious issues, while at the same time projecting an overall concern for the environment.

In the past (and not only during Maneka Gandhi's tenure) the ministry had chalked up quite a few successes and had directly and effectively intervened to reject or at least stall proposals which were not environment-friendly. But now the indications are that the ministry will be effectively demoted while at the same time retaining its high profile (by such moves as taking up the Third World cause in UN conferences which, important as they are, do not immediately affect vested interests here). Kamalnath has categorically stated that the ministry will not reject environmentally unsuitable projects outright. Instead the authorities will be given an opportunity for 'self appraisal'. He wishes to bring to an end "this perpetual confrontation" between industry and environment. Clearly, this is all a part of the coming 'no rules' regime for industrial expansion.

Most disturbingly, the new minister has admitted that he has not given much thought to the Narmada issue. That this should have come at a time when several villages in Maharashtra are in danger of being flooded by the river waters because of the dam is an indication that the issue has already been settled as far as the ministry is concerned. And worse, his proposal to involve youth and students as "a kind of environmental police" to check "environmentally degrading activity" is ominous. Given Kamalnath's close links with the youth wings of the Congress, and given the kind of elements who dominate these groups, the suggestion of an "environmental army of sorts" must be immediately challenged. This is obviously meant to counter the growing environment movement.

ECONOMIC AGENDA

Not Political?

A Correspondent writes

THE induction of Manmohan Singh as the Union finance minister and his initial exercises in loud thinking on some of the crucial economic issues facing the nation have induced louder acclamation in certain quarters of his envisaged freeing of the economic policies from political embroilments. They all, however, overlook the fact that a separation of the two is not really possible. Indeed, in all his utterances Singh himself is displaying his predilections for a particular socio-political slant. Some of his predispositions may be easily identified.

First of all, he seems to have ruled out the touching in any way of the 'holy cow' that is the high level of military expenditure, even temporary cutbacks on which could help ease pressures on internal expenditure as well as the balance of payments. Singh, obviously, is not inclined to hurt the political Establishment, lining their own purses

through these huge transactions and banking in the glory of India's so-called 'medium great power' status

Then, he has positively ruled out cuts in imports of petroleum, the biggest single item in our import bills, although this measure, accompanied by a rationing of petrol, could be of great help in meeting the present foreign exchange crisis. Apparently, it is unthinkable for Singh and the present government to resort to this step as it would hurt the proliferating new rich and the expanding industry that caters to their fancy.

The most glaring omission in Singh's articulation so far is his silence on Rajiv Gandhi's NEP. The immense harm that this policy has inflicted on the Indian economy by the initiation and expansion of various luxury product industries ranging from oil to limousines, all with MNCs' participation and with high import contents is a well known fact.

On the contrary, Singh has taken the Left academics to task for creating 'scare' about the multinationals. The role of the MNCs, and IMF which works in tandem with them, in distorting the socio-economic and political orientations of the Third World countries has been too widely researched and documented to need any comprehensive substantiation. In short, to quote from a recent research paper, the dynamics of 'internationalisation' that results from conceding a major role to the IMF and MNCs "involves some changes in the institutional form of the state, its policy orientation and policy formation processes and in some sense a modification in the state's economic sovereignty".

Hence, contrary to his bland 'non-political' professions Manmohan Singh has been actually espousing profound politics only of a kind that is not to best interests of the country.

KASHMIR

Caught between Gangs

THE administration of Jammu and Kashmir had been dismissing all these months allegations of atrocities by security forces as terrorist propaganda. Now, it has suddenly been compelled to admit that such atrocities do take place. The state's governor, Girish Saxena, at a recent meeting in New Delhi acknowledged that there had been "killing of passersby and others by security forces in reaction to militant attacks on them". He did not explain however why security forces should kill passersby, instead of the militants who attacked them. A case of mistaken identity? Or sheer cowardice, venting anger on the innocent?

Saxena was referring to the latest incident in Srinagar. On June 11, the Central Reserve Police Force (CRPF) jawans went berserk in the Chota Bazaar area of the city and killed at least 18 people on the spot while many

more died later of bullet wounds. The firing was 'uncontrolled', according to the government's own version, announced one day later. But the initial report released by the government on the first day described those killed as victims of an "exchange of fire between militants and security personnel". This was in keeping with the now familiar knee jerk reaction of the Kashmir administration, which ritualistically chants the 'mantra', 'killed in cross fire', whenever faced with allegations of killing of innocent citizens.

Information pouring in from eye witness accounts of the incident suggests that the CRPF in a systematic and deliberate way went about slaughtering the people. A reconstruction of the sequence of events indicates that a CRPF jawan was killed earlier on that day by a group of militants near the Syed Mansoor Bridge in Srinagar, when the latter attacked a security force's bunker there. Two and a half hours later the CRPF retaliation took place. Twelve CRPF jawans—who were off duty, and resting in billets near Chota Bazaar—came out with guns and marched to Chota Bazaar and indiscriminately opened fire on the people there. Among those killed were shopkeepers, drivers of auto rickshaws, bystanders, a 60 year old woman and a 10 year old boy. Five witnesses say that the jawans were dressed in vests and shorts.

In the face of the public outcry against such blatant vindictiveness by the CRPF, the government had to hastily retract its earlier fabrication about deaths in 'cross fire' and order an enquiry. Probably realising that routine enquiries (as ordered in the past) do not inspire much public confidence (as none of the enquiries ordered till date has produced any report), the government decided to hand it over to the Central Bureau of Investigation (CBI). We hear that the 12 CRPF jawans have been removed from active duty. None of them has either been suspended or arrested for murder pending investigation, which is what should have been done under the law of the land.

But why is there this sudden acknowledgment of CRPF misbehaviour, or readiness in conceding to a CBI inquiry? Does it indicate a change in the stance of the newly installed Central government towards Kashmir? Is it a conciliatory carrot for the consumption of the Kashmiri public? Or is it an indication of the civil administration's loss of control over the security forces (on which alone the Centre had been depending all these months to solve the Kashmir problem)? Incidentally, one of the advisors to the Jammu and Kashmir governor, who was staying in Delhi on the day of the Chota Bazaar massacre, was reported to have confided to his colleagues in the bureaucracy that the CRPF had 'mutinied'. In public, however, he stuck to the first official version of 'deaths in cross fire'.

It is quite obvious that contradictions and self-interest-motivated pressures are building up within the administration which are further bedeviling the already blighted Kashmir policy of the government. Some time ago, a senior officer of a Central intelligence wing who is in charge of investigating into alleged foreign links of the Kashmiri militants, was caught red handed in his New Delhi residence by his own departmental colleagues when he was accepting a neat package of bribe from one of the accused involved in a case concerning his area of investigation. Given this state of affairs in the intelligence department, how can the public trust the sensational disclosures about arrests of 'dreaded' Kashmiri terrorists frequently dished out by the home ministry? Are they really terrorists? or just potential hostages—people who can shell out the ransom required for their release for the private coffers of enterprising officers of the CBI, IB, RAW and the host of competing intelligence agencies? It seems that the common people of Kashmir are caught between two gangs of 'kidnappers'—the militants and the security forces. While the government cannot suppress the former, it will not punish the latter. By occasionally apologising for the misdeeds of the security forces the administration cannot hope to command the respect of the people of Kashmir.

WORKERS' HEALTH

State-Industry Collusion

THE US Occupational Safety and Health Act, 1970 (OSHA) has long been considered a landmark in workers' struggle to institutionalise and give legal form to their right to a clean and safe workplace. Although it has seen many changes, most of which have resulted in diluting the legislation, it continues to be among the most stringent of labour laws in the world. Given this, the *Multinational Monitor's* recent survey of the Act's enforcement is a revealing comment on just how well state and industry collude to render ineffective even the most progressive of laws, if it damages industry's interests.

The survey analyses completed OSHA inspection reports from 1982 through 1990 for the 10 largest US corporations—Chrysler, Dupont, Exxon, Ford Motors, General Electric, General Motors, IBM, Mobil, Philip Morris and Texaco—which among them cover a wide range of industrial activity. The survey finds that in more than 67 per cent of the cases of violations of the law, the prescribed penalties have not been levied for one reason or the other. And among the cases where fines were imposed, in more than 86 per cent, the fines totalled \$ 1,000 or less, thus making a mockery of the Act. Out of the 759 inspections analysed, in only 12 cases were total penalties between \$ 5,000 and \$ 10,000 levied and only in 11 were fines of \$ 10,000 or more levied.

Part of the reason for this sluggish implementation of the Act could be the cut imposed in the OSHA budget in the Reagan and Bush administrations which has, among other things, meant that the number of inspectors under OSHA remain an inadequate 1,200 for the seven million workplaces to be inspected under the Act. In justifying these cuts the government has tended to emphasise the dubious philosophy of 'voluntary compliance' with safety standards. This has, of course, never worked and critics have dubbed it a 'farce'. They suggest that only when OSHA inspectors are stationed in companies on a daily basis, just as are internal revenue personnel, can there be 'voluntary compliance'. Interestingly, in 1989 an OSHA inspector Den Tolgren had (in his book *Dangerous Premises: An Insider's View of OSHA Enforcement*) reported that the legislation worked most efficiently in places "where there are strong and responsive union representatives". He suggested then that "worker empowerment was crucial to combating corporate disregard for worker health and safety".

This is something that should be kept in mind while lobbying for more stringent health and safety legislations in this country as well.

SOUTH AFRICA

ANC under Pressure

WITH the scrapping of the Land Registration Act by parliament, South Africa enters the second phase of the process initiated to 'dismantle apartheid'. The withdrawal of economic sanctions by the EC and Japan, and the promise to do so by the United States, has put the African National Congress (ANC) in an awkward position. Only days before the US announcement, Nelson Mandela then ANC deputy president was in Washington calling for the continuance of the sanctions. All along while making various concessions on such issues as the future role of foreign capital, the ANC has been arguing that sanctions should remain in place so long as apartheid is not completely removed, acknowledging that sanctions and other forms of international pressure had gone a long way in the fight against apartheid.

Not just has the ANC lost ground on the continuation of international sanctions, Mandela and the leadership are facing a major upheaval within the ANC as well. The moderates within the ANC, led by Mandela, are seen by the organisation's militant wing as having made far too many concessions to the government. This pressure has forced Mandela to admit publicly that the ANC leadership may have overestimated the regime's genuineness in wanting to dismantle apartheid and that it may have gone too far in agreeing to concessions. For his part, de Klerk has sought to take advantage of the

dissensions within the ANC by suggesting that Mandela and he enjoy a special relationship. As the ANC enters a critical phase in the negotiations with the regime, differences and bitterness within the party are on the increase, inevitably perhaps.

A further problem for the ANC is the growing conflict with the Inkatha Party and the resultant violence in black townships on a scale not witnessed before. The ANC's failure to find an effective solution to the violence has tarnished its image. It is faced with declining support and the fear even among those who continue to support it that it is no longer capable of protecting the black majority.

The government has done little to stem the violence. It has taken an ambiguous position on banning personal possession of weapons—one of the demands of the ANC for resuming negotiations—claiming that the carrying of spears is part of Zulu tradition. The government's failure to act to end township violence tantamounts to complicity. More generally the government's large security apparatus continues to operate in an overt and covert manner harassing ANC cadres and inciting violence. Official statements on new restrictions on the police are belied by the fact that expenditure on the police has been raised by 53 per cent this year.

De Klerk's actions are part of a wider strategy to deliver a constitution acceptable to the white minority, the basics of which he hopes will be agreed on at an all party conference. The ANC agreed in principle to an all party conference in February 1991, but reverted last month to its demand for a constituent assembly and an interim government. While the February statement had been tactically necessary at the time, it does give de Klerk a better bargaining position.

While de Klerk and his embattled National Party were forced by circumstances into initiating the process of dismantling apartheid, the ANC in accepting a negotiated settlement was also accepting the pitfalls attached to such a process. At the end of the first stage of the negotiations de Klerk has done all he could to safeguard white interests by winning over Western support away from the ANC, by diluting the faith of the black population in the ANC and by furthering divisions within the ranks of the ANC.

Faced with major onslaughts on many fronts as it prepares for its first national conference in 17 years, the ANC leadership has called for the stepping up of "mass action" which "is the only legitimate form of expression in the absence of voting rights" while warning the government that it has merely "suspended" and not "terminated" its armed struggle. There is little doubt that the leadership has been influenced by impatient voices within the ANC which are likely to grow more insistent as Nelson Mandela, in his new role as president, leads the ANC back to "the theatre of struggle".

TWENTY YEARS AGO

EPW, June 26, 1971

If the objective was to secure as large an aid commitment as possible, then the discussions at the Aid Consortium meeting at Paris may be said to have gone off fairly smoothly this year. The rate of growth of the economy (though with agriculture contributing the major part of it) was a respectable 5.5 per cent in 1970-71. And for all the radical talk, no new steps have been taken in the fields of nationalisation or industrial licensing to cause offence to the foreign donors or to the World Bank's economic myth-makers (nationalisation of general insurance having been already discounted as an irrelevance). On the other hand, the government formed after the parliamentary elections earlier this year must appear to assure 'political stability'—a commodity much sought after by the world's aid-givers but equally rare among the aid-receivers. And like all 'stable' governments, this particular one has appeared to be in no hurry to do very much which, again, is on the whole reassuring to the aid-givers. Finally, the patience of the government in bearing the economic burden of the refugees from Bangladesh without taking any drastic political or other action deserved and got sympathy from the aid-givers. So, everything taken together, there could not have been a more favourable constellation of circumstances for going to Paris with a bigger begging bowl.

★ ★ ★

There is a reason why interest should attach to the annual report of the ministry [of industrial development] this year particularly. It is by now clear enough that the recovery from the industrial recession has been neither as quick nor as automatic as had been expected two years ago. The industrial growth rate actually declined in 1970. But even more important are the structural problems facing the industrial sector, as reflected in the persistent underutilisation of capacity in a wide range of capital goods industries—most of them the very industries which had been hand-picked for large investment in the Second and Third Plans as being vital for laying the basis for long-term industrial growth. Clearly, there is need for formulating a medium-term strategy for industrial growth which will build on these past investments instead of allowing them to become a millstone around the neck of the economy. However, one looks in vain for any traces of thinking along these lines in the Report of the Industrial Development Ministry.

STATISTICS

| Index Numbers of Wholesale Prices (1981-82 = 100) | | Variation (per cent) | | | | | | | |
|--|-----------------------------|----------------------------------|-----------------------------|----------------------|---------------------------|----------------------|------------------|------------------|------------------|
| | Weight | Latest Week 8-6 91 | Over Last Month | Over Last Year | Over March 31, 1991 | In 90 91 | In 89 90 | In 88 89 | In 87-88 |
| All Commodities | 171.4 | 194.8 | 0.8 | 10.6 | 1.6 | 10.2 | 7.5 | 8.2 | 5.8 |
| Primary Articles | 166.9 | 201.0 | 0.9 | 13.2 | 2.8 | 13.1 | 4.9 | 11.3 | 9.1 |
| Food Articles | 177.3 | 218.3 | 2.0 | 12.6 | 3.6 | 11.9 | 9.9 | 9.0 | 10.2 |
| Non-food Articles | 176.4 | 214.8 | 0.8 | 17.6 | 2.0 | 16.9 | -1.7 | 21.6 | 11.3 |
| Fuel, Power, Light and Lubricants | 164.9 | 189.5 | 0.2 | 14.5 | 0.5 | 11.9 | 5.5 | 3.5 | 6.7 |
| Manufactured Products | 174.7 | 192.3 | 0.8 | 8.4 | 1.1 | 11.9 | 9.4 | 7.2 | 3.7 |
| Cost of Living Index | | Variation (per cent) | | | | | | | |
| | Base | Latest Month | Over Last Month | Over Last Year | Over March 1991 | In 1990 91 | In 1989-90 | In 88 89 | In 87-88 |
| Industrial Workers | 1982 = 100 | 202 ⁴ | 0.5 | 12.2 | 0.5 | 11.2 | 6.5 | 9.1 | 9.1 |
| Urban Non-Manual Employees | 1984-85 = 100 | 169 ¹ | - | 13.4 | - | 11.0 | 6.9 | 8.2 | 7.9 |
| Agricultural Labourers | July 60 to June 61 = 100 | 843 ¹ | 1.8 | 13.9 | NA | NA | 3.2 | 11.4 | 12.5 |
| Money and Banking | | Variation (per cent in brackets) | | | | | | | |
| | | Latest Week (17.5.91) | Over Last Month | Over Last Year | Over March 23, 1991 | In 90 91 | In 89 90 | In 88 89 | In 87 88 |
| Money Supply (M ₃) | Rs crore | 2,77,175 | 4,574 (1.7) | 38,304 (16.0) | 10,474 (3.9) | 34,300 (14.9) | 28,571 (18.1) | 22,027 (15.7) | 22,295 (18.8) |
| Net Bank Credit to Government Sector | Rs crore | 1,48,182 | 3,745 | 22,803 | 9,893 | 21,778 | 12,715 | 12,811 | 12,776 |
| Bank Credit to Commercial Sector | Rs crore | 1,72,890 | 987 | 19,894 | 2,933 | 19,552 | 20,531 | 12,389 | 11,294 |
| Net Foreign Exch Assets of Banking Sector | Rs crore | 7,132 | 112 | 1,501 | - 885 | 1,429 | 637 | 682 | 1,314 |
| Deposits of Scheduled Commercial Banks | Rs crore | 1,97,426 | 1,447 (0.7) | 27,039 (15.9) | 6,237 (3.3) | 24,230 (14.5) | 22,041 (18.7) | 15,321 (14.9) | 17,320 (20.3) |
| Foreign Exchange Assets | Rs crore | 2,645 | 181 (6.4) | -2,106 (-44.3) | -1,353 (-33.8) | 1,710 (30.0) | 830 (11.6) | 508 (6.6) | 604 (8.6) |
| Index Numbers of Industrial Production (1980-81 = 100) | | Weights | Latest Month (Nov 90) | Averages for | | Variation (per cent) | | | |
| | | | | 1991 92 | 1990 91 | In 1990 91 | In 1989 90 | In 1988 89 | In 1987 88 |
| General Index | 100.0 | 201.9 | 200.3 | 182.8 | 8.3 | 8.7 | 7.3 | 9.1 | 8.7 |
| Mining and Quarrying | 11.5 | 199.0 | 202.8 | 199.7 | 5.9 | 7.9 | 3.8 | 6.2 | 4.2 |
| Manufacturing | 77.1 | 197.9 | 195.6 | 175.6 | 8.3 | 8.7 | 7.9 | 9.3 | 9.7 |
| Electricity | 11.4 | 232.1 | 230.5 | 214.4 | 10.7 | 9.5 | 7.7 | 10.3 | 8.5 |
| Basic Industries | 39.4 | NA | NA | NA | NA | 9.9 | 9.6 | 9.2 | 6.8 |
| Capital Goods Industries | 16.4 | NA | NA | NA | NA | 7.4 | 15.9 | 18.2 | 10.6 |
| Intermediate Goods Industries | 20.5 | NA | NA | NA | NA | 11.5 | 4.8 | 4.4 | 7.5 |
| Consumer Goods Industries | 23.6 | NA | NA | NA | NA | 6.0 | 6.5 | 7.1 | 12.5 |
| Durable Goods | 2.6 | NA | NA | NA | NA | 22.1 | 7.8 | 18.9 | 18.7 |
| Non-Durable Goods | 21.0 | NA | NA | NA | NA | 2.4 | 6.2 | 4.9 | 11.5 |
| Foreign Trade | | Unit | Latest Month (Mar 91) | Cumulative for* | | Variation (per cent) | | | |
| | | | | 1991 92 | 1990 91 | 1990 91 | 1989 90 | 1988 89 | 1987 88 |
| Exports | Rs crore | 3,427 | 32,527 | 27,681 | 27,681 (36.3) | 20,302 (29.0) | 15,741 (26.2) | 12,452 (14.3) | 10,895 (7.2) |
| Imports | Rs crore | 3,625 | 43,171 | 35,416 | 35,412 (+25.6) | 28,194 (+23.9) | 198 (11.2) | 10,644 (2.2) | 7,735 (14.7) |
| Balance of Trade | Rs crore | -198 | 10,644 | 7,735 | 7,731 | 7892 | 6,658 | 7,644 | 8,763 |
| Employment Exchange Statistics | | Unit | Latest Month Dec 90 | Cumulative for* | | Variation (per cent) | | | |
| | | | | 1991 | 1990 | 1990 | 1989 | 1988 | 1987 |
| Number of Applicants on Live Register as at end of Period | Thousand | 34,632 | 34,632 | 12,776 | 34,632 | 32,776 | 30,050 | 30,247 | 30,131 |
| Number of Registrations | Thousand | 600 | 6,541 | 6,576 | 6,541 | 6,576 | 5,963 | 5,465 | 5,535 |
| Number of Vacancies Notified | Thousand | 46 | 530 | 600 | 530 | 600 | 543 | 621 | 623 |
| Number of Placements | Thousand | 2 ⁺ | 284 | 289 | 284 | 289 | 329 | 360 | 351 |
| Income | | Unit | 1989 90 | 1988 89 | 1987 88 | 1986 87 | 1985 86 | 1984 85 | 1983 84 |
| Gross Domestic Product (current prices) | Rs crore | 3,92,524 | 3,49,105 | 2,94,408 | 2,60,442 | 2,34,159 | 2,07,869 | 1,85,991 | 1,58,851 |
| Gross Domestic Product (1980-81 prices) | Rs crore | 1,95,237 | 1,85,543 | 1,70,716 | 1,61,924 | 1,57,348 | 1,49,966 | 1,44,310 | 1,33,469 |
| Per Capita Income (1980-81 prices) | Rupees | 2,142 | 2,078 | 1,910 | 1,881 | 1,852 | 1,804 | 1,780 | 1,682 |

* For current year upto latest month for which data are available and for corresponding period of last year

** Excluding gold and SDRs + Upto latest month for which data are available NA Not available

+ + Provisional data @ Quick estimates

Notes: (1) Superscript numeral denotes month to which figure relates, e.g., superscript¹ indicates that the figure is for January and so on
(2) Figures in brackets denote percentage variation over previous period

Metastasis of Parenthood

Deena Khatkhate

Children in America suffer not from malnutrition or hunger as in much of the world; they are tyrannised by the decay of moral values, the ruination of families and the dehumanisation of society.

THE elementary question of why parents desire children becomes elemental here in American society. Parents have their broken marriages, fathers their sexual perversities, administrators of educational institutions give vent to their sexual fantasies and custodians of day-care centres sexually abuse and physically torture their wards. A man fights not for his own present so much as for the future of his children, he seeks riches for their welfare. But see what is happening in America—children are shamelessly used for sexual molestation, not by lumpen child-lifters, but by the parents who brought them into this world.

There is a saga that has just ended—poignant, tragic and inhuman. Dr Elizabeth Morgan Foretich, the mother of a seven year old daughter, hid her from her husband, a doctor, whom she accused of molesting the child when she was two years old. She was jailed for two years following a court order to bring her daughter back from hiding so that her father could exercise his visiting rights. Only when Congress amended the law was the mother released. When she came out of jail under special dispensation of the Congress, the first thing she did was to remarry. Soon after her release the father of the child, who had employed professional detectives spending thousands of dollars to locate his daughter's hideout, eventually succeeded in tracing her to her maternal grandparents in New Zealand. The judicial fight moved from the American court to a New Zealand court. The judge in New Zealand has now given his verdict that the daughter should remain in New Zealand with her grandparents without being visited by her father. The judge ruled that visits by the father would place the daughter "in the midst of parental conflict with the inevitable disruption of her emotional security." Well, did the judge find any evidence of incestual behaviour by the father? Not at all, and yet the judge did conclude that Elizabeth Foretich and her parents had often told the child, Hilary, about having been abused by her father and for Hilary this became the reality, whether or not the belief had any basis in fact. Who is guilty then? Father? Mother? Mother's new husband? Grandparents? Or all of them who used the child as a weapon in the parents' marital

warfare?

From medical doctors you turn to a respected, tenured professor of nuclear engineering at a Maryland University who was accused by his grown-up daughter, now married, of subjecting her to incestual sexual abuse since she was eight years old. She waited 18 long years to take her father to court. The court released the father but not without challenging the character of the daughter. There seemed some shred of evidence—flimsy and speculative—that the daughter wanted to extract money from her father with which to help her husband to meet his alimony payments to his first wife. A daughter could have conceived of a thousand other accusations against her father, but she chose the one which was symbolic of the modern era. Whether right or not, credible or not, parental sanctity is being assaulted day in and day out. And it tends to acquire credence because everyday families are being destroyed, despite the Republicans' sales talk about the nobility and sanctity of families in American society. There is something mysteriously amiss in all this. Accusations of incestual crimes do not come out of the thin air. The social mores of this sociologically disturbed society are changing. If the wife does not care for the husband and the husband does not care for the wife, why should sons and daughters care for their parents? If Ann Landers' daily column mirrors changing American society, it offers plenty of evidence of these perversities surfacing at different layers of society. One recent letter from a daughter asks Ann Landers why she should not marry her father when he needs the care and attention which her late mother gave him.

And a startling indictment of the surrogate parents in the day-care centre has recently come from California. The whole family—father, mother, son and daughter—who have been running a centre for young children were indicted for child abuse, ranging from sexual perversities to inhuman beating of the hapless innocents.

One would like to believe that these stories are not typical of this society and that, as in any other society, these represent some stray aberrations in behaviour or some psychic disorder. But now comes a new phenomenon, which is superficially

different from the libidinous misadventures of parents or day-care centre guardians. A couple, Abe and Mary Ayal, have decided to have a baby. It is not a surprise that they should have a baby, but it is certainly more than a surprise to be told that they want to conceive the baby to use a part of that baby to save their other dying baby. The grown child, 17 years old, is dying of leukaemia and she can be saved only by a bone-marrow transplant from a donor having compatible genetic characteristics. It is as if they want to have a child to provide 'spare parts' for another. The parents know that removing bone marrow from an infant child is risky; the child may well die of shock. They know too that there is no more than a 25 per cent chance of the older child surviving even with the bone-marrow transplant. Perhaps the child they have raised for 17 years has a greater right to life than the one that is just born. Why beat your breast? Do you not champion abortion to slow down population growth? Newly born children are little more than a developed foetus; the aborted one is little less. Both have life and if one's life is to be destroyed to save another's, is it not better than the elimination of life which is what abortion means? This is a democracy, and freedom is precious. What if the right to choose supersedes the right to life?

This is not the brave new world of Huxley, this is a selfish technocratic world where biotechnology, genetic engineering and Freud's libido are spiralling in a devilish dance. You yearn for children and you generate them, if necessary through in vitro fertilisation or by creating surrogate motherhood or by the bastardisation process. But then why destroy them by use of the same technology? Is it another kind of manifestation of the law of 'haves and have nots'? Daniel Moynihan, a Democratic senator of the US Congress, is moving heaven and earth to improve the lot of the nation's children through new welfare legislation, because he found that 22 per cent of children born in the late 1960s were dependent on welfare. But his perception that "the problems of children in the United States are overwhelmingly associated with the strength and stability of their families and that our problems do not reside in the nation but in our behaviour", is totally off the mark. Children suffer not from malnutrition or hunger as in much of the world, they are tyrannised by the decay of moral values, the ruination of families, the dehumanisation of society brought on by the onslaught of the mindless advance of the new biological sciences. The malaise is deep, the children, those beautiful flowers in life's garden, will wither away even if they are kept alive through the transplant of spare parts.

Calcutta Diary

AM

The east Europeans had stable prices, rationed food generally in reasonable quantities, ample clothing even though somewhat unimaginative in design and quality, housing of some sort; they had full employment, generous social security arrangements, subsidised education and health care, and music and culture organised for the millions. But the east Europeans were hustled into choosing. They chose to be free. They have chosen galloping prices, steeply declining production, unemployment for 50 per cent of the workforce and social chaos. Here, in India, the shapers of our destiny are now being asked to be inspired by the example of the east Europeans.

A CRAZY, bloody, over considerable parts unfair, general election, rendered crazier by a chief election commissioner both incapable of being fair and determined to play God. And now, even before the new government is properly assembled, the pressure is on: the foreign financial institutions are waiting, the government, the first thing it must do, is to sign on the dotted line. It will be crazy not to accept the suggest of advice the foreigners are proffering. In any case the government must further open up the economy. This may hurt on all sides, the foreign exchange crisis may turn into a permanent one, the country's exports may not show any spectacular improvement. So what, there will be, the foreigners say, other compensations. Exposure to the outside world will make the economy more efficient. Competition forces men and women to give of their best. Once we cross over to full-fledged liberalisation, goods and capital and expertise will begin to percolate from outside, India will become a bustling, modern country. What a nice feeling that prospect provides. Of course, given the circumstances, such liberalisation is contingent upon the back-up of unlimited foreign exchange, which we do not at the moment have. The country in fact is already sucked into an external debt trap of the gravest magnitude. Not that the dispensers of advice are not aware of the predicament. Pride however goeth before a fall. They ask us to swallow our pride, and allow foreign institutions to bail us out and take charge of our destiny. That could be bitter medicine, but we must look at the bright side of it: in a few years' time we will emerge as a strong, economically efficient entity.

We must learn from the example of the east Europeans. They were the original exponents of the closed system. More than any others, they know what a disaster that was. They suffered, for decades on end, privation of the indescribable kind;

unimaginative food, often in short supply, drab clothing, cramped housing, in sum, a gloomy, cheerless existence. Only a handful amongst them, those in the good books of the party caucus, lived it up. Thank goodness, even the worm learns to turn. It took them some 40 years, but the labours of Radio Free Europe and Eurovision have not been in vain, the east Europeans have finally opted for freedom, they have dismantled the planning apparatus and those wretched controls that went with it, goods and men can now flow in, and flow out, freely, uninterrupted. If those centrally planned economies could give up their shackles, why cannot we? After all, in our case no ideology is involved, pragmatism should determine our basic economic decisions. Why must we then be afraid of slipping into efficiency?

The dictionary meaning of efficiency is vague, as vague as it can be: to work well, quickly and without waste. Working well, but according to whose judgment? And if briskness is efficiency, a crowd of rioters, systematically making a bonfire of shops and houses in the neighbourhood, is outstandingly efficient. Consider also this business of wastelessness. A rampaging mob concentrates its anger on specific targets, it does not allow its frenzy to be deviated, is that what wastelessness is about? Efficiency is sometimes alternatively expressed in terms of the ratio of work done to energy expended. No Jestling Pilates are alas around to regale us with cynical comments which could illuminate the definition. Even so, consider Poland or the territory which was till yesterday known as the German Democratic Republic. It has taken less than two years to reduce at least one-half of the working force in both countries to a state of worklessness; production has plummeted, and the level of unemployment over there is today even higher than what it was in north America or Britain in the nadir of depression. Unless funds of an astrono-

mical order are pumped from outside, it would be impossible for Poland and eastern Germany, we are told, to reduce this load of unemployment. Is that not waste, to have one-half of the labour force stay idle for months and years on end? Once they are idle, the equipment with which they used to work are also forced into idleness. Is it therefore not a double waste, of men as well as of machines? The inert machines are of course saved the bother of wasting any further energy when they are idle. As far as the workers are concerned, they have however to spend their energy even when out of employment. They have to search for work and for food. At the end of the day and the week and the month, for the bulk of them, the story is of unmitigated despair. Where does efficiency enter into this picture?

Or are we missing something? Prices in both Poland and eastern Germany have reportedly jumped 10 times over the past couple of years. That, in the view of the economic liberators, is an exceedingly encouraging development. High prices, they point out, reflect the true degree of scarcity of goods. In the past, rigid price controls had been most unwisely clamped on so-called essential commodities. Such artificially low prices discouraged supplies and gave rise to a flourishing black market. The black market in fact was the honest surrogate of social reality, prices quoted in it were the true index of scarcity. Liberalisation is vindication of the free market principle, the distinction between the official price and the black market price is obliterated, the black market price receives cognisance as the formal operational price. True, this price, more often than not, is beyond the reach of the ordinary man and woman. Output and employment shrink, money wages and subsidies are cut for those still engaged in work, prices jump by roughly one thousand per cent. Like London Bridge, the standard of living of the average citizen keeps falling down. Is this phenomenon then what is to be described as efficiency?

We will be admonished to cut out such frivolities. We must look at the bright side of it. Even in eastern Europe, a number of industries have made their entry, or re-entry, in the aftermath of the collapse of the planned economic arrangements. Is that not a sign of health? The stock exchanges are back. Moreover, all work and no play, who does not know, makes Jack a dull boy. Hungary and Poland and Czechoslovakia have been extricated from that fate. The liberated libido of east Europeans was a vast *tuhula rasa*. Nature abhors vacuum. Pornography is already emerging as the leading industry in these countries.

One swallow though does not make an uninterrupted summertime. Empty bellies

besides, are not generally conducive to the appreciation of pornographic pictures; one also needs some minimum cash to gain entry into a theatre which specialises in live sex shows. The hundreds of thousands at present unemployed are obviously without such wherewithal. Those who expected a miracle in the offing are therefore going to experience a heart-break. pornography is unlikely to emerge as the leading sector in economic development in post-Marxist eastern Europe.

But the difficulties east Europe is facing, we will be finally told, are only frictional. When sweeping changes take place in society, there are, inevitably, some problems of adjustment, the east European countries will have to travel along the necessary learning curve, they have to teach themselves the rudiments of cost effectiveness and all that, it is only when these lessons are fully absorbed that we might expect satisfactory economic performance in these countries. Be reasonable, the mess created over 40 years cannot be cleared overnight, and no use quoting Maynard Keynes, he has been dead for some forty-five years.

Meanwhile, we should do well to allow the significance of president Gorbachev's importunings before the former director of the Central Intelligence Agency, the present president of the great United States of America, sink into our psyche. It is not for nothing that the Soviet leader has re-classed himself. He has seen the light. The vacuity of Marxist economic practice, epitomised in the surcease of the central planning apparatus, says it all. The social welfare function, has not Ken Arrow proved it already, is as outrageous a notion as there can ever be. A philosophy of life which is unable to satisfy the elementary needs of the people stands self-exposed. Now that Marxism is officially defunct, economic controls of all descriptions, silly offshoots of socialist and pan-socialist thought processes, are bereft of even a minimum rationale. Mikhail Gorbachev could not agree more. He is committed to dismantling the old system. At the moment, he is only for 20 per cent dismantlement, he is concerned over the possible angry reaction of housewives confronted suddenly by a 10-fold increase in prices and of workers rudely thrown out of jobs. The former Director of CIA however wants his friend Gorby to go all the way, and immediately. No doubt they will reach a common ground of understanding. Why cannot we learn from the inspiring example of comrade Gorbachev, and let go of our own clumsy system?

Mikhail Gorbachev, out with his begging bowl, may yet get his 250 billion dollars, or he may not. He can be safely left to his fate. As he has himself gone on record, in this nuclear age, none is his

brother's keeper. Should the writing of history nonetheless be diverted on to wrong rails? The collapse in eastern Europe had little to do with any wobbliness in the philosophical foundations of socialism, nor has it revealed any grievous deficiency in the logical structure of the magnificent law of social dynamics known as Marxism. Barring the polemics the so-called impossibility theorem has thrown up, few valid issues have been raised, on purely epistemological grounds, against the principles of a command economy. There is also this latent irony: the end-point of the socialist quest is hardly much afar from the destination sought by theoreticians extolling the virtues of the free market. It is in both instances the maximisation of satisfaction for society's largest number. What has been repudiated in Poland and Czechoslovakia and Hungary is not Marxism, but the party apparatus which allowed itself to be divorced from proletarian realities, party life ceased to be, and was displaced by a perverted elitism. Signals therefore began to go wrong. The command system did not fail, the command system was put to wrong use. Because it was fed wrong facts and issued preposterous instructions, chaos became king. At that awkward moment, Mikhail Gorbachev pressed the panic button, and called his soldiers and economic advisers home. He had, continues to have, the gleam of 250 billion dollars in his eye, that could still save what remained of the Soviet Union, the rest of east Europe is an irrelevance following the burial, several fathoms deep of the international brotherhood of the working class.

Facts are however, difficult to be rendered into unfacts. The idea of material balances the Soviet planning authorities had introduced in their working sheets way back in the 1920s was a trail blazer. Wassily Leontief carried the precious cargo when he migrated from Gosplan to Harvard. With a bit of embellishment provided by Walrasian general equilibrium, that bag of tricks has provided inspiration for

much of the macro-economic forecasting. American financial experts have specialised in the post-war decades. Little reason for feedstock for the goose not to be feedstock for the gander too. The east European catastrophe is not on account of an organic fault in the working apparatus, nor is it attributable to any latent poverty in the underpinning of philosophy; it is more because of the failure to transmit the spirit of the philosophy into the processes of one's daily living. Socialism did not fail, it was pride in socialism which did. Once pride was missing, there was an abdication of morale too. The east Europeans were hustled into choosing: they had stable prices, rationed food generally in reasonable quantities, ample clothing even though somewhat unimaginative in design and quality, housing of some sort. Moreover, they had full employment, generous social security arrangements, subsidised education and health care, and music and culture organised for the millions. They also had two-thirds of the Olympic medals. But they chose to be free. They have chosen galloping prices, steeply declining production, unemployment for 50 per cent of the workforce and social chaos.

Over here, we never built any socialist edifice, we have an impeccable feudal-capitalist order where controls only play a peripheral role, acting as some sort of a buffer between the pillaging few and the plundered millions. The shapers of our destiny are now being asked to be inspired by the example of Mikhail Gorbachev and withdraw whatever residual controls there are. Gorbachev, if the grapevine is to be trusted, will soon be confronted by the prospect of a 1000 per cent inflation per annum. Should they follow his example, our policy-makers, those who take office this week, would be unlikely to avoid a similar fate. It is going to be their funeral, why bother to intervene? Unfortunately, their misdoings will hurt most the innocent millions who trusted them with their votes.

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What Is Happening to Farm Investments?

Arun Ghosh

Now that there is a new government at the centre, it is time somebody drew attention to the long-term problems we are inviting upon ourselves by continuing to pursue the policies of the eighties. Neglect of farm investments is among the most ominous of these.

THE Reserve Bank of India *Bulletin* of May 1991, read in conjunction with the RBI *Report on Trend and Progress of Banking in India* (July 1989-June 1990), makes distressing reading. Even as the Planning Commission is reportedly preparing a draft Eighth Plan on the assumption of a 6 per cent rate of growth of the economy over 1990-95, and business and economic writers are up in arms against the admittedly draconian (but inevitable) monetary curbs against imports, there has not been a murmur about the continuing, distressing trend of a decline in investment on the farm.

Now that there is a new government at the centre—which will obviously have to face the immediate problem of restoring some semblance of order in the balance of payments—with diverse implications for internal economic policy formulation, it is time that somebody drew attention of the intelligentsia to the long-term problems we are steadily and consistently inviting on ourselves by continuing to pursue the economic policies of the eighties. And the most significant change herein would pertain to the policy (or policies) we pursue in regard to agriculture.

But, first, we should make use of some telling figures brought out by the Reserve Bank. Let us first focus on the pattern of ownership of bank deposits in 1988, as per a sample survey conducted by the RBI. In 1988, individuals (including Hindu undivided families) accounted for 75 per cent of all deposits with commercial banks; and omitting non-residents, the percentage comes down to 67.

Individuals (or households), in both the national accounts statistics as well as banking statistics, are a mixed lot. The break-up of the pattern of savings by resident Indian individuals (including HUFs) is given in Table 1. For brevity, the corresponding figures for 1986 have been omitted, but it is important to mention here that the aggregate increase in bank deposits by farmers between 1986 and 1988 was as much as Rs 5,457 crore, which was 15.5 per cent of the total increase in deposits over the two-year period. Current deposits increased by only 1.1 per cent over these two years, sav-

ings deposits by 22.6 per cent and term deposits by 14.6 per cent.

Unfortunately, we do not have the maturity pattern of term deposits in respect of farmers specifically, but we do have such a break-up for 'individuals' (including HUFs) broken up as between rural, semi-urban and urban areas. These figures are given in Table 2. It would be seen that in the rural areas, deposits exceeding one year accounted for more than 96 per cent of all deposits; indeed, deposits exceeding three years were only a shade less than 70 per cent of total rural deposits.

While the scheduled banks may take justifiable credit for substantial deposit mobilisation even from the rural areas, the brief point is that farmers—obviously the affluent sections among them—put by most of their savings in the form of term deposits with commercial banks.

One should add that the data given in Tables 1 and 2 should not be mixed up. In the former, the classification is between

farmers and other kinds of deposits; in the latter, the distinction is between rural, semi-urban and urban areas. The only thing one can say for certain is that in the rural areas, a large proportion of the deposits would be by farmers. (Term deposits by farmers were Rs 8,434 crore; term deposits in the rural areas totalled Rs 9,429 crore.) It would appear that affluent farmers have now taken to keeping their surplus funds in the form of 'financial assets' rather than investment on farm improvement.

One further set of statistics from the RBI *Bulletin* may be adduced here, the statewide break-up of deposits. Unfortunately, these data are available only in respect of 'individuals' and are not broken up as between different categories of individuals. However, it may still be useful to cite these data, to indicate the changing 'asset preference' pattern of individuals (including HUFs) in the country. In Table 3, non-resident deposits have been specifically deleted to indicate the pattern of regionwise deposits held by individuals in commercial banks. (Data are available statewide but are not being given here; they are not really germane to the issue, except for a few states which are specifically mentioned below.)

Two clarifications are necessary. First, and importantly, the total of the deposits of individuals tells us very little of statewide (or regionwise) deposits from the farm sector or even from the rural sector. One could, of course, attempt a segregation of individuals' deposits in large metropolitan areas (for which data are available) but, even so, the data cannot be equated to the rural sector. Secondly, in some states, non-resident deposits are quite high (In Kerala it is 27.6

TABLE 1 OWNERSHIP OF BANK DEPOSITS BY TYPE AND ECONOMIC SECTOR, 1988

| | (Rs crore) | | | |
|--|----------------|----------------|-----------------|-----------------|
| | Current | Savings | Term | Total |
| (1) Farmers | 138 (0.8) | 5717 (16.6) | 8434 (12.0) | 14290 (11.7) |
| (2) Businessmen, traders, professionals, and self employed persons | 3399 (19.1) | 6679 (19.4) | 12840 (18.3) | 22919 (18.7) |
| (3) Wage and salary earners | 335 (1.9) | 944 (27.4) | 12698 (18.1) | 22477 (18.3) |
| (4) Others (not elsewhere classified) | 1008 (5.7) | 7951 (23.1) | 13177 (18.8) | 22137 (18.1) |
| Total of all deposits | 17761 | 34440 | 70272 | 122473 |

Note. Figures in parenthesis show percentages of total deposits

Source: RBI *Bulletin* May 1991, Bombay

TABLE 2 MATURITY PATTERN OF TERM DEPOSITS OF INDIVIDUALS WITH SCHEDULED COMMERCIAL BANKS, MARCH 1988

| | (Rs crore) | | |
|--|------------|------------|-------|
| | Rural | Semi Urban | Urban |
| (1) Up to 90 days | 39 | 83 | 200 |
| (2) 91 days and above up to 1 year | 708 | 589 | 844 |
| (3) 1 year and above but less than 3 years | 2517 | 4567 | 5361 |
| (4) More than 3 years | 6384 | 8498 | 8010 |
| Total | 9249 | 13737 | 14415 |

Source: RBI *Bulletin*, op cit.

per cent of the total, in Maharashtra 21.6 per cent, for India as a whole 8.3 per cent.)

But, then, why have we presented the data given in Table 3? The relevance of the above data is to compare the proportion of individuals' deposits in states like Punjab and Haryana (between 84 and 85 per cent of the total) with those in Bihar (75 per cent), UP (also 75 per cent), Andhra Pradesh (76 per cent) and Orissa (69 per cent). That is, it is not merely the affluent states where this phenomenon is observed but also the less developed states. (Of course, we have no means of knowing what part of the deposits of individuals in these states emanates from the non farm sector.)

Before we pass on to the main purpose of this study, namely, to indicate the pattern of bank lending to the farm sector, it must be added that, as of today, one of the sectors of the economy wherein there is a large backlog of demand is the tractor industry and other (modern) farm equipment. Apparently, in the 'affluent' farm areas where holdings are large, there is adequate money to spare for holding financial assets (in considerable measure) in addition to making farm investments. It is difficult to envisage any large demand for tractors in areas where operational holdings are small.

The point that is relevant is that this backlog of demand for tractors may not reflect the situation (in respect of investment in farm improvement) in the country as a whole.

Let us take a look at the 'financing' of the farm economy by the banking sector and the co-operatives, which together make up the organised lending sector. Are we having a reverse transfer of savings from the rural to the urban areas? That, in fact, is the question we need to ask ourselves.

And here we run into difficulties. The RBI *Report on the Trend and Progress of Banking in India* devotes much attention to the number of branches opened (in rural and other areas) but it gives no data in regard to the actual finance provided for the agriculture sector, not even on an all-India basis, let alone for each state. (Statewise data on lending is available for the RRBs, but we can leave them out of reckoning as they provide only a very small part of finance in the rural areas.) Much has been written about the Service Area Approach, but perhaps it is too early to get any feel of what it has achieved. The only data we have pertain to the outstanding amount of credit to the farm sector. Obviously, it would be quite wrong to take even the data pertaining to short-term credit advanced to agriculture, which is what we can obtain from the data on 'advances' to, and demand for recoveries as well as actual recoveries from, the farm sector.

The *Currency and Finance Report* gives better information, fortunately, and we have here three sets of data: (a) short term advances to agriculture (by size of holding and by state); (b) loans and advances made by primary agricultural credit societies; and (c) advances by land development banks and

The total loans and advances to agriculture during July 1987 to June 1988 amounted to Rs 1,273 crore, but these are essentially crop loans, supposed to be reimbursed within a year. (The outstanding amount was Rs 6,017 crore, at the end of June 1988, but that is a separate matter.) The amount advanced by primary agricultural credit societies during the year was Rs 3,688 crore, this amount has to be added to Rs 1,273 crore advanced by the commercial banks, to indicate the total short-term credit available. (Again, the outstanding amount of Rs 5,242 crore does not concern us here; and may be likened to bank funds locked up in sick industrial units.) The total short-term credit to Indian agriculture, from 'organised' sources is seen to be only Rs 4,961 crore during 1987-88. This is a digression, but a worthwhile one.

But these loans are not made for farm investments (though some part of commercial bank credit to the farm sector could well be for that purpose). The state land development banks lent a total sum of Rs 190 crore during 1987-88, and the primary land development banks an amount of Rs 356 crore. There may be some double-counting involved here (through refinancing) but even

discounting this possibility total lending by land development banks (for farm improvement) amounted to no more than Rs 544 crore. That is as far as we can get, with data from the *Currency and Finance Report*.

Again, the RRB data given in the *Currency and Finance Report* pertain only to outstanding and overdue advances. We know that the entire lending by the RRBs was not for farm improvement; nonetheless, it is significant that the outstanding advances by the RRBs, as at the end of December 1989 amounted to only Rs 2,939 crore.

Two conclusions follow. First, the data on lending for farm improvement are hard to come by. It would be wrong to mix up the scheduled banks' crop loans to the farm sector with loans made specifically for farm investment—the former are essentially current working capital loans, and what we are seeking is the type of assistance rendered to industry by the IDBI, ICICI, IFCI et al—and while loans advanced by the land development banks may be so characterised, lending by commercial banks cannot be so defined. The total amount of lending of the land development banks is so small as to warrant them being left out of consideration for present purposes.

TABLE 3 REGION WISE OWNERSHIP PATTERN OF DEPOSITION SCHEDULED COMMERCIAL BANKS MARCH 1988

| (Rs crore) | | | |
|--------------------------|--|-----------------------|---|
| | Individuals (other than non residents) | Total of All Deposits | Percentage of Individual Deposits Total |
| (1) Northern region | 18418 | 27101 | 67.9 |
| (a) Haryana | 2091 | 2460 | 85.3 |
| (b) Punjab | 5487 | 6574 | 83.5 |
| (2) North eastern region | 1397 | 2221 | 62.9 |
| (a) Assam | 927 | 1521 | 60.9 |
| (b) Tripura | 118 | 161 | 73.4 |
| (3) Eastern region | 14320 | 20056 | 71.4 |
| (a) Bihar | 4660 | 6204 | 75.1 |
| (b) Orissa | 1032 | 1498 | 68.9 |
| (c) West Bengal | 8554 | 12222 | 70.0 |
| (4) Central region | 13973 | 17467 | 80.0 |
| (a) Madhya Pradesh | 3445 | 4718 | 72.9 |
| (b) Uttar Pradesh | 10529 | 12450 | 75.4 |
| (5) Western region | 16609 | 30581 | 54.3 |
| (a) Gujarat | 5095 | 7456 | 68.3 |
| (b) Maharashtra | 10913 | 22112 | 49.3 |
| (6) Southern region | 17101 | 25047 | 68.3 |
| (a) Andhra Pradesh | 4916 | 6516 | 75.5 |
| (b) Karnataka | 4138 | 5947 | 69.6 |
| (c) Kerala | 3005 | 4823 | 62.3 |
| (d) Tamil Nadu | 4929 | 7558 | 65.2 |
| All India | 81818 | 122473 | 66.8 |

Source: RBI Bulletin, op cit

TABLE 4 DRAWALS AND OUTSTANDING IN RESPECT OF MEDIUM AND LONG TERM LOANS BY NABARD

| (Rs crore) | | | | | | |
|------------|--|-------------|--------------------|-------------|------------------------------|-------------|
| Year | State Co-operative Banks (medium term) | | RRBs (medium term) | | State Government (Long term) | |
| | Drawals | Outstanding | Drawals | Outstanding | Drawals | Outstanding |
| 1986 | 1374 | 3434 | | | | |
| 1986-87 | | | 9432 | 19926 | 1227 | 9516 |
| 1987 | 1303 | 3118 | | | | |
| 1987-88 | | | 4318 | 20308 | 8840 | 16884 |
| 1988 | 1018 | 2705 | | | | |
| 1988-89 | | | 6025 | 24039 | 4522 | 19523 |

There remains the National Bank for Rural and Agricultural Development (NABARD) and perhaps this is the only source of whatever data we have in regard to the financing of rural development. The NABARD refines state co-operative banks (for short- and medium-term credit) and state governments for long-term credit. Let us take a look at the total medium- and long-term credits refinanced by the NABARD, as per its annual report for 1988-89 (Table 4).

The figures of conversion of short-term loans into medium-term loans in scarcity affected areas have been ignored in the above statement because these are not for farm improvement but are much like the *saccavi* loans of a bygone era.

If we forget the difference between calendar years and fiscal years, the total of medium- and long-term loans to the farm sector would be something like the following:

TABLE 5 TOTAL OF MEDIUM AND LONG TERM LOANS REFINANCED BY NABARD (Rs crore)

| | |
|---------|--------|
| 1986-87 | 12 033 |
| 1987-88 | 14 468 |
| 1988-89 | 11 565 |

The above are somewhat more respectable figures than those available from other official sources. But then, we saw at the outset, in Table 1, that during 1987-88 (July-June), the total savings and term deposits of farmers with scheduled commercial banks alone were Rs 5,717 crore and Rs 8,434 crore respectively, or a total of Rs 14,151 crore during 1987-88. We have not even counted other types of financial assets which the affluent farmers are now beginning to acquire.

The pertinent questions to answer then are (a) do we have data on the total investment on farm improvement? (b) who is financing investment on the farm and how? and (c) can we improve the statistics relating to the flow of funds from and to the farm sector, at least insofar as the organised financial institutions are concerned?

One wonders whether the National Sample Survey (NSS) can take on such a study in one of its rounds.

Finally, given the existing crunch of resources, the need for restraint on credit generally (to avoid inflation), and the fact that investment in farm improvement (not

necessarily in modern farm equipment) is not likely to have any adverse impact on the balance of payments, one can only suggest, for the consideration of the new government, that (a) there is a case for increasing the allocation for farm improvements, particularly in the dryland/desertified areas, (b) there is every advantage in converting all current transfers to the rural sector (like the JRY) into 'investments', and (c) this can be done only by decentralisation, the transfer of Centrally-Sponsored Schemes to the states on condition that the funds are in turn passed on to locally elected panchayats, voluntary and other agencies (like the SPWD) working in rural areas, so that we can improve rural incomes and output without any adverse impact on the balance of payments.

Perhaps a final word is necessary. It could be argued that direct investment in agriculture (without financial intermediation) is taking place, on a big scale. Table 6, taken from the *National Accounts Statistics (1990)*, indicates the gross fixed capital formation in agriculture (including direct investment in the form of fixed assets) from 1980-81 until 1987-88, at both current and constant (1980-81) prices.

Two points emerge from the above table. At current prices, the gross fixed capital formation in agriculture in 1987-88 was way below the total of medium and long-term loans refinanced by the NABARD (see Table 5). This implies that a large part of NABARD refinancing either went to sectors other than the farm sector (with which we are concerned here) or else there was considerable diversion—apart from the

possibility of statistical errors, which cannot be of this order—of NABARD financing, meant for agriculture, but really going for uses other than those intended by NABARD.

More importantly, at constant prices (with 1980-81 as the base), gross fixed capital formation in agriculture declined from Rs 4,537 crore in 1980-81 to Rs 4,197 crore in 1987-88, the decline being particularly noticeable from 1983-84. This figure is inclusive of direct investment.

The implications for policy for the new government are obvious, though what will really happen is not so clear. The entire thrust of the World Bank/IMF (as seen from the recent debate in the columns of *The Economic Times* on the latest World Bank report on the need for trade liberalisation in India) is on (a) trade liberalisation, and (b) a sharp reduction in the fiscal deficit (which somehow has been linked, almost in a 1:1 relationship, with the deficit in the balance of payments). The helplessness of a new government, in urgent need of temporary balance of payments relief, can be imagined. The World Bank recommendations merit a separate discussion. But let it be stated here that the focus of the new government *should* be to step up investment for rural development generally and agricultural development in particular. Neither the Bank nor the Fund appear to be overly concerned with the development of the one sector which has no adverse balance of payments implication, and which provides livelihood to some two-thirds of the Indian population.



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TABLE 6 GROSS FIXED CAPITAL FORMATION IN AGRICULTURE (Rs crore)

| Year | At Current Prices | At 1980-81 Prices |
|---------|-------------------|-------------------|
| 1980-81 | 4 537 | 4 537 |
| 1981-82 | 4 937 | 4 346 |
| 1982-83 | 5 522 | 4 409 |
| 1983-84 | 5,433 | 3,957 |
| 1984-85 | 6,107 | 4,187 |
| 1985-86 | 6,625 | 4 068 |
| 1986-87 | 7,101 | 4 067 |
| 1987-88 | 8,000 | 4 197 |

Source: CSO, NAS 1990

Power-Shift

Bhabani Sen Gupta

The aftermath of the election has left all parties, except the BJP, exhausted in body and mind. The Congress(I) is ready to fade away as the leading political force between now and the next election which is probably only three years away. The leaders of the Janata Dal are torn between Mandal and the middle classes. The Left too is passing through a spiritual crisis. But in great contrast to the dilemmas in the camps of the secular parties is the climate in the BJP which, after scanning the election results, has come to the conclusion that the mood of the people is with it.

THE tenth general election, the longest, the most expensive and the most traumatic in India's history since independence, is conspicuous for the contradictions and warning signals it has delivered. First, there is a minority Congress(I) government in Delhi which does not represent the ground realities of political power thrown up by the poll. It governs only one State in the north, Haryana, two in the south, Andhra Pradesh and Karnataka, Maharashtra in the west, and Kerala in coalition with a gaggle of other parties, and Assam in the east together with the cluster of six mini-States.

The Congress(I) power base in the entire Gangetic valley has been virtually wiped out. Its unrealistic strength in the Lok Sabha is the gift of an assassinated Rajiv Gandhi who, alive, could hardly have shored up as many seats. As Indira Gandhi gifted to her son, Rajiv, a Lok Sabha with an over two-thirds majority by dying at the hands of two Sikh assassins, so did Rajiv Gandhi bestow on his party a near-win in the election by getting killed by a suspected LTTE assassin.

Rajiv Gandhi's gift is much smaller than what he had received from his departed mother. Even with that brute majority in the Lok Sabha, he could not press the political-economic system to desirable change, and lost the poll of November 1969. The Congress(I) is ready to fade away or collapse as the leading political force between now and the next election which is probably only three years away.

The winner in the tenth general election was the BJP, though it came second. In a matter of just two elections, BJP has spread its saffron wings over vast expanses of the country, from north to south, east to west. It is the principal ruling party in northern India while, on the west coast, it has Gujarat in its net. Himachal Pradesh, Rajasthan, Madhya Pradesh, Gujarat, Uttar Pradesh—one-half of

India in territory and more than that in population—lie in the grip of BJP political power.

Down south, BJP got 29 per cent of the votes cast in Karnataka compared to a mere 3 per cent in 1989, while in Andhra Pradesh, where it had formidable rivals in the Congress(I) and TDP, it snatched away 9 per cent of the votes. Even in West Bengal, the Marxist citadel, BJP collected 12 per cent of the votes though without winning any seat. There is hardly a State or territory in India today where the BJP is not seen as the party of the future. It has snatched away the government of Uttar Pradesh with 23 per cent of the votes, as against just 11 in November 1989. With 119 MPs in the Lok Sabha, BJP is the main opposition party. But when you note that in as many as 128 constituencies the party came second, you are compelled to concede that there is a lot of reality in the BJP claim that it is 'the government-in-waiting'.

The Janata Dal defended Bihar stubbornly and well and came up as the second force in Uttar Pradesh, while it also held Orissa. But its rout in the rest of the country, in Gujarat and Karnataka particularly, showed that the cry of equity and social justice, holding aloft the flag of the Mandal report, did not draw the voters in most of India to vote for its candidates. The Left Front lost Kerala. Its fourth time running win in West Bengal was remarkable, but there was a drop in its popular vote, and even four CPI(M) ministers were crushed. Among the regional parties, AIADMK triumphed in Tamil Nadu, cashing in fully on the sympathy wave, TDP showed an impressive recovery in Andhra Pradesh and might have come out on top if Rajiv Gandhi had not been killed, but the Asom Ganatantra Parishad, split as a result of internal strife, lost miserably to the Congress(I) and will find it hard to bounce back to power.

GLOOMY PROSPECT

It is the state of the Congress(I) that provokes gloom about the future of traditional Nehruvian secular politics. Organisationally it is still in the grip of the coterie whose current slogan is 'the dynasty is dead, long live the dynasty'. By succeeding in installing P V Narasimha Rao, who is more sickly than 70 and has been a faithful loyalist all through his shineless political career, as both party president and prime minister, the coterie has ensured that there is no significant change either in the party organisation or in the policies and programmes of the government. There are, of course, rumblings of discontent, fear and infantile protest in the Congress(I) leadership. Sharad Pawar's challenge to the coterie lost its breath in no time, but he has cleverly installed himself as the alternative centre of power in the Congress(I) apparatus in Delhi, while the resignation of Shiv Shankar as leader of the party in the Rajya Sabha has revealed only the tip of an iceberg of potential rebellion against the coterie-Rao leadership.

However, the history of the Congress Party is not exactly littered with instances of rebellion, and there has been perhaps only a single successful rebellion in its 100-odd years of history when Chittaranjan Das and Motilal Nehru broke away from the party in the 1920s to form the Swarajya Party. It required a man like Mohandas K Gandhi to acknowledge his defeat and woo Das and Motilal back into the party. In the late 1930s, Gandhi ruthlessly broke the back of the rebellion of Subhas Chandra Bose, with the backing of Jawaharlal Nehru. The Congress(I), as the inheritor of the Indian National Congress tradition, is steeped in the parent body's culture of open submission and secret conspiracy.

The aftermath of the election has left all parties except BJP exhausted in body and mind. The prime minister is busy carpentering a government that can win the Lok Sabha's vote of confidence and survive the political turmoil that will inevitably follow the acceptance of a large IMF loan with all its conditionalities. He has not taken the country into confidence until now about anything that is really important: whether he is anxious to build, and is capable of building, a consensus with the opposition parties on how to handle the grave foreign exchange crisis, how he is going to live with the minority status of his government, what his perceptions of India's political future are, whether the Congress(I) will be willing to work with the National Front and the Left.

poll. There are no answers to these questions from Rao or any other authoritative source in his party, nor to the question whether the party is to be rebuilt through organisational election and, if so, how soon.

The coterie continues to plumb for Sonia Gandhi as party president, in which case there will be a situation of the *status quo* reinforced. The prime minister, never known for conceptual clarity or political initiatives, and for long politically homeless in his own State, has adopted the policy of enigmatic silence and passivity, which may be caused by unsound health, poverty of ideas and the large debt he owes to the coterie for making him what he is today in the twilight of his life.

The Janata Dal has taken painful stock of the post-election scenario. Its leaders are torn between Mandal and middle class as if there were a basic contradiction between the two. Holding Bihar was nice, but Laloo Prasad Yadav believes more in Yadav power than in the power of the OBCs, has done nothing to redress the pitiful condition of the poor and the deprived nor for Bihar's economic uplift, and so Bihar is not a State you can hold up to the country as a model of your political philosophy. Besides, the Janata Dal is the epitome of the lust for power of Indian political leaders; it can never be certain that its major factions will stay together under a single flag. It was broken and thrown out of office by the desertions of Devi Lal and Chandra Shekhar. Even now, Delhi is agog with rumours that Ajit Singh may any time swallow the bait held up to him by the plumbers of the Congress(I): the industry ministry, if you can defect with a full third of JD's strength in the Lok Sabha.

This move, if true, also betrays the total poverty of political leadership in the post-dynasty Congress(I). Once it begins to play the dirty and corrosive game of defection, it will lose whatever little credibility there is now in the prime minister as a political leader, and throw its own flanks open to similar moves by party dissenters. In any case, if the government determines that it can survive only with the defection of a faction in the Janata Dal, it will shut the door on future collaboration among the secular parties to hold the saffron tide and to roll it back when the country goes to the poll again well before 1995.

The Left Front too is passing through a spiritual crisis. The loss of Kerala reduces the Left Front to an entity that rules only one State, West Bengal, in which the State CPI(M) leaders are not always in tune with the central committee and politburo leaders in Delhi. The CPI has not been able to expand its electoral base in Bihar and Uttar Pradesh and

CPI(M). The CPI(M) is tantalised by opportunities of finding an ally in the Congress(I), which was its long-time objective, but it is wary about giving up its linkages with the National Front. On the whole, however, the CPI(M) and the CPI are the only two groups who will try to persuade the Congress(I) and the National Front in the months to come that in the new power-shift in India the three groups must work together to save and protect Nehruvian socialism and secularism. The Marxists have pipelines both to the coterie and the dissenters in the Congress(I) as well as to Narasimha Rao who stands somewhere in between, his kurta-tails clutched strongly by members of the coterie so that he may not get out of their grip.

THE CONTRAST

In great contrast to the dilemmas and despondencies in the camps of the secular political parties, there is a different climate in BJP. BJP leaders have scanned the election results most carefully and come out with the strong as well as weak points of their party's performance. They have come to the central conclusion: the mood of the people is with them. Not just because BJP built a big agitation for the Ram temple, but because the voters all over the country see it as a well-knit political party, with clear and candid policies which often promise an entirely new direction to Indian polity. Its leaders are seen as united in political will and strategy and quite serious about what they say. BJP leaders are not unhappy that the party has not done even better. In private conversation, they concede that they are not ready at this time to govern India. They must erase from the people's mind the image of a Hindu chauvinist party determined to turn India into a Hindu 'rashtra' and reduce the 100 million Muslims to the status of second-rate citizens. They declare that elected to power they will not try to dissolve the first republic and set up a second republic with Hinduism as the State religion. "We will maintain the republic as it is crafted by the Constitution. We will not set up a theocratic State", asserted a BJP leader in a recent conversation. "We will give the Muslims security and equal status as citizens, with no special privileges and no particular disadvantages."

BJP leaders know that two years of atavistic agitation have darkened the minds of its many supporters with rabid anti-Muslim sentiments. The use of obscene political cassettes in the election and the role played by such lumpen bodies as the Brajrang Dal and to a lesser extent VHP are leftovers of the election which the BJP will want to garbage in the years between now and the next poll.

A team of young men who managed

efficiency from the central office in Delhi have found that the party received the support of all segments of Indian society—from the affluent to the poor, brahmins to sudras and tribals, urban as well as rural folk. This broad acceptability of the voters has kindled confidence in the minds of the BJP leaders that the next election will catapult it to the centre of national power.

Meanwhile, it must govern Uttar Pradesh well and do better in Madhya Pradesh, BJP leaders add. "We have to give better performance as administrators and developers of the economy. We have to show that the Muslims are safe in States we govern—particularly Uttar Pradesh, which is almost impossible to govern."

It will take the BJP leaders time to convince the mainstream of the Indian population that it does not stand for a Hindu 'rashtra' nor for politicised Hindu nationalism. BJP's principal capital is the poor state of its political opponents, above all the bleak future of the Congress(I). Released finally from the domination of the dynasty, Congressmen and women should grasp new opportunities to rejuvenate the party through organisational election and churn out new ideas to deal with the new social and political realities in India and the world in the 1990s. Even if many party leaders recognise the need, few are capable of summoning the political courage to demand constructive change. The 26-year old mind-set, spanning an entire generation, of supine subservience to a supreme leader has drained the spirit of democracy from the arteries of most Congressmen and women. They have been hugely diminished as political actors by Indira Gandhi and Rajiv Gandhi. Few leaders have secured support bases of their own; those who stood on their own support bases were pulled down by the supreme leader. Now the Congress(I) is a prisoner of the binds created by its leaders since 1969. If its leaders cannot cast away those binds, the party will be reduced to a pitiful minority in the next poll and then one day it will fall apart into many mutually warring pieces.

The kind of leadership, gifted with strength and vision, that can rescue the party from its present paralysis is not in sight, Sharad Pawar notwithstanding. This aspirant to the prime ministership is still to show that he has a vision of a go-ahead India, that he understands global change, and can mobilise manpower and other resources within and outside the party to build an India which is at peace with itself and on friendly terms with the neighbours and other foreign countries.

The Janata Dal is the first centrist party to commit itself to the backward castes' and classes' entry into the power structure

and to make equity and social justice its main political planks. Since caste and class mean in India almost the same thing, the Janata Dal might have broken the resistance of the power structure to significant social change. In the post-election meetings of the national executive of the party, it rightly decided not to depart from its basic political ideology but to make additional efforts to win the confidence of the middle and lower middle classes which it lost almost entirely as a result of the huge hue and cry that followed V P Singh's announcement of 27 per cent reservation of jobs in the Central government and its industrial and other economic undertakings for the OBCs. North Indian Hindu society will not easily allow political power at the national level to be meaningfully shared by the sudras and the tribals: this society's value milieu is still governed by brahminism of an ancient vintage. The brahmins deserted the Congress(I) in the last poll along with significant segments of other high castes, in Uttar Pradesh the Janata Dal was let down by its own constituency which it had to share with Mulayam Singh. The Dal and its Mulayam Singh break away faction together polled more votes than BJP. BJP then can be contained in UP only if the other parties come together in a vote sharing coalition bandobast.

This will probably happen on a national scale at the time of the next election if, as noted, the Congress(I) takes no attempt to break the Janata Dal but determines to work with it and the Left Front to resolve the pressing political and economic problems.

ECONOMIC CRISIS

The country has been debating economic policy issues for many years, but little has been done to make the structural reforms that are essential to impart growth wings to the economy. Two alternative approaches have been debated, neither has been undertaken. In the result, the Left democratic solvents have lost ground in view of the collapse of Left ideas on a global scale and the triumph of the new god called Market. The political economy remains frozen in the barren middle between the two as corrupt politicians and a politicised bureaucracy join hands with rapacious capitalists to plunder the wealth and resources of the nation. We have arrived at a stage when the political leadership can summon the courage neither to work for the Market nor for the People. Reckless spending of foreign exchange began during the Rajiv Gandhi years, in the brief National Front interlude, it was compounded by populist ideas like loan waivers. Now the country stands dangerously close to the debt trap

and *The Economist* of London gleefully forecasts that India's economy will soon be in the "safe hands of the IMF".

Since the economic crisis is part of the larger structural crises in the entire political economy, even a big IMF loan in itself will not be a solvent. The Congress(I) government will have to swallow many a stiff IMF conditionality. Implemented, some of these conditionalities will trigger social and political unrest. The minority government will try to backtrack from the reforms which will make the economic confusion only worse compounded. The solutions suggested by Left-democratic schools, like land reforms, a determined expedition against the black economy, taxing the rich more vigorously and introducing a tax on agricultural income will not be acceptable to the government, and it will probably never be that a Left democratic government will be in saddle in Delhi to give the political economy a Left-democratic direction.

It will therefore be futile to expect a national consensus to pilot India to a safer and better managed economic shores. The government will have to come out with its policies and come out it will gingerly in the budget and in subsequent coping measures. The opposition parties will not vote it out for two years. But BJP can be depended upon for formulating its political battles for the next poll even as

the country scrapes through its current economic tests and tribulations. It will not whip up strikes. It will not encourage agrarian unrest. Its main thrust will be to further the alienation of the middle class from the Congress(I).

BJP leaders realise that working class and peasants do not determine the course of Indian politics; the middle classes do. In the various central bureaucracies today one can hear a lot of support for BJP. Dozens of former military officers and retired ambassadors have joined the party. More will as time passes. More and more business houses are now veering towards BJP. More and more of the educated youth of the country too are inclining towards BJP as the party of the future. Among the intellectuals, the baggage of Nehruvian political philosophy has almost completely lost ground; the Market is becoming the Mantra.

The total mobilisation of all democratic and secular forces alone can contain the BJP wave. But there is no sign that such mobilisation will happen. The Congress(I) alone can take the lead. There is little sign of new life and stirrings in that effete and aged animal. Under BJP, India will be a very different political economy from the one the founding fathers contemplated, and which Nehru and his successors wanted to build but have painfully failed in their job.

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ALIA AHMAD

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Moment of Truth for Janata Dal

Anil Nauriya

The Janata Dal had raised expectations of a possible social and political transformation. Its electoral performance, and the political mistakes and miscalculations responsible for this, therefore evoke a sense of an opportunity lost. The situation is not irretrievable, however.

IF the Janata Dal leadership fails to read the writing on the wall after the general elections it will have fully deserved the oblivion that awaits it. At the time of its formation towards the end of 1989 the Janata Dal government reflected a ray of hope. The party had come to power with the promise of a new style of governance and there seemed to be an inclination on its part to direct its programmes towards securing the primary needs of the people. The hope diminished within a relatively short period of the party's administration; now the Janata Dal itself has been reduced to a political rump comparable in insignificance to the group that split away from the party in October-November 1990.

The party leadership must re-examine the performance of its government at the Centre. After the Janata Dal government assumed office, there was a feeling among observers that the party did not have the organisational base that was required to lend political support to the action plan which it had in mind. This meant essentially two things. First, the Janata Dal did not have an organisational base appropriate to the kind of programmes it had contemplated. And second, that the party did not have an adequate organisation of any kind.

The Dal failed at this point also to evolve a formal decision-making structure both within the party and as between itself and its supporting parties. There was a lack of clarity among the senior leaders about methods of functioning. This was compounded by ideological confusion within the party.

To deal first with the method of functioning, it is well known that even senior leaders of the party did not have an indication of the timing of specific political initiatives. The leaders had an approximate notion of the weapons in their political armoury; they did not know which device would in fact be utilised or when it would be used. There was no policy planning and no prior consultation in strategy and tactics. It is futile to complain that faction leaders functioned as though they knew no discipline. There was

nothing unexpected in this. The experience of the post-1967 non-Congress governments in the States and at the Centre during 1977-79 should have been warning enough. The manner in which Devi Lal was used, propped up, and periodically appeased and the handling of the Meham electoral controversy were entirely unsatisfactory. But there appeared to have been a willingness on the part of public opinion not to hold this against the Janata Dal government as a whole.

If a turning point is to be identified in the fate of the Janata Dal government, it is perhaps the decision to bring in Sanjay Singh, a relative of V P Singh, as a member of the Rajya Sabha from Uttar Pradesh. This was done in disregard both of the serious criminal case against Sanjay Singh and of the fact that his political record was none too glorious. This decision, much though V P Singh may attempt to disown it, affected his moral authority. V P Singh, who had till then acted as an umpire in inter-factional controversies, was now seen rightly or wrongly as being an active participant in the unprincipled politics to which he had been presented as a contrast. Devi Lal was now emboldened to attempt reintroducing his son as chief minister of Haryana, setting in motion a chain of events that led to the removal of the deputy prime minister from the Union government.

Having removed his deputy, V P Singh panicked again, apprehending a reaction in the north Indian countryside. The manner in which the Mandal Commission recommendations were sought to be implemented was of a piece with this. A reasonably strong case, subject to certain modifications which required to be discussed, was thus tainted by the vice of a stratagem.

LOHIA MISUNDERSTOOD

Difficulties arose on account of the adoption of ideologies without adequate preparation or understanding. In regard to what is passed off as the ideology of Ram Manohar Lohia, V P Singh dis-

played all the zeal of a new convert. As often happens with new converts, the dominant church is mistaken by them as the sole interpreter of a prophet who they themselves do not yet know well or at all. Ideological weaponry when used casually can and often does backfire. Lohia has left two legacies which, though connected, are substantially different from each other. The first is represented by his writings which are important and thoughtful attempts to understand Indian social and political reality. The other legacy is represented by his politics, especially in the latter part of the fifties and in the sixties. Lohia is better known to fellow Indians by the second of his legacies. Those who are known today as 'Lohiawadis' originated in this politics; yet many of them had been evolving ideologically over the last several years in a manner that not only brought them closer to the first legacy but also took them considerably beyond it.

The Janata Dal leadership failed to grasp this. Lohia ideologues of long standing, like Kishan Patnaik, have for several years been speaking of the need to grow out of a rigid and static approach to Lohia.

A risk inherent in the phenomenon of a leader who suddenly assumes control of a party or a movement and aspires to become the custodian of its ideological heritage is that he is not fully aware of what has gone before him. Thus if persons adhering to a particular ideology have evolved in a natural manner from point A to point X, the new leader compels them to make an artificial and wasteful return to point A so as to begin the process of evolution again.

'Lohiawadi' socialists held important positions and exerted influence at all levels within the Janata Dal. But they did not have a sufficiently critical attitude towards V P Singh. Their political pride was propitiated by the obeisance that Singh performed at the ideological altar of their socialist messiah. Thereafter he was given, in the current metaphor, rein of the 'Lohiawadi' chariot.

When the anti-Mandal agitation got going these socialists were not able sufficiently to impress upon V P Singh and upon some of their enthusiastic mutual colleagues that Lohia himself had a composite view of social backwardness. In his concept of backwardness there was place for economic and other components besides caste. In addition, Lohia had included women, in this category. The Karpuri Thakur formula for reservations in Bihar had been a comprehensive reflec-

tion of these criteria. It also contained certain safeguards to ensure that the bulk of the reservations would not be cornered by a few dominant castes. For unexplained reasons, it had not been adequately considered in the Mandal report. Instead of urging V P Singh to be more flexible so that a national consensus could be created around an acceptable formula, the Lohia socialists, and surprisingly even some sections of the communist parties, encouraged a rigidity about the Mandal formula. Irrelevant arguments were floated and repeated *ad infinitum* about how the Mandal formula identified castes also on an economic criterion. This was entirely beside the point since caste remained the sole criterion for reservations under the Mandal scheme. Technical arguments were adduced about the constitutional permissibility of the reservations contemplated. Throughout the Mandal-related crisis attempts to impress upon the Janata Dal leadership that the Karpuri Thakur formula, which was also a product of the 'Lohiawadi' ideology, and was a more composite and acceptable basis for reservations, met with failure. The leadership seemed so carried away with its own counsels that it was impatient with any suggestion for an alteration in the Mandal approach. This may or may not be the way to run a little fiefdom. It is hardly the way to run either a country of continental dimensions or a major political party in a democracy.

The Janata Dal leadership has been slow to admit errors. Soon after his government fell in November 1990, V P Singh, while talking to a group of citizens, refused to admit even the possibility that he may have been mistaken in not reviewing the Mandal criterion.

NEED TO BROADEN APPEAL

The leadership must now seriously ponder the future role of the Janata Dal. It is natural for Ram Vilas Paswan and others to suggest that V P Singh has become a symbol of the aspirations of the poor and will remain identified as such as also the leader of the party. It is always tempting to suggest, when faced with a difficult moment calling for introspection, that what is required is simply more of the same disastrous policy that has so far been pursued. The first response of the leaders of the Bharatiya Janata Party to their electoral defeat in a State like Madhya Pradesh was merely to suggest that more work required to be done along the same lines as before. Such responses are directed less to understanding the facts on the ground than to justify positions already taken.

George Fernandes went on record to



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say, somewhat before the election results came in, that the Congress had no right to exist. This was reminiscent of the Communist Party's attacks on the pre-1947 Congress before it developed the machinery to replace it. That is to say, it was premature.

It is to the building up of such a machinery that the Janata Dal leadership could profitably now devote itself. Given the experience since 1989 there will be a tendency within it to seek to build an alliance in the Lohia-Ambedkarite mould. With the Congress having become identified, especially in the years since the Emergency (1975-77), with varying forms of elitism, there is a need for a national party that would speak for and protect the interests of the poor. But an Ambedkarite platform is precisely what would set limits to the growth of such a party. Elitism or a mix of elitism and casteism cannot be answered by counter-casteism. This is not to belittle the role of Ambedkarite organisations. They perform an important and critical task in conscientising the Dalits and will be necessary allies in any struggle on behalf of the underprivileged in India. But an exclusive platform can hardly ever be at the centre of a national consensus. It is only an all-embracing outlook that can provide a party with a national base extending to all communities.

That incidentally is precisely the subtle distinction between the Karpuri Thakur formula and the Mandal approach to reservations. While the former can provide a basis for a national consensus, the latter can perhaps never do so.

Any party making use of the Ambedkarite and 'Lohiawadi' ideological legacies must, if it wishes to govern, dilute some of its ideological concentrate to such a point as enables reasonable persons across most classes and communities to agree on the national agenda. This is, of course, not a fixed point on the political or social spectrum. It is, within limits, a moving one, likely to be affected by political and historical moments and continually determined also by the quality of the leadership.

The course that Paswan and others have charted for the Janata Dal can, however, lead only to the building up of a magnified version of the Bahujan Samaj Party. This approach reduces the Janata Dal's ability to intervene positively in diverse spheres of national activity. For example, what sort of trade unions would such a party be affiliated with? Would such a party adequately reflect the aspirations of the industrial working classes or would it simply split the working class by introducing outmoded quasi-feudal divisions in it? It is no accident that the issues which V P Singh and his party had initially

raised—like the question of workers' participation in management and the right to work—got superseded by or transmuted into the debate on reservations. This reflected on the one hand the inability of the V P Singh government to implement these promises and on the other the inadequacies, and the particular composition, of its political base. Some indications of this were available at least as early as 10 months before the V P Singh government assumed power in 1989. On being asked repeatedly to spell out its ideas on the question of workers' participation in management, the Janata Dal leadership avoided being pinned down. The same thing happened with regard to the 'right to work' after the government was formed.

AMBIGUITY ON COMMUNAL QUESTION

The party needs to improve public confidence also in respect of its record on the communal question. It flirted with the BJP in the general elections in 1989. The Dal leadership did not come clean on this issue, with V P Singh repeatedly ducking questions. As a result of the adjustments then made, the BJP romped home in large numbers on a 'wave' which was not of its own making. It entered parliament with the full knowledge that thousands of persons, including those from the minority communities, had voted for it only because of its adjustments with the Janata Dal.

Having grown under the permissive shadow of the Janata Dal, the BJP set to work on strategies that would enable it give yet another twist to the communal spiral. After the further course of events both enabled and induced the BJP to launch itself in the infamous Rath Yatra, it was obvious fairly early that communal tension and violence would follow. Curfew had to be imposed on scores of towns across the country. While V P Singh is free to claim that his government fell as a result of the arrest of L K Advani leading the Rath Yatra, there is much substance in the criticism that the government had abdicated its responsibility by not acting earlier.

Finally, in the pre-election manoeuvres in recent weeks the Janata Dal leadership has not hesitated in making opportunistic and entirely unnecessary overtures to communal elements in the minority communities. This has not only given a handle to the BJP which has benefited from the political spaces provided to it by the opportunistic policies of the non-communal parties, but has also lowered the Janata Dal leadership in public esteem.

Has the Janata Dal then received its just deserts in the recent elections? In spite of

its numerous mistakes it is difficult to answer this question in the affirmative. The Janata Dal had raised expectations of a possible social and political transformation; its electoral performance must necessarily therefore evoke a sense of an opportunity lost.

If the Congress, the other major non-communal formation apart from the communist parties, does not return to a democratic style of politics after the assassination of Rajiv Gandhi, there will be added reason to regret the decline of the Janata Dal.

On account of control by an unrepresentative and irresponsible coterie, the Congress had ceased to be a democratic organisation; partly for that reason it had ceased also to reflect the aspirations of India's poor even to the limited extent to which it had in the past.

Until the emergence of the Janata Dal it was difficult to identify a major political party on the national scene, the communist parties excepted, which could speak for the underprivileged. If this hope, now almost stifled, is to be revived, the dominant 'Lohiawadi' church in Janata Dal Party, and not merely V P Singh, will have to do some serious rethinking. It is not that 'Lohiawadi' approaches need to be discarded; what is perhaps required of the Janata Dal is better 'Lohiawad'. The Janata Dal needs to correct itself also by infusing its dominant ideologies with a broader and rationalist temper. This should be relatively easy for the socialists among them who have, apart from the legacy of Lohia, other intellectual resources, such as those of Narendra Deva, also to draw upon. This would in addition help retrieve the heritage of Narendra Deva from any discredit by association that may have been brought upon it by the politics of Chandra Shekhar's party.

On its capacity for self-correction will depend the Janata Dal's potential as a powerful national party in defence of India's depressed classes. The base for this in the form of a strong National Front-Left Front combination is still in existence. It is to be hoped that this at least will not be squandered away.

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Congress 'Grief' Takes Terrible Toll

Rajiv Gandhi's assassination provided a handy excuse for Congress(I) heavyweights, including ministers and MLAs, to organise loot, arson, murder and general lawlessness in Tripura. The partisan forces of law and order merely looked on.

ALMOST as soon as news of Rajiv Gandhi's assassination reached Tripura, there was a steep rise in poll related violence in the State. Predictably, the CPI(M) had to bear the brunt of the Congress(I)'s 'grief' though other political opponents of the Congress(I) in the battle for the two Lok Sabha seats in the State were not spared either. Anti-social elements owing allegiance to the Congress(I) swung into action so swiftly and so methodically against their party's political adversaries on hearing of Rajiv Gandhi's death that it seems difficult to accept the view that the violence which rocked Tripura was a spontaneous expression of the grief and anger of Congress(I) supporters. Indeed, it is not at all unlikely that the violence was pre-planned and would anyway have been unleashed against the opponents of the Congress(I) in the Lok Sabha elections originally scheduled to be held on May 23. Rajiv Gandhi's death merely provided an excuse for loot, arson, murder and general lawlessness under the leadership of Congress(I) heavyweights including ministers and MLAs. The police, the paramilitary forces and the administration were, by and large, reduced to the role of spectators. Though grief was the ostensible excuse, the main aim of the Congress(I) was to eliminate all opposition.

It may be recalled that the Congress(I) had gone on the rampage in Tripura after Indira Gandhi's assassination. Then also the CPI(M) was its primary target but the situation was promptly brought under control by the then Left-Front government of the State. This, unfortunately, has not been the case this time.

There were sporadic instances of violence in Agartala on May 21 itself. Houses of CPI(M) supporters were set on fire and tension mounted in the city as news of Rajiv Gandhi's assassination spread. A red alert was sounded in Agartala and Section 144 was clamped on the city on the night of May 21 as a precautionary measure. The army and the BSF were alerted and Assam Rifles assumed the responsibility of maintaining law and order in the capital. However, on May 22, violence spread throughout the State. Ignoring the restrictions imposed under Section 144, Congress(I) anti-

socials let loose a reign of terror throughout the State, looting property, setting houses and business establishments on fire and destroying CPI(M) party offices all over the State. The CPI(M) district committee office and the CITU office located at Battala in the centre of Agartala were attacked, ransacked and set on fire. Eight cars belonging to the CPI(M) which were parked in front of the district committee office were also set ablaze. Several booth committee offices and offices of some frontal organisations of the party were ransacked and burnt. The houses of many CPI(M) supporters and office-bearers also came under attack. Many of these victims of violence fled their homes and took shelter in jungles to escape the wrath of the Congress(I) hoodlums. The office of *Dainik Sambad*, a local newspaper edited by Bhupen Datta Bhowmik, an independent candidate pitted against Congress(I) candidate Santosh Mohan Deb, was set on fire. Newspaper hawkers were beaten up and newspapers reporting the misdeeds of the Congress(I), whether local or national, were seized and set alight before they could reach readers. A dusk-to-dawn curfew was imposed in Agartala but this did not seem to deter the Congress(I) anti-socials as the police, paramilitary forces and the administration took no action against them. Even as Agartala faced three successive days of curfew, violence spread to two other towns—Bishalgarh and Udaipur. Curfew was imposed in Bishalgarh after a market was reduced to ashes. Two persons lost their lives in clashes involving the CPI(M) and the Congress(I) when the latter forcibly tried to close shops in Udaipur so that curfew had to be imposed there. About 50 houses in Pitra and the neighbouring villages of Maharani and Laxmibil were also ransacked by miscreants, forcing the district magistrate to impose a 15-hour curfew in the entire sub-division. The body of the CPI(M) leader from Kailashahar in North Tripura district, Sudhir Shukla Baidya, who had been kidnapped by Congress(I) workers on May 21, was recovered on May 24. Underground militants of the All Tripura Tribal Force (ATTF) gunned down two TUJS workers in Khowai sub-division. Two people, said to be supporters

of the CPI(M), were hacked to death at Sachindranagar colony in West Tripura district. In Pitra village two Congress(I) workers, one of them the brother of the Congress(I) minister, Jawahar Saha, were murdered, allegedly by CPI(M) men. While the Congress(I) condemned the killings, the CPI(M) demanded the setting up of an enquiry commission headed by a sitting high court judge to go into the incidents in the State since May 21.

Meanwhile, according to official sources, a gang of 10 tribals, allegedly backed by the TUJS, gunned down three CPI(M) supporters and injured another in Santosh Jamadarpara in Sadr sub-division. A hundred houses were set on fire in Takshapara and Sibunagar village in the Sonamura sub-division. A bomb exploded in the house of the veteran communist leader Biren Dutta who was also a senior minister in the Left Front cabinet. Another victim of the Congress(I)'s violence was Birchandra Deb Barma, a veteran CPI leader, who lost a part of his property when the CPI office, which is situated on his land, was set ablaze by Congress(I) workers. The houses of the chairman of the Tripura Public Service Commission and of an eminent lawyer of the city also came under attack by Congress(I) miscreants.

The opposition Left Front and the Janata Dal demanded the postponement of the June 12 election to the two Lok Sabha seats in view of the unsettled conditions prevailing in Tripura. In a statement the CPI(M) leader, Nriper Chakrabarty, accused the chief secretary and the chief electoral officer of the State, S S Sharma, of being partisan in his approach and condemned his inability to protect the life and property of ordinary citizens. A parliamentary delegation led by Dipen Ghosh, the deputy leader of the CPI(M) in the Rajya Sabha, visited some of the worst affected areas in West Tripura district and, on its return to New Delhi, called on president R Venkataraman and apprised him of the situation in Tripura. They also met the deputy election commissioner and handed over a memorandum to him, demanding postponement of the polls in Tripura.

The political adversaries of the Congress(I) were not the only ones complaining about the Congress(I)'s violence in the State. Even a former Congress minister, Tarit Mohan Dasgupta, is reported to have said that the violence would prove "dangerous to our image, whatever is left of it". Some saner elements in the Congress(I) reportedly gave shelter to CPI(M) workers when their lives were under threat and formed joint resistance committees in different localities to check the depredations of the Congress(I) miscreants.

Unfortunately, the chief minister of Tripura Sudhir Ranjan Majumdar thought differently and, at a press conference, is reported to have asserted that the law and order situation in Tripura was better than it was anywhere else in the country. He also described the ATTF as a creation of the CPI(M) and ridiculed the demand for the postponement of polls in the State.

Meanwhile there was no let up in the Congress(I)'s reign of terror in Tripura. Everyday, reports came in about houses set on fire, people rendered homeless and CPI(M) offices set ablaze from Agartala and all over the State. There was a huge 'dharna' in front of the election commission's office in New Delhi demanding the postponement of the Lok Sabha polls in Tripura. A CPI(M) delegation led by Sukomol Sen called on the chief election commissioner (CEC) and alleged that the administration in Tripura was partial to the ruling party and informed the CEC that the law and order situation was not conducive to the holding of free and fair elections in the State. The CEC responded by sending two poll panel observers to Tripura who met representatives of different political parties in Tripura as well as the district magistrates and the superintendent of police of the State to assess the situation. They submitted their report to the election commissioner on their return to Delhi.

Meanwhile, the Congress(I) alleged that two CPI(M) activists were injured while making bombs and blamed the CPI(M) and ATTF for murdering a TJS worker. A five-member National Front delegation which visited Tripura stated that it was "more than convinced that holding of free and fair election in Tripura on June 12" was "absolutely impossible in the present situation" and blamed the chief secretary for failing to deal with the continuing violence in the State. The Union home ministry reportedly rushed Black Cat commandos to guard the Congress(I) candidate for the West Tripura parliamentary constituency, the former Union minister of State for home, Santosh Mohan Deb.

In spite of all these developments the election commission announced on June '7 that it had decided not to defer the polls in Tripura. In view of the election commission's recalcitrant attitude, in an unprecedented move in Tripura's electoral history, the CPI(M)-led Left Front decided to boycott the June 12 elections to the two Lok Sabha seats in the State and withdrew its two candidates, Manik Sarkar and Bajubon Riang. The BJP, the Janata Dal and the IPF also decided to boycott the elections and the BJP and IPF which had put up candidates, withdrew them.

Tension however continued in the State

even after the Congress(I) was practically assured of a walk-over in the elections. The Congress(I) accused the CPI(M) of killing a nephew of the chief minister and another Congress(I) activist in a bomb attack when according to the CPI(M) the two were killed in an accident while they were making bombs. According to Congress(I) sources, CPI(M) activists allegedly wiped out all four members of the household of Bijoy Krishna Deb, the chairman of the West Karamcharra Local Development Committee, a charge that the CPI(M) denied.

A farcical election was held as scheduled on June 12. Although the official voting percentage was put at 65 against 83.89 in 1989, the voter turnout was poor at almost every polling booth. Since polling was heavy but the voter turnout was hopelessly low, it is obvious that there was heavy rigging all over the State. Polling booths were taken over by Congress(I) goons. Even some known supporters of the Congress(I) were not allowed to cast their own votes, while in many other cases, supporters of the Left Front and BJP were threatened with dire consequences if they did not cast their votes in favour of the Congress(I) candidates. The polling personnel merely looked on. There are instances where they actually

connived with the Congress(I) anti-socials—cars bearing 'On Election Duty' stickers were used by the hoodlums to move from one booth to another. Two such cars carrying bombs, arms and ammunition were seized by the Assam Rifles. Though the official press release issued by the government claims that the election was free, fair and peaceful, houses belonging to CPI(M) supporters were set on fire and at least 20 people, including three security personnel, were reportedly injured on the day of polling. A polling party was attacked by the ATTF while returning with ballot boxes from Mandai after conducting the elections. The polling officer and one security guard were killed on the spot while another was injured and is undergoing treatment in a hospital. The presiding officer was abducted and is still missing. As is to be expected, this dastardly act is being projected as the handiwork of the CPI(M) by the chief minister.

The elections, for whatever they are worth, are over in Tripura but the tension has not let up. Cases of arson, looting, extortions from CPI(M) workers and threats to leave the party are continuing. Party offices and houses belonging to CPI(M) workers are being set on fire everyday in different parts of the State.

NEW DELHI

Beginning of Post-Congress Phase

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After the loss of the Congress(I)'s dominant position in the polity, the process of realignment of social and political forces has to become more clear-cut and refined before a relatively more effective and durable coalition of parties can win the popular mandate and form a government representative of the aspirations of the majority of the people.

THE Congress(I) has been able to manage, at least in the short run, the difficulties and problems it faced after the assassination of Rajiv Gandhi in the midst of an hectic election campaign. It has indeed managed to garner even political-electoral advantage from the tragic loss of its supreme leader. After some minor tremors, the party has also managed to settle fairly smoothly on a successor, first in the office of president of the Congress(I) and then in the office of prime minister when it emerged as the largest single party in the 10th Lok Sabha. All this has created an impression in many circles, especially in sections of the middle class and more strongly among those who still claim to have leftist leanings but

are concerned more with stability than change, that the Congress(I) has at last overcome a prolonged crisis, internal as well as in its popularity rating, and is now ready to consolidate its position for another long spell in power and in the process restore stability to the Indian state. Obviously a lot of optimism and wishful thinking colours this view of things. Even if factional troubles in the Congress are ignored, what cannot be missed is that the Congress(I) government is a minority government which is not even assured of outside support in parliament as was the case with the National Front government when it was formed after the election to the ninth Lok Sabha. Narasimha Rao's government is bound to prove a fragile

instrument in the hands of those who have a vested interest in the Congress(I) being in power. The pulls and pressures and squabbles inside the Congress over the composition of the government and the allocation of portfolios, the ongoing campaign of what has come to be termed as the 'coterie' which still asserts the supremacy of the Nehru-Gandhi family in the affairs of not only the Congress(I) but Indian polity itself must not be missed. Also important is the fact that all the other political parties are determined to keep their distance from the Congress(I) and have declared their preference to sit in the opposition, though they do not propose to pull down the Congress(I) minority government for the time being.

It is neither surprising nor fortuitous that there has been a succession of minority governments. After the loss of the Congress(I)'s dominant position in the polity, the process of realignment of social and political forces has to become more clear-cut and refined before a relatively more effective and durable coalition of parties can win the popular mandate and form a government representative of the aspirations of the majority of the people. Meanwhile, politics is bound to be in a state of flux. Political parties will have to go through turbulence and turmoil, internally as well as in their relations with other parties. This will be markedly the case with the Congress(I). Its internal cohesion is bound to be in question. Its break-up will remain very much on the agenda as part of the wider realignment of forces. Its validity as an all-class, all-purpose party no longer holds. The question is how long the minority government headed by Narasimha Rao will last before it becomes necessary to go back to people for a fresh mandate. Two to three years is the maximum tenure that shrewd observers give to the Congress(I) government. Its end may come earlier if the rival political formations consider themselves ready to enter another electoral contest. The sharpening economic crisis and the likely manner in which it may be attempted to be tackled under the Congress(I) dispensation may well precipitate matters on the political front.

A striking feature of the political environment after the long phase of single party domination has been broken is that the conflicts of interests in society are coming into the open at a fast pace. The realignment of political forces in these conditions has tended to be influenced thus far by the tussle, above all, between big business interests with their hangers on among middle class professionals and the intelligentsia on the one side and rich farmers and their champions on the other. These two contending parties have, side

by side, striven to establish a new political equilibrium which will safeguard their vital interests against the growing challenge from social forces which do not fit into their scheme of things. It will be interesting to watch the policy adjustments and administrative arrangements as well as political and personal wheeling and dealing that would be part of this process. In these conditions there will necessarily be much confusion and lack of coherence in policy-making and in political and administrative action.

The position of a minority government will, therefore, remain vulnerable. It will not be possible to hold back for long the democratic imperative of firming up the popular mandate. Those who appeal to the narrow vested interest of those who have been elected to the Lok Sabha to mobilise support for any party or group in a power-sharing arrangement would be regarded by the people as being engaged in political fraud.

The line of political demarcation that stands out at present is between those who stand in favour of intervention by the public authorities for the economic and social upliftment of the mass of the poor people and those who would rely on the free play of market forces to establish what is called a link between economic activity and its rewards so as to maximise the returns to the holders of property and assets. The entrenched forces of *status quo* cannot be expected to give up their dominant position and privileges without a fierce and prolonged struggle. The IMF loan under its structural adjustment facility, on which so much attention is being focused as the panacea for the acute balance of payments problem, will open the way to neo-colonial dependency. For self-reliant economic growth with equity, it will be necessary to rely primarily on the mobilisation and optimal utilisation of domestic resources, human and material. The need is for basic reforms in the socio-economic structure. The carrying out of these reforms is not amenable to the philosophy of gradualism and legalistic measures. They cannot be brought any nearer completion by investment plans which have been or may be launched. This is what makes the hang-ups with the financial size of a high growth plan and large loans to plug the balance of payments as well as budget deficit irrelevant in terms of the living condition of the mass of the people. The mobilisation of domestic and foreign savings for investment to promote growth in response to effective demand in the market cannot but come into conflict with the order of economic and social priorities which subserve the needs of the majority

of the people. The durability of the minority Congress(I) government will be tested on the basis of the sides it takes on this and other crucial socio-economic issues.

The process of realignment of social and political forces in India has been undergoing significant changes since the mid-sixties. The 1989 general election ushered in the era of coalition politics. A coalition government, however, cannot be an arrangement solely or even mainly for the sharing of political and administrative power and pelf by its constituents. After the initial euphoria, there can be no escaping the policy and ideological differences among the coalition partners. This calls for constant and skilful delineation and refinement of the minimum agreed basis for the effective working of the coalition. The issues under contention need to be seriously, widely and publicly debated in order to evolve and implement sound policies. The National Front coalition government during its brief tenure was an instructive experiment in coalition politics. For a coalition government to be viable and give the desired results, a series of compromises among the coalition partners have to be negotiated, though not compromises designed essentially to pander to vested interests.

The outcome of the 10th Lok Sabha election is bound to be fateful in the prevailing conditions. The country is undoubtedly passing through difficult and dangerous times. It is, however, noteworthy that the assassination of Rajiv Gandhi should have been seized with alacrity as an opportunity to project the idea of a 'national government'. The notion of a national government, if given any credence, let alone implemented, can only be the starting point on the road to the subversion of the democratic content of the Indian Constitution and liquidation of party-based parliamentary democracy. The concept of an enlarged Congress too deserves some critical attention. This is intended to project the return of 'former Congressmen', most prominently Chandra Shekhar, who came to occupy the office of the prime minister with the support of the Congress(I) under Rajiv Gandhi's leadership. Chandra Shekhar made feverish efforts, once he managed to acquire a position of political advantage, to claim that he alone could be the saviour of the nation facing chaos. The claim has been rendered ridiculous after his miserable showing in the Lok Sabha elections. The slogan of the national government with which is closely linked the idea of an enlarged Congress carries within it many dangerous implications and must not be allowed to gain strength.

Dravidian Politics: End of an Era

V Geetha

S V Rajadurai

Its many political compromises notwithstanding, the DMK had served as the focus in Tamil public life for a range of subaltern interests to come together and articulate their concerns and anxieties. Even those who had all along been critical of the DMK, therefore, feel dejected by the bitter end to an era of Dravidian politics.

THE complete rout of the DMK in the recently concluded elections has saddened and upset even those who have no love lost for that party. Non-Brahmin professionals, intellectuals and writers have been stunned into anguish by the electoral results. It is not so much a case of being disheartened by the DMK's defeat but being greatly shaken by what is widely and popularly experienced and seen as a mortal blow to the intertwined causes of Tamil nationalism and social justice.

It is true and tragically so that the DMK has, for some time now, reneged on its commitment to its founding ideals, especially to the cause of self-determination of Tamils. Its guarded approach to the Eelam question, its painstaking efforts to distance itself from the 'terrorist' aspects of the struggles in Sri Lanka have betrayed a will to compromise and survive. It is also true that in spite of its much-publicised (in the Brahmin press) anti-Brahminism articulated at the 1989 State conference of the DMK in Trichi, the party's struggles against Brahminism have been more symbolic than real.

These compromises notwithstanding, the DMK had served as a focus in Tamil public life for a range of subaltern interests to come together and articulate their concerns and anxieties. The DMK had represented the assertive political will of the non-Brahmin communities and its historical role had been much appreciated and vindicated in the context of the anti-Mandal hysteria that ensued last year. The DMK's fall, then, in spite of the indomitable challenge it posed to upper caste belligerence, must be attributed, at least partially, to its misogynistic political rhetoric. The violence against Jayalalitha on the assembly premises and the subsequent propaganda that was unleashed with much anti-woman malignancy succeeded in alienating the woman voter more or less completely. However, it is important that we do not lose sight of Jayalalitha's own undemocratic and authoritarian behaviour at her only appearance during the assembly proceedings. Nor can we afford to lose sight of the fact that Jayalalitha never tired of referring to the 'violation' she had suffered on the assembly floors, often invoking

images of injured womanhood in exaggerated and melodramatic detail. It is another matter that her 'rightful anger' came across as incongruously insincere, since her invocation of male violence hardly ever considered the innumerable instances of violence against women in rural areas, middle class homes and police stations. Besides, her 'hero' and 'defender' MGR (the songs in his films, noted Jayalalitha, ought to be our lessons) had consistently espoused a feminine ideal subordinate in every respect to men and the patriarchal family. But, if, in spite of these ideological inconsistencies, Jayalalitha succeeded in capturing the imagination of the Tamil masses, the reasons must be sought elsewhere.

In this context, then, the DMK's defeat indicates the following:

(a) The limits to an oppositional counter-culture (that sought to challenge Brahmin hegemony) which consistently glamorised its politics. Such a glamorisation has now led to the near collapse of politics and the triumph of cinema and spectacle. (C N Annadurai and M Karunanidhi had been instrumental in cultivating actively the 'myth' of MGR). The DMK, especially Karunanidhi, had, moreover never chosen to fight MGR politically. Worse still, during these recent election campaigns Karunanidhi had sought to project himself as a 'true' friend of MGR and allied himself with the breakaway faction of the AIADMK. The irony of the whole exercise became apparent when two of the nine candidates belonging to this group won the elections while all of the 171 candidates fielded by the DMK lost, save for its leader. It is also significant that the lone successful Pattali Makkal Katchi (PMK) candidate (Panruti Ramachandran) and the only successful independent candidate who won (Tamaraiyani) were once AIADMK notables.)

(b) The persistence of Brahmin hegemony mediated through an arrogant, unrepentant and avowedly casteist Brahmin intelligentsia that makes its views and opinions known through the strategic use and abuse of the media.

(c) The hollowness of the 'ethnic pride' and 'Tamil nationalism' as articulated by

the DMK relying as it did on sneer rhetoric and the power of language to advance its claims in this respect.

(d) The determination of the Indian state to decimate Tamil nationalist aspirations, even when these are articulated within the limits marked by the Constitution and its concerted efforts to brand Tamil nationalist politics as criminal.

These and other related reasons that have brought about the DMK's defeat assume immense significance in the aftermath of the assassination of Rajiv Gandhi. Even prior to the assassination the Congress-AIADMK campaign had overtly and covertly sought to portray the DMK as a potential secessionist force in league with the LTTE. The campaign was but the grand finale to a systematic year-long attempt by the Congress-AIADMK combine and later on the Indian state with Chandra Shekhar at the helm to discredit the DMK government: not on matters of economic and social policies or even of political choices but over an ideology of Tamil nationalism that had, long since, become moribund as far as DMK political praxis was concerned. The DMK had never really been comfortable with the LTTE's militant nationalism and it is ironic that its electoral defeat was due to a cause it espoused more by compromises over it than its commitment to it.

The assassination of Rajiv Gandhi crushed the Congress-AIADMK's arguments against the DMK and confirmed the Indian state in its determination to challenge and destroy Tamil nationalism. The DMK could not even campaign in the weeks following the assassination, so successful were the Indian state's efforts to discredit it. The media played an inglorious role here, as may be expected, given its patent anti-Dravidian thrust.

What is, perhaps, most painful as far as the non-Brahmin sections of the population are concerned, is that the defeat of the DMK has provided an impetus to a kind of aggressive Brahminism. Tamil Nadu has not witnessed in decades (one has only to glance through the 'Letters to the Editor' section in *The Hindu* to get an idea of the blatant casteism, routinely and nonchalantly exhibited by the Brahmins). The Congress-AIADMK combine have contributed in no small measure to this phenomenon. The combine has consistently debunked Tamil nationalist ideals as secessionist and Brahminism, allied as it is to a pan Indian nationalism, has been quick to take umbrage at 'those secessionist' claims. Besides, the Jayalalitha factor has neutralised whatever Dravidian politics the AIADMK had attempted to retain. It is significant that Jayalalitha consciously appealed to Brahmin sentiments. Not only did she nominate several Brahmins as her party's candidates in Madras city and

elsewhere, but she sought and obtained the blessings of the Kanchi Shankaracharya before launching her campaign. This, on the one hand. On the other hand, she constantly invoked the name of E V Ramasamy Periyar and thereby claimed the heritage of the Dravidian movement. It is tempting to recall here what Kuthoosi Gurusamy, a prominent Dravida Kazhagam leader of yesteryears once remarked about Brahminism: that even if there were to be an independent sovereign Dravidian state, with Periyar as its president, the first people to welcome him would be the Brahmins! Gurusamy was particularly sensitive to the co-opting dynamic that seems to have been a salient aspect of Brahminism since the days of the Buddha, and the recent events in Tamil Nadu have proved him right.

The triumph of the Congress-AIADMK combine has also to be viewed in the con-

text of the BJP's all-out efforts to woo the Tamil masses. Given the BJP's relentless and systematic mode of functioning, it is not hard to imagine it providing a well structured space for Brahmin and more generally upper caste resurgence in the days to come. Even during these elections the BJP campaigned actively in some constituencies where Jayalalitha had fielded her candidates, thereby tacitly following up on the Kanchi Shankaracharya's appeal to the electorate to vote either for the BJP or the Congress-AIADMK combine.

Thus, on the one hand, the Tamil masses have to reckon with the might of the Indian state ready to crush it into homogeneity. On the other hand, they have to face up to the challenges of a refurbished Brahmin hegemony that would consciously strive to turn this homogeneity to its own account.

All these distinctions notwithstanding, the CPI(M) and the Left Front have really fallen behind the BJP in terms of relative performance. Indeed, from a different perspective it may be said that the Left is really indebted to the BJP, as quite a number of seats in the Lok Sabha as well as the State assembly have accrued to them only because the BJP has split the opposition votes.

Although, as mentioned before, the BJP has not been able to secure a single seat from this State, it has increased its share of aggregate votes in West Bengal from 5.3 lakh in 1989 to 35 lakh this time or from 1.7 per cent of the total to about 12 per cent. Since the size of the participating electorate has increased, the rise of the number of votes received by each candidate on average may not bring out the real dimension of the BJP's advance which is better revealed by the figures of the comparable depth of support in terms of average percentage of votes per candidate.

In 1989, the BJP polled an aggregate of 1.7 per cent of the total votes cast by fielding only 19 candidates. In other words, it secured 0.089 per cent of votes per candidate. This time it has got 12 per cent of votes by setting up 42 candidates or 0.285 per cent per candidate. In other words, it has increased the depth of support by about 320 per cent. On the other side, the aggregate shares of total votes of the Left Front and the CPI(M) declined from about 51 per cent and 38 per cent in 1989 to about 46 per cent and 35 per cent respectively, with the number of candidates remaining largely the same.

The BJP polled over a lakh votes in 15 Lok Sabha constituencies, thus radically changing the bipolar character of West Bengal politics. Electorally of course the CPI(M) and Left Front can only gain from this development; it makes them practically unbeatable in this State, as a complete or near complete coalescence of the Congress and BJP votes in the foreseeable future is practically impossible. Hence, this division of opposition votes makes the Left's electoral position very secure.

But in terms of more fundamental political interests, the BJP's rise as a mass force is a very serious danger signal to the Left and progressive forces, not only because its banner of militant Hindutva is a grave threat to communal harmony and peace, but also, and more importantly, as many discerning newspaper reporters have noted in their analysis of the West Bengal electoral scene, the BJP in the countryside has been able to establish linkages with rural social forces who have been adversely affected by the Left Front's not so radical agrarian reforms. It has, thus, become the focus of combined social and political reaction.

WEST BENGAL

BJP's Rise as a Mass Force

Ajit Roy

In electoral terms the rise of the BJP has helped the Left Front by splitting the Congress vote, but in terms of more fundamental political interests it is a serious danger signal to Left and progressive forces.

THE fact that the West Bengal polls, held before the Sriperumbudur tragedy, were free from any impact of the so-called sympathy wave enabled the electorate to give an undistorted picture of the political layout of the State. A turnout of 70 per cent of the voters in what was by any standards a free and fair poll also contributed to bringing out a truthful reflection of the political preference of the State's people. After taking everything into consideration, the West Bengal Left Front's, and its leader the CPI(M)'s, performance in these rounds of elections has been quite impressive. As for the Front, it has retained the same number of seats in the Lok Sabha as in the previous house, that is, 37 out of 42. In the State assembly, it has once again secured a three-fourths majority with 244 seats out of 294, although compared with the previous house it has lost half a dozen seats. The CPI(M)'s tally also follows the same pattern. With 27 Lok Sabha seats, the position remains unchanged and with 182 assembly seats—five less than its tally in 1987—the party as before enjoys nearly a two-thirds majority of its own.

The Congress has increased its strength marginally from 40 to 43 in the assembly and by one in the Lok Sabha from four to five (only by lending its symbol to the GNLFC candidate from Darjeeling—the same old imported nominee, Inderjit, the journalist from Delhi).

The BJP which contested every Lok

Sabha and assembly seat failed to bag any. The Muslim League has lost the lone seat it had in the last assembly. Indeed, indications would suggest that the Left Front may have regained the allegiance of the small section of the Muslims that it appeared to have lost in the last assembly elections: it has wrested the Entally and Kavitiritha constituencies in Calcutta which it had lost in 1987. These areas have large Muslim concentrations. With the gains in these two, the Front has also improved its position in Calcutta city proper.

Most importantly, the CPI(M) and the Left Front have regained their supremacy in regions with a preponderance of industrial workers. This they had lost in the 1984 Lok Sabha elections and failed to regain appreciably in the 1987 assembly and 1989 Lok Sabha polls. They have now fully recovered their supremacy in the industrial belts in the districts of Bardhaman, Howrah, Hooghly and North 24 Parganas.

Among the major Left Front parties, Forward Bloc has improved its strength in the assembly from 27 to 29, the RSP's position remains unchanged at 18, and both the CPI(M) and the CPI have lost five seats each. In the CPI's case it means a reduction from 11 to six, almost by one-half.

All ministers except four have returned to the house. Of the losing four, two belonged to the CPI(M) and one each to the CPI and FB.

Education: Muddying Troubled Waters

Philip G Altbach

President Bush and his education secretary have presented a number of ideas which are, for the most part, not bad. But these proposals have no chance of success because of the current economic climate and the unwillingness of the Federal and State governments to devote necessary resources.

GEORGE BUSH aspires to be the 'education president'. So far, he gets an 'F'. His newly unveiled plan is a non-starter. Worse, it diverts attention from current initiatives and current problems. The president and his newly appointed education secretary, Lamar Alexander, have presented a number of ideas which are, for the most part, not bad. They are also not new. And they do not get to the heart of the problem. In many ways, it is worse to have the new Bush plan than to keep on the track of educational reform that was proposed and partially implemented a half-decade ago during the last round of concern with education.

The educational reform movement of the 1980s, developed largely at the State level and funded entirely by the States, not only contained some good ideas but also attracted considerable support in State legislatures and from the education community. Among the reforms were tightening up educational requirements and standards, improving teacher salaries in order to attract more talented people to teaching and at the same time providing more professional autonomy and initiative to teachers and improving (but not abolishing) teacher education. The stress was on 'excellence in education' and the problems of the educationally unprivileged were virtually ignored. In New York, the Regents Action Plan was developed and partially funded. Lamar Alexander, when he was governor of Tennessee, implemented (and lavishly funded) an impressive set of reforms.

It is important to note that the federal government played virtually no role in the 1980s reforms. The Reagan administration continued to cut federal funding to education as well as to other public services and more and more responsibility devolved on the States. Federal tax cuts had a double impact at the State level—not only forcing the States to assume responsibilities previously funded from Washington but creating an atmosphere of tax reduction. The States, unlike the federal government, cannot run large deficits. They must either raise revenues or cut services. Then, at the

end of the decade of the 1980s, the American economy slowed down and recession took hold. The States are now faced with an extraordinary fiscal dilemma—budget and service cuts are being put into place throughout the nation. It is entirely unrealistic to expect that positive educational change can take place in the current climate of fiscal disaster in the States.

New York State is a good example. The Regents Action Plan called for increased salaries for teachers, a longer school year, enhancement in the curriculum and other reforms. In the first flush of enthusiasm, Governor Cuomo provided additional funds to implement a few changes although one of the most important proposals—lengthening the school year to provide more instructional time for students (it should be noted that Americans have the shortest school year of any industrialised country)—was quickly dropped because it was too expensive. Anticipating the implementation of the reforms, the Regents mandated an enhanced foreign language requirement to graduate from high school with a 'Regents Diploma'.

What has happened is that few of the reforms have been sustained because of continuing fiscal cuts. We have even seen a decline in the number of students earning the Regents Diploma, largely because foreign language instruction was not improved in most schools. Current drastic budget cuts are eliminating entire areas of the secondary school curriculum—and foreign languages are among the first to go. Teachers, promised improved conditions and more autonomy, are now threatened with layoffs and are seeing class sizes enlarged. It is no wonder that morale is at rock bottom.

For the most part, we are aware of the problems of American education. And we know how to fix many of them. Indeed, Chester Finn, Jr, a key Reagan Bush education advisor and a former official of the US department of education, wrote a slim book entitled *What Works* a few years ago. We know that the most serious

problem for American education is the failure to adequately educate the underclass—largely but not exclusively minority African Americans and Hispanics have the highest drop-out rates and it is not surprising that their unemployment rates are correspondingly high. The 'excellence' movement of the 1980s ignored this issue and the current Bush initiatives totally fail to deal with it. We know that a variety of programmes work—'Headstart' early childhood intervention efforts have been immensely successful. 'Magnet schools' that provide alternative educational programmes have promoted racial and ethnic integration and have also been academically successful. We know that more time devoted to instruction yields improved results.

We also know that school improvement requires funding. It is especially true that intervention programmes such as Headstart and special enrichment programmes both for those 'at risk' of dropping out and for the 'gifted and talented' require resources. These two groups are of extraordinary importance for American education. US schools do a decent job (although not outstanding) of educating the 'great middle', but fail at both the lower and upper ends. At present, we have the worst of all possible worlds—cutbacks in existing programmes and the inability to implement any positive changes.

What of the specific Bush proposals? Several are highly controversial. A major stress is on 'choice' in education. On the surface this sounds like a good idea. Why should not parents have choices concerning where they send their children to school? But choice is to include private schools which will very likely have the result of further segregating American education—both by race and social class. National testing of students is also called for. Also controversial, this proposal would at least permit States and localities to see how their students are doing in comparison to others.

The fact is that American education is going nowhere. Current budget cuts have already destroyed the progress that was laboriously made after the last wave of reforms. Bush's proposals have no chance of success because of the current economic climate and the unwillingness of both the Federal government and the States to devote the needed resources to education. In some respects, the Bush proposals muddy the already troubled waters of American education.

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THE MITSUI TAIYO KOBE BANK LTD

[INCORPORATED IN JAPAN WITH LIMITED LIABILITY]

BALANCE SHEET OF BOMBAY BRANCH AS AT 31ST MARCH, 1991

| As at 31st March 1990 Rs P | CAPITAL AND LIABILITIES | Rs P | As at 31st March 1991 Rs P | As at 31st March 1990 Rs P | PROPERTY AND ASSETS | Rs P | As at 31st March 1991 Rs P |
|---|---|--|----------------------------------|--|---|---|----------------------------------|
| 95 07 000 00 | 1 Capital Nominal value of securities Deposited with the Reserve Bank of India under Section 11(2) of the Banking Regulation Act 1949 | | 1 35 00 000 00 | 16 08 32 713 54 | 1 Cash In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes) | | 23 83 22 456 66 |
| 51 45 659 90 | 2. Reserve Fund and Other Reserves | | 1 04 71 043 31 | 4 69 116 77 7 15 404 08 11 84 520 85 | 2 Balances with Other Banks (On Current A/c's) (i) In India (ii) Outside India | 6 25 098 98 6 78 187 81 | 13 03 986 15 |
| 66 55 28 09 91 3 50 02 712 96 | 3 Deposits and Other Accounts Fixed Deposits From Banks From others Savings Bank Deposits Current Accounts Contingency Accounts etc. | 89 95 44 066 82 3 69 15 080 74 | | 3 Money at Call and Short Notice | | | |
| 1 01 615 61 9 10 95 227 99 79 17 89 615 68 | From Banks From others | 86 624 91 15 41 48 425 89 | 1 09 06 94 198 36 | 4 Investments (At Cost) Securities of the Central and State Governments and other Trustee securities including Treasury Bills of the Central and State Governments Shares fully paid up equity shares Debentures and Bond | 18 18 97 985 00 21 07 500 00 5 82 12 500 00 94 22 17 985 00 | 26 17 72 750 00 21 07 500 00 6 74 20 000 00 | 15 18 00 250 00 |
| 3 90 90 880 00 — 3 90 90 880 00 79 99 314 78 | 4 Borrowings from Other Banking Companies, Agents etc. (Unsecured) (i) In India (ii) Outside India | 1 71 35 440 00 19 558 60 | 1 71 54 998 60 | 5 Advances (Other than bad and doubtful debts for which provision has been made to the satisfaction of the auditors) I. Loans, Cash credits Overdraft etc. (i) In India (ii) Outside India | | 30 34 79 698 30 | |
| 2 62 25 154 70 2 92 99 163 08 | 5 Bills Payable | | 91 25 818 91 | II. Bills discounted and purchased (excluding Treasury Bills of the Central and State Governments) (i) Payable in India (ii) Payable outside India | | 29 26 59 540 31 37 93 109 27 | 59 99 32 346 90 |
| 7 41 07 411 52 2 94 00 537 93 9 65 07 94 145 | 6 Bills for Collection being Bills Receivable As Per Contra (i) Payable in India (ii) Payable outside India | 37 32 853 00 5 79 81 562 89 | 6 10 14 415 89 | 6 Bills Receivable being Bills for Collection As Per Contra (i) Payable in India (ii) Payable outside India | | 37 32 853 00 5 79 81 562 89 | 6 10 14 415 89 |
| 2 41 07 411 52 2 94 00 537 93 9 65 07 94 145 | 7 Other Liabilities Head office Branches and Agencies outside India Provision for Gratuity Other Liabilities | 6 43 30 064 80 3 19 94 538 19 | 9 63 24 602 99 | 7 Constituents Liabilities for Acceptances, Endorse- ments, and Other Obligations As Per Contra | | | 25 35 05 286 35 |
| 32 58 47 160 99 | 8 Acceptances, Endorsements and Other Obligations As Per Contra | | 25 35 05 286 35 | | | | |
| 2 71 38 136 71 22 89 346 00 2 48 48 790 71 | 9 Profit and Loss Account Profit or loss last balance sheet Less Appropriations | 3 74 12 026 01 1 27 30 000 00 2 46 82 026 01 | | | | | |
| 1 25 63 235 10 3 74 12 026 01 | Add Profit for the year brought from the Profit and Loss Account | 2 05 01 537 64 | 4 51 83 559 65 | | | | |
| 133,25,14,811 89 | Carried forward | | 1 58 34 73 924 06 | 23,95,16,050 78 | Carried forward | | 1,50,58,78,041 95 |

THE MITSUI TAIYO KOBE BANK LTD

[INCORPORATED IN JAPAN WITH LIMITED LIABILITY]

BALANCE SHEET OF BOMBAY BRANCH AS AT 31ST MARCH, 1991

| As at 31st March, 1990 Rs P | CAPITAL AND LIABILITIES | Rs P | As at 31st March, 1991 Rs P | As at 31st March, 1990 Rs P | PROPERTY AND ASSETS | Rs P | As at 31st March, 1991 Rs P |
|-----------------------------------|--|-----------------|-----------------------------------|-----------------------------------|---|----------------|-----------------------------------|
| 133,25 14 811 89 | Brought Forward | | 1,58 34 73 994 06 | 1,23 95 16 050 78 | Brought forward | | 1,50,58,78 041 05 |
| 93 03 45 880 93 | 10. Contingent Liabilities | | | | 8 Premises Less Depreciation | | |
| 12 94 89 741 80 | (i) On outstanding forward exchange contracts | 6 64 14 878 44 | | 4 80 37 811 00 | Original Cost as per last balance sheet | 4 80 37 811 00 | |
| 12 00 00 000 00 | (ii) On Guarantees issued on behalf of constituents | 16 63 52 511 85 | | 12 16 95 7 88 | Less Depreciation upto 31st March 1991 | 40 63 665 75 | 4 39 74 145 25 |
| | (iii) On partly paid shares | 4 00 00 000 00 | | 4 68 90 853 92 | | | |
| | (iv) On Bills Rediscounted | | | | 9 Furniture and Fixtures less depreciation | | |
| | | | | | Original Cost | | |
| | | | | 42 86 632 00 | Balance as per last Balance Sheet | 1 24 41 492 26 | |
| | | | | 87 82 274 73 | Add Additions during the year | 2 54 367 00 | |
| | | | | 1 30 68 906 73 | | 1 26 95 859 26 | |
| | | | | 6 97 414 47 | Less Sales and adjustments | 2 92 875 23 | |
| | | | | 1 94 41 499 26 | | 1 24 02 984 03 | |
| | | | | | Less Depreciation written off to date (including adjustments) | 53 82 900 66 | 70 20 083 35 |
| | | | | 35 50 098 57 | | | |
| | | | | 88 91 393 69 | | | |
| | | | | | 10 Other Assets | | |
| | | | | 4 45 479 44 | Prepaid Expenses | 18 630 14 | |
| | | | | 45 56 401 99 | Interest Accrued on Investments | 82 56 745 64 | |
| | | | | 9 03 50 482 49 | Interest Exchange Difference etc Receivable | 1 32 92 772 98 | |
| | | | | 77 52 469 13 | Head Office Branches and Agencies outside India | 8 51 822 50 | |
| | | | | 41 81 681 25 | Deposit | 41 81 681 25 | 2 66 01 653 51 |
| | | | | 3 72 86 514 30 | | | |
| | | | | | 11 Non-Banking Assets Acquired in Satisfaction of Claims | | |
| 1 33 25 14 811 89 | TOTAL | | 1 58 14 71 994 06 | 1 33 25 14 811 89 | TOTAL | | 1 58 34 73 994 06 |

NOTES: As per Schedule B annexed

As Per Our Report 1 Even Date Attached

For S. B. BILLIMORIA & CO
Chartered Accountants

Sd/

(Y.H. MALESAM)
Partner

Bombay 27th June 1991

For THE MITSUI TAIYO KOBE BANK LTD

Sd/

(S. YAMAMOTO)
General Manager and Chief Executive
Officer in India

THE MITSUI TAIYO KOBE BANK LTD.

(INCORPORATED IN JAPAN WITH LIMITED LIABILITY)

PROFIT AND LOSS ACCOUNT OF BOMBAY BRANCH FOR THE YEAR ENDED 31ST MARCH, 1991

| Year ended 31st March 1990 Rs. P | EXPENDITURE | Year ended 31st March 1991 Rs. P | Year ended 31st March 1990 Rs. P | INCOME (Less Provisions made during the period for bad and doubtful debts and other usual or necessary provisions) | Year ended 31st March 1991 Rs. P |
|--|--|--|--|---|--|
| 4 75 84 571 77 | Interest paid on deposits borrowings etc | 7 54 91 239 78 | 6 54 91 075 79 | Interest and Discount | 10 49 43 786 30 |
| 67 50 587 67 | Salaries allowances gratuity & provident fund | 69 84 236 86 | 1 20 91 391 92 | Commission Exchange and Brokerage | 1 41 11 581 21 |
| 6 500 00 | Directors and local committee members fees and allowances | 6 000 00 | | Rent | — |
| 12 12 990 28 | Rent Taxes Insurance Lighting etc | 11 47 018 12 | | Net Profit on sale of Investments Gold & Silver Land Premises and Other Assets (not credited to Reserve or any Particular Fund or Account) | — |
| 16 735 00 | Law Charges | 14 525 00 | | Net Profit on Revaluation of Investments Gold & Silver Land Premises and Other Assets (not credited to Reserve or any Particular Fund or Account) | — |
| 12 87 860 90 | Postage Telegrams and Stamps | 11 13 001 14 | | Income from Non Banking Assets and Profit from sale of or dealing with such Assets | — |
| 37 500 00 | Auditors Fees | 37 500 00 | | Other receipts | 34 336 82 |
| 22 54 793 54 | Depreciation on & repairs to Banking Company's Property | 51 92 671 98 | 79 896 03 | | |
| 3 99 399 17 | Stationery Printing Advertising etc Loss on Sale of or dealing with Non Banking Assets | 5 05 329 19 | | | |
| 94 70 381 28 | Other Expenditure | 99 65 265 28 | | | |
| — | Loss on Revaluation of Investment | | | | |
| 31 40 808 83 | Provision for Statutory Reserve | 51 25 383 41 | | | |
| 1 25 63 235 30 | Balance of Profit for the Year | 2 05 01 533 64 | | | |
| 7 76 55 993 74 | TOTAL RUPEES | 11 90 89 704 33 | 7 76 55 993 74 | TOTAL RUPEES | 11 90 89 704 33 |

Notes Forming Part of the Accounts for the year ended March 31, 1991

Schedule B

NOTES TO ACCOUNTS

1 Basis of accounting

The foregoing financial statements have been prepared in conformity with generally accepted accounting principles and conform to the practices with in the banking industry

2 Head Office administrative expenses

The head office administrative expenses have not been debited to the profit and loss account but the bank proposes to claim the same for tax purposes

3 Investments

Investments are valued at cost. The total market value of quoted investments exceeds the cost

4 General

(a) Guarantees have been given by the bank for tax liabilities if any of the expatriate staff (Amount indeterminate)

(b) The income tax department has preferred appeals to the higher appellate authorities against the appellate orders in favour of the bank. The contingent liability on this account is estimated to be Rs 5111 lakhs

Schedule C

Particulars of remuneration relating to the Bank's General Manager and Chief Executive Officer in India

| Year ended 31st March 1990 | | Year ended 31st March 1991 |
|----------------------------------|---|----------------------------------|
| 2 19 000 00 | Salary | 2 47 990 00 |
| 43 800 00 | Allowance | 49 560 00 |
| | Bonus | — |
| | Employer's contribution to Provident Fund or any other funds | — |
| 58 385 62 | Monetary value of perquisites | 71 325 89 |
| 79 185 62 | TOTAL | 3 68 805 89 |

As Per Our Report of Even Date Attached

For & B BILLIMORIA & CO
Chartered Accountants

Sd/
(Y H MALEGAM)
Partner

Bombay 27th June 1991

For THE MITSUI TAIYO KOBE BANK LTD

Sd/
(S YAMAMOTO)
General Manager and
Chief Executive Officer in India

THE MITSUI TAIYO KOBE BANK LIMITED

(INCORPORATED IN JAPAN WITH LIMITED LIABILITY)

Schedule A

Schedule of Particulars of Advances required by the Banking Regulation Act, 1949 (Act X of 1949) annexed to and forming part of the Balance Sheet as at 31st March, 1991

| 31st March 1990 Rs. P. | PARTICULARS | 31st March 1991 Rs. P. | 31st March 1990 Rs. P. | PARTICULARS | 31st March 1991 Rs. P. |
|---------------------------|--|---------------------------|---------------------------|--|---------------------------|
| 33 00 37 900 10 | 1 Debts considered good in respect of which the banking company is fully secured | 34 21 12 127 94 | | 5 Debts due by Directors or Officers of the banking company or any of them either severally or jointly with any other persons | 10 78 915 00 |
| 1 51 52 512 95 | 2 Debts considered good for which the banking company holds no other security than the debtors' personal security | 1 04 11 296 74 | 10 73 335 00 | 6 Debts due by Companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or in the case of private companies as members | NIL |
| 11 49 44 094 97 | 3 Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors | 24 75 192 72 | NIL | 7 Maximum total amount of advances including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other persons | 11 33 635 00 |
| NIL | 4 Debts considered doubtful or bad not provided for | NIL | 12 90 440 00 | 8 Maximum total amount of advances including temporary advances granted during the year to Companies or firms in which the directors of the banking company are interested as directors, partners or in the case of private companies as members | NIL |
| | | | NIL | 9 Due from banking companies | NIL |
| 48 01 34 507 32 | TOTAL | 59 96 41 90 | | | |

Auditors' Report

We have audited the Balance Sheet of the Bombay Branch of The Mitsui Taiyo Kobe Bank Limited as at 31st March 1991 signed by us under reference to this report and the relative Profit and Loss Account of the Bombay Branch of the Bank for the year ended on that date with the books of account maintained and produced to us at Bombay.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with the provisions of sub sections (1), (2) and (3) of Section 211 and sub section (5) of Section 227 of the Companies Act, 1956, the Balance Sheet and Profit and Loss Account together with the notes thereon are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act, 1956. The accounts are therefore drawn up in conformity with Form A and B of the Third Schedule to the Banking Regulation Act, 1949.

We report that -

(a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary, for the purpose of our audit and found them to be satisfactory,

(b) the transactions which have come to our notice have been, in our opinion, within the powers of the Bombay Branch of the Bank,

(c) in our opinion, proper books of account as required by law have been kept by the Bombay Branch so far as it appears from our examination of those books.

(d) the abovementioned Balance Sheet and Profit and Loss Account of the Bombay Branch of the Bank dealt with by this report are in agreement with the books of account.

(e) in our opinion and to the best of our information and according to the explanations given to us, the accounts together with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required for Banking Companies, and on such basis the said Balance Sheet gives a true and fair view of the state of affairs of the Bombay Branch of the Bank as at March 31, 1991 and the Profit and Loss Account gives a true and fair view of the Profit of the Bombay Branch for the year ended on that date.

For S B BILLIMORIA & CO
Chartered Accountants

(Sd/)

(Y H MALEGAM)
Partner

Bombay 27th June, 1991

Rethinking Political Options

Gurpreet Mahajan
Sarah Joseph

The issue of forging areas of agreement is a pressing one in our fragmented society. But any new consensus would have to consider the demands of groups and interests which are being marginalised by the process of development. A centrist ideological consensus along the Nehruvian lines is not an option available to us any longer. Nor can it offer a possible solution to the problems facing the country.

GIVEN the prominent role which the Congress Party has played in Indian politics, as well as the special charisma attached to the Nehru/Gandhi family, the death of a Congress leader belonging to that family has always raised complex fears and hopes in the minds of people in India. Fears regarding the possible break up of the Congress Party, about the possible disintegration of the country, the possibility of economic collapse and political disorder were voiced when Nehru died as much as when Indira Gandhi and Rajiv Gandhi died. Nehru's death was seen as a cataclysmic event for the country by both Indian and foreign commentators.¹ Indira Gandhi's death also aroused fears about the future of the country and similar fears are being expressed today. The death of major leaders has also, however, raised hopes that the shock would force the Congress to put its house in order, restore a more democratic style of functioning, rebuild a national consensus around progressive policies and programmes and guide the country out of its problems.

Neither the hopes nor the fears have been fully realised in the past but the present crisis in the party has certain special features. For one, it is unlikely that the family will be able to produce another successor in the near future, so the Congress Party will have to look outside for a leader and the war of succession is already on. Further, the decay of the Congress Party institutions as also of the political system in general, has progressed considerably in recent years making the possibility of reform and renewal that much more difficult. All this has made the future appear threateningly uncertain and in such a situation the past acquires greater attraction. Hence we find a number of people looking back nostalgically to the Nehru era which symbolised, in their view, a more democratic style of functioning and consensus around certain values such as socialism, secularism and democracy. It is significant that Narasimha Rao in his first statement on taking office as Congress president promised to adhere to the Nehru line.

Implicit in the attraction for the Nehru model is the belief that the Congress, more

than any other party, is capable of leading the country out of its problems, that it alone can once more fashion a centrist, ideological consensus around which diverse groups and interests can be brought together to work for the country. The only requirement being that it return to its earlier accommodative style of functioning. According to this version, the Indira Gandhi era destroyed the consensual character of the Congress. The Congress became a party in which power was personalised and centralised around a leader, advised by a select coterie of associates and friends. The ideological consensus of the earlier period was shattered and policies projected in the name of the prime minister. Rajiv Gandhi continued this trend.² It is now hoped that if these developments can somehow be reversed the Congress would still offer the best hope for the future. Such hopes have been expressed by sections of the intelligentsia and press as also by some Left politicians and ex Congressmen and they probably reflect the feelings of a wider group among the middle classes at least.

Given this kind of nostalgia for the Nehru model it needs to be critically examined. A number of questions can be raised in this regard. What kind of ideological consensus existed during those years? To what extent was the style of functioning of the Congress Party and the government genuinely democratic and consensual? Did the changes introduced by Indira Gandhi in the party and the government signify the emergence of an entirely new kind of politics or were the seeds of some of these developments sown in the Nehru era itself? And, most important of all, is it possible or even desirable to try and recreate a centrist consensus of the Nehruvian kind around a restructured Congress Party today?

We should remind ourselves that the post independence Congress inherited the prestige and legitimacy associated with the national movement. Its leaders had also guided the struggle against the British and its goals and programmes were, to a considerable extent, a rearticulation of the programmes projected during the freedom struggle. The Congress was a symbol of the shared aspirations of

the people of India and as such, it started with a wide consensus of opinion in its favour. One should not oversimplify here. Of course there was, and always had been, opposition to the Congress especially from the extreme Right and Left. There was also always dissident opinion within the Congress. But for all that it had a certain legitimacy. Any attempt to build a consensus around the Congress today would have to contend with the serious erosion of its legitimacy and a loss of hope, even cynicism, about building a better future under its guidance. The inability of the system to deliver, erosion of the standard of living of even the relatively affluent, growing disparities of wealth, corruption, all these have undermined the attraction of the Nehruvian path of development, though not of the notion of a centrist ideological consensus under the guidance of a more democratically organised Congress Party.

NEHRUVIAN EDIFICE

The pillars of the Nehruvian edifice were industrialisation, secularism, socialism and non-alignment. He believed that a strong, independent and united India required extensive industrialisation under the guidance of the state. Apart from promoting greater productivity and a faster rate of growth, state intervention could also ensure more equitable distribution. Nehru also believed that industrialisation would break down primordial and regional loyalties and provide a new ethos and world view for the tradition-bound people of India.³ His was a truly modernist vision and this set him apart from many of his colleagues in the party and government.

It needs to be emphasised here that the programmes articulated by Nehru were acceptable in their entirety mainly to the urban elites. With other sections of the population support was more selective. Policies like secularism or land reform or planning evoked as much opposition as they did support. In fact, the ideological consensus which in retrospect seems to be the single most significant achievement of Nehru's leadership was quite fragile and it was constantly being negotiated. While Nehru himself was committed to the entire set of goals, he had continuously to work within the party and the government to explain and defend the goals and build up support for them. To carry different groups and interests with him he often had to make compromises and accept dilution of policies which he held dear to his heart. Paradoxically enough, the inner party democracy, which is hankered after today, contributed to the difficulty of consensus formation. By manipulating the membership rolls different factions could gain control over Pradesh Congress Committees and it

has been pointed out that by 1949 conservative coalitions around dominant landowning castes in alliance with businessmen had captured control over most Pradesh and District Congress Committees.⁴ Represented in the cabinet by Sardar Patel they could exercise significant influence over policies and their implementation, as was evident in the case of land reforms and changes in the Industrial Policy Resolutions. Consequently, a series of measures were introduced to encourage private investment in the early years and specific reassurances against nationalisation were inserted into the First Five-Year Plan. Such compromises were a continuing feature of Nehru's prime ministership. This was the reverse side of the accommodative politics for which the Congress has been praised. It led to a vicious circle of compromises at the level of policy formation and implementation and resulted in the poor performance of government, and this in turn undermined the authority of the leaders and their power to push through future policies.

One sign of the growing disenchantment was the frequent splintering of the Congress Party. The Socialists on the Left and the Hindu Mahasabha elements on the Right left soon after independence and the process continued. For instance, in reaction against the goal of a socialistic pattern of society accepted at the Avadi session of the Congress in 1959, some ex-Congressmen joined with business interests to form the Swatantra Party. True, the Congress still retained within its fold representatives of many ideologies and interests and within the limits of possibility still tried to accommodate them. The boundaries of the party were fluid enough to accommodate two-way traffic for individuals and groups. This was the famous 'Congress system' extolled by political scientists at the time as a model of consensual politics, a recognition at the institutional level of the diversity of Indian society. But there was a price to be paid for such politics and over time it led to an erosion of support for the Congress which was translated into votes during the elections.

The accommodative style of functioning was not the only instrument for achieving consensus during the Nehru era. Parliamentary democracy was considered to be another acceptable way of negotiating differences. Nehru deeply believed in parliamentary democracy and tirelessly tried to instruct and guide politicians in the niceties of democratic procedures and conventions. In sharp contrast to his successors, he regularly attended parliament sessions and participated in the proceedings. Although the Opposition was insignificant in size he ensured its rights of expression and, in the early years at least, even associated non-Congress members with governance. Within the party, State chief ministers were, on the whole, chosen on the basis of the support they could command at the State level and they were given considerable freedom of

manoeuvre. Party finances were collected at the State level and then shared out, and accounts kept of receipts and expenditures. Candidates for elections were chosen at the State and district levels. All this is fairly well known. What is not equally emphasised is that while upholding democratic norms and constitutional properties he sometimes reserved to himself the right to set them aside. A case in point was his handling of instances of corruption in high places. Upendra Baxi has referred to his reluctance to invoke existing anti-corruption laws or to establish any generalised instruments for vindicating guilt.⁵ Except in the Mundhra LIC case and the Kairon case he never welcomed formal commissions of inquiry, and in the Serajuddin case he declared that S R Das, a sitting judge of the Supreme Court, would conduct a 'private and unobtrusive' enquiry that would neither be published nor tabled in parliament. The recommendations of the judge would only be there to guide him. This was just one of the many cases in which he bypassed legal procedures and combined in his person the functions of executive and arbitrator. Acting as a moral guide and conscience keeper he became the custodian of public morality and rose above criticism and censure. This added to his charisma and insofar as charismatic authority is grounded in the power of personality rather than rules it undermined rational-legal authority.

The contradiction between charismatic authority and belief in constitutional procedures was always present in Nehru's leadership style. It became more pronounced towards the end. If it did not cause much consternation, it was primarily because people never doubted his personal integrity. While there were charges of corruption and nepotism against senior colleagues they did not rub off on to him. This same respect however has not been conceded to his successors.

Thus, concentration of power in the office of prime minister and reliance on charismatic appeal were processes that began in the Nehru era itself. After his death many references were made to his dictatorial ways even by members of his own party. A cartoon in *Swarjya* in 1964 captured this feeling. It showed democracy as a woman blinded by the glare of Nehru's personality but recovering after Shastri came to power. There is no doubt however that the scale and manner in which legality was undermined and institutions bypassed during Indira Gandhi's term in office was quite unprecedented. In the government power was concentrated in the prime minister's office. In the party, finances were centralised as was the choice of candidates for elections. In the post-Sanjay era, State chief ministers were hand-picked at the Centre often from those without any local base, and replaced arbitrarily. *Ad hoc* committees replaced State and District Congress Committees and factionalism was encouraged as a means of pro-

moting the power of the leader. Through skilled advertising techniques the plebiscitary character of elections was underlined and constitutional proprieties and procedures were cynically flouted, a process which culminated in the Emergency.

Although the contrasts with the Nehru era are evident we should be careful about drawing the lines too sharply. As we have argued, the tendency towards personalisation of authority and authoritarianism was already present, particularly towards the later years of Nehru's life. Indeed, to some extent, these were the inevitable response of a party which was trying to achieve radical social goals through accommodative modes of functioning. The choices pointed towards either a more radical revolutionary style of mobilisation of which the Congress was not capable of further centralisation of power and building up of support through populist measures. Indira Gandhi saw the logic of the situation and acted with considerable finesse to build up her power base. Rajiv Gandhi with his computers, merely provided a modern, technological footnote to the process.

The malaise of the Congress, as of the country, cannot be reduced to a matter of leadership styles. Therefore we cannot hope that another individual, however talented or high principled, could cure it in the absence of wider social changes. Nor can we expect dramatic results from what has been termed inner party democracy. There is no doubt of course that the Congress needs to revitalise itself and become more democratic in its functioning. But this is also a need of all parties. Moreover, it is doubtful whether parties alone can become truly democratic within the present political set-up.

While considering political options we must also recognise that there were inbuilt contradictions in the Nehruvian model of development. For one, it combined the notion of democratic participation in the process of development with the belief that major initiatives for economic and social change should come from above, from the state. The latter increased the power of the state and resulted in the emergence of an unwieldy bureaucracy. The dilemmas of a top-down approach to socialism were recognised by leaders like Kamaraj who had argued that if the Congress wanted to achieve socialism it should have as its base the deprived and they should also occupy organisational positions. Despite these suggestions the State-centred approach was never really challenged.

The Nehru model also relied on extensive industrialisation both to generate faster economic growth as well as to help transform society. The experience of the last few decades has drawn attention to the high ecological and social costs of uncontrolled industrialisation. It has also shown us that far from eliminating caste and regional loyalties, development is likely to reinforce them. These consequences of modernisation make this vision less attractive today.

It has of late been argued that economic liberalisation could provide an alternative path towards economic growth without increasing the power of the state. The market could also possibly provide a new basis for integrating people. This view has many advocates among the urban middle classes whose appetite for a high standard of living has been stimulated by the policies of the last decade. Today, given our economic vulnerability liberalisation may be imposed on us. The compulsion of achieving a faster rate of growth through higher productivity and efficiency would necessitate restructuring of organisations and institutions, particularly in the public sector. However, liberalisation is unlikely to provide a complete answer to the dilemmas of growth and participation. It would not only further marginalise vulnerable groups but would also retain the notion of development under the guidance of an elite, albeit a technological one. Moreover, since the approach to issues would be essentially a managerial one, it would not be able to address the problem of popular demands.

The issue of forging areas of agreement is a pressing one in our fragmented society. But any new consensus would have to consider the demands of groups and interests which are being marginalised by the process of development. Having been inducted into the political process their demands would have to be recognised. This would call into question the accommodative style of functioning which was able to weave a consensus in the past. Although the notion of a centrist ideological consensus along the Nehruvian lines carries considerable appeal even today, it is not an option available to us any longer. Nor can it offer a possible solution to the problems facing the country.

Notes

1. Soon after Nehru's death, Inder Malhotra writing in *The Statesman* (26-1-1964) said: "A large number of people, many of them Congressmen, frankly feared that the Congress would break into parts, if not pieces."
2. Although at the AICC session in Bombay in 1985, Rajiv Gandhi promised to rebuild the Congress from the grassroots and rid it of power brokers, he was unable to perform the task. Initially he lacked the experience and skill to do it, subsequently even the political will.
3. Writing in *India, Today and Tomorrow* (Azad Memorial Lectures, Calcutta, 1960) Nehru said: "I want the narrow conflicts of today in the name of religion or caste, language or province to cease, and a classless and casteless society to be built up where every individual has full opportunity to grow according to his worth and ability".
4. Francine Frankel, *India's Political Economy*, (Delhi, OUP, 1985), pp 73-74.
5. Upendra Baxi, 'The Recovery of Fire: Nehru and the Legitimation of Power in India', *Economic and Political Weekly*, Vol XXV, No 2, 1990, pp 107-12.

TAMILNADU PETROPRODUCTS LIMITED

No. 6, Nungambakkam High Road, Madras 600 034.

NOTICE

It is hereby notified for the information of the public that TAMILNADU PETROPRODUCTS LIMITED proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969, for approval to the establishment of a new unit. Brief particulars of the proposal are as under

1. Name and Address of the applicant
TAMILNADU PETROPRODUCTS LIMITED,
6, Nungambakkam High Road,
Madras - 600 034.
2. Capital structure of the applicant organisation
Authorised Capital - 10,00,00,000 Equity Shares of Rs. 10/- each
Issued, Subscribed and Paid-up Capital - Rs. 48,75,00,000/-
3. Management structure of the applicant Organisation indicating the names of Directors including the Managing/Whole-time Directors and Manager, if any.
The Managing Director is in charge of the day-to-day management of the Company under the superintendence, control and guidance of the Board of Directors.
Board of Directors
Thiru R. Poornalingam I.A.S.—Chairman
Thiru A.C. Muthiah—Vice Chairman
Thiru K. Thirupathi—Managing Director
Thiru T.K. Kameshwaran—Finance Director
Thiru A.C. Chakraborty
Thiru J.B. Dadachanji
Thiru M. Srinam
Thiru A.M. Raman I.A.S.
Thiru K. Gnanadesikan I.A.S.
Thiru M.R.B. Punja
Thiru K.V. Ramanathan
Thiru V.D. Shah
Thiru P.R. Sundaravadivelu
4. Indicate whether the proposals relate to the establishment of a new undertaking or a new unit/division
New Unit.
5. Location of the new undertaking
Uthamasolapuram, Nannilam, Thanjavur District, Tamilnadu
6. Capital structure of the proposed undertaking
Not Applicable
7. In case the proposals relate to the production, storage, supply, distribution, marketing or control of any goods/articles, indicate
Production

| | |
|--------------------------------|--|
| i. Name of goods/articles | CAUSTIC SODA |
| ii. Proposed licensed capacity | 100 Tonnes per day |
| iii. Estimated annual Turnover | Rs. 4431.38 lakhs (including Byproducts) |
8. In case the proposals relate to the provisions of any service, state the volume of activity in terms of usual measures such as value, income, turnover, etc
Not Applicable.
9. Cost of the Project
Rs. 94 Crores
10. Schemes of finance, indicating the amounts to be raised from each source
(Rs. in Crores)

| | |
|---|-----------|
| a) Rupee Term Loans from Financial Institutions | 69 |
| b) Internal Generation | 25 |
| | <u>94</u> |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice intimating his views on the proposal and indicating the nature of his interest therein.

For TAMILNADU PETROPRODUCTS LIMITED
M.B. GANESH
SECRETARY

Madras - 600 034
Dated 24th June 1991

June 1991

Agrarian Structure and Population in India: A Selective Survey
A Dharmalingam

Population and Agricultural Growth: A Study in Inter-Regional Variations
N Krishnaji
P Satya Sekhar

HYV Technology: The Polarisation and Immiserisation Controversy
G Parthasarathy

Wages, Employment and Output in Interrelated Labour Markets in an Agrarian Economy
A Study of Kerala
T N Krishnan

REVISED

Agrarian Structure and Population in India

A Selective Survey

A Dharmalingam

Investigation of aggregate demographic change in a population requires study of different demographic regimes contained in the whole. Demographic forces should also be viewed in the context of overall social development in concrete historical forms. Thus India's post-Independence demography, to be properly understood, must be studied in terms of the class structure and class relations not only of post-Independence India but also of the pre-Independence period under native and foreign economic and political powers.

This paper attempts to interpret India's demographic regime in general and that of the agrarian population in particular in a historical perspective. The agrarian structure and population are examined on the premise of the salience of the social relations of production. The focus is on the historical emergence of the agrarian class in India and the accompanying processes of population change.

I

Introduction

SINCE Independence, India has achieved a remarkable growth in the national product—faster than population—and self-sufficiency in agriculture. In the health and education sphere life expectancy has risen from 32 to 57 years, the literacy level has improved and the higher education sector has expanded. India's advance in science and technology, commitment to integration despite diversities, and far-reaching changes in the legality of the caste system are worth acknowledging [Sen, 1982 41-42].

Despite these achievements, however, one-third of India's population is still in poverty. Three-fifths of the Indians are illiterate. About one out of every ten babies dies before reaching age one and income per capita is among the lowest in the world. High regional disparities persist. As Sen observed, India's achievements were amidst the "extreme injustices heaped upon dreadful inequities" [Sen, 1982 41].

The picture that emerged after three decades of so called planned development was that "mass poverty has increased; unemployment has crossed the mark of 20 million person years. The army of agricultural labourers has grown at a phenomenal rate, and rural indebtedness has gone up. The capitalist path of development is not capable of effecting a radical solution to these basic problems" [Sau, 1981 3]. Added to this grim picture on the economic front is the continuous expansion of population at the rate of around 2 per cent per annum.

The inability to solve some of these basic problems of survival has led one school of thought to put the blame mainly on the growing population. It is argued that the rapid growth of populations breeds poverty.¹ Eradication of poverty, it is claimed, therefore, rests on bringing population growth under control. It is often implied that since it is mainly the poor who contribute to the growth of 'over population' they themselves are responsible for their misery.

The counter argument is that the demographic behaviour of the poor is in

response to, and an effort to avoid, poverty; and that overpopulation, with which poverty is associated, is a result of the interaction of a particular set of institutional arrangements specific to the social milieu which favours high fertility [Caldwell, 1982]. It is a "social rather than a demographic problem" [Brenman, 1989 45]. Lloyd, an Oxford don, expressed this view as early as in 1832.

the simple fact of a country being over populous, by which I mean its population pressing too closely against the means of subsistence, is not, of itself, sufficient evidence that the fault lies in the people themselves, or a proof of the absence of a prudent disposition. The fault may rest, not with them as individuals, but with the constitution of the society, of which they form part [Lloyd, 1968 [1837] 22-23].

It is the pressure on the means of employment and not on the means of subsistence that creates and sustains poverty. From a study of agricultural labourers and poor peasants in West Bengal, Chandra confirms that "it is not so much the numbers within a family but rather the work opportunities available to its able-bodied members and the E/P [number of earners/family size] ratio which are the more important determinants of poverty. Both these factors depend to a considerable extent upon the wider macroeconomic environment." [Chandra, 1983 253-54]. It, therefore, is determined by the internal social relations of production and the unequal exploitative relations with the outside world.

The internal differentiation in a society, however, did not arise by accident. It is the outcome of the contradictions between different social, economic and political forces over the course of time. Thus if one wants to interpret the social reality of present-day India it is necessary to analyse its historical transformation. Transformation takes place when internally contradictory factors interact among themselves or interact in combination with external forces, in a given social and political environment. Thus 'transformation' acquires an empirical content when the different forces involved in that process are studied in a particular historical context, and it becomes abstract

when the forces are extracted from that context.

Investigation of aggregate demographic change in a population, therefore, requires the study of different demographic regimes contained in the whole. Demographic forces should also be viewed in the context of overall social development in concrete historical forms. Thus India's post-Independence demography, to be properly understood, must be studied in terms of the class structure and class relations not only of post-Independence India but also of the pre-Independence period under native and foreign economic and political powers.

In what follows, I attempt to interpret India's demographic regime in general and that of the agrarian population, in particular, in historical perspective. The agrarian structure and population of India are examined on the premise of the salience of the social relations of production.² I focus on the historical emergence of the agrarian class in India and the accompanying processes of population change.

II

Evolution of Agrarian Structure³

The historical process of the increasing interaction of human beings with nature gives rise, at one stage, to a community of differentiated individuals. Observation of transitions between different historical epochs in human life suggests that the power of a heterogeneous mass of people in an agrarian society is largely determined by unequal control over the visible and invisible means of production and reproduction of the society [Godelier, 1977 and 1978, Engels, 1977 5-6].

The following pages present a sketch of India's historical course of agrarian development. For simplicity the conventional periodisation is adopted: the period before the arrival of British colonists in India, the period of official colonial rule, and post colonial India.

PRI COLONIAL PERIOD

Ethnographic materials and inscriptions available show that population concentra-

ment to which natural conditions were con-
suetude to survival. In the absence of
developed techniques of production and
with a stagnant technology, agricultural ac-
tivities centred around the areas where suffi-
cient and sustained water supply was
available. In the absence of adequate tanks
and canals, rainfall was the major source:
the evidence shows a high correlation be-
tween rural population concentration and
amount and frequency of rainfall.

A cursory look into the literature on social
organisation in South India gives the impres-
sion that the appearance and survival of
certain social institutions were facilitated by
the prevailing conditions and relations of
production and exploitation. Stein's [1982:
3-32] analysis of South Indian history in
the mediaeval era showed that the numerical
strength of a powerful peasantry, Hindu
institutions and concentrated Brahman
settlement living on the extracted surplus of
agricultural production were found in areas
where irrigated rice cultivation was
revalent. In these areas there was a hierar-
chical social system in which the Brahmins
occupied the top position and the un-
touchable agrestic labourers the bottom.
Maintaining control over land and labour
and the irrigation system was the prime task
of the commanding groups. Population den-
sity in these areas also appeared to be
relatively high compared to the semi-arid
ones where cultivation depended on rain-
fall and well-water, and higher still than in
the arid zones where the degree of uncertain-
ty was greater. In consequence the command
exercised by the powerful groups was
moderate in the semi-arid areas and very
limited in the dry zones.

Under the above agrarian structure the ex-
tension of irrigation facilities increased the
land under cultivation of the dominant
groups. The consequent increased demand
for labour resulted in the creation of another
exploitative institution, slavery. In thirteenth
century South Arcot, as Vidyasagar notes,
"...with assured irrigation, they [the domi-
nant peasants] were given the legal right to
possess slaves" [Vidyasagar, 1985: 128]. The
slaves were not attached to a particular land-
holding or family. They were commodities
of the dominant community as a whole.
This situation with some alterations seems
to have continued well into the twentieth
century.

The pre-Mughal rulers were no less ex-
ploitative in extracting the agricultural
surplus than the Mughals themselves [Digby,
1982: 59]. In Mughal India land was
available in abundance. The peasants' right
over land was hereditary but if a peasant was
unable to cultivate the land it could be taken
from him and given to another person who
was willing to cultivate. This also made it
possible for the peasants to migrate out and
settle on virgin lands [Habib, 1963: 116].

Villages in Mughal India can be divided
into two categories according to the nature
of their land institutions: 'raiyati' or peasant-
held and zamindari. A zamindari area com-

prised a village or a part of a village in con-
trast to the smaller holdings of 'raiyati' pe-
asant cultivators. The two systems were
mutually exclusive: where one existed, the
other did not. The zamindar collected his
revenue share either by imposing a separate
tax on the peasants or taking part of what
was collected for the nobles. In 'raiyati' areas
the land revenue was collected by the village
headman who was paid a certain percentage
of the revenue as commission or given
revenue-free land for cultivation.

The effectively unlimited availability of
land for cultivation in relation to the popula-
tion meant that everybody who could
cultivate had access to land. This did not,
however, preclude the existence of landless
labourers during that period. These
labourers may have been drawn from the low
castes whose occupation was other than
agricultural, to meet labour demands over
and above the family labour of larger
holdings at peak seasons [Habib, 1963: 121].
This differential capacity of the peasants to
exploit varying amounts of land would, over
a long run, produce a differentiated peasantry
and therefore a heterogeneous village
community. Using the data from records of
poll tax assessment according to the personal
possessions of villagers, Habib [1963: 119-20]
classified a village population into various
social classes. Measured by the value of their
possessions, the zamindars, moneylenders
and grain-merchants constituted Class I,
followed by rich peasants in Class II and the
large majority of the peasants in Class III.
The small peasants whose cultivation was
constrained by availability of credit were
considered as 'indigent'. And, finally, the
lower caste people who worked in the fields
of cultivators and zamindars formed the
agricultural labourer class.

The population of any village community
of course had a high proportion of peasants.
Although peasants may have belonged to
various different castes, in fact each village
seemed to have peasants from only a single
caste, or sub-castes of the same caste. Thus
a Mughal village's self-sufficiency was realis-
ed through hereditary division of labour and
caste-cohesion among peasants [Habib,
1963: 122-3].⁴

Agricultural production in Mughal India
comprised both food and non-food crops.
The implements used in cultivation seem to
have been comparable to those of Europe
at that time. Implements used varied from
the low capital-intensive kind like the
wooden plough with a small iron tooth and
seed-drill, to the kind with high capital in-
tensity like the Persian wheel used to draw
water from wells with the help of draught
animals. Of course, poorer peasants could
not afford the expensive devices in cultiva-
tion. To enrich the soil and preserve its
fertility, fish (along coastal areas) was used
as fertiliser and crops were rotated.

Mobility of peasants on a mass scale to
settle on virgin lands was another important
feature of the peasantry in the Mughals'
time. One of the Mughal kings remarked
that "in Hindustan hamlets and villages—

even towns—are depopulated and set up in
a moment!" [cited in Habib, 1982b: 218].

Reviewing the available material on yields
of different crops, Habib [1982b: 219-25] has
shown that yield per acre of foodgrains
remained almost unchanged between c 1595
and c 1870, that of sugarcane rose and
indigo remained the same. However, owing
to the greater availability of fertile land
during the sixteenth century, the yield per
head may also have been higher than in the
eighteenth and nineteenth centuries. The
richer peasants, with their capacity to choose
among different means of cultivation, could
engage in cash or market crop cultivation
which entailed a higher return than food
grains.

The objective pursued by the Mughal
rulers, of extracting as much surplus as
possible from the labouring masses, led to
a continuous change in the modalities of
land revenue assessment and collection.
Beginning with the system of apportioning
the harvest between the direct producer and
the state or its intermediaries, the system
underwent many alterations. Every suc-
cessive revision of the existing land revenue
system brought more burden to the peasants.
The final form of the revenue system, after
passing through increasingly regressive
modifications, was completely unrelated to
the actual harvest: the peasants were infor-
med in advance of the amount of tax to be
paid at the time of harvesting, computed
from a combination of area sown and
standard tax rate per unit area based on the
fertility of the soil, the crop and past
experience.

The privileged section of the community
consisted of the intermediaries, zamindars
and headmen. This group were allotted large
landholdings for cultivation tax-free or with
nominal tax, putting more pressure on the
small peasants to meet the fiscal necessities
of the ruling class. This discrimination
"must have tended to intensify the
already existing differentiation among the
rural population. The collection in cash
would still further increase such differentia-
tion" [Habib, 1982a: 240].

The agrarian picture in the contemporary
Deccan and south India was not much dif-
ferent from that in Mughal India. The
Marathas in the Deccan were at the zenith
of their power, controlling a vast territory,
during the first half of the eighteenth cen-
tury. Further south the economy was in a
state of disorder and instability due to
infighting among the different local ruling
entities and invasion from outside. This
devastating warfare combined with disas-
trous famine in the 1660s resulted in a
large exodus of people to Jaffna in Ceylon.
The incidence of frequent war, famine and
epidemic diseases in the late eighteenth and
early nineteenth century in the Tamil state
resulted not only in economic stagnation but
also in demographic contraction [Lardinois,
1989]. The general agrarian crisis thus paved
the way for eventual establishment of
colonial rule in south India. It is deduced
from this that "the positive population

growth that we observe in the middle of the nineteenth century partly reflects demographic recovery from the open crisis of the second half of the eighteenth century" [Lardinois, 1989: 33]. The land revenue system, in the Deccan at least, followed a less severe pattern than in the Mughal region. In the south tax was collected with much consideration paid to the type of irrigation, soil and crops.

The cultivation methods (labour-intensive) and agricultural production in south India, as elsewhere, were shaped by the available natural resources. Peak seasonal labour demands for such crop as rice, forced even the marginal peasants to look for exchange labour or employ labourers from the depressed castes who were socially and economically divorced from the means of production. In such circumstances it is not surprising that, according to Kumar's [1965: 181] estimates, agricultural labourers constituted about 10 to 15 per cent of the total population and 17 to 25 per cent of the agricultural population in south India at the beginning of the nineteenth century.

Indian society until the dawn of the nineteenth century can be summarised as follows. The interaction of various social, economic and political forces resulted in a differentiated population. The direct producers, labourers, had not only to maintain themselves but to support the ruling nobles and the intermediaries who collaborated in exploiting the peasants. Concessions made to certain peasant elements in collecting tax revenue stratified the peasantry itself; thus the exploitative productive relations between the direct producers and the dominant class progressively widened the gap between the exploiters and the exploited.

Despite the fact that the living standards of India's population in the sixteenth and seventeenth centuries were comparable to (or even higher than) contemporary European standards, the impact of Mughal rule in India on agricultural development seems to have been insignificant. The general picture of the Indian economy during the Muslim period and the inherent tendencies of the rulers in exploiting the appropriated agricultural surplus that hampered economic growth, have been summarised by Lal [1988: 95-96] as follows:

continuing agricultural stagnation was not altered by any attempt to reinvest the considerable rural surplus extracted by the changing rulers and their functionaries, in productive public works such as widespread irrigation which, by reducing the uncertainty of water supply, would have enabled a shift to more valuable, higher-yielding, but more risky cropping patterns. The surplus was not used for productive investment in industry either, although its expenditure on various luxury goods did lead to the promotion of a wide range of handicrafts and the development of rudimentary 'putting out' system. The general insecurity of any agglomeration of wealth which could be confiscated at the king's pleasure provided strong disincentives for capital accumulation, whilst the continuing disjunction between the economic and

political power of the growing mercantile communities meant that the growth of a vigorous mercantile capitalism, which might have altered the parameters of the Hindu equilibrium, did not occur. Indians therefore continued to earn a standard of living by means which had remained relatively unaltered for nearly 2000 years.

COLONIAL PERIOD

There is broad agreement among scholars of Indian economic history that the effect of two centuries of colonial rule was to disintegrate and disorganise the pre-British social fabric.³ The Indian village before the effective operation of the colonists was self-sufficient, self-contained and self-perpetuating, though to some extent differentiated. The means by which these conditions were altered were the land revenue systems and the economic doctrine of *laissez-faire* and free trade followed by the British.

With the aim of extracting the greatest possible agricultural surplus, the East India Company, after securing revenue-collecting rights, tried to appropriate the fruits of labour without much alteration in the prevailing scheme of revenue collection under the native rulers. Realising that the 'ryots' were much exploited by the revenue officers (zamindars) under the native rulers, the Company intended to collect more from the revenue officers supposedly without affecting the poor 'ryots'. The means was to be permanent settlement: the vesting of secure landholding rights in the hands of some individual; and, as a result, zamindars, being the hereditary revenue officers, were made 'landlords' of India. Wright [1955], one of the critics of the Permanent Settlement system, objected not because the system was exploitative but because it deprived the Company of the additional land revenue which would accrue when cultivation was extended. He admitted that the aim was to "collect the greatest amount". This was possible only by reducing the hereditary revenue collecting officers' share of the revenue derived from the labour of the 'ryots' [Wright, 1955: 205].

Apart from the logic underlying the scheme there seems to have been a belief among the proponents of the revenue system that "a sound administration must have the security of landownership as its basis, and nothing but a Permanent Settlement could ensure this" [Guha, 1963: 17]: a view that appears to have predominated in the formulation of the Permanent Settlement.

Different attempts by the Company to reduce the oppressiveness of the zamindars or to get rid of them proved futile and unsuccessful. Since collecting more revenue was its main purpose the Company came to realise that zamindars were indispensable. Under the Permanent Settlement scheme, the zamindars were, again, reinstated as owners of the soil either in perpetuity or for life. The underlying objects of the settlement were "to confer on the landholder the possession of the district which he occupies, on a fixed and moderate rent; to deprive him

of the power of interfering with the situation of the ryots, in the sums they pay to the state, under the pretext of making an addition to the revenue" [Wright, 1955: 214]. Wright added that "...[the settlement] has been a concession from the British government to the zamindars and to the 'ryots', which they never had been able to obtain under the mildest administration of their native princes" [Wright, 1955: 214].⁶ The pioneer in the creation of the settlement, Lord Cornwallis, recorded his objective plainly, in the following words: "It is immaterial to government what individual possess the land, provided he cultivates it, protects the 'ryots', and pays the public revenue" [Wright, 1955: 212].

The so-devised instrument of appropriation was first introduced in 1793 in Bengal and Bihar and gradually spread to other parts of India.⁷ The Permanent Settlement system seems to have had the expected benefits for the British in the north, but, however meticulously modified to suit the southern Indian peninsula, it did not bring returns to the satisfaction of the colonial government in south India. Consequently the system was abandoned in the south and a new system called 'raiyyatwari' was subsequently developed and introduced. The 'raiyyatwari' system was formulated and shaped by Thomas Munro in Madras and by Elphinstone in Bombay.

Under the 'raiyyatwari' system each field was to be registered and the revenue was collected directly from the 'raiyyat' (cultivator). Unable to meet the heavy revenue demands, the zamindari estates, covering about one-third of the whole area around 1830 in the Madras Presidency, declined over time and were converted into 'raiyyatwari' lands [Kumar, 1965: 10-11]. Land could be bought and sold by any individual.

Although both zamindari and 'raiyyatwari' systems did consider land as a private-property institution, they differed on the issue of in whose hands the land should be given for cultivation. Also in 'raiyyatwari' areas the administrative apparatus had to involve itself continually in assessing and collecting land revenue. Despite the same 'raiyyatwari' revenue system being followed in both Bombay and Madras provinces, there were a few differences between them. "The major difference between the 'raiyyatwari' systems established in Madras and Bombay was that, whereas in Madras the revenue was based on a fraction, usually one-half, of the net produce of the farm, in Bombay the assessment was based on the relative notional yield of the soil, without any consideration of the actual yield" [Bhattacharya, 1979: 33 cited in Lal, 1988: 108].

The increase in revenue demand was always ahead of the increase in area under cultivation. In Muzaffarpur villages of Bengal, for instance, between 1840 and 1888, rents rose, as a result of rise in revenue demand, by 137 per cent while cultivation increased by only 12 per cent [Chaudhuri, 1983: 138]; and in some districts of Assam, in the first half of the nineteenth century,

there was an increase in revenue in spite of stagnant cultivation due to depopulation caused by Burmese aggression and epidemic disease [ibid: 121-2]. The Madras delegate insisted to make an inquiry into the present conditions of 'ryots' in the early 1880s observed about the revenue assessment:

The assessment was very high. Nominally it was said to be one-third of the gross produce, but as a matter of fact it varied in many instances from 40 to 50 per cent of the gross produce... Every 30 years the assessment was revised. Of course revision meant enhancement. There was enhancement every time that revision took place [The Hindu, December 26, 1885, cited in Murdoch, 1886: 51].

Another factor that facilitated the changes in agrarian relations was the active participation of moneylenders in the process of production. In jute growing areas of Bengal, for instance, the impoverished peasants distrusted and resented the exploitative jute traders and moneylenders. The jute slump in the early 1920s led an observer to describe the abysmal conditions of the peasantry in the following way:

The principal reason why the peasants of Bengal are today facing complete ruin is the terrible oppression of the usurious 'mahajan' of Bengal. On the one hand, the usurious 'mahajan', and on the other, the mighty landlords—the combined pressure of these two powerful classes have broken the back of the innocent and simple peasantry of Bengal. [Shah Abdul Hamid cited in Chatterjee, 1982: 25-26]

Rural indebtedness seemed to have been common in areas where single crops prevailed and cultivation of cash crops was encouraged. The credit relations ruined the cultivators in two ways: by causing them to surrender a large part of the product to the creditors and, in the end, to surrender the land through default. This change in control over land through credit created new economic groups of sharecroppers and tenants-at-will. The number of agricultural labourers burgeoned. The chances of land alienation were greater when the creditor was a landlord-cultivator, which was generally the case at the close of the nineteenth century. A settlement officer reported in 1905: "there is hardly a single moneylender in the district who is not a landlord, and many of the landlords, even of agricultural castes, combine the business of money and grain dealer with that of a cultivator" [cited in Strokes, 1983:79].

Examination of different revenue systems took the government well into the 1820s when it successfully introduced the systems in their final form. There were many bad harvests during the 1830s. These developments together with the still underdeveloped transport and communication infrastructure meant that for the first half of the nineteenth century there was not much improvement in agricultural production. Most of India began to recover in the 1840s. The relative prosperity in some regions during the third and fourth quarters of the century brought

new relations of production in agriculture. Dramatic improvement in economic prosperity was accompanied by similarly increased social stratification. Evidence, at least for late-nineteenth century Maharashtra and Madras, has been provided by Charlesworth [1978] and Washbrook [1978] respectively. For instance, in Madras Presidency, at the beginning of the twentieth century, "men who... possessed landed resources twelve or more times greater than the average, stood at the centre of the agrarian economy" [Washbrook, 1978: 72].

The changing institutional framework of agriculture as a result of the destruction of pre-British village communities and domestic industries had also been demonstrated by Patel [1952: 9-68] using raw the census data on occupational distribution up to the second quarter of the twentieth century.⁸ By dividing India into three broad regions Patel highlighted the regional differences in the proportion of agricultural labourers to total labour force in agriculture. The southern region comprising Madras, Bombay and Central Provinces had the largest proportion of agricultural labourers (54 per cent) in 1931, followed by the eastern region (Bengal, Bihar, Orissa and Assam) (33 per cent); the Great North, covering the United Provinces, Punjab and North-West Frontier Province, registered the lowest proportion of agricultural labourers (20 per cent). United Provinces in the north, Bihar and Orissa in the east and Bombay in the south showed the highest levels of agricultural labourers among all states [Patel, 1952: 21-31].

In trying to explain these regional differences in agrarian relations Patel [1952] looked back into the landholding systems in pre-British Indian villages and the changes effected by the social, economic and political policies during the British rule. Patel established a relationship between the prevalence of agricultural labourers in contemporary India and the type of landholding system in pre-British India. One of the two main patterns in which land was held was 'joint village' where land was held jointly by the village community or the village members were co-sharers of a single unit estate. In the second type, called 'raiyyatwari', land was held in separate units by different individuals [Patel, 1952: 35]. The 'raiyyatwari' system, as discussed earlier, was widely observed in central, south and east India while the *joint village* pattern was prevalent in north and western India. Comparing the land system and the level of agricultural labourers, Patel noted:

Broadly speaking... the proportion of agricultural labourers, the group of agricultural population... is the smallest in regions where the *joint village* form prevailed, and the highest where the 'raiyyatwari' village form prevailed. The Eastern Region constitutes a special case, where the proportion of agricultural labourers was closer to that in the Great North (joint village region) at the end of the nineteenth century, but is

closer to that in the Southern Triangle ('raiyyatwari' village) today [Patel, 1952: 37]. After establishing this correlation he examined how the burgeoning agricultural labouring class was effectively created. The decline of the domestic industries in which most of the artisans had worked was effected by the impact of the Industrial Revolution in England and the improvement in transport and communications. This displaced most of the artisans into the ranks of tenants-at-will and agricultural labourers. Deepak Lal says, while not totally agreeing with the radical views on the effects of de-industrialisation during British rule, that "though the thesis of de-industrialisation" of India over the British century does not seem sustainable, it is undeniable that the influx of cheap textiles after the 1820s must have had deleterious effects on the levels of living of Indian handloom workers. The extent of the distress caused is more difficult to assess; anecdotal evidence, such as Sir William Bentinck's famous remark that "the bones of the cotton weavers were bleaching the plains of India", points to widespread distress [Lal, 1988: 184]. Another factor was the disintegration of the peasantry that followed the regressive land revenue system which made easier the alienation of the cultivators from the land.

Thus, by the force and the authority of the British Government in India, millions of cultivators in the three big provinces of Bengal, Bihar and Orissa were transformed, almost overnight, from peasant proprietors into tenants-at-will so many were sacrificed in such a short time so that a few may prosper and rule [Patel, 1952: 44].

Thus in areas where zamindari systems prevailed the indebted cultivators were pushed mainly into being either tenants at-will or sharecroppers and agricultural labourers whereas in 'raiyyatwari' areas most of them became agricultural labourers.

The Southern Triangle where the proportion of agricultural labourers to the total agricultural population was more than forty per cent is the region where the holdings of the cultivators were separate under the raiyyatwari form of village organisation, and were recognised as separate and easily transferable under the land settlements by the British. The Great North where the proportion was below twenty per cent is the region where the joint or communal form of village organisation prevailed and where estates were generally recognised as joint or communal by the British land settlements, thus making it more difficult there, than in the South Triangle, to alienate them. The Eastern Region where this proportion was between 20 and 40 per cent is the hybrid result of superimposing the Zamindari and Settlement on a previously 'raiyyatwari' region with separate holdings, and thus depriving the cultivators of the actual possession of their land. The correlation between the regions demarcated on the basis of the proportion of agricultural labourers and the form of land settlements is so striking that it can hardly be dismissed as purely incidental [Patel, 1952: 65-66].

India's agrarian structure at the time of independence from the British, as it emerged from the impact of the colonial revenue settlement and legal system, can be described as follows: at the top of the ladder was the landlord class with absentee and non-cultivating zamindars dominating in the zamindari region, resident proprietors and cultivating landlords dominating in the 'ryotwari' and 'mahalwari' areas; followed by the trading and moneylending class, and the peasantry: rich peasants, middle peasants, poor peasants and landless. The rural artisans constituted the last stratum.

A major change was brought about in the agrarian scene between the 1950s and 1960s by the 'land reform' legislation. The hardest hit by this measure were the absentee and non-cultivating landlords, from among whom emerged a small group of big landlords. The medium and small landlords in the 'ryotwari' areas managed to retain a major portion of their land by turning themselves into cultivators, though tenancy was practised in a disguised form. Middle peasants benefited to a degree but poor peasants, landless labourers, and artisans and craftsmen gained very little from land reform, or from the other agrarian changes introduced by the government.

The period between independence and the early 1960s was a time of positive changes in forces of production and some increase in commercialisation. These changes, coupled with land reform and an annual growth in agricultural output during this period of about 3 per cent, mostly benefited the rich peasantry [Byres, 1981: 423]. The evidence on agrarian transformation in India after independence gives the impression that a qualitative change was effected in Indian agricultural production from the mid-1960s, the whole process being described as the 'Green Revolution'. The onset of the Green Revolution initiated the transformation to capitalistic production.⁹

The two main components of the Green Revolution introduced in the mid-1960s were biochemical and mechanical innovations. The former were labour-absorbing, land-saving and scale-neutral, the latter were labour-saving and biased towards large-scale farming, and gave rise to a demand for large amounts of fixed capital. The impact of new technology on the agrarian structure between the mid-1960s and the late-1970s was analysed by Byres [1981] in the late 1970s on the then available evidence. The picture projected from this review seems to be one of increasing impoverishment and proletarianisation of poor peasants, landless labourers and craftsmen. This was "a process not initiated but certainly hastened by the operation of the 'new technology'" [Byres, 1981: 432]. Mechanisation in agriculture undoubtedly played a major role in this process. In Punjab and Haryana, among the leading states of India in the Green Revolution, for instance, the compound annual growth of numbers of farm tractors, one of

the elements in mechanisation, was already 17.4 per cent during the pre-new technology period, 1951-1966, and increased to 21.9 per cent during the post-new technology period, 1966-1972 [Ahmed, 1976: 88]. Between 1966 and 1972 the number of tractors used for agricultural purposes in India increased by about 200 per cent [Biswanger, 1978 cited in Byres, 1981: 419]. Meanwhile the proportion of agricultural labourers to total agricultural workers went up from around one quarter in 1961 to about two-fifths in 1971 [Omvedt, 1978: 386]. In Marxian terms, the cumulative effect of the impact of new technology and land reform on agrarian structure was the creation of a powerful class-for-itself rural proletariat by the successful action of the strong class-in-itself rich peasants [Byres, 1981: 435].

In fact the process of proletarianisation of poor peasantry, the shift from family-based subsistence farming to market-oriented hired-labour farming and the increasing diversification of economic and social life in the village, were all operating even in the pre-high-yielding variety (HYV) period. Analysis of the data from 126 village surveys, spread all over India, conducted in the 1950s, led Dasgupta [1975] to conclude that

agricultural modernisation in a situation where the village households differ among themselves in their ability to own and use agricultural inputs, including the most important of those, land... has only aggravated the pre-HYV trend towards landlessness, disparity and stratification of the peasantry, because of its pronounced bias towards rich farmers [Dasgupta, 1975: 1412].

The economic differentiation among the agrarian population becomes clear when one looks into the pattern of distribution of means of production, mainly land. The National Sample Survey (NSS) investigation into the pattern of landholding pertaining to the period 1953-54 and the data from the census of agriculture for the period 1970-71 are very useful in explaining this phenomenon of growing marginalisation of the peasantry. As can be seen from Table 1, in

1953-54, 70 per cent of the area owned belonged to the top 15 per cent of the holdings while the bottom 60 per cent of small holdings accounted for a meagre 6 per cent of the area owned. The medium holdings, the middle 25 per cent, managed to retain about the same proportion of land, 24 per cent. The situation in 1970 appears somewhat improved although the data do not reflect the extent to which small and poor peasants were reduced to landless marginalised labourers.¹⁰

Further evidence on the penetration of capitalist production in agriculture comes from in-depth village studies spread almost all over India. A study on agrarian changes in two villages in Tamil Nadu is illustrative. A close look at Table 2 reveals the process of marginalisation that was in operation from 1916 onwards. In 1976, the big peasants, constituting around 6 per cent of the total households, owned about two-thirds of the total area while the petty peasants, about one-third of the households, had control over only 3 per cent of the land. Though the total area owned and occupied by big peasants declined between 1916 and 1976, the average area held by each big peasant household increased from 29.6 acres in 1916 to 35.0 acres in 1976 [Sivakumar, 1980: A-26].

The village studies by Mamdani in Punjab, and Djurfeldt and Lindberg in Tamil Nadu at the beginning of the 1970s, also showed a high concentration of land in the hands of a few rich peasants. In Mamdani's Manupur village small peasants (owning 0.5 acres of land) owned 15 per cent of the area while their population share was 38 per cent of the total families. The figures for large peasants (17 or more acres) were 30 per cent of land and 11 per cent of families [Mamdani, 1972: 75]. In Tanjore village in Tamil Nadu around 80 per cent of poor farmers (owning less than 2.5 acres) owned 32 per cent of the area whereas the rich farmers (8 acres or more) owned 43 per cent of the area with only 8 per cent of the total households [Djurfeldt and Lindberg, 1975: 153].

TABLE 1: CONCENTRATION OF AREA OWNED AND OPERATED BY CULTIVATING GROUPS, INDIA 1953-54 AND 1970-72 (Per cent)

| | Category* | | | |
|---------------------------------------|------------|--------|------|-----|
| | Well-To-Do | Middle | Poor | All |
| NSS (1953-54) | | | | |
| Holding | 15 | 25 | 60 | 100 |
| Area owned | 70.0 | 24.0 | 6.0 | 100 |
| Area operated | 64.5 | 25.0 | 10.5 | 100 |
| NSS (1971-72) and Agr census (1970-1) | | | | |
| Holding | 15 | 25 | 60 | 100 |
| Area operated (NSS) | 55.0 | 27.5 | 17.5 | 100 |
| Area operated (Agr census) | 60.5 | 26.5 | 13.5 | 100 |

Note: * The agrarian classes were obtained by taking the top 15, middle 25 and the bottom 60 per cent of the households in the Lorenz curve which was derived by plotting the cumulative percentage of holdings ranked by farm size against the cumulative percentage of area commanded by them. The middle category was defined as those households which had land roughly in proportion to their numbers. The cut-off points were chosen in accordance with that category.

Source: Patnaik, 1987: 21-22.

a village in Madurai district of Tamil Nadu [Swaminathan, 1988] showed that per capita wealth distribution worsened between 1977 and 1985. Though the poor experienced an increase in real wealth between 1977 and 1985 they became relatively worse off during this period; this happened in spite of the implementation of redistributive policies in the study area. Swaminathan [1988: 2233] argues that increasing land inequality was the main element contributing to the changes in the distribution of wealth. Swaminathan concluded, with regard to the current agrarian structure, that "state intervention in the field of poverty and redistribution has failed to alter the structure of ownership of assets in the village in any substantial way" [Swaminathan, 1988: 2233].

Thus it is evident that Indian agrarian structure has been undergoing increasing transformation towards capitalist production. What Sivakumar observed of the two Tamil villages could be said of all rural India in the late 1970s:

... the system of cultivation through hired labour has become common among the big peasants of 1976. In 1916, 345 acres were leased out by them to the medium peasants and petty peasants, whereas, by 1976, it was only a fraction of that. ... The big peasant is still powerful, but the older system of patronage-clientele is much weakened and changed. The most important indicator of proletarianisation of labour is the decline of the 'padiyal-sukhavasi' [permanent farm servant-tenant] system [Sivakumar, 1980: A-29].

The concentration of means of production leads to "qualitatively distinct types of holdings, which differ in the way their production activity is organised" [Patnaik, 1987: 20]. It not only affects the production strategies of different agrarian classes but, more importantly, effects changes in the

of the population.

III

Changing Demographic Regimes

The previous sections dealt with the changing agrarian structure within different political and economic spheres in India. The demographic situations which the different social structures would have caused to emerge are analysed in the following pages.

It is elementary knowledge that the interaction of the forces of fertility and mortality determine, in the absence of significant inward or outward movements, the demographic structure of the population. The forces of demographic change in turn are shaped by the development of productive forces and relations of production. To the extent that the development of these forces of production and production relations differed over time as between the pre-British period, the colonial period, and the post-independence period, the resultant effect of fertility and mortality on the population would also have been different. The demographic structure of India may be interpreted on the basis of this premise.

In the absence of census counts before 1872, population estimations for the previous periods were carried out by historians and demographers using old records and documents which had information on land, land revenue, etc. The first population estimate of 100 million for 1,600 was arrived at, by Moreland, by making some assumptions on land under cultivation and some other considerations. This figure was modified upward to 125 millions by strengthening some of the weak bases on which Moreland's estimation was founded [Davis, 1951: 24]. A further adjustment by Habib [1982c: 165] raised the estimated figure for 1,600 to "a little over 142 million".

rigid social system was not conducive to change... and she was not apt to start an industrial revolution by herself" [Davis, 1951: 25] led him to expect that outside stimulus was needed to change Indian conditions. While agreeing that change was brought by the British, Raychaudhuri questioned its effect: "Undoubtedly, in terms of administrative efficiency and the law and order situation the nineteenth century was an improvement on earlier periods. It is far from equally clear that this improvement meant a better milieu for agricultural production" [Raychaudhuri, 1968: 89].

As no such stimulus was applied from outside until the British came in 1757 Davis assumed that the population of Mughal India during this period remained unaltered at 125 million and since that period there was 'gradually accelerating' population growth which almost doubled the population to 255 million in 1871 [Davis, 1951: 27]. Commenting on the 'constancy' assumption of Davis as an outcome of his 'enthusiasm for the benefits of British rule', Habib came to the conclusion that

The probability is that the Indian population increased from a little under 150 million in 1,600 to about 200 million in 1,800, thus achieving an increase of slightly above 33 per cent in 200 years. This would mean that the population during the Mughal period did not remain stable though the compound rate of growth, 0.14 per cent per annum, was hardly spectacular and was much lower than the rate attained during the nineteenth century [Habib, 1982c: 167].

The census population counts suffered from problems of incomplete coverage and enumeration for the periods before 1931. Thus using the relatively satisfactory figures for 1931 Davis adjusted the counts for the preceding census. The corrected population figures are given in Table 3.

It is generally agreed among historians and demographers that the growth of population during the nineteenth century was slightly higher than in previous centuries. This improvement was attributed mainly to the complete control of warfare after the arrival of the British and perhaps some improvements in health conditions. Both of these causes have been questioned. The British conquest of India, it is claimed, was achieved after some 60 years of warfare from 1757 to 1818 and the 1850s revolt, "any growth in output resulting from such improvements would, therefore, have to go a long way before the economic *status quo ante bellum* was surpassed" [Raychaudhuri, 1968: 89]. Also the economic effect of law and order depends on their purposes and means of application. Chandra [1968: 46-47] argues that "in fact law and order is a basic necessity not only for economic growth and welfare but also for any systematised exploitation". He added that "rationalised taxation, the pattern of commerce, law and order, and judicial system in time led to an extremely regressive (in every sense of the

TABLE 2: DISTRIBUTION OF LAND AMONG DIFFERENT CLASSES IN ASTHAPURAM KANTHAPURAM (TAMIL NADU), 1916-76 (Per cent)

| Category* | 1916 | 1946-47 | 1976 |
|-------------------------------|------|---------|------|
| Big peasant class | | | |
| Households | 10.2 | 11.7 | 5.4 |
| Land owned | 88.2 | 89.0 | 57.5 |
| Occupational holding | 57.3 | 56.3 | 54.4 |
| Medium peasant class | | | |
| Households | 10.2 | 6.5 | 12.2 |
| Land owned | 9.4 | 6.7 | 14.3 |
| Occupational holding | 19.0 | 12.8 | 17.3 |
| Petty peasant class | | | |
| Households | 31.3 | 32.5 | 27.0 |
| Land owned | 2.4 | 4.3 | 3.6 |
| Occupational holding | 23.7 | 25.6 | 20.9 |
| Landless peasant class | | | |
| Households | 48.3 | 49.3 | 51.0 |
| Land owned | 0.0 | 0.0 | 0.0 |
| Occupational holding | 0.0 | 6.3 | 7.4 |

Note: * Big peasants are those who own over 10 acres of land each and cultivate with the help of hired labour; medium peasants cultivate 5 to 10 acres of land and also rely on hired labour; petty peasants usually occupy holdings of less than 5 acres and own less than 2 acres and tend to rely upon family labour; landless peasants own no agricultural land at all; and landlords are those who own but do not cultivate.

Source: Sivakumar, 1980: A-26-27.

Whatever the differences in the relative population growth during the eighteenth and nineteenth centuries, there was a perceptible increase, in spite of some severe famines, in the 70 years before 1870; and between 1870 and 1920 population growth was halted by higher mortality resulting from famine and disease. In the decades after Independence there was tremendous growth. The main feature of the Indian population at the time of independence was the wide population base, as a result of the 50 per cent increase during the 70-year period before 1941, on which future population increases would take place. Growth was most rapid between 1921 and 1931 with an average annual rate

between 1871 and 1921 it was only 0.6 per cent as a result of disastrous famines and epidemics. Dyson [1989] provides a tentative schematic presentation of different phases of population growth in modern India, which appears to be in close agreement with the available literature and evidence on the historical demography of modern India (see Table 4), albeit camouflaging the regional demographic diversities which have their own historical, social and economic bases.

Demographic transition theory teaches that reduction in mortality as a result of modern technological intervention in health and production will, over an initial period, result in rapid population growth after which

place. It is thus implied that there will be a monotonic decrease in both fertility and mortality. But the birth and death rates for twentieth century India present a somewhat different picture (Table 5).

Before examining twentieth century India it is useful to consider population growth in Mughal and British India. It has been argued that the generational reproduction of the society is intertwined with the social reproduction of the whole system, and that the factors that shape the fertility and mortality forces have different effects on the various social classes.

Thus a given population at a time in history is a combination of heterogeneous groups each contributing to the total increase or decrease at different rates. It is worthwhile in this context to refer to Marx's view on population reproduction (though he did not undertake any detailed analysis of it): "every special historic mode of production has its own special laws of population, historically valid within its limits alone" [Marx, 1912: 645]; and "population is an abstraction if I leave out, for example, the classes of which it is composed. These classes too are an empty phrase if I am not familiar with the elements on which they rest... Thus, if I were to begin with the population, this would be a chaotic conception of the whole" [Marx, 1973: 100]. As quantitative information on these different classes was not available until well into the twentieth century, only qualitative interpretation seems possible.

It was argued in the foregoing sections that British India experienced an increasing differentiation of agrarian society compared to Mughal India. While it is improbable that there was no differentiation at all among the peasantry in the pre-British period, it may be correct that

A hurricane might destroy their crops, or famines and epidemics might reduce the numbers of the population; but, under all the circumstances, the fields remained theirs. Calamities would pass over, and they would start working again with the same zeal. In the misfortune, each member could solidly count on the assistance of his relatives and neighbours, who would rescue him from any difficulties whatever [Kovalyevsky, cited in Patel, 1952: 48].

This system gave way to an environment where concepts like private property, individual rights, and the purchasing power of money emerged; where the survival of the direct producers depended on the exploiters, the government and their creditors. Therefore, with the exception of a proportionately small privileged class, the majority, before the British rule, would have been subjected to the forces of fertility and mortality without much variation. Changes in the total population during the Mughal period would have tended to affect all classes equally.

The earliest birth rates available, though not of high reliability, are for the periods 1820-23 and 1833, for some places near Delhi and central India. If allowance is made for under-reporting of female births (the

TABLE 3: POPULATION SIZE AND GROWTH RATES FOR DIFFERENT PERIODS FOR INDIA OBTAINED FROM DIFFERENT ESTIMATES

| Year | Population (Millions) | | | Decadal Growth Rate (Per Cent) | | |
|---------------------------------------|-----------------------|--------------------|------------------------|--------------------------------|-------|-----------|
| | Census | Adjusted by | | Census | Davis | Mukherjee |
| | | Davis ^a | Mukherjee ^b | | | |
| 1600 | 142a | 125 | — | — | — | — |
| 1800 | 200a | — | — | — | — | — |
| 1871 | 203 | 255 | — | — | — | — |
| 1881 | 250 | 257 | 194 | 23.0 | 0.8 | — |
| 1891 | 280 | 282 | 233 | 12.0 | 9.7 | 20.1 |
| 1901 | 284 | 285 | 238 | 1.4 | 1.1 | 2.1 |
| 1911 | 303 | 303* | 251 | 6.7 | 6.3 | 5.5 |
| 1921 | 306 | 306* | 250 | 1.0 | 1.0 | -0.4 |
| 1931 | 338 | — | 278 | 10.6 | — | 11.2 |
| 1941 | 389 | — | 317 | 15.1 | — | 14.0 |
| Average annual growth rate (per cent) | | | | | | |
| 1600-1800 | 0.14 | — | — | — | — | — |
| 1800-1901 | 0.35 | — | — | — | — | — |
| 1871-1921 | 0.37 | — | — | — | — | — |
| 1921-1941 | 1.22 | — | — | — | — | — |
| 1871-1941 | 0.61 | — | — | — | — | — |

Notes: a Habib's (1982c) estimates.

● Davis adjusted the census figures only up to the period 1921.

† Mukherjee's adjusted figures are restricted to the population within the post-1947 Indian territory: in fact it is hard to find any recent population estimation exercise that covers the pre-partition Indian territory as a whole. This means that a direct comparison with the population figures of Davis and the census is not possible; however, the comparison of the decadal growth rates from the three sources indicates that a substantial deviation from each other occurs only for the decade 1881-91.

* The small difference between this and the census figure for the corresponding period is masked by rounding.

Source: Davis-[1951: 27]; Mukherjee [1976: 65].

TABLE 4: BROAD STAGES OF POPULATION GROWTH IN MODERN INDIA (c 1760-1960)

| Phase | Approximate Period | Population Growth | Social and Other Correlates |
|-------|--------------------|--|---|
| I | c 1760-1820 | Near zero, possibly negative | Wars; economic disruption, social breakdown. |
| II | 1830-1891 | Generally positive, but of unknown magnitude; mortality may have improved compared with phase I. | Recovery from Phase I; fewer wars; increased social and economic stability; economic growth (?) |
| III | 1891-1920 | A reduced rate of growth compared with Phase 2, possibly due to deterioration in mortality. | Increase in epidemics; famines; a period of significant change in the mix of causes determining the overall level of mortality. |
| IV | 1921-1960 | Population growth positive and increasing, as mortality improves. | Increased control over disease and famines; political independence; economic development, etc. |

Source: Dyson, 1989: 9.

prevalent sex ratio at birth was 864 females per 1000 males) then the birth rates during that period could be placed in the range 35 to 40 per thousand population [Jenkins, 1827; Henderson, 1836, cited in Visaria and Visaria, 1983: 483]. Comparison of these rates with those prevalent at the beginning of the twentieth century (around 50) shows that the biological maximum level of fertility was not approached until the late nineteenth century.¹¹ There are no reliable estimates for nineteenth century Indian mortality. A rough gauge of health conditions might be given by age specific mortality rates for the European army in Bengal, despite its weakness as a representative of the Indian population. The data for 1830-33 and 1867 are provided in Table 6, seemingly indicating a decline in mortality over the period.

It might be argued that better adaptation of Indians than Europeans to the local climate would have resulted in higher mortality among the Europeans. But it seems that "better adaptation to the local climate did not render them disease-proof" [Ramasubban, 1988: 41]. Thus "the diseases which killed European soldiers were endemic to the country. The general population, too, died from them in large numbers" [Ramasubban, 1988: 39].

TABLE 5: DECADAL DEATH AND BIRTH RATES FOR INDIA

| Midpoint of Decade | Death Rate (Per 1000) | Birth Rate (Per 1000) |
|--------------------|-----------------------|-----------------------|
| 1886 | 41.3 | — |
| 1896 | 44.3 | — |
| 1906 | 42.6 | 49.2 |
| 1916 | 47.2 | 48.1 |
| 1926 | 36.3 | 46.4 |
| 1936 | 31.2 | 45.2 |
| 1946 | 29.2 | 39.9 |
| 1956 | 24.1 | 41.7 |
| 1966 | 18.6 | 40.4 |
| 1973-74* | — | 39.9 |
| 1976 | 15.0 | 37.2 |
| 1978-79* | — | 34.6 |

Note: * Mid-points for the periods 1971-76 and 1976-81 respectively.

Source: Chaudhry, 1986: 2102, 2104

TABLE 6: DEATH RATES BY AGE FOR EUROPEAN SOLDIERS IN INDIA

| Age | Death Rates Per 1000 Population | |
|----------|---------------------------------|--------|
| | 1830-33 | 1867 |
| 18-20* | 5.8 | 16.7 |
| 21-25 | 34.4 | 26.4 |
| 26-30 | 58.6 | 25.8 |
| 31-35 | 52.2 | |
| 36-45 | 67.8 | 39.2** |
| All ages | 49.9 | 29.5‡ |

Notes: * Persons aged 18-20 consisted of the recruits enlisted in India and the sons of the soldiers of the regiments.

** For the combined age group 31-45.

‡ Cholera alone was responsible for nearly 44 per cent of the total deaths. Death rate for all ages excluding cholera was 16.5 per 1000.

Source: Henderson, in Visaria and Visaria, 1983: 476.

The effect of Western medicine in reducing mortality in nineteenth century India appears to have been very limited. Western medicine was first introduced and found in cities and towns; there was popular resistance to practising it both by the middle and subaltern classes. For instance, the anti-plague measures taken by the colonial administrators during the plague epidemic which began in 1896 seem to have disregarded native culture and sentiments. The masses were against accepting anti-plague Western medicine not only because they were unfamiliar with the recent medical technology but because "Indian values and sentiments were contrasted with the 'indifference and callousness' of Western medicine and the colonial administration" [Arnold, 1987: 62]. The dominant perception of the masses about Western medical practice was that "the body, as in the West, was treated as a secular object, not as sacred territory, as an individual entity, not as an element integral to a wider community. The body, moreover, was exposed not just to the 'gaze' of Western medicine but also to its physical touch, an intrusion of the greatest concern to a society in which touch connoted possession or pollution" [Arnold, 1987: 60]. Given this popular aversion to the use of Western medicine and its limited availability, the contribution of modern medicine in improving mortality conditions would have been negligible.¹² David Arnold succinctly puts the narrow role of Western medicine in changing health conditions in the nineteenth century:

the primary responsibility of Western medicine in India until late in the [19th] century was still to minister to the health of colonisers, not the colonised, except insofar as Indian soldiers, servants, plantation labourers and prostitutes constituted an apparent danger to European well-being. Financial as well as political constraints discouraged the colonial state from a greater degree of medical intervention [Arnold, 1987: 58].

However, on the basis of this and similar fragmentary material, it would be reasonable to infer that fertility and mortality were close to each other among almost all strata of the society during the pre-British period and as a result growth was minimal. It is likely that mortality varied more than fertility across different sections of the society.

In contrast to the above picture, the situation in British and post-independence India was characterised by the interplay of market forces unleashed by the exploiters. If India benefited at all during the British period, it was only a section of the masses that gained. While one section benefited by virtue of their control over productive resources, a progressively increasing marginalised class emerged that had nothing to sell but constrained labour power. The continuous operation of this process, in the long run, created a population broadly stratified into three main classes: at the top were those who ruled and controlled the means of production, in the middle a sizeable proportion of cultivators and poor peasants, and at the

bottom agricultural labourers and poor artisans. Of the three, only the top class, with huge resources at its disposal, took great advantage of exposure to the outside world. The differentiated peasantry also benefited to a lesser extent from the introduction of technological innovations into the society. The class at the bottom rung of the social and economic ladder suffered rather than gained as the Indian economy was connected to the world market.

Given this differentiated social structure, the final outcome of the interaction of fertility and mortality was no longer the cumulative effect of similar experiences of different groups but rather the cumulative effect of different experiences by differing sections. Mortality, fertility and migration all had class-specific impacts on the stratified population. For example, Commander argues that because of poor nutritional status and living standards there was a higher incidence of mortality in famines and epidemics in the nineteenth century among the agricultural labourers, weavers, artisans, and the urban poor because of "lack of work, rather than foodgrain availability" [Commander, 1989: 66]. There is much evidence that, until a society is well advanced on the capitalist path of development, the well-to-do tend to have larger families, due both to higher fertility and to lower mortality than poorer groups. Buchanan observed as early as the 1800s, while travelling through the Indian lands of the British Empire, that the rich had many houses—implying large family size—while the poor lived in small huts with mud walls. He noted that "Rich men, instead of enlarging the house, generally build a number of similar huts in the form of a square, sufficient to accommodate their families, which are always numerous" [Buchanan, 1807: 3].¹³

To the extent that the nutritional intake of poor people is severely affected, it may lower their reproductive capacity by shortening the reproductive span, by way of late menarche¹⁴ in a society where age at marriage and consummation is very low, and through early menopause; and reducing reproductive efficiency: with many pregnancies resulting in miscarriages and stillbirths.¹⁵ It is largely observed that women of lower socio-economic status generally have longer lactational and amenorrhoeic periods. In addition the intentions and economic behaviours (e.g. seasonal and long-term migration and hard economic activities) of the poor are such that they appear to favour their actual fertility being lower. The interaction of all these factors, therefore, tends to keep the fertility of poor families lower than that of the rich [Erich, 1978: 93]. An attempt to answer the question why the poor have small families, led Krishnaiah, after analysing the available literature on the main factors associated with the social reproduction of human populations, to the conclusion that, in the absence of significant birth controls, "a low average size of family among agricultural labourers

and poor peasants arises mainly from high rates of mortality and family formation; and a high average size of family among big landowners from low rates of mortality and a tendency for families to remain undivided" [Krishnaji, 1983: 869; see also Krishnaji, 1980; 1989]. As for the effect of mass-killers like famine and epidemics, regardless of the causes of these events, it is clear that the hardest hit are the economically weak. In accordance with entitlement theory, there are greater chances that the poor will lack purchasing power thereby leaving themselves vulnerable. For instance, the people who died in the Bengal Famine of 1943 were those who "lacked the means to obtain the food that was there" [Sen, 1990: 49; see also Sen, 1981]. This aspect is evident from Table 7.

Thus "a mortality regime in effect is a layering of subregimes" [McNicol, 1984: 7] and the devastating effect of such calamities as famines and epidemics is felt altogether disproportionately by the weakest layers. India's population at the time of independence was very different in composition from what it had been at the end of the nineteenth century. In its passage through the 1950s, India experienced many famines and epidemics, and shed many of its most deprived and depressed people. Loss of these people did not entail the loss of that class itself; rather it was kept alive and expanding by recruitment from above through exploitation.

The post-independence era was a time of ushering in capitalist development in agriculture, which was facilitated by land reform policies, state intervention in offering credit, and the introduction of new technology. This process created over the next two to three decades a burgeoning middle peasantry, a relatively small rich and landlord class, and a moderately large poor-peasant and landless labourer class. Alongwith these categories an urban sector was also developing. One of the main con-

sequences of capitalist development in agriculture was the greater marginalisation of women than men, not only in numbers but in production too. This is evident from the continuous reduction in the population sex ratio (from 955 females per 1000 males in 1921 to 930 in 1971 for India) and the decline in the share of women in the workforce, from 504 per 1000 males in 1901 to 210 in 1971.¹⁶ Sharma contends that "while capitalist relations of production have adversely affected large numbers of rural men, it has been worse for rural women. They are heading towards greater impoverishment as a whole, while the burden falls heaviest on poor women who are getting poorer" [Sharma, 1985: 65]. As women lose their control over the means of production, they are rendered less able to control their reproductive activities.

India's birth rate was 40, its lowest level in the first half of the twentieth century, during the decade 1941-1951. In the next 25 years the rate was well above this minimum and only in 1974 was the same level again reached. It might be argued with caution that this is a striking indication of how the initial stage of capitalist development, owing to its urge for primitive accumulation, leads to a higher birth rate. This may, however, partly be due to improved biological conditions.¹⁷ The development of capitalism destroys certain social institutions which gave traditional security and it fails to provide alternatives. In the period between independence and the mid-1970s India experienced several far-reaching changes. The joint family system which rested on the economic interests of its members was damaged and gave rise to nuclear and extended families as a result of the penetration of capitalism. Development of industrial capitalism attracted the pauperised unemployed and underemployed towards the industrial enclaves. These two changes significantly undermined social security, since individual families could no longer rely on the village communities and joint families. In the absence of an alternative for social security, which industrial capitalism, in its primitive accumulation stage, does not supply, the worker is left with no option but to invest in children. Also in the absence of capital-intensive investment, accumulation is possible only through super-exploitation of labour.¹⁸ This leaves the labourers in a position where the wage becomes insufficient to reproduce their labour and to maintain their members in the next generation. Thus sustenance of the workers' own lives and reproduction of the next generation requires additional income. The only option open to and within the reach of the workers to earn extra income is through their children; thus they invest in children and ensure that they start earning at a very early age. Caldwell says that "the conflict between familial morality, suited to familial production, and extra-familial morality, suited to the capitalist labour market, can be extreme during periods of transition" [Caldwell, 1982: 212] and he has further remarked that

High Fertility helped: It emphasised the female role, it kept the mother tied to the home, and it supplied her with extra helpers. Capitalism could hardly do anything but approve; it was able to obtain a man's labour for lower wages than would have been needed by his family to obtain all their needs directly from the market [Caldwell, 1982: 213].

Land reform made available some land for the landless and poor peasants; and the Green Revolution increased productivity of land and labour.¹⁹ These improved conditions made the whole rural environment relatively prosperous compared to the pre-independence period. These developments had some positive effects in raising the fertility (by way of improved reproductive capacity) and lowering the mortality of the population.²⁰

However, these effects were not uniform, but varied according to the class position of different sections of the society. Available village studies show that family size is positively correlated with economic class. One of the main reasons for this is that prolonged lactation lengthens the spacing between births and thereby reduces the total number of children ever born. Evidence from Bangladesh [Huffman et al, 1978: 254] illustrates this phenomenon (see Table 8).²¹

Other factors being equal, this implies that when socio-economic status is low the number of children ever born to a family is expected to be low. The earliest study that was particularly aimed at investigating the relationship between socio-economic status and fertility in India was conducted in the mid-1930s in Punjab state, covering a large area [Jain, 1939].²² This study found a positive association between fertility and social and economic status of different groups of people. Agriculturists seemed to have higher 'fertility' and 'effective fertility' than non-agriculturists. Though the menial class had a fertility level close to that of non-agriculturists their effective fertility was the lowest because of many infant deaths. The numbers of live births per 100 couples of 20 years of marriage duration for agriculturists, non-agriculturists and menial class were 507, 499, and 501 respectively and the numbers of children surviving were 348, 330, and 318 for the three social groups [Jain, 1939: 8]. The differences became clear when the economic differentiation within these three social groups was considered. Division of agriculturists and non-agriculturists into three broad economic classes, upper, middle and lower, showed that the upper class in both groups tended to have a higher level of fertility and effective fertility than the lowest class. It was noted that

the differences in each class are purely economic. Owing to the greater care which the richer class can afford to bestow on children, the survival rate is higher as compared to the poorer class. Thus, at present, the upper classes are contributing to the next generation more than the poorer ones [Jain, 1939: 18].

The Mysore Population Study, carried out

TABLE 7: DEATH RATES BY FAMILY LAND HOLDING IN A FAMINE YEAR, COMPANIGANJ THANA, NOAKHALI DISTRICT, BANGLADESH, 1975

| Size of Landholding (Hectares) | Crude Death Rate (Per 1000) | Death Rate of Children Aged 1-4 (Per 1000) |
|--------------------------------|-----------------------------|--|
| None | 35.8 | 86.5 |
| Less than 0.2 | 28.4 | 48.2 |
| 0.2 - 1.2 | 21.5 | 49.1 |
| More than 1.2 | 12.2 | 17.5 |

Source: McCord, in Arthur and McNicol, 1978: 51.

TABLE 8: LENGTH OF AMENORRHOIC PERIOD BY SOCIO-ECONOMIC STATUS, BANGLADESH, 1976

| Socio-Economic Status | Median Duration (In Months) |
|-----------------------|-----------------------------|
| Poor | 21.5 |
| Medium | 20.4 |
| High | 18.6 |

Source: Huffman, et al, 1978: 254.

in the early 1930s, has been hailed as a pioneering work. It showed the continuation of the picture of the interrelationship between social structure and fertility observed in Punjab about one and a half decades previously. Economic status, which was mainly determined by control over and access to landholding in the rural areas, was found to have positive relationship, though sometimes weak, both with children ever born [United Nations (UN), 1961: 124], a measure of completed fertility and with birth rates for currently married women in the reproductive age groups [UN, 1961: 86]. However, the expected inverse relationship between fertility and economic status in urban areas was not strong when average number of children born was considered as a measure of fertility, but was appreciable when current fertility was used [UN, 1961: 128].

A study conducted in central India in 1958 also found a positive relationship between landholding size and fertility. The rich peasants had an average of 4.8 children compared to 4.3 children for the poor peasants [Driver, 1963: 97]. This became very significant when the mean number of living children was considered. The child loss experienced by small peasants was 20 per cent higher than that of rich peasants which led Driver to state that 'land ownership groups differ more in their average number of living children than in mean fertility' [Driver 1963: 110].

Djurfeldt and Lindberg [1980: 108] showed from a south Indian village study in the early 70s, that the average number of births per wife increases with increasing command over the main means of production in rural India. The 27th Round National Sample Survey conducted in 1972-73 showed that average family size was inversely related with per capita expenditure and directly with total household expenditure [Visaria, 1980]. Relevant information for the two states Gujarat and Maharashtra are provided in Table 9.

Mamdani [1972] observed a similar relationship in a Punjab village. 'A village study from central Java showed a positive association between fertility and income level [Hull and Hull, 1977: 50] and ownership of land [Singarimbun and Manning, 1974: 117]. In Bangladesh a positive landholding fertility relationship was found for the early 1970s [Latt and Chowdhury 1977, Stoekel and Chowdhury, 1980: 521]. However, Cain [1978: 435] observed a curvilinear relationship: the poor had smaller families than the rich, but the medium class had higher fertility than either.

In India, high priority was given to the family planning programme in the late 1960s and it has been implemented vigorously since then. Linking the family planning programme with child and maternal health programmes was a recent development. In the initial phases, the family planning programme was implemented in isolation despite a high level of infant and child mortality. The family planning programme was deemed to create a demand for contracep-

tives rather than a response to an inherent demand in the population: it was imposed from the top rather than meeting a demand from the bottom-up. The Indian government's ambitious policy of attaining a low population growth rate, without considering the unfavourable material realities, may have been influenced by the views of prominent population experts of the time, such as Hauser, who said ^{24 25}

The most serious aspect of the whole question [population-growth in countries of the third world] is that failure to control the depressing effect of rapid population increase on economic development would bring a tremendous threat. The issue could be crucial in determining whether we have peace or war in this century, and may determine the outcome of the cold war. You can be sure that if nations remain hungry, frustrated, and unable to achieve their objectives they will be susceptible to the blandishment of communist messages to the low income countries, to wit, (1) the capitalist nations stole your birth right, (2) try the communist way which is quicker and slicker [Hauser, 1966: 34].

Even such a renowned demographer as Kingsley Davis was vulnerable to the then prevailing international political climate. He cautioned against the low weight attached to the population front in United States economic aid packages to the so-called third world countries so as to keep the spread of communism in check. He noted that

what the United States would like to see them [leaders of underdeveloped countries] do is to foster peaceful and democratic industrialisation, a rising level of living and in general adherence to our side. To this end we have given or lent money for agriculture, industry, transportation, public health and arms. We have maintained that this is an effective way to head off communism because, as we say, chronic poverty breeds communism. This reasoning has much to commend it, but it ignores population trends and thus runs the danger of underestimating or misinterpreting the requirements for economic development [Davis, 1958: 296 cited in Hodgson, 1988].

Whatever was the motivation [for the factors underlying that motivation] behind giving a major boost to the programme, its success was minimal until the late 1970s but it gathered momentum in the 1980s. Apart

from the not very significant level of contraceptive acceptance, the demographic characteristics (age structure and parity, for instance) of the acceptors were too poor to make any considerable reduction in birth rates ²⁶. Given the infant mortality rate of 132 for India in 1980 (some states had a rate of around 175), the rates for the 1960s and 1970s must have been higher and that would have strongly discouraged accepting birth control. The all India family planning survey conducted in 1970 showed that fertility regulation was strongly linked with child survival particularly in the early stage of demographic transition while the mean number of children ever born to currently married women in the age group 35-44 was 5.34 for both Group A (states in 'early transition') and Group B (states 'further advanced in the transition'). Group B experienced a higher level of child survival, 4.25 children, than Group A, 3.94 children (Jejeebhoy, 1984: 193).

The majority of the acceptors were poor and had had as many children as they could. Schenk showed for a district in Gujarat, for the period 1971-72 that the taluks with higher concentrations of tribal population had higher sterilisation rates [Schenk, 1973: 74-78]. Table 10 gives the incomes of the sterilised males in Bulsar district of Gujarat for the period November 15, 1971 to January 15, 1972.

Thus concentration of family planning acceptance among the people whose material conditions did not anyway allow them to have the biological maximum fertility and at the later reproductive ages when peak rates of childbearing had already passed,

TABLE 10. RELATIONSHIP BETWEEN ECONOMIC STATUS AND FAMILY PLANNING ACCEPTANCE: RURAL GUJARAT 1972

| Yearly Income (in Rs) | Percentage (Sterilised Males) |
|-----------------------|-------------------------------|
| 500 | 50.2 |
| 500-999 | 34.6 |
| 1000-1499 | 8.8 |
| 1500-1999 | 3.4 |
| 2000-2499 | 1.6 |
| 2500 | 1.4 |

Source: Schenk, 1973: 74.

TABLE 9. AVERAGE NUMBER OF PERSONS PER HOUSEHOLD IN DIFFERENT DECILES BY PER CAPITA HOUSEHOLD EXPENDITURE: MAHARASHTRA AND GUJARAT, 1972-73

| Household Expenditure Per Capita (Decile) | Maharashtra | | Gujarat | |
|---|-------------|-------|---------|-------|
| | Rural | Urban | Rural | Urban |
| 1 | 6.3 | 6.6 | 6.8 | 6.7 |
| 2 | 6.0 | 6.3 | 6.6 | 6.4 |
| 3 | 5.6 | 6.1 | 6.2 | 6.3 |
| 4 | 5.5 | 5.8 | 6.2 | 6.0 |
| 5 | 5.8 | 5.4 | 6.0 | 8 |
| 6 | 5.3 | 5.1 | 6.1 | 5.5 |
| 7 | 5.2 | 4.4 | 5.5 | 5.0 |
| 8 | 4.9 | 4.0 | 5.5 | 4.2 |
| 9 | 4.5 | 3.2 | 5.0 | 3.9 |
| 10 | 4.1 | 2.7 | 4.3 | 3.2 |
| All | 5.3 | 4.9 | 5.8 | 5.3 |

Source: Visaria, 1980: 197.

could not make any considerable dent in the birth rate before the 1980s. A follow-up study of sterilisation acceptors in a mass camp in Trivandrum in 1972 showed that about 32 per cent of those contacted reported that the large sum of money offered to acceptors was the motivating factor for their acceptance of family planning [cited in Basu, 1986: 273]. A follow up study of vasectomy acceptors in Tamil Nadu in the 1960s showed that 43 per cent of the 297 cases had undergone the operation solely for monetary incentive, 4 per cent gave in to pressure from the canvasser and about 37 per cent of the vasectomies were unnecessary in terms of the acceptors' demographic characteristics [Srinivasan and Kachirayan, 1968]. Another study from Delhi found that about 10 per cent of the 265 vasectomised cases were unmarried [Kapoor and Chandhoke, 1963 cited in Pareek and Rao, 1974: 141]. This provides further evidence for the poor economic conditions and the absence of voluntary aspirations for birth control on the part of the acceptors. The Bangalore Population Study conducted in 1975, covering roughly the same area as the Mysore Population Study after a lapse of 24 years, showed that decline in marital fertility was experienced only among women aged over 30 years and that the family planning acceptors (mostly sterilised) over the last 24 years contributed only a meagre 10 per cent reduction in the marital fertility rate below what it would have been had their fertility been the same as the non acceptors' [Srinivasan *et al.* 1978: 263]. Nor, given its numerical smallness, could the urban population contribute to any perceptible reduction in the birth rate. Moreover the urban workers were less than highly receptive to family planning messages since they needed a relatively large family size to reproduce the labour power and the family. In the 1960s in Bombay, families belonging to the lower and lower middle class considered that a family should have an average ideal size of 4.2 children [Rai and Kamitkar 1976: 315]. On the basis of another survey of 300 households in Bombay in 1970 Michaelson [1981] argued that family size among the urban poor tended to be large because the factors that structure the urban birth rates are not much different from the rural context. "When the rural family moves to Bombay or when generation after generation of 'hutment colony' dwellers reproduce their labour

power under near-starvation conditions, their structural position in the capitalist economy and the choices that they face remain very much the same as for those who remain in the countryside" [Michaelson, 1981: 108]. Even among the poor, Michaelson noted that men and women with more casual employment tended to have a larger family size than the blue collar workers in factories and other 'formal' work contexts. In Madras among the slum dwellers fertility was 43 per cent higher than in the non-slum areas, and in Calcutta the corresponding difference was 20 per cent [Singh and de Souza, 1980: 27]. Thus the fertility of the lower socio-economic groups in urban areas was regulated to a larger extent by capital, because its primitive accumulation depended greatly upon the exploitation of human power. The birth rate time series for Madras city during the 1950s and 1960s provides another illustration of this (see Table 11).²⁶

The effect of falling mortality in motivating the people to curtail fertility was very insignificant during the decades preceding the 1980s, partly because the majority of the women in the reproductive age groups were born during and survived through high mortality regimes. Also the initial decline in mortality was first experienced by the well to do in the rural areas and the urban population.

Thus in the first three decades of independence, India experienced higher population growth due not only to reduction in the death rate but also to increase in fertility. My reading of the evidence suggests that the higher birth rate was articulated in the urban sector primarily by the laws of primitive accumulation of capital, whereas in the rural areas it came from improved economic conditions excluding the lowest socio-economic class. The destruction of some social institutions which played traditional roles in rural communities, as capitalist production gradually penetrated into agriculture, increased the importance of having a large family. The lagging effect of mortality decline took a longer time to induce change in fertility. Also however significant the level of prevalence of contraceptive use to family planning programme officials, it has had very little impact on actual fertility because the future potential fertility of the users was quite insignificant. Though capitalism is associated with low fertility, a change from the familial to the capitalist mode of production does not necessarily entail an immediate change in fertility, indeed change in fertility behaviour in a changed mode of production is dependent upon the speed with which certain superstructures that shape fertility behaviour have been altered by changes in the economic structure. Thus Caldwell [1982: 207] argues that

It is indisputable that a settled, largely subsistence economy based predominantly on familial production will be one with high fertility (except where there are pathological

problems), and that it is inevitable that a capitalist society with a fully developed labour market producing nearly all goods and services would be one where fertility is low. It is not the tautology that is important for our times, but the question whether there can be lags or accelerations in the chain from the material forces of production to the modes of production to such parts of superstructure as family structure and fertility behaviour, and whether imported social concepts can change the local superstructure at a different rate than would have been dictated solely by the movement of the economic base in a culturally autonomous society. The critical change is one which extends so far that high fertility is no longer economic.

Political economists argue that the 1960s and 1970s were the period of agricultural capitalism. These two decades saw the enthusiastic participation of the state in promoting capitalism in agriculture. It was also hoped that the agricultural surplus thus derived would be used to stimulate industrial capitalism. Industrialisation, stagnant during the 1960s and early 1970s, gained momentum in the late 1970s. Some argue that it was the failure of capitalist development in agriculture to induce industrial expansion that forced the government in 1975 to bring in the Emergency so as to help foster industrial capitalism [Sathyamurthy, 1986: 42-43].

In the late 1970s and 1980s there were many other social and economic changes. The proportion urban of the total population increased by a fifth during the decade 1971-81 (20 per cent to 24 per cent) compared to 11 per cent during the previous decade (18 per cent to 20 per cent). Similarly literacy experienced greater improvement and age at marriage a greater rise than in the previous decade. The effects of industrialisation and an expanding market economy combined with the government's positive discrimination in the fields of education and employment in favour of the socially deprived classes in making possible occupational and social mobility among the so called lower caste groups—however limited the success could be—cannot be ignored when consideration is given to the broader social changes that have taken place in post Independence India.²⁹

In this period there was also change in approaches toward family planning motivation. Family planning programmes became very strongly related to the health and welfare of the mother and the child. Consequently there was an increase in the use of programme supplied family planning services. Another factor motivating couples to choose a smaller family size was the fact that couples in the potential reproductive age groups were born during an era of declining mortality.

Though fertility and the birth rate declined and have continued declining for India as a whole, the level still remains high. The Total Fertility Rate of 5.5 in 1972 declined to 4.3 in 1978, a reduction of around 22 per cent. The estimated Total Fertility Rate for

TABLE 11. DECADEAL BIRTH RATES FOR MADRAS CITY

| Period | Birth Rate |
|-----------|------------|
| 1891-1901 | 33.9 |
| 1901-1911 | 34.0 |
| 1911-1921 | 33.6 |
| 1921-1931 | 34.0 |
| 1931-1941 | 36.5 |
| 1941-1951 | 32.8 |
| 1951-1961 | 41.3 |
| 1961-1971 | 43.0 |
| 1971-1981 | 34.1 |

Source: Venkatarangan, 1983: 54.

the period 1963-70 is 3.7. The urban decline was larger than the rural decline, this is not surprising, given the higher level of education in urban areas, and the felt need to invest in quality rather than quantity of children which was brought about by the combined effect of social change and the values of the market economy. Among the three broad classes in rural society a further substantial reduction in fertility could be expected if family size were to be curtailed by the middle group — those with sufficient land for subsistence. This is the largest group in the rural area after the agricultural labourers and it is this group which does not feel much pressure to have small families. A sample survey of 12 villages in rural Bihar during 1981-83 shows that in comparison to other rural classes the middle peasant class has a large average number of live births, a low propensity to use contraception and low rate of child mortality (Table 12) [Rodgers et al. 1989].

Another study on determinants of fertility decline conducted around the same time in rural Karnataka showed that while the increase in the ownership of land had a positive effect on marital fertility during 1960-69, it changed to a weak curvilinear relationship during 1975-79 [Bhaskara Rao et al. 1986] as given in Table 13.

A study from Nepal showed that the land owners who had rented in land (who form the middle peasant class) had larger actual and desired number of children ever born than both land owners who had not rented in land and landless families [Nijima 1989]. Hull and Hull [1977: 46] observed an inverted U-shaped relationship between education and fertility of women in Indonesia using 1971 census data. Since there was high correlation between economic position and educational attainment, particularly during the period of low overall literacy level, they proceeded to establish the same relationship by approximating economic class with educational class. However, evidence from the 1973 Fertility Mortality Sample Survey supports the relationship only for Bali and rural Sulawesi in Indonesia [Hull and Hull 1977: 48].

The groups at the two extremes, the rich and the poor, adopt family planning to reduce family size though for different reasons. While the rich follow the consumption and life style of the urban population which encourages them to have few children, the poor do not want to have many children because they cannot provide the minimum necessities for survival. This constraint on the poor comes both from the restricted employment opportunities in the rural areas and the limited absorbing capacity of the urban sector which undermines migration prospects. Basu [1986] shows for Kerala (using data for 1971) that the major decline in fertility was disproportionately contributed by assetless poor wage earners among whom was observed a higher level of family planning acceptance. As the wage earning proletariat among the working population increases, as was the case in Kerala between

the 1971 and 1981 censuses, "the consequent increase in the absolute level of family planning augurs well for a continued fall in fertility in the State" [Basu, 1986: 270]. The greater tendency among the poor, particularly those divorced from the means of production, to prefer a small family is not just due to their poor economic status but is supported by their proletarianisation. "It is not their poverty *per se* but poverty coupled with the status of wage earning rather than being self employed which provides the conditions for decline in fertility" [Basu, 1986: 279]. Basu conjectures that "it is likely that wage labourers in other States are also more motivated to limit fertility than the self employed poor but their relatively small proportions reduce their impact on overall fertility declines in their States, and they are also less handicapped by the other limitations on child employment existing in Kerala" [Basu 1986: 279]. Basu's argument was supported by a micro level study in Kerala by Mencher [1980], who argued that agricultural labourers in Kerala in the beginning of the 1980s preferred fewer children because large family size was no longer economically advantageous as a result of increased pressure on employment opportunities particularly in agriculture.

In fact the curvilinear relationship between fertility and economic class was proposed as early as 1961 by Gupta and Malakar [1963] and was reiterated by Rao [1976]. Gupta and Malakar used the National Sample Survey data for rural areas (seventh round) conducted in the early 1950s, to test their hypotheses. As is shown in Table 14 in four of the six zones the relationship seems to hold.

Rao hypothesised that the desired number of children tend to be highest in the case of groups whose source of income is family employment, next come the wage earners, then the professionals and then property owners in that order [Rao 1976: 1153]. He argued that the main discriminating factor

in determining the desired number of children between groups is the strength of the motivation related to children as a source of future income since the income stream associated with a child in the peasants' and *petit bourgeois* class would be higher than in the workers class (landless labourers in rural areas and industrial manual workers in urban areas), agricultural farmers' and industrialists' class and professional class. In the final analysis, therefore, the net motivation for having many children may be strongest in peasant and self employed class and weakest in capital of industrialists and landlords class [Rao 1976: 1157]. The results of Gupta and Malakar's [1963] analysis and Sharmas [1969] Allahabad study were used by Rao to evaluate his hypotheses. In Bangladesh in the mid 1970s Cain [1978: 435] found the same relationship between mean number of live births and landholding. However before arriving at strong conclusion it is essential to must check other factors in support of these arguments.

This can be argued that the relation in the fertility rates is contributed chiefly by one third of the population living in urban areas and by the rich and the poorest in the rural areas. The middle rural group of self-sufficient rural labourers tend to have children because of the inability to increase agricultural production with just the traditional chemical technology and by restricting the

TABLE 13. FERTILITY AND LAND OWNERSHIP IN RURAL KARNATAKA, 1960-69 AND 1975-79

| Land Owned (Acres) | TMR | |
|--------------------|---------|---------|
| | 1960-69 | 1975-79 |
| 2 | 5.4 | 3.26 |
| 2.5 | 4.1 | 3.71 |
| 5 | 4.1 | 3.05 |

Source: Bhaskara Rao et al. 1986: 145

TABLE 12. FERTILITY, FAMILY PLANNING AND CHILD MORTALITY BY CLASS, KERALA, BIHAR 1981-83

| Class | Number of Live Births* | | Number of Surviving Children* | | Percentage of Live Births Planned | | Proportion of Children Died | |
|-------------------------|------------------------|-----|-------------------------------|-----|-----------------------------------|-----|-----------------------------|-----|
| | Mean | N | Mean | N | Mean | N | Mean | N |
| 1. Agri labour attached | 5.88 | 126 | 4.22 | 126 | 0 | 113 | 73 | 106 |
| 2. Agri labour attached | 5.42 | 63 | 3.88 | 63 | 0.06 | 58 | 70 | 6 |
| 3. (1) and (2) | 5.72 | 189 | 4.1 | 189 | 0 | 171 | 73 | 162 |
| 4. Poor middle peasant | 5.61 | 31 | 4.25 | 31 | 0.01 | 26 | 18 | 24 |
| 5. Middle peasant | 6.06 | 31 | 4.83 | 31 | 0.00 | 29 | 15 | 31 |
| 6. (3) and (4) | 5.84 | 62 | 4.54 | 62 | 0.05 | 57 | 1 | 55 |
| 7. Big peasant | 5.73 | 82 | 4.35 | 82 | 14 | 74 | 1 | 74 |
| 8. Landlord | 5.98 | 57 | 4.35 | 57 | 3 | 54 | 2.0 | 51 |
| 9. (5) and (6) | 5.79 | 139 | 4.35 | 139 | 18 | 127 | 1.5 | 125 |

Note: * The current number of live and surviving births was adjusted from a quadratic regression on age. It was assumed that the relationship between fertility and age could be treated as independent of relationship between fertility and other variables and the relationship between live birth and age was then applied to predicted live births at age 45 giving an estimate of completed fertility.

N = Number of ever married women

Source: Rodgers et al. 1989: 31

mechanisation which the rich peasants can afford to adopt and find profitable to use; also they seem to employ the 'diversification' strategy of some children continuing the family occupation and some seeking employment in non agricultural avenues.

Despite the increasing use of contraceptives the Indian birth rate continues to be comparatively high. One of the major demographic explanations for this apparent inconsistency can be seen in Table 15, which shows that more than 60 per cent of sterilisations (the major form of contraception in use) are to women who have at least four living children.

The future potential for further reduction in family size rests both on improvements in the demographic characteristics of the acceptors of family planning methods and on making available other birth limiting spacing methods which are as yet being used only by a negligible proportion of eligible couples. Needless to say, any drive for higher acceptance of family planning must be accompanied by social justice in other spheres of life which would eventually instil a sense of responsibility and make the social environment conducive to limiting family size.

IV

Conclusion

A proper understanding of the population structure of present day India makes an analysis of its evolution and growth in an historical perspective imperative. The characteristics of population growth are conditioned by the nature of the relationships that prevail in the process of social production. The production of the means of subsistence and reproduction of people are two interrelated processes conditioned by the economic nature and cultural configuration of the society [Meillassoux, 1981, 1983, Seccombe, 1986]. Reproduction in a broader sense means that the very conditions of existence are reproduced and biological reproduction is a contingency always determined relative to the dominant relations of production and social formation in which it takes place [Brenner, 1976, Rapp, 1977: 319, Sundaram, n.d.]. It is therefore important to recognise that population reproduction is part of social reproduction of the whole society and so these two are largely inseparable.

The Indian agrarian economy underwent distinctive changes in its various economic and political regimes. If development means development of the direct producers, then, during the colonial period, there was economic change in agriculture but no development for the peasantry. However, as this change benefited a small section which lived on the labour of others, it resulted in a widening differentiation among the peasantry. That differentiation would have had its effect on the demographic behaviour of the population at different levels according to their degree of control over their means of production and over their labour.

Post independence India experienced and

is experiencing the ushering in of a capitalistic path of development, both in agriculture and industry. Industrial capitalism lagged in its development because the fruits of the development of agrarian capitalism did not flow back into the industrial sector. The improvement in mortality unevenly affected the different classes of the society, as a result the indirect effect of mortality reduction on fertility was slow and slight.¹¹ The increased birth rate during the first two and a half decades of independence was mainly due to the destruction of the traditional social security system and improved mortality conditions. The very significant effect of the family planning programme during this period was because the programme was based on concepts which ignored social reality.

The reduction in fertility in the recent period was contributed mainly by the rich and poor sections of the society, but motivated by different material and social considerations. Though this was basically the outcome of capitalistic development, the trend was helped by improvements in education, infant health, and linkage of the family planning programme with the maternal and child health programme. Although there was an increase in the use of contraception this has not made any considerable reduction in the birth rate because the demographic characteristics (i.e. future potential fertility) of the majority of the rural acceptors were poor and also because of a larger population in the reproductive age groups.

India has already attained self sufficiency in food production though that does not en-

sure relief from poverty and even starvation. The pressure of population is on the means of employment rather than on the means of subsistence. Though a sudden change in population growth seems implausible given the wider population base, it seems important to persuade the self-sufficient peasantry—now with a larger number of live births than the other groups—to adopt a small family norm. Both rich and poor appear now to desire to reduce family size, although for qualitatively different considerations. A drastic decline in fertility seems improbable given the higher level of infant and adult mortality and illiteracy among the economically and socially weak sections of the population.¹² As Banerji argued

population growth is not perceived as a threat by the bottom half of the population of the country who constitute some 400 million people. These people have been virtually

TABLE 15 FEMALE STERILISATION ACCEPTORS BY NUMBER OF LIVING CHILDREN AT TIME OF ACCEPTANCE MAHARASHTRA AND RAJASTHAN EARLY 1980s

| No of Living Children | Percentage Distribution of Sterilisation Acceptors | |
|-----------------------|--|------------------|
| | Maharashtra (1981) | Rajasthan (1981) |
| 1 | 3 | 1 |
| 2 | 7 | 4 |
| 3 | 15 | 23 |
| 4+ | 62 | 72 |

Source: IPS (1985) Table 9.4; Talwar and Bhatia (1985: 186)

TABLE 14 FERTILITY RATE ACCORDING TO LEVEL OF LIVING RURAL INDIA 1953-54

| Zone | Level of Living (PLIF Per Cent) | Corrected General Fertility Rate | Nature of Variation with Level of Living |
|------------|---------------------------------|----------------------------------|--|
| East | 0.6 | 0.214 | a small initial rise followed by a fall to a minimum and a subsequent rise |
| | 3.3 | 0.220 | |
| | 7.6 | 0.196 | |
| | 12.3 | 0.170 | |
| | 23.0 | 0.237 | |
| South | 1.6 | 0.163 | a rise to a maximum then a fall to a minimum and a small subsequent rise |
| | 7.5 | 0.171 | |
| | 12.6 | 0.201 | |
| | 19.6 | 0.154 | |
| | 32.0 | 0.166 | |
| North West | 5.7 | 0.178 | a rise to a maximum and then a fall |
| | 20.1 | 0.288 | |
| | 40.4 | 0.250 | |
| Central | 1.7 | 0.172 | a rise to a maximum and then a fall |
| | 9.7 | 0.254 | |
| | 18.7 | 0.257 | |
| | 32.8 | 0.210 | |
| West | 5.0 | 0.163 | a rise to a maximum and then a fall |
| | 12.3 | 0.222 | |
| | 17.5 | 0.198 | |
| | 30.0 | 0.186 | |
| North | 1.6 | 0.162 | a rise to a maximum and then a fall |
| | 7.5 | 0.226 | |
| | 12.2 | 0.285 | |
| | 20.1 | 0.233 | |
| | 34.1 | 0.184 | |

Note: PLIF — proportion of expenditure on luxury items in monthly food expenditure
Source: Gupta and Majumdar [1963: 40]

by-passed in the development activities of the past four decades. They suffer from hunger; they live in the most degrading conditions; they have virtually no access to health and education services, there is blatant social, economic and political discrimination against them; they have not much to look forward to, nor do they see much of a future for their children and grandchildren. How can such a group of people have a stake in a system which has treated them so harshly? [Banerji, 1989: 52].

However, given the material environment and demographic conditions, the high birth rate and hence the growth rate may be brought to a lower level as the economy ushers in capitalism.³¹ But will it solve the basic problems of the exploited? Robert Cassen expressed it in the following words: "Rapid population growth is not a time bomb but a treadmill. It postpones the day when most people in India can enjoy an agreeable life; but that day could be brought nearer or postponed still further by many other things besides demographic change" [Cassen, 1978: 330].

Notes

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- 1 In contrast the economist Deepak Lal argues that "the population growth which has occurred since 1921, far from having damaged Indian economic prospects, has probably been a major stimulant to agricultural growth, and that the small increase in the rate of growth of per capita incomes in post- as compared with pre-independence India is in part due to this alteration of one of the major parameters of the Hindu equilibrium" [Lal, 1988: 291].
- 2 Rudra [1988] argues that history can be studied more fruitfully if it is divided into epochs corresponding to different dominant relations of production than to dominant mode of production.
- 3 The account of agrarian relations presented in the following sections on colonial and pre-colonial India has mainly depended on literature from relevant materials in *Cambridge Economic History of India*, volume 1, edited by Tapan Raychaudhuri and Irfan Habib and *Cambridge Economic History of India*, volume 2, edited by Dharma Kumar and Meghnad Desai.
- 4 Lal [1988] argues that one of the reasons why the caste system continued unaltered into twentieth century India was the relative stability of population size. Various population estimates for the periods around 350 BC and around 1600 put the population total in the range of 100 to 125 million. As these two periods were times of relative prosperity, peace and stability in Indian history, the estimated population figures therefore "reflect the 'equilibrium' population which the social and economic system could support with available technology. There were likely to have been large deviations

around this 'equilibrium' level over the centuries, due to the four horsemen of the Apocalypse—famine, disease, pestilence, and war" [Lal, 1988: 34].

- 5 Lal [1988] is an exception. He argues that the environmental parameters, particularly social and ecological parameters, which defined what he calls the 'Hindu Equilibrium' in the beginning of the Christian era were left unaffected by the impact of foreign regimes, first by the Muslims and later by the British. Thus it is this unaltered equilibrium rather than the failure of the economic policies of the invading rulers that sustained India's economic stagnation well into the twentieth century [Lal, 1988].
- 6 Wright quotes this point from Bruce [1793].
- 7 See Guha [1963] for a detailed discussion on the origins of the intellectual ideas which went into the making of Permanent Settlement and the gestation period it took before attaining its near-completed form in 1793.
- 8 It may be noted that though the magnitude of the increase in agricultural labourers could be questioned owing to the shortcomings in the data quality, the direction of change seems plausible.
- 9 Existence of wage labour in pre-independence India did not give a fillip to capitalistic development in agriculture because it was only a necessary but not sufficient condition [Patnaik, 1971]. Some scholars were of the view that the accumulated surplus in the pre-independence period, did not flow back to stimulate capitalist production in agriculture [Sathyamurthy, 1986].
- 10 Increasing population over this period would have led to some increase in landlessness. This could have been counteracted by the splitting up of the large farms. A village study from Kerala showed lower rates of partitioning at the upper end of the landholding size [cited in Panikar et al, 1978: 47].
- 11 Davis [1951: 69] estimates a birth rate of 49 per 1000 population for the period 1881-91 for India as a whole. According to another estimate for the same period, cited in Davis [1951:68], the three provinces Bengal, Bombay and Madras actually had birth rates of above 50 whereas the provinces Punjab and United Provinces had rates between 45 and 47 per 1000 population.
- 12 The effect of 'modern' medicine in reducing mortality in Western countries in the nineteenth century has been strongly debated. McKeown contends that "the advance in health since the eighteenth century has been due to: a rising standard of living, from about 1770; sanitary measures, from 1870; and therapy during the twentieth century" [McKeown, 1965: 58]. For detailed discussion see McKeown [1965: 39-58, 1976 and 1979].
- 13 But 'large families' may also result from more co-resident kin and farm-servants living nearby.
- 14 While the high correlation between nutritional intake and age at menarche is acknowledged, its substantial effect on fertility performance has been questioned by many. Bongaarts argues that "substantial changes in age at menarche following improvements in nutrition can be expected to raise fertility by at most a small percentage"

[1980: 566]. However, based on Bongaarts's review findings, another review noted that "There is strong evidence that poor nutrition can delay menarche from the average age of 12 to 13 years seen in well-nourished adolescents to about 19 years at the extreme upper limit in poorly nourished populations" [Zeitlin et al, 1982: 34].

- 15 Apart from late menarche and early menopause nutrition also affects fertility through adolescent and premenopause sterility. For an excellent discussion of the related issues see Nag [1968].
- 16 The decline could also be influenced by changes in definition and classification of occupational categories especially for females. However, the figures quoted are adjusted for such changes.
- 17 The rise in birth rate between 1940 and 1960 in Latin American countries, for instance, was not due to the insignificant impact of population-control programmes, which was insignificant, but rather caused by improvement in health and reduction in mortality [Davis, 1967: 734]. The increased marital fertility in the age groups below 30 between the period 1951 and 1975 in the Mysore Population Study area in India provides more evidence for this phenomenon [see Srinivasan et al, 1978]. Using the data available at two points of time (1959 and 1972) Srinivasan and Jejeebhoy [1981] showed that there was an increase in natural fertility between 1959 and 1972 in almost all states in India.
- 18 Super-exploitation may be defined as a situation in which the wages do not even cover the cost of reproduction of necessary labour.
- 19 However, the introduction of large-scale mechanisation, despite the increased labour productivity, led to the displacement of labour.
- 20 Mukerji [1985], for instance, illustrates with Korean and Sri Lankan fertility data, how reduction in maternal mortality alone, as a result of general improvement in health conditions, can increase fertility rates. The main factors that were found to have influenced the increase in fertility in the early stages of modernisation in the central African state of Zaire are a considerable reduction in the proportion of childless women in the population due to improved health conditions, weakening of the traditional custom of post-natal abstinence and shortening of breastfeeding duration [Romaniuk, 1980].
- 21 However, after reviewing available evidence, Gray [1983: 143] notes that "...if nutrition influences lactational amenorrhea, the effect is, in general, relatively small".
- 22 Information was collected from about 20,000 rural families widely spread over 275 villages in 25 districts of the Punjab state. For further details see Jain [1939].
- 23 In contrast to the studies cited in support of the positive association between fertility and class position, a study from rural Baroda district of Gujarat showed that households in the lower socio-economic class had an average of 0.5 children more than the average for the upper class. The difference was more pronounced in the case of urban than in rural Baroda [PRCB, 1979: 4-8].

- 24 In fact it can be argued that the development and existence of particular paradigms that tend to give rise to specific views are influenced by the dominant political and economic structure in the society. As Castles put it in unambiguous terms, "social science plays an important part in helping to define issues and indicate policies. Of course, the choice of which type of social science is to be funded still lies with those with political and economic power, so it is not a question of the best paradigm influencing policy. Rather, shifts in political and economic and social forces determine the predominance of social science paradigms" [Castles, 1987, p. 1].
- 25 See Hodder [1988] for a discussion of the possible effect of the mid-century cold war between the superpowers in influencing the American development policy to advocate the adoption of fertility control programme in the uncommitted Third World states to reduce population growth without the need to wait for industrialisation.
- 26 The two all India family planning surveys conducted in 1971 and 1980 revealed that the proportion of women in contraceptive use increased from 10 per cent in 1971 to about 78 per cent in 1980 [Khan and Prasad, 1985, 319].
- 27 See Kondees [1981, 33-46] for a review of poverty related determinants of fertility.
- 28 In an attempt to give a demographic explanation for this phenomenon, Dyson and Murphy [1985] have tried to show, with the available evidence from literature, that increasing birth rate before the start of sustained decline has been the case for both historical Europe and contemporary developing countries. They have illustrated this phenomenon for India with data from Tamil Nadu and Bombay states. How both rural and biological factors respond to changing social economic and cultural environment (modernisation) has been thoroughly reviewed by Nag [1980] and thereby he establishes the causal mechanism between modernisation and population decline in fertility.
- 29 For an excellent discussion on the role and mechanism through which education affects fertility see Caldwell [1980] also Jain [1981] and Jain and Nag [1986].
- 30 The 27th round (1972-73) National Sample Survey data for Maharashtra and Gujarat states, however, did not yield such a convincing relationship between poverty and fertility. Vyas [1980]. However, the fertility measure used here was children ever born, but in Gupta and Malakar's analysis it was general fertility rate.
- 31 In fact some of the weaker sections of the society are dwindling in their numbers and face the threat of extinction. A case in point is the tribals in Bihar where a recent epidemic mysteriously due to the government, apparently caused by malnutrition, lack of availability of clean drinking water, and lack of access to medical services, claimed many tribal lives in a short time. The social conditions that create and facilitate this dwindling can be gauged from the following summary: "The coarse grains that they grow constitute a fraction of the Pahalias' [the tribals] diet. Mostly they depend on

wild herbs and even grass. Meat of dead animals constitutes another staple food of the Pahalias and they are in constant search of dead animals as that provides them something to eat without having to pay for it" [Bharti, 1989, 1504].

- 32 This is more so when the existing health and family planning system is to the disadvantage of the poor. A recent case study of Bihar state—one of the most backward states in India—notes that the extension workers and other health functionaries were concentrating more on the better off people because poor people are 'less prone to change', and in the PHCs poor patients were accommodated on the floor of the verandah because "these illiterate people do not know how to use the bed and will spoil it in no time" [Khan and Rao, 1989].

- 33 A recent elaborate population projection by Srinivasan et al [1988] shows that the demographic goal of achieving the Net Reproduction Rate of 1 may be realised by the year 2021 even if the future age specific marital fertility remains the same as in 1986.

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Population and Agricultural Growth

A Study in Inter-Regional Variations

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The Indian experience of the two decades, 1961-81, offers some scope for analysis of the interrelationships between the components of population growth and the characteristics of agrarian change. A dramatic improvement has taken place during this period in technology and productivity in some parts of the country even as other regions have demonstrably stagnated. Did the prosperous regions experience higher rates of population growth, either through higher rates of natural increase or through immigration? What is the demographic picture of areas of stagnation and decline: Are they marked by high rates of mortality and out-migration? One can ask similar questions about the extent to which population pressure has led to land or labour intensification in areas experiencing drastic declines in land-man ratio. This paper is concerned with these questions.

WHILE analysing the inter-relationships between the components of population growth—fertility, mortality and migration—on the one hand, and the characteristics of agrarian change such as improvements in the productivity of land and the intensification of labour, on the other, we must remember two facts. First, adjustments in both directions—population levels adjusting to what the land can produce; agrarian prosperity or decay leading to higher or lower population levels; and population pressure leading to land or labour intensification and technological change—take place over long periods. Second, such adjustments tend to be spatially specific and restricted so that they can be seen clearly only in small regions.

However, the Indian experience of the two decades, 1961-81, offers some scope for analysis in this respect. A dramatic improvement has taken place during this period in technology and productivity in some parts of the country even as other regions have demonstrably stagnated. The specific questions that arise in this context are the following: Did the prosperous regions experience higher rates of population growth, either through higher rates of natural increase or through immigration, than did other regions? What are the demographic pictures of areas of stagnation and decline: Are they marked by high rates of mortality and outmigration? These questions are about the extent to which population has redistributed itself over space in response to the regionally-concentrated nature of agricultural growth during this period. One can ask similar questions about the extent to which population pressure has led to land or labour intensification in areas experiencing drastic declines in the land-man ratios.

This paper is concerned with such questions. The analysis is based on data at the district and State levels relating to population, areas cropped and those under irrigation, value of production, etc. The agricultural data are borrowed from G S Bhalla and D S Tyagi, *Patterns in Agricultural Development* (1989) and refer to annual averages of three triennia: 1962-65, 1970-73, and 1980-83.

The population figure for the first period refers to 1963 and is the interpolated value from the 1961 and 1971 censuses; those for the second and third periods refer respectively to the 1971 and 1981 census counts.

The analysis can provide some suggestive insights only; it cannot yield conclusive answers to the questions being raised here. One reason is that the components of population growth, births, deaths, and net migratory flows, cannot be easily estimated at the district level. A second is that even if some adjustment takes place over such a short period the lags in adjustment that must be present cannot be easily identified.

We do know that increases in productivity and production during this period were unevenly spread over space. Thus a good starting point is the magnitude of inter-regional disparities; the changing pattern of disparities over time may then be expected to be of some analytical value. Section I looks at inter-State inequalities in per capita production, productivity per hectare, and land-man ratio; it goes on to discuss what can be described as the Malthusian type of adjustment: the question asked here is whether high rates of growth in production or productivity have induced high rates of population growth at the State level. The

TABLE 1: INTER-STATE VARIATIONS: STANDARD DEVIATIONS OF NATURAL LOGARITHMS OF VARIABLES

| Variable | 1962-65 | 1970-73 | 1980-83 |
|-----------------------------------|---------|---------|---------|
| Value of output per capita (V/P) | 0.2566 | 0.3379 | 0.4278 |
| Value of output per hectare (V/A) | 0.4187 | 0.4438 | 0.4201 |
| Land-man ratio (A/P) | 0.4525 | 0.4329 | 0.4632 |
| Value per worker (V/W) | 0.4101 | 0.4496 | 0.5089 |
| Work participation rate (W/P) | 0.2718 | 0.2023 | 0.2610 |
| Labour intensity (W/A) | 0.3680 | 0.3825 | 0.4105 |

Note: For basic data and sources see Appendix. The value figures (V) are in constant 1969-70 prices.

TABLE 2: DECOMPOSITION OF VARIATION IN LOG (V/P)

| Year | Var(v/p) | Var(v/a) | Var(a/p) | 2Cov(v/a, a/p) | r(v/a, a/p) |
|---|----------|----------|----------|----------------|-------------|
| 1963 | 0.0658 | 0.1753 | 0.2048 | -0.3148 | 0.82 |
| 1971 | 0.1142 | 0.1970 | 0.1874 | 0.2702 | -0.70 |
| 1981 | 0.1830 | 0.1765 | 0.2146 | -0.2081 | 0.28 |
| Distribution of change (per cent) 1962-63 | 100.0 | 1.0 | 8.4 | 90.6 | |

Note: In lower case letters v/p, for example, stands for ln (V/P), etc.

TABLE 3: ALTERNATIVE DECOMPOSITION OF VAR (ln V/P)

| Year | Var(v/p) | Var(v/w) | Var(w/p) | 2Cov(v/w, w/p) | r(v/w, w/p) |
|---|----------|----------|----------|----------------|-------------|
| 1963 | 0.0658 | 0.1682 | 0.0739 | 0.1763 | -0.79 |
| 1971 | 0.1142 | 0.2021 | 0.0409 | 0.1288 | -0.71 |
| 1981 | 0.1830 | 0.2590 | 0.0681 | 0.1441 | -0.37 |
| Distribution of change (per cent) 1962-83 | 100.0 | 77.4 | -4.9 | 27.5 | |

next part of this section is devoted to the evidence on the Boserupian kind of responses, e.g. land and/or labour intensification taking place in States experiencing severe population pressure or stagnation in productivity. Section II covers the same ground as Section I with districts as regional units and, naturally, is more informative about the adjustment process. The final section has some concluding remarks.

I Inter-State Disparities

METHOD

Writing V, A, P, and W respectively for value of production, gross cropped area, rural population, and workers in agriculture (cultivators plus labourers, male and female—all in specified units) at a point of time we set out the following identities:

$V/P = (V/A) (A/P)$ (1)
i.e., per capita output is the product of output per unit of land and land-man ratio, and

$V/P = (V/W) (W/P)$ (2)
that gives an alternative decomposition of V/P as the product of value per worker and work participation rate. Similarly

$V/P = (V/W) (W/A)$ (3)
and $A/P = (A/W) (W/P)$ (4)

These identities enable us to decompose the total variance across regions of a given variable into those of its components. For example, from (1) it follows that

$$\text{Var}(\ln V/P) = \text{Var}(\ln V/A) + \text{Var}(\ln A/P) + 2\text{Cov}(\ln V/A, \ln A/P) \quad (5)$$

MAGNITUDE AND CHANGE

Let us begin by looking at the variations at the State level. We do know that agricultural growth was unevenly spread during this period. To assess its net impact, the trends in inter-State variation in respect of the six ratios introduced above are presented in Table 1.

Of the six ratios we are considering in respect of three—per capita value of output (V/P), value per worker (V/W) and labour intensity (W/A)—a sharp increase has taken place in the disparities between the States during the two decades (1962-83), the widening of disparities was more marked in V/P than in V/W. It can be seen from Table 1 that the inter-State variations in the three other ratios, viz., yield per hectare (V/A), land-man ratio (A/P), and work participation rate (W/P) have remained fairly stable.

The widening in disparities is illustrated simply by the contrast between the performance of Bihar and that of Punjab. In constant

(1970-71) prices, the per capita output in these two States during 1962-65 was respectively Rs 192 and Rs 487; by 1980-83 this range was widened from Rs 153 in Bihar to Rs 1,134 in Punjab. Likewise, while the value per worker has stagnated at about Rs 585 in Bihar, it increased in Punjab from Rs 2,200 in 1962-65 to Rs 5,063 in 1980-83.

To understand these trends we use the two types of decomposition of V/P given in equations (1) and (2). The results are set out in Tables 2 and 3.

Table 2 shows that the increase in the inter-State disparities in per capita production has been brought about almost wholly (accounting for about 91 per cent of the total) by a weakening of the inverse correlation between productivity per unit of land and the land-man ratio. This inverse correlation, a macro-variant of the much-discussed size-productivity relationship, is of a compensatory nature, with low (high) land-man ratios generally associated with high (low) productivities, so that when it weakens (as

TABLE 5 COMPONENTS OF POPULATION GROWTH, 1971-81

(Per cent)

| State | Annual Rates | | Decadal Change | |
|----------------|--------------|------------------|----------------|--------------|
| | Population | Natural Increase | Net Migration | CBR CDR |
| Andhra Pradesh | 1.59 | 1.86 | 0.27 | 6.20 28.80 |
| Assam | 2.22 | 1.84 | 0.38 | 7.90 -12.00 |
| Bihar | 1.90 | 1.84 | 0.06 | 18.00 6.20 |
| Gujarat | 2.04 | 2.31 | 0.27 | 9.50 24.70 |
| Haryana | 1.98 | 2.58 | 0.60 | 10.10 -28.80 |
| HP | 2.19 | 2.08 | 0.11 | 10.90 29.10 |
| J and K | 2.15 | 2.22 | 0.07 | 2.90 16.40 |
| Karnataka | 1.75 | 1.72 | 0.03 | 10.20 26.80 |
| Kerala | 1.46 | 1.97 | 0.52 | 13.70 25.30 |
| Maharashtra | 1.63 | 1.70 | 0.07 | 4.80 27.50 |
| MP | 1.77 | 2.16 | 0.39 | 1.80 6.60 |
| Orissa | 1.49 | 1.66 | 0.17 | 5.20 24.30 |
| Punjab | 1.62 | 2.08 | 0.46 | 12.50 23.40 |
| Rajasthan | 2.48 | 2.19 | 0.29 | 7.80 17.70 |
| Tamil Nadu | 1.25 | 1.59 | 0.34 | 12.00 22.50 |
| UP | 1.30 | 2.17 | 0.87 | 9.40 25.30 |
| W. Bengal | 1.87 | 2.13 | 0.26 | 9.60 10.00 |

Source: Census and Sample Registration System.

TABLE 6 POPULATION PARAMETERS AND INDICATOR OF AGRARIAN CHANGE: SIMPLE CORRELATION COEFFICIENTS

(Per cent)

| Levels and Changes in Production Per Capita (V/P) and Per Hectare (V/A) | Average Annual Rates 1971-81 | | | Decadal Change | |
|---|-----------------------------------|----------------------------|-------------------|----------------|----------------|
| | Population Growth (Compound Rate) | Natural Increase (CBR CDR) | Net Out Migration | Decline in CBR | Decline in CDR |
| V/P 63 | 0.27 | 0.09 | 0.35 | 0.45** | 0.37 |
| V/P 71 | 0.15 | 0.32 | 0.42** | 0.45** | 0.23 |
| Change (per cent) | | | | | |
| V/P 63-81 | 0.04 | 0.42** | 0.38 | 0.38 | 0.23 |
| V/P 63-71 | 0.10 | 0.53* | 0.33 | 0.31 | 0.01 |
| V/P 71-81 | 0.16 | 0.03 | 0.19 | 0.24 | 0.41** |
| V/A 63 | 0.37 | 0.26 | 0.17 | 0.12 | 0.16 |
| V/A 71 | 0.31 | 0.09 | 0.26 | 0.22 | 0.17 |
| Change (per cent) | | | | | |
| V/A 63-81 | 0.07 | 0.54* | 0.37 | 0.35 | 0.22 |
| V/A 63-71 | 0.28 | 0.61* | 0.20 | 0.29 | 0.01 |
| V/A 71-81 | 0.19 | 0.10 | 0.28 | 0.20 | 0.35 |

Notes: (1) ** indicates significance at the 10 per cent level and * at the 5 per cent level.

(2) Unlike in Table 5, net migration rates, changes in CBR and CDR are set out here as net out migration rates, declines in CBR and CDR respectively.

TABLE 4 DECOMPOSITION OF VARIANCE OF $\ln V/A$ AND $\ln A/P$

| Year | Var(v/a) | Var(v/w) | Var(w/a) | 2Cov (v/w, w/a) | r(v/w, w/a) | Var(a/p) | Var(a/w) | Var(w/p) | 2Cov (a/w, w/p) | r(a/w, w/p) |
|------|----------|----------|----------|-----------------|-------------|----------|----------|----------|-----------------|-------------|
| 1963 | 0.1753 | 0.1682 | 0.1354 | 0.283 | -0.42 | 0.2048 | 0.1154 | 0.0739 | -0.0045 | -0.02 |
| 1971 | 0.1970 | 0.2021 | 0.1463 | -0.1514 | -0.44 | 0.1874 | 0.1463 | 0.0409 | 0.0002 | 0.00 |
| 1981 | 0.1765 | 0.2590 | 0.1685 | 0.2510 | -0.60 | 0.2146 | 0.1685 | 0.0681 | -0.0220 | -0.10 |

it has, from -0.82 to -0.28 , practically disappearing) per capita output variations widen. We shall discuss this phenomenon in detail later, but note here that the correlation itself is the result of a long-term adjustment process through which fertile lands tend to attract high population densities.

The alternative decomposition given in Table 3 shows that both an increase in the variation in the value per worker (77 per cent) and a decline in the inverse correlation between value per worker and the work participation rate (27 per cent) have contributed significantly to the inflation in the variance of per capita production. More on this later.

Two further decompositions of variances, respectively those of productivity per hectare and of the land-man ratio, are given in Table 4. (Let us recall that these variations have remained more or less stable (Table 2). We see from the statistics in Table 4 some interesting changes that lie behind the apparent stability in regional variations in the just-mentioned variables.

The first part of Table 4 shows that while disparities have widened in both V/W and W/A, the inverse relationship between these two variables has considerably strengthened and has contributed to the stability in productivity variations. The second half of the table shows that across the States, area per

worker and work participation rate have remained uncorrelated.

These changes in inter-regional inequalities can alternatively be described in terms of differential patterns of growth over time in the variables under study. We shall, for this purpose, restrict ourselves to the decade 1971-81 for two reasons: first, significant improvements in productivity and production started taking place only towards the end of the sixties, and their impact, if any, is likely to be clearly observable only during the seventies, and second, we are better served in respect of the relevant and comparable data for this decade than for the sixties.

Let us, to begin with, look at rates of population growth, the net result of births, deaths and migration. These rates, for the rural part of the different States, are directly derived from the census counts. Estimates of crude birth and death rates (CBR and CDR, respectively) are available from the data collected under the Sample Registration System (SRS), these refer to annual averages corresponding to triennia such as 1971-73, 1972-74 and so on (and are thus based on a shifting, increasing population base). We can, however, compute the average annual rate of natural increase (i.e. the excess of the CBR over the CDR) from these data. The excess of the annual compound rate of the observed population growth over the estimated annual average rate of natural increase provides us with an estimate—a crude one that can perhaps be refined by better methods—of the annual average of the rate of net migration, i.e. number of immigrants minus the number of out-migrants as a ratio of the population in a given year. These statistics are given in Table 5.

The rates of population growth in rural areas (during 1971-81) ranged from 1.25 in Tamil Nadu to 2.48 in Rajasthan and the average rate of natural increase ranged from 1.59 in Tamil Nadu to 2.58 in Haryana. The estimated annual average net migration rate generally tended to be negative, indicating, an excess of out migration over in-migration—arising, no doubt, from rural to urban flows being the most prominent among population transfers. The exceptions to this are in respect of Assam and Rajasthan—experiencing significant net inflows into rural areas—and, to a much less extent, Himachal Pradesh, Bihar and Karnataka. The net migration rates are generally low; the highest rate corresponds to Uttar Pradesh with an annual net out-migration

TABLE 9. VARIATION BETWEEN (B) AND WITHIN (W) STATES—MEAN SQUARES

| Variable | Source of Variation | 1962-65 | 1970-73 | 1980-83 |
|----------|---------------------|---------|---------|---------|
| V/P | B | 0.86 | 1.79 | 2.85 |
| | W | 0.06 | 0.08 | 0.11 |
| V/A | B | 1.25 | 4.17 | 4.80 |
| | W | 0.09 | 0.10 | 0.12 |
| A/P | B | 3.47 | 3.49 | 3.84 |
| | W | 0.12 | 0.13 | 0.13 |
| V/MW | B | 1.55 | 2.40 | 3.14 |
| | W | 0.06 | 0.07 | 0.12 |
| MW/P | B | 0.46 | 0.31 | 0.51 |
| | W | 0.02 | 0.02 | 0.06 |
| MW/A | B | 2.56 | 2.93 | 3.33 |
| | W | 0.10 | 0.10 | 0.14 |

B Between States (13), W Within States (255)

Note: For each variable the inter-district variation is broken up into the between state and within state components. The degrees of freedom are 13 and 255 respectively corresponding to a total of 269 districts in 14 states.

rate of 0.87 per cent of the total population. Similar, relatively high net out-migration rates are observed in the cases of Haryana, Punjab, Kerala, Orissa and Tamil Nadu. This suggests that out migration is induced not only by conditions of stagnation in agriculture but also by those of prosperity. (More on this, as well as on the implications of low migration rates to the changes in land-man ratio, later.)

To see whether these variations in population parameters are related to the structure and change in agriculture, simple correlations between these parameters and the levels and changes in such variables as per capita production and yield per hectare are computed (Table 6). Most of those correlations are weak but a few are significant. Let us note these:

- rates of natural increase during 1971-81 are positively associated with both changes in per capita production during 1963-71 (and hence during 1963-81) and changes in productivity per hectare. This is a restatement of the fact that States such as Punjab, Haryana, Uttar Pradesh and Jammu and Kashmir experienced impressive agricultural growth along with relatively higher rates of natural increase in contrast to States such as Bihar, Orissa and Tamil Nadu characterised by poor agricultural performance and low rates of natural increase.
- The decline in the birth rate during 1971-81 is positively associated with the levels of per capita production in both 1963 and 1971, while the decline in the death rates is positively correlated only with the increase in per capita production. It may be noted that the decline in death rates has been far lower in Bihar, Madhya Pradesh and West Bengal—States that have experienced drastic falls in per capita production.

TABLE 7. CORRELATES OF CHANGES IN LAND PRODUCTIVITY AND LABOUR INTENSITY, 1971-81 (Simple Correlation Coefficients)

| | Changes during 1971-81 in | |
|--------------------------------|---------------------------|------------------------|
| | V/A (Land Productivity) | W/A (Labour Intensity) |
| Land-man ratio A/P 1963 | 0.38 | 0.14 |
| Land-man ratio 1971 | 0.33 | 0.09 |
| Changes in A/P 1963-71 | 0.33 | 0.27 |
| Changes in 1971-81 | 0.29 | 0.66* |
| Per capita production V/P 1963 | 0.30 | 0.00 |
| Per capita production V/P 1971 | 0.19 | 0.13 |
| Changes in V/P 1963-71 | 0.08 | 0.21 |
| Changes in V/P 1971-81 | 0.91* | 0.25 |

Note: * denotes significance at 5 per cent level.

TABLE 8. INTER-DISTRICT VARIATIONS: STANDARD DEVIATION OF NATURAL LOGARITHMS

| Variable | 1962-65 | 1970-73 | 1980-83 |
|-----------------------------------|---------|---------|---------|
| Per capita output (V/P) | 0.319 | 0.409 | 0.492 |
| Output per hectare (V/A) | 0.492 | 0.549 | 0.586 |
| Land-man ratio (A/P) | 0.534 | 0.538 | 0.555 |
| Value per male worker (V/MW) | 0.357 | 0.131 | 0.517 |
| Male workers in population (MW/P) | 0.201 | 0.175 | 0.279 |
| Male labour intensity (MW/A) | 0.469 | 0.486 | 0.539 |

Note: Note that labour intensity, etc., are measured with respect to male workers only.

- (c) Net out-migration rates are positively correlated to the level of per capita production in 1971, a reflection of the fact that good performers in agriculture during the late sixties such as Punjab and Haryana have recorded relatively higher rates of net out migration

On the whole, despite the inconclusiveness of these findings, they suggest that agrarian prosperity has promoted higher rates of natural increase through more significant declines in death rates. They also suggest that prosperity-induced rural urban migration might have been an important factor in rural population change during 1971-81

Let us now see to what extent changes during 1971-81 in the land man ratio (which has declined everywhere except in Punjab) or in per capita production—the two variables standing as proxies for population pressure—have induced changes in productivity of land, labour intensity and work participation rates. The correlations given in Table 7 show that

- (a) changes in productivity per hectare were positively correlated with changes in per capita production but uncorrelated with levels and changes in land man ratios and
- (b) changes in labour intensity, i.e., workers per hectare, are inversely related to changes in land-man ratios (A/P) (States experiencing drastic declines in gross cropped area per person such as Bihar, Tamil Nadu, Gujarat, Karnataka, Andhra Pradesh and West Bengal have recorded impressive increases in the number of workers per hectare)

These changes suggest a weak form of Boserupian adjustment of labour intensity to a declining land man ratio: it is weak because the results are seen in terms of improvements in productivity only to the extent that inter regional variations have not widened as perceptibly as in the case of per capita production

II Inter-District Disparities

In this section we present disparities with districts as regional units. Of the districts covered by the Bhalla-Tyagi study, only 269 are retained here because we do not have data on all the variables for the remaining districts. For the same reason the coverage in terms of the States also is different from that of the last section, Assam, Jammu and Kashmir and Himachal Pradesh not being included here

CHANGES

Let us first look at the magnitude and change in inter district variations with respect to the six ratios discussed in the previous section. The relevant measures (standard deviation of natural logarithms) are given in Table 8. Comparing the statistics here with those in Table 1, we see that, as in the case of States as units, in terms of districts also, disparities have widened considerably in per capita production, value per worker, and labour intensity (note, however, that here we are considering output per male worker). Similarly, in both cases, inter regional variations in the land man ratio tended to be fairly stable. In respect of the remaining two ratios, the inter State and inter district data exhibit different patterns while inter State variations in productivity per hectare and the work participation rate have tended to be minimal, inter district variations in these two variables have widened considerably. No doubt, a part of the explanation lies in the lack of perfect correspondence between the two sets of data (in terms of coverage and the definition of workers—male and female in the State level data but only male in the district level data). Also, in the district wise analysis, the State average (of, say, per capita production) is the average of district averages which differs from the average computed directly for the whole State.

But a more important reason for the differential pattern is that the course of disparities between districts depends not only on what happens at the State level but also on what happens within States. A standard decomposition of the total inter-district variance into components between States (B) and between districts within States (W) is given in Table 9

It will be seen that disparities between districts within States have considerably

TABLE 12 GROWTH IN AREA AND POPULATION—DISTRICTS CLASSIFIED BY LEVELS AND CHANGES IN LAND MAN RATIO AND IRRIGATION RATIO

| Increase in Irrigation Ratio 1963-81 (Per Cent) | Decline in Land Man Ratio (Per Cent) 1963-81 | | |
|--|---|---------|-----------|
| | Above 25 | 10-25 | Below 10 |
| <i>Growth in Area (per cent) 1963-81</i> | | | |
| Below 10 | - 8.3 | 8.9 | 35.7 |
| 10- 30 | 9.8 | 13.3 | 28.0 |
| Above 30 | 8.1 | 18.9 | 39.7 |
| <i>Growth in Population (per cent) 1963-81</i> | | | |
| Below 10 | 37.3 | 39.6 | 34.6 |
| 10-30 | 38.4 | 40.8 | 35.2 |
| Above 30 | 51.8* | 48.9 | 34.8* |
| <hr/> | | | |
| Irrigation Ratio (per cent) 1963 | A/P 1963 (hectares) | | |
| | Below 0.1 | 0.1-0.7 | Above 0.7 |
| <hr/> | | | |
| <i>Growth in Area (per cent) 1963-81</i> | | | |
| Below 20 | 3.3 | 4.5 | 1.7 |
| 20-50 | 8.9 | 6.4 | 18.6 |
| Above 50 | 13.2 | 34.3 | 37.1 |

Notes: (1) The entries in the table refer to averages over the districts falling in to each cell

(2) The increase in irrigation ratio is the difference between the levels of the ratios in the two periods

(3) * covers Alleppey North Arcot, Giridih, Dhanbad, Santal Paraganas, Hyderabad and Rangareddy and Cuddapah

* Covers all districts of Punjab except Gurdaspur

TABLE 10 DECOMPOSITION OF VAR (ln V/P) BETWEEN DISTRICTS

| Year | Var(v/p) | Var(v/a) | Var(a/p) | 2Cov (v/a, a/p) | r(v/a, a/p) | Var(v/p) | Var(v/w) | Var(w/p) | 2Cov (v/w, w/p) | r(v/w, w/p) |
|--------------------------------|----------|----------|----------|-----------------|-------------|----------|----------|----------|-----------------|-------------|
| 1963 | 0.1019 | 0.2421 | 0.2857 | 0.4259 | 0.89 | 0.1019 | 0.1287 | 0.0405 | 0.0673 | 0.47 |
| 1971 | 0.1676 | 0.3014 | 0.2898 | 0.4236 | 0.85 | 0.1676 | 0.1859 | 0.0305 | 0.0488 | 0.32 |
| 1981 | 0.2419 | 0.3438 | 0.3086 | 0.4105 | 0.79 | 0.2419 | 0.2676 | 0.0772 | 0.1029 | 0.36 |
| Distribution of change 1963-81 | 100.0 | 72.6 | 16.4 | 11.0 | | 100.0 | 99.2 | 26.2 | 25.4 | |

Note: v/p stands for ln V/P etc., w/p stands for ln (MW/P) where MW is the number of male workers

TABLE 11 DECOMPOSITION OF VAR (ln V/A) AND VAR (ln A/P)

| Year | Var(v/a) | Var(v/w) | Var(w/a) | 2Cov (v/w, w/a) | r(v/w, w/a) | Var(a/p) | Var(a/w) | Var(w/p) | 2Cov (a/w, w/p) | r(a/w, w/p) |
|------|----------|----------|----------|-----------------|-------------|----------|----------|----------|-----------------|-------------|
| 1963 | 0.2421 | 0.1287 | 0.2206 | 0.1072 | 0.32 | 0.2857 | 0.2206 | 0.0405 | 0.0246 | -0.13 |
| 1971 | 0.3014 | 0.1859 | 0.2365 | 0.1210 | 0.29 | 0.2898 | 0.2365 | 0.0305 | -0.228 | -0.13 |
| 1981 | 0.3438 | 0.2676 | 0.2907 | 0.2145 | 0.38 | 0.3086 | 0.2907 | 0.0772 | 0.0593 | -0.20 |

the land-man ratio, especially during the seventies. This happens because of the well-documented fact that within each State, with

the possible exception of Punjab and Haryana, rapid and impressive growth and the attendant changes have been confined to a few well-endowed districts. For a fuller understanding of the widening inter-district inequalities, it would therefore be necessary to study variations within each State. We do not attempt this here. Instead we proceed with decompositions of the type made in the last section.

Table 10 gives two decompositions of the variance in $\ln(V/P)$. Since we have already made comparisons between inter-State and inter-district variances let us look at the co-variance terms. As in the case of State-level data, the inverse correlations between land-man ratio and productivity per hectare, and between value per worker and work participation rate, across the districts have declined. But this attenuation can be seen to be much less severe. For example, the first of the above correlations has decreased from -0.82 to -0.79 , contributing 11 per cent to the inflation in $\text{var}(\ln V/P)$ (whereas, between States, as we saw before, the corresponding contribution was as high as 91 per cent—Table 2). Likewise, the contributions of variances of v/w , w/p and the co-variance between them are also radically different across States and across districts. This kind of a differential pattern clearly suggests that while these inverse correlations have practically disappeared in terms of States as a whole, they continue to hold (at whatever level) within each State across the districts. Two further decompositions, respectively of variances in v/a and a/p are not very informative (Table 11).

RESPONSES

Let us now see what these trends in inter-district disparities imply to the manner in which either population or land use variables have responded to declining land-man ratios. Since land-man ratios are measured in terms of surface area (gross cropped area per rural person) of varying fertility, a further classi-

fication by levels of irrigation intensity (gross irrigated area as a ratio of gross cropped area) provides some means of identifying patterns in change.

First, we look at the expansion in gross cropped area and population. Table 12 gives the average rates of increase in area and population of districts classified according to changes in the land-man ratio and the irrigation ratio.

Districts experiencing minimal declines in A/P have the highest rate of expansion in area. Of course, there is a circularity in this finding. To see how the initial levels of A/P and irrigation ratio have influenced rates of expansion in area, the data according to the relevant classification are presented in the bottom third panel of Table 12. It can be seen that area expansion has been most impressive in districts with an irrigation ratio in 1963 in excess of 50 per cent, and especially those where the land-man ratios have also been relatively high in 1963. Districts with low base (1963) levels of irrigation ratio and land-man ratio have a poor record of expansion in area. Turning now to population growth, we notice, as expected, population increases being positively associated with declines in land-man ratio (causation possibly running both ways). Despite their poor inferential value, these data are given here to show that most districts in Punjab (except Gurdaspur) appear at the bottom right hand corner of this panel (with decline in A/P less than 10 per cent and increase in irrigation ratio above 30 per cent) and on the average record a somewhat low population growth during 1963-81 of 34.8 per cent. Since the rate of natural increase in this State was relatively high (following an impressive decline in death rates), the low rate of population growth may well be the result of prosperity-induced rural to urban migration. This inference is of course no more than a guess.

Table 13 gives the average increase in productivity per hectare (V/A) in districts classified according to levels and changes in A/P and the irrigation ratio. We see that

TABLE 13: CHANGES IN PRODUCTIVITY PER HECTARE, 1963-81—DISTRICT AVERAGES

| Irrigation Ratio 1963 Per Cent) | Land-Man Ratio (A/P) 1963 (ha) | | |
|--|--------------------------------|---------|-----------|
| | Below 0.3 | 0.3-0.7 | Above 0.7 |
| Below 20 | 24.4 | 35.5 | 37.3 |
| 20-50 | 33.4 | 46.5 | 76.8 |
| Above 50 | 36.4 | 88.7 | 115.6 |
| Increase in Irrigation Ratio 1963-81 Per Cent) | | | |
| Decline in A/P 1963-81 (Per Cent) | | | |
| 1963-81 | Above 25 | 10-25 | Below 10 |
| | | | |
| Below 10 | 22.2 | 27.9 | 5.1 |
| 10-30 | 49.9 | 53.3 | 78.7 |
| Above 30 | 104.0 | 93.0 | 117.2 |

Note: See Note 1 to Table 12.

TABLE 14: NUMBER OF MALE WORKERS PER HECTARE—LEVEL IN 1963 AND CHANGE (PER CENT), 1963-81, DISTRICT AVERAGES

| Productivity per Hectare: V/A (Rs/ha) 1963 | Land-Man Ratio (A/P) 1963 (ha) | | |
|--|--------------------------------|---------|-----------|
| | Below 0.3 | 0.3-0.7 | Above 0.7 |
| Level of MW/A 1963 | | | |
| Below 700 | — | 0.409 | 0.274 |
| 700-1400 | 0.971 | 0.567 | 0.297 |
| Above 1400 | 0.851 | 0.629 | 0.352 |
| Increase in V/A (Per cent) 1963-81 | | | |
| Decline in A/P 1963-81 (Per Cent) | | | |
| 1963-81 | Above 25 | 10-25 | Below 10 |
| | | | |
| Below 13 | 19.0 | 6.8 | -11.6 |
| 13-15 | 10.0 | 3.4 | -1.7 |
| Above 15 | 12.6 | 5.1 | 13.2 |

Note: See Note 1 to Table 12.

TABLE A1 STATE-WISE DATA

| | V/P | | | V/A | | | A/P | | |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 1962-65 | 1970-73 | 1980-83 | 1962-65 | 1970-73 | 1980-83 | 1962-65 | 1970-73 | 1980-83 |
| Andhra Pradesh | 326.40 | 298.32 | 374.82 | 822.67 | 851.99 | 1265.82 | 0.40 | 0.35 | 0.30 |
| Assam | 342.09 | 319.93 | 320.17 | 1430.80 | 1570.97 | 1614.45 | 0.24 | 0.20 | 0.20 |
| Bihar | 192.44 | 190.61 | 153.35 | 795.70 | 901.49 | 921.00 | 0.24 | 0.21 | 0.17 |
| Gujarat | 354.41 | 363.70 | 400.51 | 631.89 | 790.83 | 1032.02 | 0.56 | 0.46 | 0.39 |
| Haryana | 429.85 | 576.39 | 679.60 | 687.35 | 1037.74 | 1353.85 | 0.63 | 0.56 | 0.50 |
| K.P. | 211.96 | 240.25 | 217.47 | 713.41 | 878.16 | 943.96 | 0.30 | 0.27 | 0.23 |
| Karnataka | 175.63 | 226.84 | 258.09 | 693.83 | 1051.22 | 1332.97 | 0.25 | 0.22 | 0.19 |
| Kerala | 329.11 | 345.27 | 357.77 | 610.29 | 798.44 | 925.98 | 0.54 | 0.43 | 0.39 |
| Madhya Pradesh | 273.47 | 327.77 | 265.75 | 1864.55 | 2197.38 | 2148.83 | 0.15 | 0.15 | 0.12 |
| Maharashtra | 305.12 | 199.02 | 325.47 | 505.13 | 418.55 | 693.78 | 0.60 | 0.48 | 0.47 |
| M.P. | 323.94 | 315.50 | 295.50 | 512.96 | 556.11 | 604.08 | 0.63 | 0.55 | 0.49 |
| Orissa | 324.68 | 290.65 | 298.41 | 937.84 | 901.54 | 887.99 | 0.35 | 0.32 | 0.34 |
| Punjab | 487.30 | 788.64 | 1134.38 | 1047.58 | 1644.33 | 2268.76 | 0.47 | 0.48 | 0.50 |
| Rajasthan | 251.69 | 301.93 | 267.56 | 321.61 | 420.01 | 445.12 | 0.78 | 0.72 | 0.60 |
| Tamil Nadu | 343.45 | 383.14 | 317.05 | 1267.44 | 1522.99 | 1675.45 | 0.27 | 0.25 | 0.19 |
| T.P. | 262.92 | 300.40 | 343.79 | 744.35 | 914.56 | 1214.95 | 0.35 | 0.33 | 0.28 |
| West Bengal | 283.74 | 288.89 | 255.81 | 1230.58 | 1376.25 | 1452.97 | 0.23 | 0.21 | 0.18 |

Note: V/P: Value of production per capita (Rs 1969-70 prices) V/A: Value of production per hectare (Rs 1969-70 prices) A/P: Gross cropped area per rural person (hectares)

Source: Compiled from Bhalla and Tyagi (1989) and Census of India

TABLE A2: STATEWISE DATA

| | V/P | | | W/A | | | W/P | | |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 1962-65 | 1970-73 | 1980-83 | 1962-65 | 1970-73 | 1980-83 | 1962-65 | 1970-73 | 1980-83 |
| Andhra Pradesh | 810.92 | 858.00 | 1017.44 | 1014.48 | 993.00 | 1244.12 | 40.25 | 34.77 | 36.84 |
| Assam | 1210.75 | 1570.97 | 1711.41 | 1181.75 | 1000.00 | 943.34 | 28.25 | 20.36 | 18.71 |
| Bihar | 586.05 | 686.22 | 585.32 | 1357.72 | 1313.71 | 1573.50 | 32.84 | 27.78 | 26.20 |
| Gujarat | 1028.66 | 1317.30 | 1483.84 | 614.29 | 600.34 | 695.50 | 34.45 | 27.61 | 26.99 |
| Haryana | 1490.68 | 2840.86 | 3195.53 | 461.10 | 365.29 | 423.67 | 28.84 | 20.29 | 21.27 |
| HP | 494.92 | 802.52 | 831.56 | 1441.46 | 1094.25 | 1135.16 | 42.83 | 29.94 | 26.15 |
| J and K | 511.84 | 947.25 | 1145.42 | 1355.56 | 1109.76 | 1163.74 | 34.31 | 23.95 | 22.53 |
| Karnataka | 888.36 | 1190.22 | 1125.43 | 686.99 | 670.83 | 820.59 | 37.05 | 29.01 | 31.70 |
| Kerala | 1824.73 | 2035.74 | 2054.91 | 1021.82 | 1079.40 | 1045.70 | 14.99 | 16.10 | 12.93 |
| Maharashtra | 721.61 | 601.99 | 918.52 | 700.00 | 695.27 | 755.33 | 42.28 | 33.06 | 35.43 |
| MP | 728.62 | 924.44 | 827.48 | 704.01 | 601.57 | 730.02 | 44.46 | 34.13 | 35.71 |
| Orissa | 1002.71 | 1119.16 | 1102.43 | 935.30 | 805.56 | 805.49 | 32.38 | 25.97 | 27.07 |
| Punjab | 2200.41 | 3440.49 | 5063.08 | 476.09 | 477.94 | 448.10 | 22.15 | 22.92 | 22.40 |
| Rajasthan | 639.45 | 1100.77 | 1043.31 | 502.94 | 381.56 | 426.64 | 39.36 | 27.43 | 25.65 |
| Tamil Nadu | 988.82 | 1278.46 | 935.54 | 1281.77 | 1191.27 | 1790.89 | 34.73 | 29.97 | 33.89 |
| UP | 820.67 | 1095.10 | 1341.03 | 907.00 | 835.14 | 905.98 | 32.04 | 27.43 | 25.64 |
| West Bengal | 1241.23 | 1359.53 | 1235.46 | 991.42 | 1012.30 | 1176.06 | 22.86 | 21.25 | 20.71 |

Note: V/W: Value per worker (Rs 1969-70 prices)
W/A: Number of workers per 1000 hectares
W/P: Ratio of workers to population (per cent)

Source: Same as for Table A1

TABLE A3: INCREASE (PER CENT) DURING 1963-81 AND 1971-81

| | 1963-81 | | | | | | | 1971-81 | | | | | | |
|----------------|---------|--------|--------|--------|--------|--------|--------|---------|-------|--------|--------|-------|--------|-------|
| | P | V/P | V/A | A/P | V/W | W/A | W/P | V/P | V/A | A/P | V/W | W/A | W/P | P |
| Andhra Pradesh | 33.44 | 14.84 | 53.87 | -25.37 | 25.47 | 22.64 | -8.47 | 25.64 | 48.57 | -15.43 | 18.58 | 25.29 | 5.95 | 17.09 |
| Assam | 61.82 | -6.41 | 12.84 | -17.05 | 41.35 | -20.17 | -33.79 | 0.08 | 2.77 | -2.62 | 8.94 | -5.67 | -8.14 | 29.93 |
| Bihar | 38.46 | 20.31 | 15.75 | -31.16 | -0.13 | 15.89 | -20.21 | -19.55 | 2.16 | -21.25 | -14.70 | 19.78 | 5.68 | 20.71 |
| Gujarat | 45.96 | 13.01 | 63.32 | 30.81 | 44.25 | 13.22 | -21.66 | 10.12 | 30.50 | -15.61 | 12.64 | 15.85 | -2.24 | 22.40 |
| Haryana | 50.75 | 58.10 | 96.97 | -19.73 | 114.37 | -8.12 | -26.25 | 17.91 | 30.46 | -9.62 | 12.48 | 15.98 | 4.82 | 21.69 |
| HP | 43.12 | 2.60 | 32.32 | -22.46 | 68.02 | -21.25 | -38.93 | -9.48 | 7.49 | -15.79 | 3.62 | 3.74 | -12.64 | 24.21 |
| J and K | 46.88 | 46.95 | 92.12 | 23.51 | 123.78 | -14.15 | -34.33 | 13.77 | 26.80 | 10.28 | 20.92 | 4.86 | -5.91 | 23.68 |
| Karnataka | 38.22 | 8.71 | 51.73 | 28.35 | 27.03 | 19.45 | -14.42 | 3.62 | 15.97 | -10.65 | -5.19 | 22.32 | 9.29 | 18.92 |
| Kerala | 38.00 | -2.82 | 15.25 | -15.68 | 12.61 | 2.34 | -13.71 | -18.92 | 2.21 | -17.09 | 0.94 | -3.12 | 19.68 | 15.64 |
| Maharashtra | 37.37 | 6.67 | 37.35 | -22.34 | 27.29 | 7.90 | -16.20 | 63.53 | 65.76 | -1.34 | 52.58 | 8.64 | 7.18 | 17.58 |
| MP | 42.47 | 8.78 | 17.76 | -22.54 | 13.57 | 3.69 | -19.68 | 6.34 | 8.63 | -13.78 | -10.49 | 21.35 | 4.64 | 19.20 |
| Orissa | 36.26 | -8.09 | -5.31 | -2.93 | 9.94 | -13.88 | 16.40 | 2.67 | 1.50 | 4.24 | -1.49 | -0.01 | 4.23 | 15.92 |
| Punjab | 35.96 | 132.79 | 116.57 | 7.49 | 130.10 | -5.88 | 1.17 | 43.84 | 37.97 | 4.25 | 47.16 | 6.24 | 2.26 | 17.48 |
| Rajasthan | 52.25 | 6.31 | 38.40 | 23.19 | 63.16 | -15.17 | -34.84 | -11.38 | 5.98 | -16.38 | -5.22 | 11.81 | 6.50 | 27.83 |
| Tamil Nadu | 27.45 | -7.69 | 32.19 | -30.17 | -5.39 | 39.72 | -2.43 | 17.25 | 10.01 | -24.78 | -26.82 | 50.33 | 13.08 | 13.24 |
| UP | 36.43 | 30.76 | 63.22 | -19.89 | 63.41 | 0.11 | -19.98 | 14.45 | 32.85 | 13.85 | 22.46 | 8.48 | 6.54 | 19.89 |
| West Bengal | 44.24 | 9.84 | 18.07 | -23.64 | -0.46 | 18.62 | -9.42 | 11.45 | 5.57 | -16.13 | -9.13 | 16.18 | -2.56 | 20.42 |

Note: P stands for rural population. Definitions of other variables are in the notes to Tables A2 and A3.

productivity expansion is positively associated with base (1963) levels of the two classificatory variables. The most impressive growth has taken place, moreover, in areas experiencing high rates of expansion in irrigation and low rates of decline in land-man ratio. In particular, there is no evidence of an adjustment in terms of improvements in productivity as a response to drastic falls in the land-man ratio.

Finally, in Table 14 we present changes in labour intensity (number of male workers per hectare). The first half of this table shows that, during the base period, levels of labour intensity are, as expected, positively associated with productivity and inversely with the land-man ratio. The second half of the table gives the rates of change in the labour intensity during 1971-81. These tend to be negative in areas experiencing minimal falls in the land-man ratios, which have earlier been identified as districts with impressive records of growth in productivity. On the other hand, districts experiencing severe declines in land-man ratio record a

significant increase in labour intensity. This is a weak type of Boserupian response, referred to earlier.

III Concluding Remarks

The agricultural growth strategy employed in India, of concentrating effort and investment of resources in well-endowed, irrigated regions of the country has, of course, paid rich dividends in terms of increases in agricultural production, especially of food, at the national level. But the price that has been paid is all too obvious: inter-regional inequalities have worsened and have been leading to political tension.

The effects of growing inequalities in food production are mitigated to some extent through the public distribution system. However, the lack of improvements in productivity and of expansion in employment, in agriculture as well as in related sectors, leaves the rural poor in the neglected regions

untouched by the visible national growth.

Population movements tend to be negligible in relation to the total numbers at the district and State levels. The course of population growth has been dictated above all by a continuously declining mortality rate. The consequences of the resulting, nearly universal, decline in the land-man ratio are serious for those at the bottom end of the landholding scale. Labour intensification has to be understood thus in the context of a spatially uneven growth process and of restricted possibilities for migration for work.

An interpretation of this may be possible in terms of the models of Malthus and Boserup. However, both these are 'closed' ones in spirit and, therefore, only when the roles of the state, and of population movements are brought explicitly into the analysis, would they be useful. In particular, while the processes of adjustment between population levels and resources are undoubtedly real, they can only be described in specific historical contexts.

HYV Technology: The Polarisation and Immiserisation Controversy

G Parthasarathy

The interaction between technology and institutions is complex and it is not easy to disentangle the social impact of technology without reference to the social institutions through which it generates its impact. Nor is it very rewarding to try to abstract the effects of technology per se. This paper does not pretend to establish the causal relationship between technology per se and social change. Instead, it follows a 'before and after' and 'with and without' approach to illuminate the nature of change associated with technology.

Section I of the paper deals with technology and trends in polarisation and proletarianisation and Section II with differences in trends in polarisation and proletarianisation between technologically leading and technologically lagging States. Section III discusses wages, unemployment and immiserisation in technologically leading and lagging States, Section IV examines inequality, non agricultural employment and sustainability of capitalist farming in technologically leading States and Section V deals with class formation in technologically leading and lagging States.

INTRODUCTION

WRITINGS during the early phase of green revolution [Parthasarathy, 1970, Frankel, 1971, Byres, 1972, Dasgupta, 1977] predicted transformation of the direct producers into proletariat, demise of share croppers, polarisation of rural society into kulaks and proletariat and immiserisation. Some of these also predicted that red revolution would follow green revolution.

During the same early phase there were not only different but opposite perceptions [Schultz, 1964, Mellor, 1973, Ruttan, 1977]. As per these perceptions, the new technology in agriculture contributed to the growth of a class of enterprising owner cultivators in the place of rentiers, increased the viability of the small cultivator, contributed to growth and poverty alleviation through its favourable effects on employment and real wages. The causal relationship between new technology on one hand and proletarianisation and immiserisation on the other is denied because new technology is considered scale neutral and the technical complementarity between modern varieties and labour displacing machineries is questioned. In these perceptions, the real danger of polarisation is not because of new technology but because of insufficient progress in technology. In the absence of technological progress, it is argued, high demographic pressures push down employment and wage levels, raise land rents, strengthen feudal dominance and intensify the social conflicts between land owners and landless. Even effective implementation of land reforms cannot be expected [Hayami, 1981, Hayami and Kikuchi, 1985].

Quite a few studies in the past sought to throw light on these conflicting propositions [Hanumantha Rao, 1975, Jhli, 1975, Rajaraman, 1975, Bhalla and Chadha, 1982]. But in all these studies the data used pertain mainly to the early phase of the green revolution. This paper presses into service a wide range of secondary data on trends in the 70s and early 80s on land-

lessness, employment, real wages, and inequalities to throw light on the nature of social impact associated with HYV technology.

It is relevant to note that the social impact that we observe is the compound influence of interaction between institutions including markets, technology, and demography. All these are affected by the policy interventions of the State. In fact, the HYV technology which became pervasive since the late 60s was preceded by land reforms which had the effect of weakening the feudal base of agriculture. Policy interventions of the state also contributed to the emergence and growth of a whole set of institutions which integrated the rural markets with the wider markets. The growth of credit institutions, co-operatives, commercial banks and regional rural banks contributed to the integration of rural money markets with the wider markets. Similarly new political institutions created channels of integration of local power with State power and created effective pressures for the extension of social and economic infrastructure to rural areas. These helped to link up local product markets with the regional and national markets and prepared the ground for the emergence of an entrepreneurial class in the place of rentier class, with varying levels of successes in different regions of the country. Further, favourable terms of trade for a decade and a half preceded the HYV technology. Policy interventions not only provided the institutional climate for the spread of the new technology but also were directed towards moderating the possible adverse impact. Further, the HYV technology should be seen as an extension of commercialisation of the markets, which has been achieved even within the frame of traditional agriculture, to input markets, though it has meant a qualitative change in terms of its stronger impact on the multi stranded personalised relationships within a rural community.

The interactions between technology and institutions is complex. It is not easy to

disentangle the social impact of technology without reference to the social institutions through which it generates the impact. Nor, is it considered highly rewarding to abstract the effects of technology per se. This paper does not pretend to establish the causal relationship between technology per se and social change. Instead, it follows (a) before and after approach, and (b) with or without approach to illuminate the nature of change associated with technology. In the before and after approach, the change observed in a variable relevant to polarisation and immiserisation in the 70s, a period of rapid spread of the technology, is compared with the 60s, a period marked by the beginning of the 'green revolution'. The limitations of two time point data are recognised in interpreting the trends. For the 'with or without approach' the data for technologically leading States are contrasted with the technologically most lagging States. Wherever possible, both the approaches, viz, before and after and with or without approaches are combined.

Section I of the paper deals with technology and trends in polarisation and proletarianisation, Section II with differences in trends in polarisation and proletarianisation between technologically leading and technologically lagging States, Section III with wages, unemployment and immiserisation in technologically leading and lagging States, Section IV with inequality, non-agricultural employment and sustainability of capitalist farming in technologically leading States, and Section V with class formation in technologically leading and lagging states.

I

Technology and Trends in Polarisation and Proletarianisation

Polarisation of rural society into kulaks and proletarians is the culmination of a long historical processes, viz, growing class differentiation, increased landlessness, transformation of direct producers into a class of

labourers, casualisation, and concentration of land and other means of production in the hands of a few capitalist farmers. Even in the United Kingdom, the classic case of capitalist farming, the process was long and tortuous [Parthasarathy and Pothana, 1984]. In France, the stubborn persistence of the small peasant economy despite capitalism's onslaught after the French revolution, is an eloquent testimony to the dangers involved in dogmatically asserting a form of organic transition in which the peasantry is quickly swept away. Further the transition to agrarian capitalism has taken different forms which implied only a slow process of polarisation in rural society. In Latin America, transnational capital and modern technology have penetrated agriculture through 'contract farming road', and without appropriation of the land of the peasant producers. In Japan, Korea and Taiwan capital and technology have penetrated agriculture with small owner-cultivating peasantry as small farms had been put under the direct control of State monopoly capitalism so that there could be no capitalist development in agriculture [Byres, 1986]. In the Indian context, we should expect polarisation to be a slow process within agriculture. Firstly, the continuing imperfections in the land market do not facilitate concentration and consolidation of land within capitalist farms. The absence of opportunities in non-agricultural employment for dispossessed peasants forces them to hold on to their tiny bits of land and survive by 'self-exploitation'. Thirdly, the low level of industrialisation retards progress of capitalist farming. It is against this background that we consider the critical elements in trends associated with polarisation.

LANDLESSNESS AND NEAR LANDLESSNESS BY OWNERSHIP

The distribution of owned holdings, at the all-India level, for four points of time, viz, 1953-54, NSS 8th Round; 1961-62; NSS 17th Round, 1971-72; NSS 26th Round, and 1982; NSS 37th Round is examined with focus on changes in the position between 1971-72 and 1982 with the corresponding changes in the position between 1961-62 and 1971-72, ignoring 1953-54. Sawant [1990, p 136] notes that 'from 16th Round onwards the distribution of household ownership holdings remained comparable between the rounds', and household ownership distribution given by the 8th Round is not comparable with that derived from any of the successive rounds.

The totally landless (those owning either no land or with land less than 0.002 hectares) showed a decline from 11.68 per cent of the rural households to 9.64 per cent in 1971-72. This decline was reversed, with a rise from 9.64 to 11.33 per cent in 1982, suggesting the association of advance in technology with growing landlessness. We use an alternative measure, i.e., the near landless which includes also households with less than 0.41 hectares. By this measure, the percentage of near

landless which formed 44.21 per cent rose slightly to 44.87 per cent in 1971-72. The rate of rise was much higher in the decade 1970s with increase to 48.21 per cent again suggesting the association of advances in technology with growing landlessness.

We use three alternative measures to judge the changes in the pattern of distribution, (1) Gini coefficients of concentration; (2) share of land held by the category of large owners; i.e., holding more than 10 hectares and (3) share of area of bottom 60 per cent of rural households as compared to the share of top 10 per cent in the area.

The Gini coefficients of concentration of ownership declined from 0.73 in 1961-62 to 0.71 in 1971-72 and remained constant at 0.71 in 1982 [Sarvekshana, October, 1987, p 9]. The inference is that the period associated with advances in technology is marked by reversal of trends of decline in concentration.

The share of large owners, defined as those owning more than 10 hectares, showed a continuous decline both in terms of numbers and area. Three major factors have been at work in bringing about this result; ceiling laws, transformation of the feudal holdings into smaller capitalist farms with higher degree of capital intensification; and demographic pressures. All these three factors set a limit to consolidation and concentration of land in large sized kulak farms. Further, land, as a measure of the share of large farms, is inadequate in the context of growing capital intensification of farms. However, by this measure, recorded data at the all-India level does not suggest that advances in technology are associated with growing centralisation and consolidation of land in large farms. Instead the shift from feudal to capitalist farms has been taking place simultaneously with a reduction in the share of large farms, defined in terms of physical extent of land.

A better measure, in the context of growing demographic pressures resulting in a decline in the size of land of all groups of farmers including the large, is to judge the share of area of decile groups of households over time. The results based on NSS Rounds (with required interpolations) are presented in Table 1.

TABLE 1: DISTRIBUTION OF OWNERSHIP BY FRACTILE GROUPS

| Year | Bottom 60 Per Cent of Rural Households | Middle 30 Per Cent of Rural Households | Top 10 Per Cent of Households |
|---------|--|--|-------------------------------|
| 1961-62 | 5.95 | 48.28 | 45.79 |
| 1971-72 | 8.62 | 45.25 | 46.13 |
| 1982 | 8.81 | 44.86 | 46.33 |

Source: Relevant NSS Rounds.

TABLE 2: DISTRIBUTION OF OPERATION BY FRACTILE GROUPS

| Year | Bottom 60 Per Cent of Operational Holdings | Middle 30 Per Cent | Top 10 Per Cent |
|---------|--|--------------------|-----------------|
| 1961-62 | 18.75 | 39.42 | 41.83 |
| 1970-72 | 18.63 | 42.19 | 39.18 |
| 1982 | 13.85 | 39.80 | 46.35 |

Source: Relevant NSS Rounds.

These show that the share of the top 10 per cent of the top ownership group of households has shown hardly any decline over the period despite the observed reduction in the share of holdings above the ceiling level. These data corroborate the inference drawn from Gini coefficients. There is also an indication of a sharper differentiation among the peasantry, since capital intensification on the top 10 per cent of the holdings has proceeded at a faster pace than on the bottom group of ownership of holdings.

OPERATIONAL HOLDINGS AND CONCENTRATION

The Gini coefficients of concentration of operational holdings were 0.58 for 1960-61, 0.59 for 1971-72, and 0.63 for 1982. These show a continuous rise. The rise is much more perceptible during the period of the second phase of green revolution. But the observed steep rise in the Gini coefficient could partly be due to the inclusion of operational holdings of squatters in the 37th Round and their exclusion in preceding rounds [Sawant, 1990, p 40].

The share of households with large operational holdings, as in the case of large ownership holdings, shows a steady decline both in terms of numbers and area. The changes in the distribution of operational holdings do not suggest any trends towards growing concentration with large holdings when largeness is measured only by the extent of land. Capital intensification has grown with reduced share of the large farms in the total number and their area.

A more meaningful profile of the distribution of operational holdings and concentration could be got from the shares in area for the decile groups (Table 2).

This shows that the second phase of green revolution has been marked by a rising share in the operated area of the top 10 per cent of the holdings and a steep fall in percentage share of the bottom 60 per cent. This may be compared with ownership distribution shown earlier. Growth in concentration of area in the top 10 per cent is much more in the operated area than in the owned area. Changes in the lease market provide an ex-

planation for this difference in the levels of concentration between ownership on one hand and operation on the other

A comparison of the percentage of leased-in to operated area for 1960-61, 1971-72 and 1982 reveals that agricultural tenancy for the entire country remained stable in the 1960s at around 10.5 per cent of operated area as the lease market shrank in seven States and expanded in six States. But the aggregate tenancy significantly declined during the 1970s when the lease market shrank in all the States and to 7.27 per cent in 1982 [Swamy, 1988, p 557]. This suggests that the period associated with advances in technology was marked by decline in tenancy as compared to the early phase of green revolution. Corresponding to the decline in the percentage leased in to operated area, the tenant households as a percentage of the cultivating households declined from around one-fourth of the total to 17.78 per cent. While the leased in area of the marginal farmers continued to be in excess of the leased out area, the net leased in area as a percentage of the operated area showed a considerable decline [Swamy, 1988, p 561]. The second phase of the green revolution is marked by decreased access to land through the lease market for the small farmer. The changes in the lease market associated with green revolution have contributed to the growing proletariat class [Bhutes, 1981].

PROLETARIANISATION AND CASUALISATION

The concept proletarianisation has a distinct meaning in Marxian literature [Parthasarathy, 1978]. Firstly it implies growth in hired labour which is dispossessed of the means of production. This is a necessary but not a sufficient condition. Such labour must be free to sell labour power in the sense it is not tied to a particular employer by bondage of customary cropping and traditional attachments of patron-client relationships. Creation of 'surplus value' used for further accumulation is another condition to characterise a hired labourer as a proletariat. A further condition is class consciousness. A proletariat transcends the barriers of caste, kinship and religion. Proletarianisation is the counterpart of capitalist farming. Given the slow and uneven process of development of capitalism within agriculture, even while capitalism is penetrating into agriculture it may not manifest itself in proletarianisation in the classic sense. Rastvannikov [1981], a Soviet scholar characterised the situation which does not satisfy the classic connotation, except the first condition, as 'proto-proletariat'. It is in this sense we use the concept here. Though landlessness should not be identified with proletarianisation, it is a critical determinant of it in densely populated agrarian economies.

There has been an acceleration of the percentage of near landless in the 70s as compared to the 60s. Such an acceleration has also been noted in the case of agricultural labour households. The wage

employed as a percentage of total workers as in 1983 was close to around 40 per cent. The growth in the rural proletariat has been marked by a faster rate of casualisation of workers.

In brief, at the aggregate all-India level, the second phase of green revolution was marked by faster pace of proletarianisation and casualisation of labour in rural society even in the absence of increased consolidation and concentration of land in the large farms.

II

Polarisation and Proletarianisation in Technologically Leading and Lagging States

The preceding approach, while it distinguishes the second phase of the HYV technology from the first phase, does not separate the effects of technology from other effects. We seek to throw light on this by contrasting the trends in the technological leading States with the technologically lagging States ignoring the States at the intermediate level. The technologically leading States are Punjab and Haryana and the technologically lagging States considered are Bihar, Orissa and Madhya Pradesh.

Two measures are used to judge the trends in marginalisation: landless by ownership, and near landless by ownership, i.e. by including those who owned less than 0.41 hectares among the landless. By ownership criterion the second phase of green revolution is marked by reduced landlessness in the technologically leading States. Technologically lagging States show a mixed picture. Bihar shows reduced landlessness by ownership criterion but increased near landless by ownership criterion. Madhya Pradesh shows growing landlessness by both

the criteria. In Orissa there is a mixed picture. We judge that technology *per se* has not contributed to growing landlessness by ownership criterion.

As regards trend in concentration between the two groups of States, in the technologically leading States, Gini coefficients of ownership show a fall during the 70s. In the technologically lagging States, both Bihar and Orissa show a reduced concentration while Madhya Pradesh shows a rise.

Gini coefficients of operational holdings show a rise both in technologically leading as well as technologically lagging States. It however needs to be pointed out that technologically leading States show a sharper rise in the concentration of operational holdings [Haque, 1987], as medium and large owners increase their share of leased in area and also resume land for self-cultivation.

TECHNOLOGY AND TENANCY

The second phase of technology is associated with a rapid decline in the percentage area under tenancy. Such decline is not however restricted to the technologically leading States. But as compared to 1960 in the technologically leading States rate of decline in tenancy has been faster. In the percentage of leased in area continues to be far higher in the technologically leading States (see Table 4).

With the emergence of the middle owner as tenant in the lease market the small owner who was formerly leasing in has less opportunities to improve his possession of land and drifts into the ranks of agricultural labour. Reduced access of land to the small owner though leasing in has been contributing to the growth of proto-proletariat both in technologically lagging and leading States.

TABLE 3 GROWTH OF PROLETARIANISATION BY ALTERNATE MEASURES (Percentage)

| | Early Sixties 1 | Early Seventies 2 | Early Eighties 3 |
|--|------------------------|------------------------|---------------------|
| 1 Landless and near landless by ownership | 41.31 | 44.87 | 48.21 |
| 2 Near landless by operational holdings | 1.14 | 21.25 | 31.03 |
| 3 Agricultural labour households in total rural households | 24.50 (for 1956-57) | 35.30 (for 1974-75) | 30.70 (for 1983) |
| 4 Percentage of casual agricultural labourers in total rural workers | | | |
| Males | 18.10 | 19.50 | 23.50 |
| Female | 27.70 | 29.20 | 31.40 |
| 5 Wage employed as percentage of all rural workers | | | |
| Males | | 34.10 | 39.60 |
| Females | | 35.50 | 37.80 |
| 6 Casual wage earners in wage employed | | | |
| Males | | 64.51 | 72.72 |
| Females | | 88.45 | 91.80 |

Source: Rows 1 and 2: Relevant NSS Rounds
Rows 3 and 4: cited by Jeemol Unni, 1989
Rows 5 and 6: From Vaidyanathan, 1986
Near landless holdings below 0.41 hectares

In the technologically leading States, the changes in the lease market contributed to growing proletarianisation, while in the technologically lagging States demographic factors had a more significant influence. However, it needs to be noted that technological development, while it has contributed to the emergence of capitalist tenancy, has not reduced the importance of subsistence tenancy even in Punjab.

The trends towards increase in wage labour (males) in rural areas have been noted from the NSS data [Vaidyanathan, 1986]. The rise in the proportion of wage labour was noted in every State. The notable exceptions are Kerala, the State in which proportion of wage labour exceeded 50 per cent even in the 1970s, and Maharashtra where there was a decline as compared to the severe drought conditions of 1972-73. The data presented do not show that wage labour grew

at a faster rate in the technologically leading States as compared to technologically lagging States between 1972-73 and 1983 (see Tables 5 and 6). Part of the reason is that the technologically leading States depend heavily on migrant wage labour from other States and this is not reflected in the rural household data. If a faster pace of capitalist farming has contributed to the growth of wage labour in technologically leading States, demographic pressures and fast declining land man ratios have increased the proportions of wage labour in technologically lagging States.

The striking difference between the technologically leading and technologically lagging States relates to the levels of the percentage of casual workers in rural labour force [Minhas and Majumdar, 1987]. As in 1983, Punjab and Haryana show only around one-half of the percentages recorded for Bihar, Orissa and Madhya Pradesh. Further, in Punjab and Haryana the percentage of casual labour in total rural wage labour (males, current daily status) is around 45 as against 70 per cent or more in the technologically lagging States [Vaidyanathan, 1986]. This feature has relevance to the issue of class formation in agriculture, which we shall take up later. It may however be noted that the effects of HYV technology in relation to the share of casual labour in wage labour has not been uniform. In Andhra Pradesh tractors displaced permanent farm servants along with plough bullocks and contributed to a higher degree of casualisation, while in Punjab and Haryana mechanisation was associated with a growing share of permanent agricultural labour in the total agricultural labourers.

III Wages, Unemployment and Immiserisation: Technologically Leading and Lagging States

The immiserisation hypothesis is closely linked to the polarisation and proletarianisation hypothesis and the consequential adverse effects on employment and wages. We therefore review the evidence on the recent trends in real wages, employment and unemployment and absolute poverty.

TRENDS IN REAL WAGES

Analysis of State-wise trends in real wages [Jose, 1988] shows a rise for agricultural labour both for males and females particularly since middle 1970s. The rate of rise has been more for females than for males. It should however be recognised that the observed trends have been heavily influenced by successive good crops in the early 80s and their favourable effects on the consumer price index of agricultural labour.

Technologically leading States such as Haryana and Punjab do not show a rise in real wages. Real wages in these States were either slightly negative as in Punjab or stagnant as in Haryana. This should however be considered against the context of (a) rise during the early period of green revolution, (b) large flow of immigrant labour, and (c) introduction of labour displacing machinery. Looking at the entire period of 1961-84 it is clear that wage hikes of the early years of the green revolution could never be repeated in the 70s and 80s [Chadha, 1986, p. 267]. It should also be recognised that levels of money wages in Punjab and Haryana continue to be the highest and are nearly double the corresponding wage rates in the technologically lagging States.

In contrast to Punjab and Haryana, the technologically lagging States of Bihar, Orissa, Madhya Pradesh, pockets of low wages have been noted to show improvement in real wages since 1970s. However in these States, the observed rate of rise cannot be satisfactorily explained. The State-wise annual growth rates in the foodgrain production between 1971-85 fell behind the rate of growth of rural population in all these States. In Bihar and Orissa, the rates of growth of foodgrain production were 1.25 and 1.59 between 1971-85, less than the rate of growth of rural population. In Madhya Pradesh, the rate of growth moved from negative in the 60s to positive in the 70s but less than the rate of growth of rural population [Hanumantha Rao and others, 1989].² In the context of these developments pointing to excess of supply of labour over demand, it is difficult to explain the rise in the real wages in the technologically lagging States. There is no doubt that the high levels of real wages in the technologically leading States were maintained because of technology and the high growth rates of agricultural production sustained over long period.³

TABLE 4 LEASED IN OPERATED AREA
TECHNOLOGICALLY LEADING AND LAGGING
STATES

| State | Percentage of Leased in in Operated Area | | |
|---------------------------------------|---|---------|-------|
| | 1960-61 | 1971-72 | 1982 |
| Technologically leading States | | | |
| Punjab | 35.39 | 28.01 | 17.59 |
| Haryana | — | 23.36 | 17.86 |
| Technologically lagging States | | | |
| Bihar | 10.25 | 14.50 | 9.88 |
| Orissa | 10.75 | 13.46 | 7.84 |
| Madhya Pradesh | 6.40 | 7.46 | 3.78 |

Source: Swamy Dalip, S. [1988] Tables I and II

TABLE 5 LANDLESS AND NEAR LANDLESS BY OWNERSHIP TECHNOLOGICALLY LEADING AND
LAGGING STATES
(Percentage of total rural households)

| State | Landless by Ownership | | Landless and Those Owning Less than 0.4 h | |
|---------------------------------------|-----------------------|-------|--|-------|
| | 1971-72 | 1982 | 1971-72 | 1982 |
| Technologically leading States | | | | |
| Punjab | 8.48 | 6.42 | 59.86 | 57.55 |
| Haryana | 11.89 | 6.19 | 54.48 | 45.72 |
| Technologically lagging States | | | | |
| Bihar | 4.34 | 4.10 | 52.98 | 54.92 |
| Orissa | 10.57 | 7.66 | 44.84 | 40.01 |
| Madhya Pradesh | 9.58 | 14.39 | 28.78 | 34.63 |

Source: NSS 26th Round and NSS 37th Round

TABLE 6 WAGE LABOUR AND CASUALISATION TECHNOLOGICALLY LEADING AND LAGGING STATES

| State | Wage Labour as Percentage of Rural Male Workers | | Casual Workers in Total Rural Labour Force (all persons) | |
|---------------------------------------|--|------|---|-------|
| | 1972-73 | 1983 | 1972-73 | 1983 |
| Technologically leading States | | | | |
| Punjab | 30.7 | 33.6 | 13.97 | 17.03 |
| Haryana | 24.0 | 30.0 | 9.11 | 14.57 |
| Technologically lagging States | | | | |
| Bihar | 39.5 | 42.8 | 26.84 | 34.31 |
| Orissa | 39.9 | 43.7 | 30.54 | 35.71 |
| Madhya Pradesh | 27.3 | 33.7 | 40.02 | 35.78 |

Source: 1. Vaidyanathan [1986], 2. Minhas and Majumdar [1987]

UNEMPLOYMENT

Incidence of unemployment, at the beginning of the 1970s, was generally high in the densely populated eastern States and also in the southern States and Maharashtra with high proportions of wage labour and casualisation. It was low in the high irrigated and technologically leading north-western States and also in the less densely populated Rajasthan and Madhya Pradesh. In the technologically developed States, use of land augmenting technology, rise in yields, shift to labour intensive crops, increased intensity of cropping, faster growth of allied occupations and off-farm employment have increased employment notwithstanding the lower elasticity of employment to output. Initially, labour displacing mechanisation did not result in reduced overall employment since it was associated with increased irrigation and increased intensity of cropping, and also of off-farm employment [Rakesh Basant, 1987, pp 1360-61].

The second phase of green revolution was found to be different in relation to employment and underemployment. Both in Punjab and Haryana, the incidence of unemployment rose both for males and females between 1972-73 and 1983 [Minhas and Mujumdar, 1987]. In Punjab, the incidence of unemployment rose from 5.04 per cent in 1972-73 to 6.43 per cent in 1983 for rural males. In Haryana it rose at a faster rate, i.e. from 3.91 per cent to 6.62 per cent.

Vaidyanathan noted, on the basis of NSS data for 1972-73 and 1977-78, that the rate of growth of employment in agriculture was

much slower than the rate of growth of output. His findings for the technologically leading and technologically lagging States are as in Table 7.

The results are to some extent vitiated by the marked differences in weather conditions between the two years. Yet the broad inferences relating to differences in employment elasticities between technologically leading States and technologically lagging States are valid. The advanced stage of technology is marked by a considerably lower elasticity of employment in agriculture with complementarity between biological and mechanical technology. Sheila Bhalla (1987) verifies the findings of Vaidyanathan with the help of cost of cultivation data for 1971-72 to 1983-85 and suggests further confirmation of reduced elasticity of employment in the advanced stage of green revolution. Her results are in Table 8.

Despite high rates of growth exceeding 3 per cent, trends in rate of growth of labour absorption are low, and rate of growth of labour absorption per hectare negative. Labour absorption in agriculture lagged behind the rate of growth of male workers in the technologically advanced States, as in technologically lagging States. Apart from complementarity between biological technology and mechanical technology (whether technical or not), the technologically leading States have also been showing a fast rate of growth of overall casualisation of rural labour force [Minhas and Mujumdar, 1987, Table A-3] as shown earlier.

In brief, the evidence on trends in unemployment and the factors behind it in the technologically leading States, during the second phase of green revolution rejects the assumption of lack of complementarity between biological technology and labour displacing mechanical technology. The complementarity has been leading to stagnancy in real wages and rise in unemployment rate.

POVERTY

Those who advanced the polarisation thesis also contributed to the immiserisation theory. However, cross sectional studies do not appear to support the immiserisation thesis. They suggest that agricultural growth reduces the incidence of poverty both among cultivators and agricultural labour groups, while proletarianisation contributes to growing immiserisation and poverty [Radhakrishna and others, 1983]. However, cross

sectional studies do not provide a valid test of technology effects in relation to immiserisation since areas at different levels of development and different institutional forms are being compared. Temporal and longitudinal studies need to be combined with cross-sectional studies. Temporal studies at the aggregate level show a marked decline in poverty in the late 1950s, a steep rise between the early and mid-1960s, a sharp fall in the early 1970s, a moderate increase from the early to mid-1970s and a moderate decline in the late 1970s and early 80s (Mellor and Desai, 1985). Mellor and Desai saw the impact of land reform and area expansion as being associated with, if not responsible for, the fall in poverty in the late 1950s and the green revolution as the motivating force behind the reduction in poverty as in the late 1960s. Trends in the incidence of State specific poverty [Mahendra Dev, 1988], shown in Table 9, highlight the comparative progress of technologically leading States in relation to technologically lagging States. The table shows also changes in labour productivity.

No doubt, the technologically leading States had an initial advantage in labour productivity. The labour productivity of Punjab in crop production at the beginning of green revolution was four times the corresponding labour productivity of Bihar. Similarly the labour productivity of Haryana was three times the labour productivity of Bihar. In this context, productivity augmenting effects of technology contributed to rapid reduction in the incidence of poverty. In the context of high growth rates in agriculture, despite proletarianisation and the more recent trends in casualisation, technology did not have the immiserising effects. A couple of reasons could be given for this favourable situation. Whatever proletarianisation that we observe in the technologically leading States is not due to pauperisation and sale of land of small owners. While there is no doubt a shift of land from the non-cultivator to the cultivating class land market studies show that such transactions have not resulted in greater inequality in the distribution of land among cultivating owner households; rather a mild centripetal tendency is revealed by the small increase in the share of the owned land of the small owner-cultivator category [Shergill, 1990, pp 18-19, Sheila Bhalla, 1981 and 1983]. Secondly, if there was a continual reduction in poverty in the technologically leading States despite the stagnation in real wages in agriculture and the rising incidence of unemployment it was due to the rising share of non-farm incomes of marginal and small farmer class [Chadha, 1986, pp 244-246]. The sustained growth of such incomes is another matter, which we shall consider in a later section.

A number of other indicators also suggest the inapplicability of immiserisation thesis of HYV technology to the technologically leading States. In these, rural consumer have shifted away from high consumption of cereals and obtain a much lower per-

TABLE 7: EMPLOYMENT AND OUTPUT GROWTH (1977-78 OVER 1972-73): TECHNOLOGICALLY LEADING AND LAGGING STATES

| State | Percentage Change in Employment in Agriculture | Percentage Change in Output in Agriculture |
|--------------------------------|--|--|
| Technologically leading States | | |
| Punjab | -2 | 35 |
| Haryana | 11 | 35 |
| Technologically lagging States | | |
| Bihar | 8 | 10 |
| Orissa | 4 | 16 |
| Madhya Pradesh | 1 | 20 |

Source: Vaidyanathan, [1986] A-141, table 12

TABLE 8: LABOUR ABSORPTION AND CROP PRODUCTION (1971-72 TO 1983-84): TECHNOLOGICALLY LEADING AND LAGGING STATES

| State | Trend Rate of Growth in Labour Absorption 1971-72 to 1983-84 | | Growth Rate in Crop Production 1971-72 to 1983-84 | Growth Rate of Male Agricultural Workers |
|----------------|--|-------------|---|--|
| | Total | Per Hectare | | |
| Punjab | 1.079 | -0.887 | 3.92 | 1.287 |
| Haryana | 0.230 | -0.357 | 3.31 | 1.841 |
| Bihar | 0.074 | 1.037 | 0.49 | 1.168 |
| Orissa | 1.331 | 0.795 | 2.28 | 1.126 |
| Madhya Pradesh | -0.014 | -0.976 | 1.65 | 1.619 |

Source: Sheila Bhalla (1987), p 545, Table 1.

tage of calorie intake from cereals as compared to lagging States. The cereal consumption levels in technologically leading States, as in 1983, are lower as compared to technologically lagging States, even while the calorie intake levels are higher. Percentage of protein intake from milk is 15.90 for Punjab and 14.61 for Haryana as against 2.49 per cent in Bihar and similarly low levels in Orissa and Madhya Pradesh [Sarvekshana, October-December, 1989, relevant tables]. Further, cereal consumption expenditure, as in 1986-87 [Sarvekshana, April-June, 1989, relevant tables] formed only 11.20 per cent of total expenditure, as against around 40 per cent for Bihar and similarly high levels in Madhya Pradesh and Orissa under conditions of high incidence of poverty.

In brief, evidence suggests that immiseration is associated with technologically lagging States with poor agricultural performance, and not with technologically leading States. The institutional requirements for technological progress however require attention [Parthasarathy, 1986]. Further, the role of the State in promoting technological progress as well as in moderating its adverse effects in technologically leading States is no less important [Chadha, 1986, p. 331].

IV

Inequalities, Non-Farm Employment and Capitalist Farming in Technologically Leading States

The concept of immiseration considered earlier relates only to absolute poverty. Peter Townsend who has made a pioneering and far reaching contribution in the area of poverty remarks that any rigorous conceptualisation of the social determination of need dissolves the idea of absolute need. American sociologists, Miller and Roby consider that poverty should in fact be viewed straightforwardly as an issue of inequality [Sen, Amartya, 1984, pp. 327-330].

A recent study based on the farm family budget survey data relating to 14 successive years for the period 1969-70 to 1982-83 in Haryana [Satya Paul, 1989] throws some light on the distribution of income. The study reveals a persistent decline in per capita landholding and lack of off-farm employment opportunities has been noted to be responsible for the absence of significant improvement of per capita income of the farm family and also an increase in per capita income disparity (in terms of Gini coefficient) among farm families.

For Punjab the facts on distribution of income are rather dated and pertain to those drawn from a study for 1974-75 [Bhalla and Chadha, 1982, and Chadha, 1986, pp. 243-245]. The 1974-75 study showed that per capita farm business income moved hand in hand with per capita land in a Non-farm income provided about 65 per cent of the total household income of marginal

farmers and about 37 per cent of the income of the small farmers. These kept the total incomes less unequal than farm business incomes, and the Gini coefficients were lower for the former as compared to the latter. Yet as in 1974-75 about one-third of the marginal farmers and 24 per cent of the small farmers were below the poverty line [Bhalla and Chadha, 1982, EPW, p. 876]. We have no access to studies on the distribution of income in Punjab for recent years. But if Haryana study is a pointer we should expect a slackening of the off-farm opportunities for the small and a rise in income inequalities.

SOCIALLY OPPRESSED GROUPS IN TECHNOLOGICALLY LEADING STATES

In the technologically leading States of Punjab and Haryana, scheduled castes form a much higher percentage of the total population than all India average. In Punjab, as in 1983, they formed 26.87 per cent, in Haryana, 19.07 per cent. These proportions are higher than the corresponding percentage for Bihar, Orissa and Madhya Pradesh. In Punjab 85 per cent of agricultural labour households were drawn from the scheduled castes, 90 per cent of the agricultural labour households were landless. It is of interest to note how the position of the scheduled castes was affected in the technologically developed States as compared to technologically backward States. In absolute terms, one should expect the position of scheduled castes to be better in the technologically advanced States. The empirical facts lend support to such an assumption. The per capita consumption expenditure for a period of 30 days as seen from NSS Round for 1983 [Sarvekshana, January-March, 1989, relevant tables] of a scheduled caste household in Punjab was Rs 132 as against Rs 76 for Bihar, and similar levels for Orissa and Madhya Pradesh. But what we seek to know is the relative position of scheduled caste household in a technologically leading State as compared to a technologically lagging State. For this purpose we compare the percentage expenditure of scheduled caste households with the corresponding expenditure of all rural households. The results are: Punjab, 77.54 per cent, Haryana, 76.20 per cent, Bihar, 81.08 per cent, Orissa, 89.54 per cent, and Madhya Pradesh, 86.45 per cent. Even while the absolute position of a scheduled caste households improves in the technologically advanced States, the relative disparities rise.

Similar disparities are seen in the incidence of unemployment of the scheduled castes and others. In Punjab, as in 1983, the daily status unemployment among the usually employed is 10.77 per cent among the scheduled castes as against 2 per cent for others among males. This may be compared with the position at the all India level. This shows that daily status unemployment for the usually employed among scheduled castes is 9.78 as against 4.56 per cent for

others [Sarvekshana, July-September, 1989, relevant tables]. The disparity ratio is seen to be higher in the technologically advanced State. The study of Chadha and Khurana comparing Punjab and Bihar [1989] which underlines the importance of higher levels of non-farm employment in Punjab as compared to Bihar does not focus on the disparities between scheduled castes and others.

The disparity ratios are seen to be higher in Punjab as compared to the all-India level even in respect of social indicators. In Punjab the ratio of children (age 5-14) among scheduled castes attending schools to children of the corresponding age-groups among others is 0.65 as against 0.83 all-India [Sarvekshana, July-September, 1989]. Similarly the ratio of infant mortality rate of scheduled castes to others is higher in Punjab as compared to all-India [Child in India, 1985, Table 2.34].

Thus technologically developed States are marked by growing inequalities between social groups, between cultivators and labourers, and within cultivators among the subsistence and capitalist farmers. A further factor to be considered is the high rate of unemployment among the educated within weaker section households of rural Punjab [Chadha, 1986, p. 301]. The extent to which fundamentalism is fuelled by failures in expectations of the lower classes, and failures in politicisation and in organisation along class lines, in the context of rising consumerism, is a point to be considered.

In brief, even while technological advancement is associated with reduced absolute poverty, it is associated with growing social discontent [Gill, 1989]. It is the form of discontent which varies between technologically developed and technologically lagging States.

INEQUALITIES, TECHNOLOGY AND NON-AGRICULTURAL EMPLOYMENT

HYV technology is said to contribute to sustained growth and poverty alleviation not only through its contribution to improved agricultural performance but also through the strong linkages between the agricultural sector and non-agricultural sector. Consumption or demand induced linkages are the main factors in fostering inter sectoral relationship [Vyasa, 1985, p. 189].

Such linkages have contributed to higher rates of growth of non-agricultural workers in the technologically leading States. As a result of these differential rates of growth of non-agricultural employment, the proportion of non-agricultural households in the total rural households in Punjab and Haryana, as in 1983 [Sarvekshana, April 1988, Table 3.1] exceeded the corresponding proportions for technologically lagging States. In Punjab the proportions of non-agricultural households in total rural households was 34.21, in Haryana, it was 19.12. The differences between the two groups of States are more in respect of

percentages under non-agricultural households employed for wages in agriculture than under self-employed non-agricultural employment. It is possible that non-agricultural self-employment in the technologically lagging States is of a residual character *a la* Vaidyanathan [1986].

The importance of non-agricultural wage employment in technologically leading States can be seen more sharply by comparing the percentages of non-agricultural labour in total rural wage earners as in 1983. In Punjab and Haryana the percentages are 20.05 and 36.08 as against 6.40 per cent in Bihar, 11.13 in Orissa, and 10.32 in Madhya Pradesh.

The impact of non-agricultural growth on the occupational structure in the technologically leading States as compared to the technologically lagging States is more sharply seen when the combined data of NSS 38th Round for rural and urban are considered.

There is no doubt that technology induced high rates of growth have contributed to higher rates of growth of non-agricultural employment. But, the sustained progress of non agriculture within the rural context appears doubtful. Firstly on the demand side, recent studies [Vaidyanathan, 1986, Mahendra Dev, 1990] show a significant negative relationship between inequalities in rural assets and the percentage of non agricultural employment, even while there is a significant positive relationship between productivity of land and non agricultural employment. Secondly, there is the question why the rich farmers did not transform themselves into industrial capitalist. The capital that grew with the green revolution is eager to find its self expansion through conservation of industrial capital but, the outlets are seen to be few and precarious. The entry point, mainly a small firm, does not seem very attractive in terms of the profit rate. One need not be surprised if a notable success of the green revolution in India, namely spawning a generation of farmer capitalists ends up in failure as the process of transition from crowding capitalism to what may be called silicon capitalism is aborted in the midway because of the new economic policy [Ranjit Sau, 1988, *EPW*, 1, 794]. A third factor relevant to the question of sustainability of capitalist farming is also important. Concentration and consolidation of land in capitalist farms in the technologically leading states was not through shift of owned land of the marginal and small owners but mainly through resumption of leased-in land for self cultivation and partly through leasing in. Rent rates dominant in lease markets are usually so high that they in fact preclude any constant appropriation of profits created by the exploitation of wage labour. Rastyannikov points out that in the developing countries of Asia agrarian capitalism has not been able to assert itself on rented land to any significant extent, or in other words land renting has failed to become an effective instrument for the capitalist mobilisation of land and booms

of capitalism wane on rented lands [Rastyannikov, 1981, p 251].

The fourth aspect of capitalist growth within agriculture relates to its heavy dependence on input subsidies [Ashok Gulati, *EPW*, 1989]. The total input subsidies as percentage of net SDP at factor cost in agriculture for the period 1980-81 to 1986-87 was estimated to be 22.49 per cent in Haryana and 24.48 per cent in Punjab, as against 16.40 per cent in all-India [Gulati, 1989 Table-6, p A-63]. If one looks at these input subsidies on the basis of per hectare of gross cropped area (GCA) in different States, Punjab ranks the highest with Rs 1,027 per hectare as input subsidies followed by Haryana [Gulati, 1989, p A-64]. There is not only a regressive pattern of subsidies across the States, but within a State subsidies benefited mostly the top group and provided props to capitalist farming.

There are also questions relating to high and rising energy costs besides issues of sustainable agriculture development which are relevant to considerations of the future of capitalist farming in the technologically leading States. In this context, given the continued advantage that small farmers have in respect of cropping intensity, and of the reappearance of inverse relationship between farm size and net operated acre [Hanumantha Rao, 1989, p 8] leasing out by the large farmers and leasing in by small farmer need not be ruled out. This is a possibility in the event of slackening of absorption of rural people in non agriculture.

V Class Formation in Technologically

Leading and Lagging States

Growing social conflict is observed both in technologically developed as well as in technologically lagging States. The difference is in respect of its articulation as class formation has differed between the two groups of States.

In both Punjab and Haryana technological progress under condition of high land man ratios did not conflict with employment during the first phase of green

revolution. The early phase of green revolution was also not marked by the demise of land-less tenants and their transformation into agricultural labourers. It was during the second phase of green revolution, with the rise in the proportion of rural labour households, faster pace of introduction of labour displacing machinery, lower rate of labour absorption within agriculture and reduced access to land for the landless and the small owner even within the lease market that there were conditions for social conflict within the rural society. But the unique nature of the labour market has inhibited class consciousness. Both in Punjab and Haryana pace of casualisation of labour has been slow because there has been a shift from casual to permanent labour with larger contracts and debt bonds within the permanent farm servants from *Sanjhi* to *Naukar*. Further the permanent farm servants are drawn from a class of small cultivators [Byres, 1981]. In north west India, partial proletarianisation in conjunction with a shift in the structure of hired labour force away from casual labour and towards permanent or attached labour, longer contracts and the particular nature of the contracts certainly meant the inhibiting of class consciousness. The part of wage labour which comes from households whose main source of income is cultivation, and which constitutes a sizeable proportion of the labour force is likely to have the most limited proletarian consciousness [Byres, 1981].

TABLE 10. NON-AGRICULTURE WORKERS IN TECHNOLOGICALLY LEADING AND LAGGING STATES, 1983
(Rural and urban percentage)

| State | Percentage of Workers in Non agriculture | |
|-------------------------|--|---------|
| | Males | Females |
| Technologically leading | | |
| Punjab | 41.8 | 21.7 |
| Haryana | 40.5 | 50.8 |
| Technologically lagging | | |
| Bihar | 28 | 14.8 |
| Orissa | 41.3 | 21.5 |
| Madhya Pradesh | 27.0 | 10.7 |

Source: Jomai Unni [1989] *EPW*, p WS 26

TABLE 9. RURAL POVERTY AND LABOUR PRODUCTIVITY IN TECHNOLOGICALLY LEADING AND LAGGING STATES

| State | Incidence of Rural Poverty | | | | Changes in Labour Productivity | | | |
|----------------|----------------------------|---------|---------|------|--------------------------------|---------|-------|--------|
| | 1964-65 | 1972-73 | 1977-79 | 1983 | 1972-73 | 1977-79 | 1983 | 1983 |
| | | | | | 1972-73 | 1977-79 | 1983 | 1983 |
| Punjab | 26.0 | 16.2 | 10.9 | 8.7 | 51.4 | 81.9 | 222.7 | 2208.6 |
| Haryana | 24.7 | 16.5 | 20.1 | 12.1 | 44.4 | 63.0 | 112.5 | 1497.4 |
| Bihar | 51.0 | 60.3 | 55.4 | 56.4 | 4.0 | 7.2 | 14.7 | 531.1 |
| Orissa | 60.9 | 67.4 | 61.6 | 53.6 | 19.1 | 14.1 | 10.2 | 911.8 |
| Madhya Pradesh | 40.7 | 55.3 | 51.8 | 36.7 | 3.0 | 11.7 | 4.9 | 691.1 |

Source: Mahendra Dev (1988) *Indian Economic Review*, Table 3 and 6

The sources of growth of the class of agricultural labour households are also of interest in appreciating the lack of class consciousness in the technologically leading States. The increased share of agricultural labour households is not due to pauperisation of the peasantry, but is more due to shift of unpaid workers from small cultivator families to better paid agricultural labour [Sheila Bhalla, 1981].

As distinguished from the agricultural labour class, which continued to be segmented, the capitalist farmer class in the technologically leading States, thanks to the integration of the local markets with wider markets and local power structure with wider power structure, could forge strong links and transform itself to a class-for-itself. The market integration, facilitated by the green revolution, coincided with social integration as the barriers of sub-castes within the forward peasant caste groups are broken. The power of this class is used to wring a variety of concessions from the State and Union governments and sustain the progress of capitalist farming.

In the technologically lagging States there is sharper social conflict than in the technologically leading States. High land-man ratios, and higher degree of proletarianisation and casualisation in the context of growing demographic pressures and immiserisation have been causing conflicts. The conflicts are intensified in the tribal area as the traditional sources of survival of the tribals get eroded with commercialisation.

Even in other areas, privatisation of the common property resources has affected the survival of marginalised households. Unlike the technologically leading States, the technologically lagging States have less favourable agro-climatic conditions. The land tenure institutions also continue to be unfavourable for technological progress consistent with poverty alleviation. For instance in Bihar the effects of zamindari abolition were uneven and depended upon the structure of landholdings that existed below the zamindars. In Bihar the biggest beneficiaries of zamindari abolition were the smaller village landlords who themselves were the tenants of the zamindars and were from the upper castes. The extent to which the cultivator got the title to land was directly related to their position in the caste structure. Here, the tendency of upper caste landlords to transform themselves into capitalist landlords is not very strong and they retain feudal relations of production and exploitation. The backward caste landlords have made the transition to landlord capitalism. More than 30 per cent of the land is under different forms of tenancy, almost all of it unrecorded. The tenants are usually from the backward castes, very few from the dalits [DN EPW, May, 1988]. Wide practice of bonded labour, usury and absence of a capitalist labour market kept labour market segmented. It prevents the formation of class-for-itself despite the growth of casual labour.

The role of caste as a factor in preventing the mobilisation of labour along class lines against feudal forces in the technologically lagging States has been quite important. Landlord capitalism uses castes mobilised along caste lines. The scheduled caste commissioner, B D Sharma writes:

The landowners on their side began to organise largely on caste lines raising castes like the Brahmarshi Sena by the Bhumihars, Bhumihars by the Kurmis and Lorik Sena by the Yadavas. Thus the state of confrontation followed almost everywhere. A number of armed clashes take place in which the police is alleged to have sided with the landlords in suppressing agricultural labourers who have been nicknamed as Naxalists [28th Report, p 250-251].

Thus in both technologically leading and technologically lagging States despite trends in proletarianisation and casualisation, segmentation of the labour market, caste factors, and violent suppression of trade union activity among rural labour with the support of the police, have arrested the growth of class forces of labour. On the other hand market integration has also been associated with the growing political power of the land owning class with increasing caste and class solidarity over wide regions.

CONCLUSION

Early writings on green revolution exaggerated the consequences of technology in relation to capitalist farming and polarisation. The ceiling legislation as well as the interventions of the government on behalf of the marginal and small farmers together with the imperfections in the land market have kept these processes much slower than were anticipated by the critics of green revolution. However, technology induced changes in the lease market were more marked in technologically leading States. These contributed to growing proletarianisation and casualisation despite lower demographic pressures on land in this group of States. Such growth in proletarianisation and casualisation has been more due to drift of workers within marginal and small owner household into wage labour than wholesale transformation of peasant owner households into proletarian households suggesting the stubborn persistence of small peasantry.

Increased rates of proletarianisation and casual labour are to be observed both in technologically leading and technologically lagging States. In fact, the proportion of wage labour in total rural households as well as the degree of casualisation of rural workforce were higher, to start with in technologically lagging States with generally high demographic pressures. The technologically lagging States also continued to have higher proportions of wage labour and also higher degree of casualisation in the early 1980s as compared to technologically leading States, suggesting that demography and stagnation have contributed as much to proletarianisation and casualisation as the

new technology. The high rates of decline in access to leased-in land for the small coupled with emergence of middle and large owner as tenant have increased the rates of growth of proletarianisation and casualisation of labour in technologically leading States.

Proletarianisation and casualisation have not been associated with immiserisation in technologically leading States contrary to the predictions of the critics of the green revolution. At the same time, the enthusiasts of the green revolution are proved wrong in assuming lack of complementarity between biological technology and mechanical technology. As mechanical technology followed the biological technology, technologically leading States show higher rates of unemployment in agriculture and stagnation in real wages.

Though immiserisation is not associated with technology, the second phase of technology is characterised by higher degree of inequality, particularly between the socially oppressed scheduled castes and other groups within rural areas. Such inequalities may be expected to rise with reduced labour absorption rates, stagnant real wages and growth in the rates of unemployment in the rural areas. In the past the growth in non-agricultural employment has provided relief but sustained growth in non-agriculture in the technologically leading States is proving to be difficult. Considering the demand side, growing rural inequalities are found to have a negative relationship with the rate of growth of demand for non-agricultural products. From the supply side, the outlets for conversion of agrarian capital into industrial capital are seen to be few and precarious. The slackening of the rate of growth of non-agriculture, and the pressure of the marginal farmer and small farmer on the lease market might push up the rent and it should not be surprising if capitalist farming, based on leased in land and subsidies, becomes non-sustainable. The transition from the green to red revolution through class formation and conflicts was one of the themes in the early writings of critics of green revolution. But, in technologically leading States proletarianisation and casualisation have not been accompanied by immiserisation and this development blunted class conflict. Technologically lagging States witness such association and also more intense conflicts. But in this group of States, violent suppression of trade union

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activity among rural labour by land owners' private armies organised on caste lines with the support of the police have kept in check the growth of organised movement of labour. The more important factor is the emergence of the capitalist farmer class into a class-for-itself for wringing a variety of concessions from the state for sustaining the progress of capitalist farming, while the politicisation of the labour and consequently the transition from class-in-itself to class-for-itself continued to be weak.

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ENERGY PROBLEMS AND PROSPECTS Studies on Jammu And Kashmir

Edited by
M.K. Khara
B.D. Sharma
Majid Husain

(In press)

The book critically examines the energy situation in J&K, assesses its needs and suggests ways and means to minimise and, if possible, eliminate in the foreseeable future the scarcity of power.

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THE BANK OF TOKYO LIMITED

(Incorporated in Japan Liability of Members Limited)

BALANCE SHEET FOR INDIAN OFFICES AS ON 31ST MARCH 1991

| Previous Year RUPEES | CAPITAL & LIABILITIES | Rs P | Rs P | Previous Year RUPEES | PROPERTY & ASSETS | Rs P | Rs P |
|--|---|-------------------|-------------------|--|---|----------------|-------------------|
| 4 71 65 98 998 | Brought Forward | | 6,44,17,48,808 67 | 3 20 99 43 488 | Brought Forward | | 4,49,93,91,683.46 |
| | 10 Contingent Liabilities | | | | [v] Debts due by directors or officers of the banking company or any of them either severally or jointly with any other persons | 40 08 802 00 | |
| | (i) Claim against the Banking Company not acknowledged as debts | | | 34 95 769 | [vi] Debts due by companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or in case of private companies as members | | |
| | (ii) On investment in shares of Joint Stock Company & Bank | | | | [vii] Maximum total amount of advances including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other person | 51 62 993 00 | |
| 1 88 41 97 111 | (iii) On letter of guarantee on behalf of constituents & officers | 1 90 94 37 975 90 | | 38 56 110 | [viii] Maximum total amount of advances including temporary advances granted during the year to the companies or firm in which the directors of the banking company are interested as directors, partners or managing agents or in the case of private companies as members | | |
| 1 99 73 95 713 | (iv) On behalf of outstanding Forward Exchange Contract. | 7 92 81 36 366 00 | | | [ix] Due from banking companies | | |
| 49 41 96 100 | (v) Liability on Bills re-discounted | 70 41 49 600 00 | | | 6 Bills Receivable being Bills | | |
| | | | | | For collection as per contra | | 15,45,97,808.37 |
| | * Includes Rs. NIL (Previous Year Rs. 25 Crores) from Discount & Finance House of India Ltd and Rs. 63 Crores (Previous year Rs. NIL) received from Head Office under Foreign Currency (Banks and other) deposit facility | | | 14,11,85,988 | [] Payable in India | 6 17 87 935 94 | |
| | | | | 8 66 39 061 | [] Payable outside India | 9 48 10 566 43 | |
| | | | | 5 44 86 927 | | | |
| | | | | | 7 Constituents Liabilities for Acceptances, Endorsements and other Obligations per contra | | 1,68,81,11,443.75 |
| | | | | 1,15,82,11,895 | 8 Premises Less Depreciation | | 1,34,08,508.88 |
| | | | | 1,34,50,000 | At Cost upto 31 03 90 | 1 35 00 000 00 | |
| | | | | — | Addition* at cost during the year | — | |
| | | | | 1 35 00 000 | Less: Sold during the year | — | |
| | | | | 30 000 | Less: Depreciation written off to date | 97 500 00 | |
| | | | | | | | 2,90,46,409 00 |
| | | | | 1,84,03,344 | 9 Furniture and Fixtures Less Depreciation | | |
| | | | | 2 10 67 909 | At Cost upto 31 12 90 | 5 39 89 081 99 | |
| | | | | 1 57 48 206 | Addition* at cost during the year | 1 80 86 600 42 | |
| | | | | 98 94 034 | Less: Sold during the year | 2 49 808 14 | |
| | | | | 1 55 78 74 | Less: Depreciation written off to date | 9 97 53 064 57 | |
| | | | | | | | 12,12,48,684 99 |
| | | | | 12,84,71,791 | 10 Other Assets including Silver | | |
| | | | | 97 18 779 | Inter office | | |
| | | | | 70 1 515 | Security Deposit with others | 1 39 69 309 00 | |
| | | | | | Surplus Payment | 17 96 890 90 | |
| | | | | 4 97 51 915 | Accrued Interest and others to be received | 0 39 71 191 89 | |
| | | | | 1 19 78 585 | Prepaid expenses | 1 99 11 113 00 | |
| | | | | | 11 Non-Banking Assets Acquired | | — |
| | | | | | in satisfaction of Claims (status mode of valuation) | | |
| | | | | 4,76 92,392 | 12 Profit and Loss | | — |
| | | | | | Balance of Loss as per contra | | |
| 4 71 65 98 998 | | | 6,44,17,48,808 67 | 4 71 65 98 998 | | | 4,49,93,91,683.46 |
| THE BANK OF TOKYO LTD BOMBAY OFFICE | | | | A per our report attached for C. C. CHONKHI & CO (CHARTERED) ACCOUNTANTS | | | |
| Sd/ Y HARADA Assistant General Manager | | | | Sd/ R. SALVATI PARTNER | | | |
| Bombay Dated 24th June 1991 | | | | Sd/ M. TSUBINO General Manager & Chief Executive Officer for India | | | |



THE BANK OF TOKYO LIMITED

(Incorporated in Japan Liability of Members Limited)

PROFIT & LOSS ACCOUNT OF INDIAN OFFICES FOR THE YEAR ENDED 31ST MARCH 1991

| Previous Year RUPEES | EXPENDITURE | RUPEES | Previous Year RUPEES | INCOME (Less Provision made during the year for bad and doubtful debts and other usual or necessary provisions) | RUPEES |
|-------------------------|--|-----------------|-------------------------|---|-----------------|
| 26 76 83 962 | 1 Interest paid on Deposits Borrowings etc | 35,86,31,709 14 | 30 19 48 365 | 1 Interest and Discount | 50,36,23,655 22 |
| 9 29 35 054 | 2 Salaries and Allowances and Provident Funds | 2,17,28,444 09 | 6 49 24 334 | 2 Commission Exchange and Brokerage | 9,49,36,253 86 |
| 10 500 | 3 Director and Local Committee Members' fees and Allowances | 7,500 00 | | 3 Rents | — |
| 10 71 31 810 | 4 Rent Taxes Insurance Lighting etc. | 15,56,77,432 08 | | 4 Net Profit on sale of Investments Gold and Silver Land Premises and Other Assets (not credited to Reserves or any particular fund or Account) | 38,49,100 50 |
| 1 96 297 | 5 Law Charges | 3,47,091 00 | 30 67 589 | 5 Net Profit on revaluation of Investments Gold and Silver Land Premises and Other Assets (not credited to Reserves or any particular fund or Account) | — |
| 48 64 973 | 6 Postage Telegrams and Stamps | 59,20,896 18 | | 6 Income from non banking assets and profit from sale of or dealing with such Assets | — |
| 1 08 791 | 7 Auditors fees | 1,96,035 00 | | 7 Other Receipt | 2 86,64 496 13 |
| 1 13 40 954 | 8 Depreciation on and Repairs to the Banking Company's Property | 1,29,37,117 27 | — | 8 Loss (if any) | — |
| 37 21 693 | 9 Stationery Printing Advertisement etc | 36,78,893 18 | | | |
| — | 10 Loss from sale of or dealing with non banking Assets | — | 15 86 801 | | |
| 1 33 10 984 | 11 Other Expenditure | 1,34,27,785 77 | 5 9 77 999 | | |
| | 12 Balance of Profit | 6,05,42,596 00 | | | |
| 43 13 05 018 | | 63,30,95,499 71 | 43 13 05 018 | | 63 30,95 499 71 |

Inter Office(s) Interest:

| | |
|--|--------------------|
| (i) Interest paid by Bombay Calcutta & New Delhi Office(s) | Rs 6 03 04 958 00* |
| (ii) Interest received by Bombay Calcutta New Delhi Office(s) | Rs 4 53 94 801 72 |
| Net interest paid | Rs 1 49 10 156 98 |

* Includes Rs 24153 450 00 as interest paid on Borrowings from H.O Sw 1:
19 620 000 00 = Rs 272 404 080 00

1 Remuneration relating to General Manager of Bombay (Principal) office & Chief Executive Officer of Indian offices

| | |
|--|----------------|
| (i) Salary (Previous year Rs 180 840 00) | Rs 1 99 240 00 |
| (ii) Allowance (Previous year Rs) | Rs |
| (iii) Sitting fee. | Rs Nil |
| (iv) Bonus | Rs Nil |
| (v) Employer Contribution to Provident fund Pension or other Super Annuation Fund | Rs Nil |
| (vi) Monetary value of other benefit & Perquisites (Previous Year Rs 29 071 00) | Rs 30 411 00 |

THE BANK OF TOKYO LTD
BOMBAY OFFICE

Sd/
Y HARADA

Assistant General Manager

Bombay
Dated 24th June 1991

As per our report attached
For C C CHOKSHI & CO
CHARTERED ACCOUNTANTS

Sd/
R SALINATI

PARTNER

THE BANK OF TOKYO LTD
BOMBAY OFFICE

Sd/
M TSURUNO
General Manager
&

Chief Executive Officer for India



THE BANK OF TOKYO LIMITED

(Incorporated in Japan Liability of Members Limited)

ACCOUNTING POLICIES AND NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 1991

I) PRINCIPAL ACCOUNTING POLICIES

(1) General

The accompanying financial statements have been prepared on the historical cost basis and conform to the statutory provisions and practices prevailing in the country

(2) Transactions Involving Foreign Exchange

Monetary assets and liabilities as well as outstanding Forward Exchange Contracts are translated half yearly at rates prescribed by FEDAI and the resulting profit/loss is accounted for. Guarantees, Letter of Credits and Acceptances are translated at TT (Middle) rates

(3) Investments

Investments are valued at the lower of cost or market value. Unquoted investments are taken at book value

(4) Advances

(a) Provisions for doubtful advances have been made to the satisfaction of the auditors in respect of identified advances based on a periodic review of advances and after taking into account the realisable value of securities and the portion of advance guaranteed by the Deposit Insurance and Credit Guarantee Corporation, the Export Credit & Guarantee Corporation and similar statutory bodies

(b) Provisions in respect of doubtful advances have been deducted from advances

(c) Provisions have been made on gross basis

(5) Fixed Assets

(a) Premises and other fixed assets have been accounted for at their historical cost

(b) Depreciation has been provided for on the diminishing balance method

(6) Staff Benefits

Provision for gratuity/pension benefits to staff has been made on an accrual basis. Separate fund for pension has been created

(7) Net Profit

(a) The net profit disclosed in the profit and loss account is after

(i) provision for doubtful advances
(ii) provision for depreciation on the value of assets which are valued at lower of cost or market value
(iii) usual expenses

II) NOTES ON THE ACCOUNTS

1. All expenses incurred in the year have been provided for at the rate of 5% furniture and fixtures, 10% on plant and equipment, 15% on motor vehicles, 20% on buildings, 25% on other assets specified in the Schedule VI to the Companies Act, 1956.

2. (a) Head Office administrative expenses have not been charged in the accounts and provision for taxes has been computed without deduction of such expenses

(b) Rent rates and taxes include Rs. 14,29,48,800 being provision for Income Tax

3. Inter Office balance is net of Rs. 9,68,16,000 being amount received from Head Office for the acquisition of residential premises for Bank's officers

AUDITOR'S REPORT

1. We have audited the attached Balance Sheet of Indian Branches of The Bank of Tokyo Limited as on 31st March 1991 and also the annexed Profit and Loss Account for the year ended on that date in which are incorporated the returns from Calcutta and New Delhi Branches audited under Section 228 of The Companies Act 1956 by other auditors

2. In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read together with the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (c) of Section 227 of The Companies Act, 1956 the Balance Sheet and Profit and Loss Account are not required to be and are not drawn up in accordance with Schedule VI to The Companies Act, 1956. The Accounts are therefore drawn up to conform with Forms A & B of the Third Schedule to the Banking Regulations Act, 1949. Subject to the foregoing observations we report that in accordance with sub-section (3) of Section 30 of the Banking Regulations Act, 1949

(a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory

(b) The transactions of the Indian Branches which have come to our notice have been within the powers of the Bank

(c) In our opinion proper books of account as required by law have been kept by the Indian Branches of the Bank so far as appears from our examination of those books

(d) The report on the accounts of Calcutta and New Delhi Branches of the Bank audited by the respective Branch Auditors were received and properly dealt with by us while preparing our report

(e) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account and the returns

(f) In our opinion and to the best of our information and according to the explanations given to us the said accounts give the information required by The Companies Act, 1956 in the manner so required for banking companies and read together with the notes give a true and fair view

(g) In the case of the Balance Sheet of the state of affairs of the Indian Branches of the Bank as at 31st March 1991 and

(h) In the case of the Profit and Loss Account of the Profit for the year ended on that date

For C. C. CHOKSHI & CO.
CHARTERED ACCOUNTANTS

Sd/
R. SALVATI
PARTNER

Bombay
Dated 24th June 1991

Wages, Employment and Output in Interrelated Labour Markets in an Agrarian Economy

A Study of Kerala

T N Krishnan

This paper examines the wage structure and wage movements and their relation to employment and output in an agrarian economy in transition. In order to explain wage movements in such an economy, the paper develops the concept of 'interrelated labour markets'.

The paper is divided into four sections. The first section analyses the wage structure in agriculture and in construction activity both in the rural and urban sectors for those categories of labour that are paid daily wages. The validity of the concept of interrelated labour markets is verified by estimating vector autoregressions and testing for significant causal relations among the included wage rates. The second section develops a theory of wage structure in the context of interrelated labour markets which emphasises the importance of social norms in labour market behaviour. The third section examines movements in wage relativities in relation to changes in product demand. The final section develops analytical model to explain employment behaviour in interrelated labour markets and applies this model to explain the changes in employment and output in the agricultural sector of the Kerala economy.

THE determination of wages, employment and output is central to economic analysis and, therefore, the behaviour of labour markets continues to be an important area of research both in industrially advanced economies and in poorer agrarian economies.¹ Among the various theories proposed to explain the operation of the labour market in poorer agrarian economies, the one based on the concept of 'interlinked markets' is the most prominent one.² The term 'interlinked' is employed to describe a situation in which the free operation of a labour market is constrained as a result of various institutional linkages between the land and credit markets which result in the formation of patron-client relationships or in implicitly lower wage rates.

The emergence of a dual labour market in the course of the development of a backward agrarian economy is well recognised in development literature, what is not so well understood is the fact that all categories of employment in the modern sector—whether skilled or unskilled, and irrespective of opportunities to climb up a job ladder—constitute the primary labour market as understood in the literature on labour market segmentation. This is because jobs in this sector are full time and provide greater security and invariably higher earnings.³ Employment in the modern sector comprises not only jobs in the developing industrial sector but also in such areas as government service, public enterprises and utilities, financial services, etc. Not all jobs require high education or specialised skills and there are long waiting periods for securing employment.

The market for labour in the traditional sector—comprising mostly non-plantation agriculture, traditional household and small scale industries, construction activity, wholesale and retail trade—is akin to the secondary labour market because it encompasses the bulk of the illiterate unskilled members of the labour force, for a majority of whom employment is seasonal, irregular,

and wage rates are low. Those who are not employable elsewhere finally end up in this sector.⁴ The inability of employment to keep pace with the growth of population and of labour force is reflected in a decline in the number of days of employment available for each person rather than in an increase in the number of totally unemployed persons.

This paper examines the wage structure and wage movements and their relation to employment and output in an agrarian economy in transition. In order to explain wage movements in such an economy, this paper develops a concept of what shall be called 'interrelated labour markets' (to be distinguished from current theories of 'interlinked markets'). Some of the findings reported in this paper are at variance with the conclusions of the major studies on agrarian labour markets. At the same time, it appears that some conclusions from recent theorisation on the relationships among wages, prices and employment in the developed industrial economies are relevant for the present analysis. First and foremost is the conclusion that the wage structure in this economy follows a hierarchical order reflecting social custom, which results in a strong tendency for wage relativities to remain stable over the long run.⁵ Second, this study demonstrates that markets for different categories of labour can indeed be interrelated and that such interrelationships operate through the wage structure even in the absence of inter-market labour mobility. It is shown that a rise in the wage rate of any category of labour within a structure of interrelated labour markets is transmitted to other wage rates in order to re-establish wage relativities, and this appears to be independent of the degree of unionisation of any category of labour. Finally, it is found that a weakening of product demand is reflected in a widening of the relative wage differential in the short run and the effect of a rise in wages on employment and output is mainly determined by the conditions of pro-

duct demand and the rate of technological change.⁶

More specifically, this paper analyses the wage structure and wage movements in the traditional sector and the effects of wage movements on employment and output in agriculture in Kerala. The paper is divided into four sections: the first section analyses the wage structure in agriculture and in construction activity both in the rural and urban sectors for those categories of labour that are paid daily wages. The validity of the concept of interrelated labour markets is verified by estimating vector autoregressions and testing for significant causal relations among the included wage rates. The second section develops a theory of wage structure in the context of interrelated labour markets which emphasises the importance of social norms in labour market behaviour. The third section examines movements in wage relativities in relation to changes in product demand. The final section develops an analytical model to explain employment behaviour in interrelated labour markets and applies this model to explain the changes in employment and output in the agricultural sector of the Kerala economy.

THE SETTING

Labour households constituted 49.6 per cent of total rural households in 1983-84 in Kerala—one of the highest figures for any State in India.⁷ Of 1.78 million labour households in rural areas, 9,68,000 households were agricultural labour households and the rest were other labour households.⁸ As in many other parts of India, the rate of increase in the number of labour households exceeds that of non-labour households by a large margin, reflecting the fact that labour households increase not only demographically but also because economic circumstances force households of other classes into their ranks. In fact, between 1974-75 and 1983-84, the proportion of non-labour households declined from 57.8 to 50.4 per cent, in addition, their absolute numbers

declined from 1.87 million to 1.80 million.⁹ This implies that all the net increase in rural households were absorbed by the labour households. As there was only limited room to absorb them as agricultural labourers, most of this increase occurred among non-agricultural labour households. While the proportion of agricultural labour households declined from 28 per cent in 1964-65 to 27 per cent in 1983-84, those of other rural labour households rose from 14 per cent to 23 per cent during the same period.¹⁰ The agricultural sector has had negative growth rates since 1975 which provide further evidence why such a shift was necessary between agricultural and non-agricultural labour households. In either case the total number of days of employment for a worker declined during this period.¹¹

From 1975 the State domestic product barely managed to grow faster than population (which had indeed begun to decline) but the per capita level of consumption rose at a higher rate due to remittances of incomes by those who were employed in West Asia. The estimated per capita consumer expenditure of Rs 2,436 in 1986-87 was higher than the estimated per capita State domestic product of Rs 2,371.¹² If we assume that the

per capita consumer expenditure constituted 80 per cent of the per capita disposable income, then the estimated figure of the latter would be Rs 3,045, implying that remittances might have been as high as 28 per cent of the income produced within the State.¹³

Though Kerala's economy is integrated fully with the all-India economic structure, many features of Kerala's labour and commodity markets are quite distinct from the pattern prevailing in the rest of the country. The relationships and interlinkages between the rural labour, land and credit markets in different regions of India as envisaged in the relevant literature are almost non-existent in Kerala.¹⁴ This is the result partly of extensive reforms in land ownership and tenancy and partly due to the political and organisational mobilisation of labour. This mobilisation of labour led to the rapid growth of trade unionism not only among agricultural, industrial and public service employees, but has now spread to the informal labour sector also. The rapid growth of labour unions among labourers in the informal sector is a consequence of the substantial increase in the size of the non-agricultural labour force, especially since 1975. Perhaps Kerala

represents one of the few regions where workers in the informal sector are organised and unionised; this fact cannot but have important repercussions on the economy. Unionisation was aided by the high literacy levels of the Kerala labour force; literacy also helps to transmit labour market information rapidly. That higher literacy itself contributes to a weakening of the traditional interlinkages noted by the first committee appointed to fix minimum wages for agricultural labourers as early as 1956 in its report.¹⁵

There are three other features of the labour market which distinguish Kerala from other States. The first relates to the rate of unemployment.¹⁶ Kerala has the highest rate of rural unemployment in India. The second is the comparatively high rate of participation of women in the labour force.¹⁷ A third feature is that Kerala has the third highest wage rate for agricultural labourers in the country, after Punjab and Haryana (see Table 1). The male wage rate is 90 per cent higher than the wage rate prevailing in the neighbouring State of Tamil Nadu.

Estimates of real wages for different States in India are given in Table 2. The real wage rates have been estimated using the cost of

TABLE 1: DAILY MONEY WAGE RATES FOR AGRICULTURAL LABOURERS IN SELECTED STATES FOR DIFFERENT YEARS (JULY OF EACH YEAR)

(Rs)

| State | 1960 | | 1970 | | 1980 | | 1984 | | 1987 | |
|----------------|------|--------|------|--------|-------|--------|-------|--------|-------|--------|
| | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| Andhra Pradesh | 1.30 | 0.92 | 2.61 | 1.90 | 5.78 | 4.49 | 10.04 | 7.68 | 12.36 | 9.25 |
| Assam | 2.32 | 1.81 | 4.30 | 3.13 | 6.83 | 6.25 | 11.98 | 9.70 | 16.85 | 13.22 |
| Bihar | 1.28 | 1.11 | 2.71 | 2.19 | 5.35 | 4.51 | 9.17 | 9.09 | 12.60 | 12.76 |
| Gujarat | 1.87 | 1.40 | 2.88 | 2.22 | 7.02 | 5.86 | 11.06 | 9.86 | 13.76 | 11.59 |
| Haryana | NA | NA | 5.84 | 4.00 | 11.63 | 8.33 | 18.60 | 17.17 | 22.01 | 12.13 |
| Karnataka | 1.66 | 1.26 | 2.90 | 1.69 | 6.00 | 4.67 | 7.11 | 5.67 | 10.35 | 9.50 |
| Kerala | 1.61 | 1.11 | 4.73 | 3.02 | 9.58 | 7.29 | 16.67 | 12.25 | 21.32 | 15.89 |
| Madhya Pradesh | 1.05 | 0.83 | 2.08 | 1.48 | 4.52 | 4.36 | 8.27 | 7.13 | 10.67 | 9.14 |
| Maharashtra | 1.51 | 0.86 | 3.03 | 1.93 | 5.28 | 3.67 | 10.50 | 9.00 | 10.00 | 9.00 |
| Orissa | 1.33 | 0.92 | 2.35 | 1.58 | 5.43 | 4.92 | 7.68 | 6.31 | 8.80 | 7.50 |
| Punjab | 2.42 | 1.61 | 6.52 | 4.75 | 12.12 | 12.50 | 17.19 | NA | 23.67 | 18.50 |
| Rajasthan | NA | NA | 3.39 | 1.78 | 7.41 | 5.81 | 9.86 | 7.50 | 17.00 | 10.50 |
| Tamil Nadu | 1.15 | 0.85 | 2.47 | 1.68 | 5.84 | 4.28 | 8.67 | 6.04 | 11.20 | 6.17 |
| Uttar Pradesh | 1.62 | NA | 2.11 | 1.91 | 6.27 | 5.95 | 10.22 | 8.42 | 12.53 | NA |
| West Bengal | 1.91 | 1.55 | 3.25 | 2.40 | 7.16 | 6.10 | 9.51 | 8.59 | 18.73 | 11.91 |

Source: Ministry of Agriculture, Government of India: various issues of *Wage Statistics in India*.

TABLE 2: DAILY REAL WAGE RATES FOR AGRICULTURAL LABOURERS IN SELECTED STATES FOR DIFFERENT YEARS (JULY OF EACH YEAR)
(In 1960 Rupees)

| State | 1960 | | 1970 | | 1980 | | 1984 | | 1987 | |
|----------------|------|--------|------|--------|------|--------|------|--------|------|--------|
| | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| Andhra Pradesh | 1.29 | 0.92 | 1.51 | 1.10 | 1.75 | 1.36 | 2.24 | 1.71 | 2.52 | 1.89 |
| Assam | 2.26 | 1.76 | 2.08 | 1.51 | 1.69 | 1.55 | 2.20 | 1.78 | 2.72 | 2.14 |
| Bihar | 1.18 | 1.02 | 1.22 | 0.98 | 1.32 | 1.11 | 1.71 | 1.70 | 2.10 | 2.13 |
| Gujarat | 1.76 | 1.32 | 1.60 | 1.23 | 2.08 | 1.73 | 2.40 | 2.14 | 2.51 | 2.11 |
| Haryana | NA | NA | 2.98 | 2.01 | 2.80 | 2.01 | 3.45 | 3.18 | NA | NA |
| Karnataka | 1.65 | 1.25 | 1.57 | 0.92 | 1.69 | 1.32 | 1.34 | 1.07 | 1.83 | 1.68 |
| Kerala | 1.57 | 1.08 | 2.22 | 1.42 | 2.64 | 2.01 | 2.60 | 1.91 | 3.01 | 2.24 |
| Madhya Pradesh | 1.01 | 0.80 | 1.01 | 0.72 | 1.08 | 1.04 | 1.55 | 1.34 | 1.78 | 1.53 |
| Maharashtra | 1.38 | 0.79 | 1.60 | 1.02 | 1.40 | 0.98 | 2.04 | 1.75 | 1.68 | 1.51 |
| Orissa | 1.25 | 0.87 | 1.05 | 0.71 | 1.20 | 1.09 | 1.30 | 1.07 | 1.39 | 1.18 |
| Punjab | 2.32 | 1.55 | 3.29 | 2.39 | 2.92 | 3.01 | 3.19 | NA | 3.91 | 3.06 |
| Rajasthan | NA | NA | 1.75 | 0.92 | 1.80 | 1.41 | 1.96 | 1.49 | 2.96 | 1.83 |
| Tamil Nadu | NA | NA | 1.45 | 0.98 | 1.63 | 1.19 | 1.67 | 1.17 | 1.90 | 1.05 |
| Uttar Pradesh | NA | NA | 1.08 | 0.97 | 1.48 | 1.41 | 1.94 | 1.60 | 2.08 | NA |
| West Bengal | 1.66 | 1.35 | 1.54 | 1.14 | 1.79 | 1.52 | 1.78 | 1.61 | 3.08 | 1.96 |

Note: We have used the Agricultural Labourers Cost of Living Index of the respective States to derive the real wage rates.

living indices of the respective States. In 1960, Assam, Gujarat, Karnataka, Punjab, Uttar Pradesh and West Bengal had higher money wages and higher real wages than Kerala. This position changed significantly and by 1987 only Punjab, Haryana (which was earlier part of Punjab) and West Bengal had higher wage rates than Kerala.

I

Wage Structure in Kerala

Three factors of wage movements in an economy are important for this analysis. First, any single wage rate is only one element in a wage vector and therefore it is more appropriate to study the relationships among the whole set of wage rates than to study a single wage rate.¹⁸ Secondly, wage rates have a history of their own and a current wage rate is probably not independent of its past behaviour. Thirdly, institutional and social factors are perhaps more important in the determination of wage rates than the conditions of supply of and demand for labour in any market.¹⁹

Most wage studies in agrarian economies analyse the determination of a single or at most two wage rates in the agricultural sector, ignoring the fact that agricultural wages might be influenced by or related to other wages in the system. Much attention has been bestowed on describing the operation of interlinked markets in India with the result that few studies have been undertaken in other categories of labour. It is probably true that as an economy undergoes change, the social and institutional relationships also change, but we have very little information on the pace and pattern of these changes. Social and institutional changes do not take place in a discontinuous and discrete manner but represent gradual and continuous change over time. It is in this sense that the historical context becomes important in an analysis of labour market behaviour.

In this paper we analyse the wages of eight categories of rural labour belonging to the construction and agricultural sectors of the Kerala economy. These categories are those of mason, carpenter, unskilled man and unskilled woman for the construction sector, paddy field male worker, paddy field female worker, other agricultural male worker and other agricultural female worker. In addition, the paper analyses wage rates for construction activity in the urban sector. Annual wage data on construction activity and for paddy field male labour are available for the period 1963 to 1989 and for the remaining categories from 1973. For some categories monthly or quarterly observations are available, and such data have been used as well.

Nominal wage rates have risen without any interruption during the period under analysis for all categories of labour almost at the same average annual rate. Money wage rates in 1989 were about 12 times higher than in 1963. While the cost of living index also rose dramatically, especially since 1974, still real wage rates more than doubled during this period. Kerala happens to be the only state where real wages have nearly doubled

between 1960 and 1990, and this is particularly significant in the light of the observation made earlier that the Kerala economy had practically remained stagnant after 1975. However, the effects of this stagnation were partly offset by the remittances of income by workers from Kerala who migrated in large numbers during this period to West Asia. These accruals of factor incomes not only raised the levels of direct consumption of those families receiving such incomes but also initiated a boom in construction activity.

This study of the wage structure of Kerala begins with an estimation of relative wages (see Table 3). To begin with, we have calculated for each year (or quarter or month as the case may be) the ratio between the wages of workers in each category mentioned in Table 3 and the wage of masons in rural areas. These wage ratios, which lie between 1.00 and 0.41, point to some interesting features of the wage structure in Kerala. When the ratios are arranged in a declining order they fall in a hierarchical order with the carpenter/mason at the top and the female agricultural labourer at the bottom. For each ratio the mean and the coefficient of variation were also calculated and they indicate remarkable stability. The values of the coefficient of variation range between 1 per cent and 10 per cent. As we go down the hierarchical order the value of the ratio declines; in addition the coefficient of variation rises, signifying that the lower the position of a category in the wage hierarchy, the greater the variability in the wage ratios. When the wage ratios are recalculated in terms of wage rates other than that of the rural mason there is no increase in the coefficient of variation.

An examination of the ratios over the period reveals that some reordering of the ratios has occurred after the mid 1970s. The migration of labour to West Asia began at this time and soon led to the construction boom in the State. The decline in acreage under paddy cultivation also started after 1975. All these changes had their effects on labour demand in the respective labour

markets. These are analysed later in this paper.

CAUSAL VERSUS STRUCTURAL FACTORS

The 'stickiness' of the wage ratios and the low values of the coefficients of variation together raise the question of whether the wage rates are all related in some way and therefore move together when a single wage rate changes. To illustrate, certain factors cause a change in a single wage rate. The change in that wage rate triggers a process that tends towards the restoration of the pre-existing parities between wage ratios. This process occurs whether or not the factors that caused the original change are present in other (interrelated) labour markets. A change in a wage structure thus has two component parts: first a change in the wage rate in a single market (the 'initial wage change') and, secondly a consequent change in all other labour markets (the 'induced wage change').

TABLE 4 LIST OF VARIABLES USED IN CAUSAL TESTS

Daily Wage Rates (in rupees) in Rural Sector

- v 1 Mason
- v 2 Carpenter
- v 3 Agricultural labourer (male)
- v 4 Agricultural labourer (female)
- v 5 Other agricultural labourer (male)
- v 6 Other agricultural labourer (female)
- v 7 Unskilled construction worker (male)
- Unskilled construction worker (female)

Daily Wage Rates (in rupees) in Urban Sector

- v 9 Mason
- v 10 Carpenter
- v 11 Unskilled construction worker (male)
- v 12 Unskilled construction worker (female)

Others

- v 13 Cost of living index for agricultural labourers
- v 14 Amount of bank deposits (in crores of rupees) per bank branch (one crore = ten million)
- v 15 Amount of bank credit (in crores of rupees) per bank branch

TABLE 3 MEAN, STANDARD DEVIATION AND COEFFICIENT OF VARIATION OF WAGE RATIVITIES

| Period | Wage Rativity | Mean | Standard Deviation | Coefficient of Variation (Per cent) |
|---------------------|-------------------------------------|------|--------------------|-------------------------------------|
| Rural Sector | | | | |
| 1963-64 to 1989-90 | Carpenter/mason | 1.00 | 0.01 | 1.00 |
| | Unskilled men (const)/mason | 0.62 | 0.03 | 5.0 |
| | Agr lab/mason | 0.45 | 0.03 | 8.0 |
| | | 0.63 | 0.04 | 7.0 |
| 1973-74 to 1989-90 | Other agr male labour/mason | 0.62 | 0.04 | 7.00 |
| | Agr female labour/mason | 0.41 | 0.04 | 10.00 |
| | Other agr female lab/mason | 0.45 | 0.02 | 5.00 |
| | Other agr male lab/agr male lab | 0.99 | 0.02 | 2.00 |
| | Other agr female labour/agr lab | 0.66 | 0.05 | 8.00 |
| | Other agr female lab/agr female lab | 1.11 | 0.11 | 10.00 |
| Urban Sector | | | | |
| 1963-64 to 1988-89 | Carpenter/mason | 1.00 | 0.02 | 2.00 |
| | Unskilled men/mason | 0.61 | 0.02 | 4.00 |
| | Unskilled women/mason | 0.47 | 0.02 | 5.00 |
| | Unskilled women/unskilled men | 0.74 | 0.03 | 5.00 |

These two component parts of wage changes in wage structures need to be kept distinct for analytical purposes. The first factor (or factors) that initiates the wage change may be described as the 'causal factor' (or factors) and the subsequent shift in all the interrelated labour markets may be described as arising from the 'structural factor'. An example of a causal factor is the change in money wages brought about by the rise in the demand for construction labour arising from the building boom; the consequent series of wage changes in other sectors like agriculture in order to restore parity exemplifies the 'structural factor'. Similarly, a chain reaction in wage changes brought about by an initial rise in a wage rate by union action in a single labour market is another example of the operation of a structural factor.

The presence of structural factors resulting in simultaneous adjustments in wage rates in interrelated labour markets complicates the analysis of the factors responsible for changes in the wage structure. This is because the causal and structural components of such a change must be decomposed. While the 'causal factor' represents a unidirectional relationship, the structural factor will lead to bidirectional relationships between wages. In this paper we have employed the Granger-Sims causality procedure to test for the presence of structural relationships rather than causal relationships.²⁰ Sims had proposed the estimation of vector autoregressions to test for Granger causality and for mutual feedbacks between endogenous and exogenous variables.²¹ We estimate vector autoregressions in this paper to test for mutual relationships among wage rates in an attempt to provide an explanation for the apparent stability in the wage ratios.

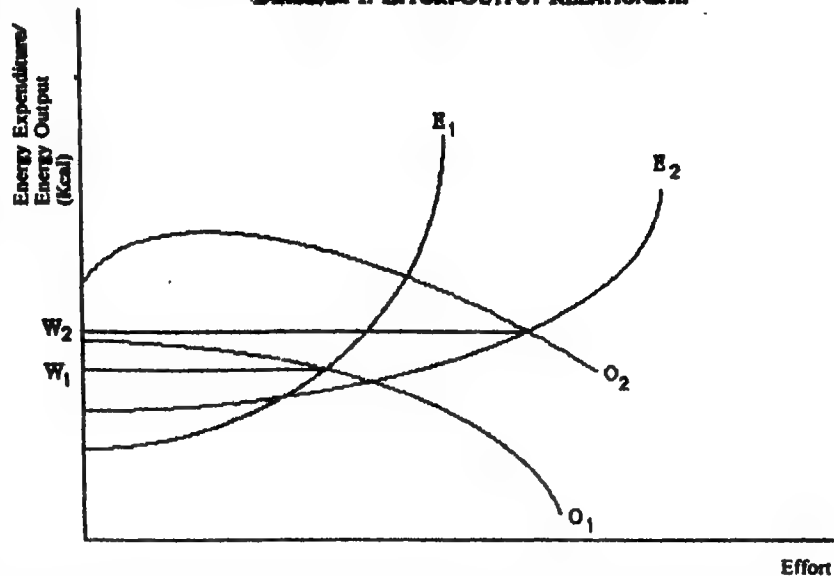
The following VAR model has been estimated with appropriate modifications for data availability:

$$A(L)X_t = U_t \quad (1)$$

where X is an $(n \times 1)$ vector of variables, A is an $(n \times n)$ matrix of coefficients, L is the lag operator and U is an $(n \times 1)$ vector of white noise disturbance terms. The basic premise of the VAR is that future values of X depend on the current and past values of X only.²²

Since the purpose of this exercise is not to derive forecasts of the wage rates but to test the existence of and the direction in Granger causality, we have neither examined the magnitude nor the sign of the estimated coefficients at this juncture. As the presence or absence of Granger causality is determined by the significance of the F-tests, these have been estimated for alternative data sets and their results compared to establish firmly the nature of the relationships.²³ We have estimated VARs with monthly, quarterly and annual data (although, as mentioned earlier, these three sets are not uniformly available for the whole wage vector). However, each set has an intersecting subset of the others and if Granger causality is found in all the intersecting subsets, then the robustness of the

DIAGRAM 1: EFFORT-OUTPUT RELATIONSHIP



relationships can be established without any doubt.

Monthly average daily wage data are available for six occupations in the agricultural sector, namely for masons, carpenters, male workers in paddy fields, female workers in paddy fields, other agricultural male workers, other agricultural female workers. These occupations are in the rural sector. For the urban sector, quarterly average daily wage data are available for four categories of labour in the construction sector, those of mason, carpenter, unskilled male worker and unskilled female worker. These wage rates are for the period 1974 to 1989. Annual average daily wages for the period 1964 to 1989 for building construction workers in the rural sector and for paddy-field male labour are also available. We have therefore estimated VARs with monthly, quarterly and annual data. In the VARs with quarterly data, we have combined, on various theoretical considerations, the rural and urban series. The rural sector is the source of the "unlimited supply of labour" to the urban sector and therefore the level of rural wages may be one of the factors determining the level of urban wages. Interestingly, the rural-urban differential in wages in construction activity for all categories of labour is about 10 per cent and remains constant during the entire period of analysis.

RESULTS OF CAUSALITY TESTS

An important question in estimating VAR concerns the choice of lag lengths in the equations. Recent contributions to the literature discuss some objective criteria for the selection of lag lengths, but in this analysis we have followed an empirical approach, trying different lag lengths and comparing their results. As is now well understood, the causality relationships are not only quite sensitive to lag lengths but the efficiency of the estimates are also affected by them. For instance, the presence or absence of serial correlation seems to be af-

fected by the lag length. There is *a priori* reason to believe that the lags are of short duration: we have noticed that within- and between-year coefficients of variation were small.²⁴ As the length of lag was increased, it was found that the estimates began to show the presence of serious autocorrelation in the residuals. This fact determined the lag structure chosen for these estimates.

The results of the vector autoregressions are given in Tables 5, 6 and 7. Table 8 presents a summary of direction of causality based on the tests of significance. Table 5 gives the values of F's and other summary statistics for the VARs using the monthly wage data for the rural sector. We ran the regressions with lag lengths of 3, 6, 9 and 12 months and found that a lag of 12 past values gave the most satisfactory result from the point of view of serial correlation as well as from the levels of significance of F values. The following linear form was adopted for the estimation:

$$W_t = C + aW_t + P_t + u_t \quad (2)$$

where the W 's are the wage rates and P_t , the cost of living index for agricultural labourers. Cost of living indices are not estimated for construction workers.

Only quarterly observations are available for construction activity in the urban sector. As the source of urban labour supply is primarily the adjacent rural areas, the urban wage rates are likely to be closely related to the rural wages and the conditions of labour demand in the rural sector. The urban wage in the construction sector appears primarily to be determined by adding a mark-up over the rural wage rate. In order to test this hypothesis, we first derived quarterly estimates of rural wages from the monthly wage data and combined these with urban wages. The VARs were estimated using this combined set of wage data. The results are given in Table 6.

Finally in Table 7 we give the F values for the annual data for the rural sector. Only five categories of wages are available on an annual basis—four for the construction

sector and a single wage rate for the agricultural sector. The construction boom in Kerala was initiated by the remittances of workers from Kerala in West Asia after the petroleum price hike in 1974. It would be interesting to test the impact of Gulf remittances on wage rates, unfortunately, data on remittances are not available. However, we know that most of these remittances have been made through the banking system and therefore would be reflected in a rise in bank deposits and in bank lendings. In the annual VARs we have included bank deposits per bank branch and bank credits per bank branch as proxies for remittances.

What do the results indicate on the nature of and the directions in causality among the variables included in the VARs? First, it is important to note that the results of the three independent sets of VARs are consistent with each other. The largest data set employed for the Granger Sims causality tests was the set of quarterly observations of the combined rural and urban wage rates. All those variables which exhibited significant levels of causality were also found to exhibit similar relationships with monthly and annual data sets.

The causality tests lend strong support to the hypothesis advanced earlier that the wage rates are mutually related and operate through feedback mechanisms when wage parities are disturbed until they are re-established. This interdependence of the wages that comprise the wage structure can be seen in terms of four different types of linkages: first, between rural and urban wages, secondly, between skilled and unskilled wages, thirdly, between different types of unskilled wages, and fourthly, between wages paid to men and women.

Beginning with the Lewis model on unlimited supplies of labour, it is a common assumption that the existing wage rate in the agricultural sector defines the opportunity cost of labour in other sectors and therefore wage rates elsewhere in the economy will be closely related to the wage rate prevailing in agriculture. The causality tests undertaken here indicate that almost all wage rates in both rural and urban sectors, are causally related to the wage rates in the agricultural

sector. Though agricultural wages Granger-cause urban wages, the reverse relationship is not generally true except in the case of male agricultural labour (paddy field labour). However, the mutual feedback mechanism seems to be operating within the construction labour market where the urban wages appear significant in the rural wage equations of mason and of carpenter.

The significance levels of F values indicate that the wage rates of masons and carpenters are highly sensitive to unskilled wages. Not only are parities between the wages of skilled and unskilled workers within the construction sector significant, it is also remarkable that the parities between the wages of skilled workers in construction and agricultural wages are equally significant. These relationships turn out to be stronger in the rural sector. There also operates a feedback from the wage rates of mason and carpenter to the wages of male workers in agriculture. In fact this mutual relationship between skilled workers in construction and male agricultural workers constitutes the crucial link in the wage chain. The wages of all other unskilled workers in agriculture, whether male or female, are mutually related through the male agricultural wage rates. In the case of gender differentials in wages, female wage rates appear to be related directly only to the wage rates in the agricultural sector. Their links with the skilled wages in construction are only indirect (via their links with male agricultural wages).

A final important finding relates to the direction of causality between price and wages. Monthly quarterly and annual VARs show that causality does not run in the direction from price to wages but seems to be operable in the opposite direction namely from wage changes to changes in the cost of living index. There is further support for this view when we examine carefully the results of the VARs with annual observations for the rural sector. We included bank deposits per branch and bank credits per branch as proxies for foreign exchange remittances by Kerala workers living abroad. These variables appear significant in the wage equations of mason and carpenter as well as the price equation. This finding sug-

gests that the construction boom was initiated by remittances, in turn, the construction boom led to the rise in the wages of masons and carpenters. Further, remittances and the construction boom were important factors in the increase in the cost of living in Kerala.

II

A Theory of Wage Structure

The analysis presented above raises some important theoretical questions on wage formation, wage structure and the mechanics of the operation of labour markets in Kerala.

- What are the reasons for wage relativities to remain almost stable over the long-run?
- Why have money wages remained 'sticky' downwards when unemployment is increasing secularly?
- Why do the unemployed not offer themselves for work at lower wages?
- What are the reasons for employers not bidding down wages by offering jobs to the unemployed?

In this section we shall attempt to provide some answers to these questions with reference to Kerala's economic performance. These are questions that have been asked not only in the context of development economics but also in reference to the macroeconomic performance of developed economies in recent times. Some of our own explanations may be similar or very close to the explanations put forward in the latter context.

SOCIAL NORMS AND WAGE RELATIVITIES

The Granger causality tests showed that the wage rates were mutually related and that causation ran in both directions. Obviously this deserves explanation. We had pointed out earlier that wage relativities are structured hierarchically and had also noted that the coefficient of variation increases as one moves down in the hierarchy. We adduce here what we consider to be the explanations for their mutual dependence and hence for the stability of the wage relativities.²⁶ This explanation would have to depend on an important attribute of the labour market, namely that it is a historically evolved social institution.

TABLE 5. TABLE OF F-TESTS (MONTHLY DATA WITH 12 PERIOD LACS)
(Rural Sector)

| | R ² | Q | v 1 | v 2 | v 3 | v 5 | v 4 | v 6 | v 13 |
|------|----------------|---------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| v 1 | 0.9998 | 46.3390 (0.1953) | 1.0110 (0.4454) | 1.1353 (0.3419) | 2.2042 (0.0174)* | 2.0794 (0.0256)** | 3.3728 (0.0004)* | 3.5751 (0.0002)* | 0.7421 (0.7069) |
| v 2 | 0.9998 | 40.2896 (0.4130) | 0.9537 (0.4982) | 4.2104 (0.00001)* | 1.8168 (0.0564)** | 2.1510 (0.0205)** | 3.2047 (0.0007)* | 2.9822 (0.0014)* | 0.7869 (0.6625) |
| v 3 | 0.9998 | 26.1700 (0.9387) | 2.2238 (0.0164)** | 1.8983 (0.0443)** | 10.4038 (0.000)* | 3.5151 (0.0001)* | 3.7752 (0.0001)* | 1.8242 (0.0551)** | 0.8221 (0.6273) |
| v 5 | 0.9997 | 40.2684 (0.4139) | 0.7543 (0.6949) | 0.4434 (0.9412) | 0.9162 (0.5341) | 1.4003 (0.0000)* | 2.5179 (0.0063)** | 1.1431 (0.3159) | 1.3258 (0.2173) |
| v 4 | 0.9994 | 38.4887 (0.4930) | 1.1696 (0.3163) | 1.1677 (0.3177) | 2.1216 (0.0224)** | 2.7579 (0.0030)* | 7.2305 (0.0000)** | 4.4735 (0.0000)** | 0.7433 (0.7058) |
| v 6 | 0.9996 | 40.9556 (0.3847) | 1.5620 (0.1166) | 1.4988 (0.1385) | 4.4398 (0.0000)* | 5.7294 (0.0000)* | 2.7085 (0.0035)* | 7.1983 (0.0000)* | 1.1231 (0.3511) |
| v 13 | 0.9983 | 46.9620 (0.1785) | 1.8106 (0.0574)*** | 1.3605 (0.1991) | 1.0485 (0.4124) | 0.5636 (0.8658) | 1.2386 (0.2691) | 1.7573 (0.0671)*** | 110.2000 (0.0000)* |

Notes: Levels of significance: * 1 per cent, ** 5 per cent, *** 10 per cent.
For key to variables, v 1 to v 13 see Table 4.

TABLE 6: F-TESTS, RURAL AND URBAN SECTORS COMBINED, QUANTITY DATA

| | R ² | Q | DF | v 1 | v 2 | v 3 | v 4 | v 5 | v 6 | v 9 | v 10 | v 11 | v 12 | v 13 |
|-----|----------------|-------------------|----|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| v 1 | 0.99 | 28.18 (0.1350) | 21 | 5.1782 (0.0077)* | 11.2464 (0.0001)* | 5.5578 (0.0057)* | 6.7051 (0.0023)* | 2.4685 (0.0901)*** | 3.0255 (0.0227)** | 5.9502 (0.0042)* | 1.1000 (0.3711) | 3.1269 (0.0474)** | 6.5454 (0.0026)* | 0.2360 (0.8702) |
| v 2 | 0.99 | 31.56 (0.0647) | 21 | 6.4850 (0.0028)* | 12.5334 (0.0000)* | 4.0594 (0.0201)** | 5.6734 (0.0052)* | 2.7221 (0.0701)*** | 3.1584 (0.0460)** | 5.8508 (0.0045)* | 1.6929 (0.1990) | 2.4870 (0.0885)*** | 3.7682 (0.0261)** | 0.4143 (0.7445) |
| v 3 | 0.99 | 24.12 (0.2868) | 21 | 8.1156 (0.0008)* | 7.0943 (0.0017)* | 1.8851 (0.1630) | 4.4073 (0.0148)** | 8.1913 (0.0008)* | 1.5377 (0.2341) | 4.3034 (0.0162)** | 2.3854 (0.0979)*** | 0.8287 (0.4928) | 2.1213 (0.1279) | 0.0881 (0.9657) |
| v 4 | 0.99 | 31.48 (0.0659) | 21 | 1.3912 (0.2731) | 0.7535 (0.5326) | 1.3550 (0.2836) | 1.4904 (0.2460) | 4.5924 (0.0126)** | 0.2830 (0.8370) | 2.1385 (0.1257) | 1.5286 (0.2363) | 1.4261 (0.2632) | 0.1880 (0.9033) | 2.1927 (0.1189) |
| v 5 | 0.99 | 32.1 (0.0571) | 21 | 2.5492 (0.0832)*** | 3.5356 (0.0323)** | 2.1488 (0.1244) | 3.4567 (0.0348)** | 9.8481 (0.0003) | 0.6014 (0.6212) | 2.7412 (0.0688)*** | 2.0522 (0.1372) | 0.0463 (0.9863) | 2.2406 (0.1133) | 0.2341 (0.8715) |
| v 6 | 0.99 | 51.68 (0.0002) | 21 | 6.3015 (0.0032)* | 3.7441 (0.0267)** | - 6.3644 (0.0030)* | 10.3099 (0.0002)* | 13.2851 (0.0000)* | 3.1789 (0.0451)** | 1.8870 (0.1627) | 1.1422 (0.3550) | 3.7140 (0.0274)** | 2.3596 (0.1005)*** | 0.5922 (0.6269) |
| v 9 | 0.99 | 22.78 (0.3554) | 21 | 1.6061 (0.2179) | 3.2915 (0.0406)** | 0.7371 (0.5416) | 1.8494 (0.1691) | 1.4273 (0.2629) | 1.1063 (0.3687) | 1.0282 (0.4002) | 1.6850 (0.2007) | 1.8863 (0.1628) | 2.7140 (0.0707)*** | 1.8967 (0.1611) |
| v10 | 0.99 | 11.99 (0.9397) | 21 | 0.1090 (0.3676) | 1.3831 (0.2754) | 0.9500 (0.4344) | 0.9801 (0.4209) | 0.9804 (0.4208) | 3.7248 (0.0272)** | 3.1360 (0.0470) | 3.0720 (0.0500) | 2.6536 (0.0750)*** | 1.9512 (0.1523) | 1.4007 (0.2703) |
| v11 | 0.99 | 12.58 (0.9225) | 21 | 0.1227 (0.9456) | 0.3296 (0.8039) | 0.9546 (0.4323) | 2.9867 (0.0542)*** | 4.0377 (0.0205)** | 4.6476 (0.0121)** | 3.2177 (0.0435)** | 2.3703 (0.0994)*** | 2.7254 (0.0699)*** | 0.7715 (0.5228) | 0.8807 (0.4669) |
| v12 | 0.99 | 19.81 (0.5328) | 21 | 0.3933 (0.7590) | 0.1041 (0.9567) | 2.4927 (0.0880)*** | 2.9191 (0.0579) | 8.3538 (0.0007)* | 5.9667 (0.0041)* | 1.9663 (0.1499) | 1.1952 (0.3357) | 1.4946 (0.2449) | 1.1255 (0.3613) | 2.0541 (0.1370) |
| v13 | 0.99 | 22.97 (0.3453) | 21 | 0.1469 (0.9305) | 0.0426 (0.9879) | 2.5861 (0.0821)*** | 0.4597 (0.7133) | 0.9208 (0.4478) | 0.2743 (0.8432) | 0.9114 (0.4523) | 0.3137 (0.8152) | 0.5128 (0.6778) | 0.0900 (0.9647) | 10.6045 (0.0001) |
| v5 | 0.99 | 11.07 (0.9613) | 35 | 0.3506 (0.7066) | 0.3271 (0.7231) | 1.0238 (0.3697) | 1.2581 (0.2967) | 10.0251 (0.0003)* | 5.5932 (0.0078)* | 2.6495 (0.0848)*** | 1.7731 (0.1847) | 1.1578 (0.3258) | 1.3317 (0.2770) | 0.2910 (0.7492) |
| v6 | 0.99 | 22.92 (2093) | 35 | 0.2457 (0.7834) | 0.0099 (0.9900) | 0.0241 (0.9761) | 1.5799 (0.2203) | 3.3241 (0.0476)** | 3.2404 (0.0501)** | 0.7084 (0.4993) | 0.5592 (0.5766) | 1.1155 (0.3390) | 2.5239 (0.0946)*** | 1.3087 (0.2830) |

Notes: Levels of significance. * = 1 per cent, ** = 5 per cent, *** = 10 per cent.
For key to variables, v 1 to v 13, see Table 4

Wage structures are probably universally hierarchical, reflecting occupational and skill differences. But in a traditional society like Kerala, these differences are further reinforced by caste considerations that restrict entry into certain occupations. For instance, carpentry, blacksmith-work, goldsmith-work and masonry are caste-based occupations and persons of other castes neither enter into nor are normally accepted by those who are already engaged in these professions.²⁷ An important aspect of development is social and occupational mobility. While such mobility is still denied in strongly caste-based occupations, masonry is one area where other castes have begun to enter. In the historical evolution of Indian or Kerala society, the caste hierarchy also determined the social ranking order of every group in the society. While historically one's economic position was also closely tied to the caste hierarchy and the social status these links are slowly breaking down. While every group would desire an improvement in its social and economic status, each group would also be particularly concerned with any perceived decline in its hierarchical status and would make every effort to maintain its relative position.²⁸ However, persons belonging to the middle of the caste

hierarchy are joining the ranks of agricultural labour or the construction labour pool due to lack of employment opportunities or when they have neither any asset base to fall back upon nor any training or education to gain entry into better professions.

Any person who lives in a hierarchical society and is aware of and concerned with his status will be constantly comparing himself with those above and below him. Caste hierarchy is determined by birth and thus can be considered as the given initial conditions. Among other factors such as occupation, income and political power, the most visible and also the most easily measurable index of status is income. In the case of hired labour, a ranking on the basis of income will be roughly the same as a ranking on the basis of the level of wage rates, assuming for the present that the quantum of employment is similar for all groups of labour.

There is no *a priori* reason to believe that a labourer who is part of a hierarchical society will behave in a different manner from the rest of the population. He will be concerned with his relative position and will be comparing his wages with the wages of those above and below him. Each and every

group of labourers will be undertaking such comparisons all the time in order to protect their position within the labour hierarchy. We may identify these as vertical comparisons. These vertical comparisons constitute an important factor in the emergence and maintenance of the wage relativities.

Would not a labourer stand to gain employment by offering himself for work at lower than the prevailing wage rate? Are there compelling reasons against doing so? These are important questions in the context of high and increasing unemployment in Kerala. It appears that there are economic as well sociological reasons why a labourer, in the Kerala context, would not offer himself for work for a wage other than the prevailing one. The first factor has to do with the perceived norm regarding the standard of living appropriate to his class or group. This perceived norm is arrived at by a process of horizontal comparisons analogous to the vertical comparisons mentioned above. Just as he is comparing his position with that of those above and below him, he is also comparing his own living standards with those of others who belong to the same occupational group or do similar jobs. If this is true then the own lagged variable should appear significant in the Granger test. The

TABLE 7 F-TESTS ANNUAL DATA (RURAL SECTOR)

| | R2 | Q | v1 | v2 | v7 | v8 | v3 | v14 | v15 | v13 |
|-----|------|-------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|
| v1 | 0.99 | 12.4 (0.4140) | 2.3512 (0.1655) | 1.7969 (0.2345) | 6.0378 (0.0299)** | 6.6027 (0.0245)** | 8.2461 (0.014) | 6.2346 (0.0278)** | 4.422 (0.0573)** | 2.5762 (0.1450) |
| v2 | 0.99 | 11.2 (0.5110) | 1.8207 (0.2308) | 1.3146 (0.3275) | 4.2451 (0.0620)*** | 4.4084 (0.0576)*** | 5.4652 (0.0371)** | 5.3076 (0.0395)** | 3.7172 (0.0794)*** | 2.9374 (0.1185) |
| v7 | 0.99 | 9.73 (0.6389) | 7.7626 (0.0167)** | 7.1193 (0.0205)** | 22.3456 (0.0009)* | 36.0126 (0.0002)* | 8.7817 (0.0123)* | 0.8773 (0.4570) | 0.9579 (0.4288) | 2.719 (0.1337) |
| v8 | 0.99 | 16.35 (0.1754) | 1.369 (0.3148) | 2.0146 (0.2036) | 0.4645 (0.6464) | 10.2366 (0.0083)* | 6.0326 (0.0299)** | 0.0785 (0.9252) | 0.8945 (0.4508) | 2.792 (0.1283) |
| v3 | 0.99 | 10 (0.6157) | 2.28 (0.1727) | 0.6956 (0.5302) | 5.2691 (0.0401)** | 1.306 (0.3295) | 2.6411 (0.1397) | 2.3079 (0.1698) | 2.6973 (0.1353) | 3.4737 (0.0895)*** |
| v14 | 0.99 | 10.45 (0.5758) | 0.4393 (0.6610) | 0.7731 (0.4973) | 1.4467 (0.2979) | 4.9427 (0.0458)** | 0.6027 (0.5734) | 2.9036 (0.1207) | 0.5096 (0.6214) | 0.9743 (0.4233) |
| v15 | 0.99 | 16.09 (0.1868) | 0.637 (0.5569) | 0.6577 (0.5473) | 1.4974 (0.2874) | 4.8666 (0.0473)** | 1.6006 (0.2676) | 0.8304 (0.4746) | 0.1716 (0.8457) | 0.9088 (0.4457) |
| v13 | 0.99 | 15.65 (0.2074) | 4.0202 (0.0684)*** | 4.2455 (0.0620)*** | 3.688 (0.0805)*** | 2.6804 (0.1366) | 2.0012 (0.2054) | 3.2651 (0.0996)*** | 1.718 | 4.9306 (0.2471) |

Levels of significance * 1 per cent ** 5 per cent *** 10 per cent
For key to variables v1 to v15 see table 4

TABLE 8 SUMMARY OF RESULTS OF CAUSALITY TESTS

| | v1 | v2 | v3 | v4 | v5 | v6 | v7 | v8 | v9 | v10 | v11 | v12 | v13 | v14 | v15 |
|-----|----|----|----|----|----|----|----|----|----|-----|-----|-----|-----|-----|-----|
| v1 | * | * | * | * | * | * | * | | | | * | * | | * | * |
| v2 | * | * | * | * | * | * | * | | | | * | * | | * | * |
| v3 | * | * | * | * | * | * | * | | * | | | | | * | * |
| v5 | * | * | | * | * | * | * | | | | | | | | |
| v6 | | | * | * | * | * | * | | | | | | | | |
| v11 | | | | * | * | * | * | | | | * | | | | |
| v14 | * | * | * | * | * | * | * | | | | | | | * | * |
| v4 | | | * | * | * | * | * | | | | | | | | |
| v9 | | | | | | * | * | | * | | * | | | | |
| v12 | | | * | * | * | * | * | | | | | | | | |
| v7 | * | | | | | | | | | | | | | | |
| v15 | | | * | | | | | | | | | | | | * |
| v7 | | * | | | | | | | | | * | | | | |
| v9 | | | | | | * | * | | * | | * | | | | |
| v11 | | | | * | * | * | * | | | | * | | | | |
| v12 | | | * | * | * | * | * | | | | | | | | |

* Denotes significant Granger causality

It is shown, in fact, that this is so.

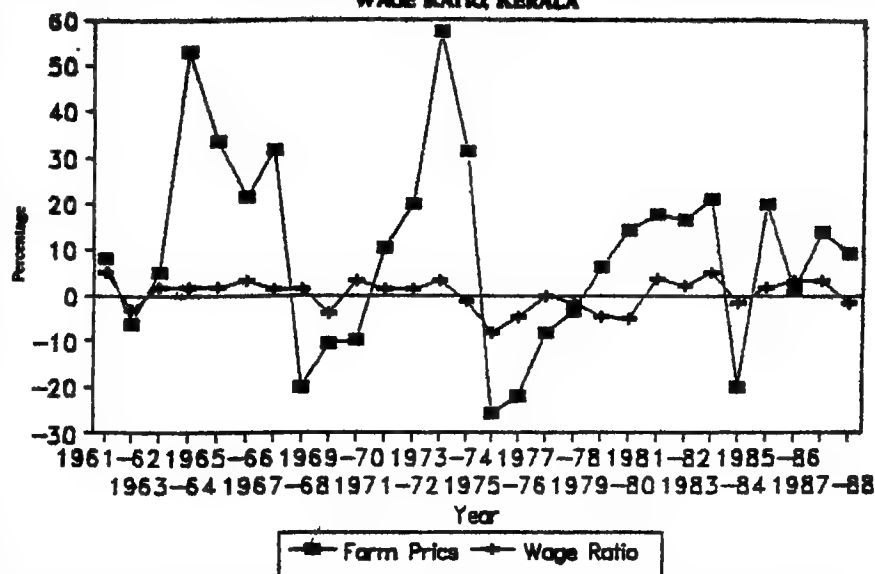
The maintenance of living standards appropriate to the perceived living standards of one's own peer group is crucial to the maintenance of one's social status within the hierarchical structure. Therefore, unless the elasticity of employment with respect to wages is greater than unity, a labourer will not be able to raise his total wage income by accepting a lower wage rate. As every labourer is aware of the employment pattern in the village, there is perfect foresight about the nature of employment. Almost all the employment opportunities are in agriculture which has a rigid seasonal pattern. There is also no incentive to migrate to neighbouring villages in search of work as there is an excess supply of labour in these villages as well and the pattern of employment is similar. Besides, after land reform, every labourer lives in the dwelling to which he or she became entitled and therefore has no incentive to travel far beyond commuting distance. Casual workers in Kerala are closely tied to their roots and they migrate for work only if the compensation is sufficiently high to warrant the dislocation of their residence. Due to all these reasons, the elasticity of employment with respect to wages will be much less than unity and therefore there is no incentive for anyone to offer himself at a wage rate lower than the prevailing one.

Another factor will be the social stigma attached to a labourer if it is known among his peer group that he is working for a lower rate than the prevailing wage rate.²⁹ This social resentment is reinforced by unionism in Kerala, especially among agricultural labourers, which has not only made them aware of their organised strength, but has also instilled in them a deep sense of class consciousness. Anyone who breaks the class norm will be considered to be harming their class interests and is likely to be subjected to social and political pressures to make them resist such deviant behaviour. Such pressures are greater in Kerala than elsewhere in India, since in Kerala agricultural labourer unions are controlled largely by the Leftist parties that enforce union discipline firmly.³⁰

While the explanation provides a rationale for the workers not to accept lower wage rates and strive for the maintenance of wage relativities, there is no apparent reason why the employers should accept such a position. As there is an excess supply of labour in agriculture, if the employers were to organise and collectively offer a lower wage, the labourers would have found it difficult to resist the wage cut. However, such a stalemate has not taken place until now and it is interesting to enquire what might be the reasons for the same.

The first and foremost is the fact that agricultural labour is strongly unionised and therefore wage cuts are resisted on all counts. The arguments in favour of maintaining the wage parities provide a strong weapon to labour unions not only to resist wage cuts but, on the other hand, to enforce the upward revision of wages. In fact, the phenomenon of wage parity maintenance

DIAGRAM 2: ANNUAL PERCENTAGE CHANGE IN FARM PRICE AND IN AGRICULTURAL WAGE RATIO, KERALA



has enabled agricultural labour in Kerala to achieve increases in real wages in spite of rising unemployment.

These wage increases have also been aided by the periodic revision of minimum wages that take into account increases in the cost of living.³¹ Kerala is perhaps the only State in India where the minimum wage notifications are effective and operational. The notification of minimum wages provides another reason for the trade unions to demand wage revisions.

We have some interesting evidence to indicate that the maintenance of wage parities is accepted as a desirable principle by both unions and employers. This principle is explicitly stated in the report of the first minimum wages committee which included prominent trade union leaders as well as influential farmers:

The problem of minimum wage fixation has also to be approached from the angle of comparative wage levels in other occupations; for, ultimately there cannot be any disparity between the standard requirements of an agricultural labourer and of an industrial worker. Too wide a gap between the wages of these categories of workers would not only be inequitable and unjust, but it would also be not conducive to the maintenance of a sound and stable economy. The need to preserve a balance between these two sectors of our economy becomes manifest when we consider this problem in relation to plantation workers. Representatives of the plantation industries feel that if the wages in the plantations are fixed high, having in view the capacity of the employer to pay, then there may be a tendency for agricultural labour in the neighbourhood to migrate to plantations. The disturbance of the balance or relationship between agricultural and plantation wages would seriously affect the agricultural economy as a whole. The same arguments hold good in respect of wages in industries. The problem of fixation of wages is therefore very delicate and difficult. The wages we fix should neither be too high based on idealistic considerations, for it would not only defeat

the purpose of the legislation, but would result in unemployment and loss of production, nor should it be too low, for it would be ineffective in promoting the object of the legislation. To provide a fairly decent standard of living to them is essentially a question of social justice.³²

From the foregoing statement it is clear that the committee was aware of the importance of maintaining the wage parities and at the same was also concerned about the question of social justice.

The committee also mentions that the minimum wage fixed must be a 'fair wage'.³³ What constitutes a fair wage is a difficult question to answer. Employers and employees might have very different notions and mutually inconsistent norms regarding 'fair wages'.³⁴ The idea of fairness in the context of wage relativities needs to be interpreted quite cautiously. Workers may feel that the wages they receive do not reflect what they are entitled to but they might still accept them as long as they are consistent with the historically determined wage relativities. They may feel that the least society can do for them is to adjust their wages in step with changes in other wages. In this limited sense, the prevailing wage parities might have acquired over time the stamp of 'fairness', by providing a societal norm for wage setting. Therefore, any change in wage parities has to reflect a change in this societal norm and can only be a gradual process, reflecting long-run trends in the economy. It is difficult to explain how the original parities got established—their establishment is the result of the interplay of numerous forces—but once established, they form part of the corpus of social customs and norms a society inevitably takes on itself for its functioning.³⁵

The above view regarding wage-setting in the Kerala economy does not imply that the same mechanism will hold good for the other regions of India. The institutional setting of the labour market in Kerala is very distinct in that it is an unfettered labour

market, in the sense that it is not tied to the credit or land markets. Besides, some segments of the market are unionised and can influence the determination of wage rates. Ununionisation of rural labour in the rest of India has not yet taken place.

If the adherence to wage parities is considered a societal norm then it implies that the employers also accept the periodic revision of wages without much resistance. Why they fall in line when there is an excess supply of labour still needs further analysis. An employer may consider the prevailing wage rate too high but will still decide to pay it for two principal reasons. The first factor is the nature of the product cycle in agriculture. Almost all agricultural operations have to be completed within a specified time framework to avoid any damage to the crop, this fact enables the labour force to exercise some monopsony power and thus strengthen its bargaining position. Under these circumstances, the employers would face a reduction in their total output unless they agreed to pay the prevailing wage rate, which would be an important consideration in agriculture where the peak season requirements of labour could be high. This factor is likely to be reinforced by the institutional structure of the labour market in Kerala. The market for unskilled labour is geographically segmented and there is minimal inter-village mobility of labour.

In a local labour market, the employers are aware of the nature of the conditions of labour supply and have some familiarity with those who are seeking work. They are probably aware of the quality of work of different persons and might have even developed some sort of a ranking of workers on the basis of the efficiency of their work.³⁶ This may lead to informal understandings and arrangements between particular sets of employers and employees—employers preferring particular employees on the basis of their perceived levels of efficiency in work. For employers such preferred employees are likely to reduce the opportunity cost of supervision. Such preferences would not entail the payment of any premium over the market wage, but the payment of a wage below the market wage may affect the level of effort and hence the efficiency of work and thus jeopardise the informal relationship between the employer and the employee. Under this situation, the prevailing market wage will be the efficiency wage.³⁷ At the market wage, the labourer will put in the maximum effort and at this wage the supply of labour will be highly elastic. As far as the employer is concerned, at wages below the prevailing market wage rate the important question is not of the elasticity of labour supply but the elasticity of effort. Even if unemployed workers are willing to offer themselves for work at lower wages, their awareness of this situation may be reflected in the level of intensity of their effort and thus result in lower output. Therefore, on grounds of efficiency, the employer will prefer to pay the prevailing wage rate to his most preferred employees and thus minimise his supervisory costs for a given level of output. For the preferred

employees, putting in their best effort minimises their own transaction costs and offers some regularity in employment in a market where there is an excess supply of labour.

The operation of the efficiency wage is illustrated in Diagram 1. The efficiency wage may be considered to be determined by a variety of factors, but an important element would be the level of the nutritional intake since work effort can be measured in terms of energy expenditure. In Diagram 1, we measure both effort and outcome in terms of energy units. There could be an institutionally determined minimum wage below which no labour supply would be forth-

coming. This minimum acceptable wage will determine the initial position of the effort curve. The origin and the shape of the effort curve will depend on the level of the offered wage. There is also an upper limit to the effort curve determined by physiological limits beyond which effort cannot be raised. At the lower wage rate the time devoted to heavy work will be less compared to a high wage situation. As one substitutes heavy work for light work the energy expenditure will rise at a faster rate. The effort curves drawn reflects these features.³⁸ E_1 and E_2 are the marginal effort curves corresponding to wage rates W_1 and W_2 . In the same diagram, we can also measure out-

TABLE 9 INDICES OF FARM HARVEST PRICES AND COST OF LIVING FOR AGRICULTURAL LABOURERS AREA UNDER PADDY AND WAGE RELATIVITIES IN KERALA

| | Index of Farm Harvest Price of Paddy (1960 = 100) | Cost of Living for Agri. Labourers (1960 = 100) | Ratio of Farm Price/Cost of Living Index | Area under Paddy Cultivation ('000 Hectares) | Ratio of (Male) Agri. cultural Wage to Wage of Mason | Ratio of (Female) Agri. cultural Wage to Wage of Mason | Ratio of Female Wage in Agriculture to Male Wage in Agriculture |
|---------|---|---|--|--|--|--|---|
| 1960-61 | 101.35 | 102.03 | 0.99 | 778.91 | 0.61 | NA | NA |
| 1961-62 | 109.38 | 106.46 | 1.03 | 752.69 | 0.64 | NA | NA |
| 1962-63 | 102.62 | 108.48 | 0.94 | 802.66 | 0.62 | NA | NA |
| 1963-64 | 107.68 | 109.91 | 0.98 | 805.08 | 0.63 | NA | NA |
| 1964-65 | 164.57 | 130.49 | 1.26 | 801.12 | 0.64 | NA | NA |
| 1965-66 | 219.58 | 150.00 | 1.46 | 802.33 | 0.65 | NA | NA |
| 1966-67 | 267.10 | 160.58 | 1.66 | 793.47 | 0.67 | NA | NA |
| 1967-68 | 351.46 | 172.17 | 2.04 | 809.66 | 0.68 | NA | NA |
| 1968-69 | 280.16 | 195.08 | 1.43 | 877.89 | 0.69 | NA | NA |
| 1969-70 | 250.96 | 202.00 | 1.24 | 874.06 | 0.66 | NA | NA |
| 1970-71 | 225.79 | 214.50 | 1.05 | 874.83 | 0.68 | NA | NA |
| 1971-72 | 248.88 | 211.42 | 1.18 | 875.16 | 0.69 | NA | NA |
| 1972-73 | 298.19 | 221.25 | 1.35 | 873.70 | 0.70 | NA | NA |
| 1973-74 | 469.17 | 275.58 | 1.80 | 874.67 | 0.72 | 0.48 | 0.69 |
| 1974-75 | 616.03 | 383.42 | 1.60 | 881.46 | 0.71 | 0.47 | 0.66 |
| 1975-76 | 457.79 | 366.33 | 1.25 | 876.02 | 0.65 | 0.45 | 0.66 |
| 1976-77 | 357.11 | 425.92 | 1.09 | 854.37 | 0.62 | 0.43 | 0.69 |
| 1977-78 | 326.97 | 317.67 | 1.03 | 840.37 | 0.62 | 0.43 | 0.70 |
| 1978-79 | 314.63 | 323.83 | 0.97 | 799.24 | 0.61 | 0.42 | 0.69 |
| 1979-80 | 313.35 | 344.58 | 0.97 | 793.26 | 0.58 | 0.41 | 0.69 |
| 1980-81 | 380.43 | 379.33 | 1.00 | 801.70 | 0.55 | 0.39 | 0.71 |
| 1981-82 | 447.28 | 418.58 | 1.06 | 806.85 | 0.57 | 0.40 | 0.68 |
| 1982-83 | 520.79 | 478.50 | 1.09 | 778.49 | 0.58 | 0.41 | 0.70 |
| 1983-84 | 629.52 | 584.83 | 1.07 | 740.08 | 0.61 | 0.39 | 0.70 |
| 1984-85 | 502.27 | 594.83 | 0.84 | 730.38 | 0.60 | 0.37 | 0.60 |
| 1985-86 | 602.87 | 601.33 | 1.00 | 678.28 | 0.61 | 0.36 | 0.57 |
| 1986-87 | 610.25 | 665.25 | 0.92 | 663.80 | 0.63 | 0.37 | 0.58 |
| 1987-88 | 694.99 | 706.17 | 0.98 | 604.08 | 0.65 | 0.38 | 0.59 |
| 1988-89 | 757.54 | 788.25 | 0.96 | 577.55 | 0.64 | 0.38 | 0.58 |

Source: Department of Economics and Statistics, Government of Kerala.

TABLE 10 AVERAGE ANNUAL DAYS OF EMPLOYMENT OF RURAL LABOURERS

| Period | Sex | Average Days of Employment | | | |
|---------|--------|----------------------------|-----|--------------|-----|
| | | Agricultural Lab | | Rural Labour | |
| | | AI | ORI | AI | ORI |
| 1964-65 | Male | 196 | 231 | 196 | 220 |
| (RIER) | Female | 165 | 222 | 164 | 223 |
| 1974-75 | Male | 169 | 193 | 168 | 205 |
| (RIER) | Female | 128 | 151 | 126 | 170 |
| 1983-84 | Male | 147 | 182 | 146 | 197 |
| | Female | 115 | 186 | 112 | 198 |

Note: RIER = Rural Labour Enquiry Report.

Source: Department of Economics and Statistics, Government of Kerala, *Report of the Survey on Socioeconomic Conditions of Agricultural and Other Rural Labourers in Kerala, 1983-84*. Trivandrum, 1985.

put in terms of energy production, and corresponding to each effort level there will be an output curve as well.³⁹ O_1 and O_2 are the marginal output curves corresponding to E_1 and E_2 . Higher the level of effort, the larger will be the level of output. In a situation like that of Kerala's, the supply of labour will be infinitely elastic at the market wage rate. Even otherwise, in a Lewis-type economy, the labour supply will be highly elastic at the prevailing wage rate. This ensures the necessary conditions for the stability of the labour market: first, the condition that it is not necessary to offer a wage above the prevailing market rate and, secondly, the condition that the optimum effort will be forthcoming at that wage rate (as otherwise the employer would be free to substitute one worker with another). Therefore, the worker faces the threat of unemployment if he fails to put in his best effort. These are the reasons why the prevailing wage rate turns out exactly to be the efficiency wage rate. At this wage rate the employer will maximise his net output.

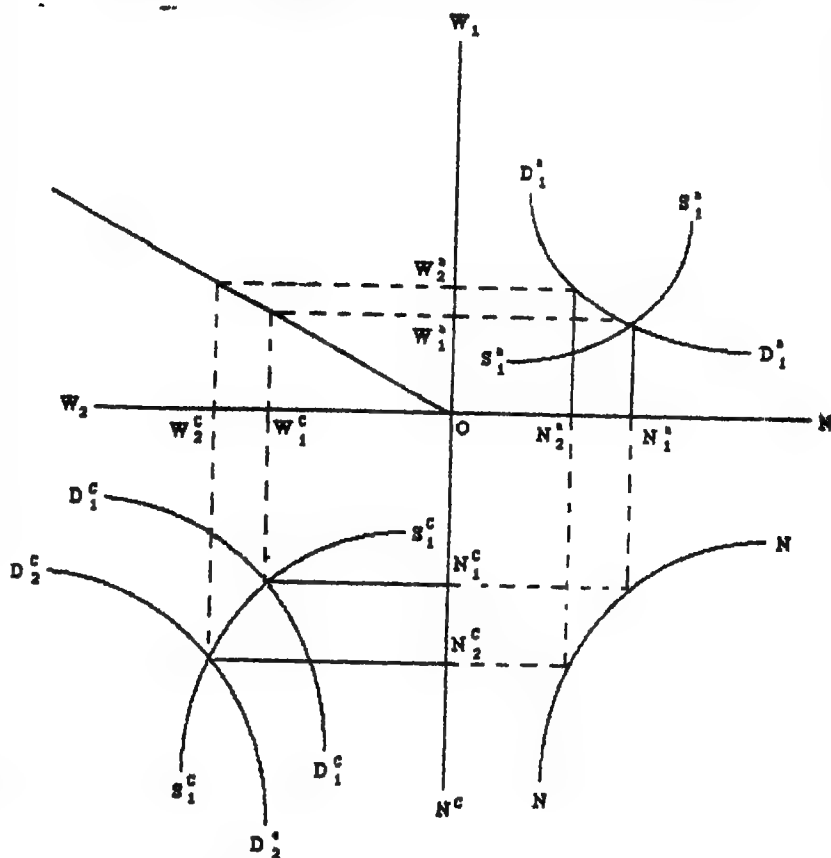
III

Wage Relativities and Changes in Product Demand

The low coefficients of variation and the mutual causal relationships among wage rates together do not imply that wage relativities are insensitive to conditions in the different product markets. A weakening of product demand will obviously lead to a weakening of the demand for labour too which in turn may widen the wage relativities. McDonald and Solow have shown that in a segmented labour market where there is flexibility of wage rates in the secondary labour market to accommodate all those who seek jobs in that sector, the wage differential between the primary and the secondary sector widens as the overall labour market weakens and vice versa.⁴⁰ They assume that the wage rate in the primary sector is rigid and it is changes in employment and not in wages which bring about the adjustment in this market.

The basic premise of our analysis differs fundamentally from the McDonald-Solow assumption in that the wage relativities are mutually related and are assumed to be stable. However, we also find that wage relativities widen as product demand weakens and narrows as product demand tightens. But because of the attempt to maintain the stability of wage relativities over the long-run, any widening of wage disparities is countered by attempts to regain the original parity levels. How soon the parity is restored will depend essentially on the conditions and characteristics of the particular labour market. Unionisation can be one instrument which can reduce the lag in the adjustment process and restore parities as quickly as possible. Another mechanism would be to appeal to custom and tradition in wage relationships as a reason for the restoration of parity whenever it is widely off the accepted norm. In the Kerala situation both these factors may be in operation.

DIAGRAM 3: EMPLOYMENT IN INTERRELATED LABOUR MARKETS



To repeat the point, this study analyses wages in the construction and agricultural sectors of the Kerala economy. Within agriculture, the most important commodity is rice and therefore the most significant wage rate is that of paddy field labour. An increase in construction activity or a rise in demand for construction labour will be reflected in a rise in wage rates in this sector, especially in the wages of masons and carpenters. We therefore estimated the ratio of paddy field labour to that of masons in order to analyse the movements in wage rates in relation to the changes in demand in the respective product markets.

What do the wage ratios indicate? The wage ratio for male agricultural workers rises from 0.62 in 1963-64 to 0.72 in 1974-75 and then declines to 0.57 in 1981-82. Thereafter it rises slowly and reaches a figure of 0.65 in 1988-89, close to the mean value. The wage rates of female agricultural workers are available only for the period 1973-74 to 1988-89 and the relative wage of female agricultural labour appears to have steadily deteriorated, from 0.49 to 0.38. Thus it appears that the brunt of the labour market adjustment in a weak product market is borne by female labour.

Table 9 provides data on wage relativities, on the farm harvest price of paddy and on the cost of living index for agricultural labourers in Kerala. While farm prices as well as the cost of living index have risen during the period of our analysis, there are some marked differences in their trends. The trends in harvest prices reflect more ac-

curately the total output in agriculture (and in drought years, harvest price increases are much higher than those in the cost of living index). Column 3 of Table 8 gives the ratio of the farm price index to that of cost of living, and shows that from 1968 to 1978 it was greater than one and that from 1979 this trend was somewhat reversed. Larger increases took place in farm harvest prices between 1966 and 1975 than in the subsequent period. A comparison of the annual percentage changes in wage relativities with those in farm harvest prices indicates that both move together. The wage relativities began to rise from 1966 until 1975 and, reflecting the decline in farm harvest prices, then started to move downward, reaching a low point in 1980-81. In Diagram 2 we have drawn the graphs of the annual percentage change in farm harvest price and also the corresponding percentage change in the wage ratio of male agricultural field labour. The directions of changes in both curves are similar except for the period 1987 to 1989 when the attempt to raise the wage parity succeeded quite to an extent.

The relationship between farm harvest price and the movements in relative wage in agriculture in Kerala is closely related to the food economy of India. Kerala was producing only about half of its rice requirements in the 1960s and depended for the rest of the requirements on the release of both rice and wheat from Central government stocks for public distribution. During this period there were also restrictions on the free movement of foodgrains within the country. The price

increases in the 1960s reflected the tight food situation in India, which limited the availability of foodgrains from the Central pool to Kerala. But this situation was somewhat eased by the beginning of the 1970s as a result of the introduction of the high-yielding varieties of wheat and rice. These are reflected in the changes in the net availability of foodgrains in Kerala, from 70.4 kgs per capita per annum in 1960-63 to 96.2 kgs in 1970-73.⁴¹

The food situation improved from the mid-1970s and the restrictions on grain movement were also relaxed to a large extent from then on. The farm harvest price within Kerala is basically influenced by the level of food output elsewhere in the country, since it determines the quantum of rice that is available to Kerala both through the public as well as through private trade. From the mid-1970s, the quantities of grain imported to Kerala from the rest of India began to rise; this played a dampening role on the extent to which farm prices could be raised. On the other hand, in the 1960s, when the domestic foodgrains market was not tightly integrated with the rest of the Indian foodgrains market, farm harvest prices could absorb the increases in agricultural wages without affecting the level of return on cultivation.

The behaviour of the wage ratios also confirms that upward revisions of wages are easily granted in a tight product market and less so in a weak product market. A general conclusion that seems to emerge from this analysis is that the relative wage moves in favour of the agricultural worker when the terms of trade moves in favour of agriculture, and the relative wage deteriorates when the terms of trade move against agriculture.

TABLE II: PERCENTAGE INCREASE OF AGRICULTURAL LABOURER (AL) HOUSEHOLDS AND OTHER AGRICULTURAL LABOURER (ORL) HOUSEHOLDS

| Period | Percentage Change of Households over 1964-65 | | |
|---------|--|-------|------------------|
| | AL | ORL | All Rural Labour |
| 1974-75 | 27.12 | 38.95 | 31.03 |
| 1983-84 | 9.26 | 69.45 | 30.35 |

Source. Department of Economics and Statistics, Government of Kerala, *Report of the Survey on Socioeconomic Conditions of Agricultural and Other Rural Labourers in Kerala, 1983-84*, Trivandrum, 1985.

TABLE 12: AVERAGE ANNUAL INCOME OF RURAL LABOUR HOUSEHOLDS (Rs in Current and 1960-61 Prices)

| Period | Agricultural Labour Households | | | | Non-Agricultural Labour Households | | | |
|---------|--------------------------------|-------------------|----------|-------------------|------------------------------------|-------------------|----------|-------------------|
| | Current | Percentage Change | Constant | Percentage Change | Current | Percentage Change | Constant | Percentage Change |
| 1964-65 | 835 | | 632 | | 916 | | 694 | |
| 1974-75 | 2068 | 147.6 | 540 | -14.55 | 2171 | 137.0 | 567 | -18.3 |
| 1983-84 | 4863 | 135.0 | 831 | 53.9 | 5440 | 150.6 | 930 | 64.0 |

In Table 9 we have also shown the gender differentials in wages. While the gender wage differentials between the construction and the agricultural sectors appear to have widened, this is less so within agriculture itself. Our earlier analysis of causality had indicated that wages of female agricultural labourers were not causally related to any other wage rates except to those of male agricultural labourers. In fact, while the sectoral wage differentials widened between 1975 and 1982, the gender wage differential within rice cultivation remained unchanged until 1984, and then widened considerably. On the other hand, the changes in differentials between paddy wages and the wage rates for other agricultural activities have narrowed for male workers and widened for female workers. Thus all the wage comparisons indicate that the decline in demand for labour for rice cultivation has had the greatest (adverse) impact on female wage rates in rice cultivation. Even though the gender wage differentials have widened in Kerala, female wage rates are still the second highest in the country. The Kerala wage rate is two and a half times as high as the female agricultural wage in the neighbouring State of Tamil Nadu (see Table 1).

The analysis of the relationship between wage relativities and product demand seems to indicate the following conclusions: the extent of changes in wage disparities depends not only on the position of the given category of labour in the wage hierarchy but also on the degree of interrelationship between the respective wage rates. The degree of interrelationship might be indicated by the magnitude of the wage elasticities which gives the value of the elasticity of wage of the j th category of labour with respect to the wage of the i th category of labour. When these elasticities have values exceeding zero we may describe the labour markets as interrelated and the categories of labour that have elasticities less than zero as segmented labour markets. The closer the value of the elasticity to unity, the less the deviation in the wage relativities from the long-term norm. The speed of adjustment may also be determined by the degree of interrelatedness of the labour markets. The weaker the interrelationship, the longer the lag in restoring the wage parities.

We had noted earlier that not only was female labour at the bottom of the hierarchical ladder, this market was also the least interrelated with other labour markets. The gender wage differential thus widened in a weak product market and there was probably a longer time lag in restoring the parity.

IV

Employment and Output in Interrelated Markets

An important characteristic of interrelated labour markets is that when the wage rate in any single labour market changes due to an autonomous factor, it will induce changes in wage rates in all interrelated labour markets. The extent of these induced wage changes will depend upon the strength of the degree of interrelatedness as indicated by the magnitude of the wage elasticities. How these induced wage changes affect output and employment would depend on the conditions prevailing in the product markets. If the product markets are tight, then wage increases can be passed on to the consumers through higher product prices. On the other hand, if wage rises appear to be difficult to be added to prices, then they may lead to a contraction in employment and output in those sectors where the wage increases are due to induced rather than autonomous changes. In that sector where an autonomous increase in demand led to a rise in wage rates, employment and output would rise too, but whether this would compensate for the decline in employment and output in the rest of the economy is a difficult proposition to answer without a more detailed macroeconomic model. However, we shall attempt a simple two-sector model to illustrate the relations described so far and then examine whether it is able to explain the recent performance of the Kerala economy. Since we are basically interested in the performance of the rural economy of Kerala, we assume that the two sectors are represented by building construction and agriculture.

A MODEL OF EMPLOYMENT AND OUTPUT IN INTERRELATED MARKETS

The mechanics and the operation of the two-sector model are illustrated in Diagram 3. It is divided into four quadrants, the upper right and the lower left quadrants depicting the labour market conditions in the agriculture and construction sectors respectively. The D_i^a , D_i^c and the S_i^a , S_i^c curves are the demand and supply curves for labour in the agriculture and construction sectors respectively. RO in the upper left quadrant represents the prevailing wage parity. The NN-curve on the lower right quadrant represents the employment frontier, giving the combinations of employment in each sector for different absolute wage rates while the relative wage remains stable.

The initial wage rates and the corresponding levels of employment are indicated by W_1^a , W_1^c and N_1^a , N_1^c . The slope of the relative wage curve shown in the upper left quadrant reflects the prevailing wage rates which are in conformity with the accepted social norm regarding wage rates for different categories of labour. Total employment in the economy will be the sum of ON_1^a and ON_1^c and the corresponding point is indicated in the employment curve shown in the fourth quadrant.

When the demand for labour rises in the construction sector due to an autonomous increase in investment in this sector it initiates an increase in the wage rates of construction labour. This increase begins with a rise in the wages of carpenters and masons. (This is because their supply is limited since these are caste-based occupations and free entry is restricted) This is precisely what happened in Kerala when the construction boom was initiated by the remittances of earnings from the workers of Kerala origin in West Asia. This internal shift in demand for construction labour was further reinforced by the migration of construction labour, especially of carpenters and masons, to West Asia. The initial rise in the wages of carpenters and masons was soon transmitted to the wage rates of unskilled labour in construction and in other inter-related labour markets through the operation of the parity norm.

The effect of the rise in construction investment is indicated in the diagram by the outward shift of the demand curve for labour. When the wage rate rises in the construction sector the agricultural wage also rises in order to keep the relative wage constant. However, this increase in agricultural wage will shift the demand for labour in this sector downwards. The extent of this shift will depend on the elasticity of demand for labour which, in turn, depends on the elasticity of product demand. This is essentially a question of whether or not farmers are able to pass on the wage increases to consumers or not. When this is not possible the rise in wage rate leads to a decline in employment and output in the agricultural sector. There will be a new level of aggregate employment which could be the same as before or lower, or higher, depending on the respective elasticities of labour demand in the two sectors. The original level of employment can be maintained in agriculture only if the relative wage declines.

EMPLOYMENT AND OUTPUT IN AGRICULTURE IN KERALA

We shall now examine whether the changes in employment and output in agriculture in Kerala are consistent with the conclusions of the model developed here. While statistics on acreage and output are available on an annual basis, we lack comparable information on employment. Whatever information we have on employment are either collected through the National Sample Survey or by the decennial Rural Labour Enquiries. The data collected by the latter indicate that the average number of days of employment has drastically declined in agriculture between 1964 and 1984. A male agricultural worker was employed on an average for 198 days in 1964-65. That figure declined to 169 days in 1974-75 and to 147 days in 1983-84. The corresponding decline was even larger for female workers, from 165 days to 115 days (see Table 10). Though the number of days of employment decreased in non-agricultural activities too, not only was the extent of the decline smaller but it fell from a larger

DIAGRAM 4: ACTUAL AND FITTED ACREAGE UNDER PADDY

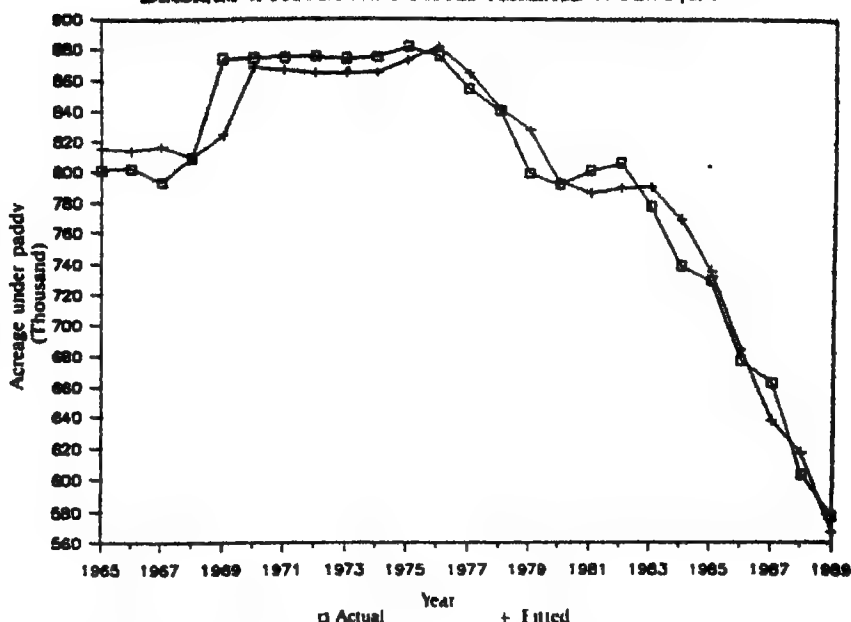


figure. The decline in employment in agriculture would have been much larger but for the fact that there occurred a shift of labour households from agricultural to non agricultural occupations (see Table 11). The changes in relative wages and the shift from agricultural to non agricultural occupations confirms that there was a marked increase in the demand for labour in non agricultural activities after 1974-75 when the impact of Gulf remittances began to be felt in the Kerala economy. What the combined effect would be of these factors on the quantum of aggregate employment in agriculture is a difficult question to answer, but the decline in acreage under paddy must surely result in corresponding decline in total employment also.

Interestingly, the decline in employment does not appear to have affected adversely the income of the labour households. The decline in the number of days of employment seems to have been compensated for by the rise in wage rates. While the extent of the rise in real income was smaller than the rise in real wage rates, real incomes still rose one and a half times for agricultural labour households and by nearly two thirds for non agricultural households between 1964 and 1984 (see Table 12).

If we can show that the rising level of wages was an important factor in the decline in the acreage under paddy cultivation then it would confirm the validity of our hypothesis and the relevance of the above model in explaining the performance of the agricultural economy of Kerala. For this purpose we estimated acreage response functions for paddy cultivation and the results are given in Table 14. Equations (1) and (2) are of a Nerlovian type of distributed lag where lagged values of acreage under paddy, farm price of paddy and male or female wage rates have been used as explanatory variables. In equation (3) we omitted lagged acreage from the explanatory variables, but introduced additional lagged values of price

and wage. In all cases the values of R^2 are high and all the three variables appear to be important in determining current acreage under paddy production. In all cases the coefficients display the correct sign and the levels of significance appear to be higher for wage rate than for price. In Diagram 4 we have compared the actual and the predicted acreage by equation (1) with male agricultural wage rate and it is clear that they lie very close to each other. Equation (3) also demonstrates that even if the lagged value of acreage is omitted the farm price and the wage rate explain quite adequately the variations in area under paddy. These estimates clearly establish that the level of agricultural wages has been a major factor in the reduction of area under paddy cultivation in Kerala.

Kannan and Pushpanadan⁴² point to the failure of growth in productivity to keep pace with the growth in wage rate as one of the causes for the decline in acreage under paddy. While this is an important factor, we need to ask the question what the factors are that have stood in the way of improvements in productivity. This question is particularly important in the context of Kerala because it is the only State in India which implemented a major land reform in the 1960s. By this reform the State not only abolished the prevailing pattern of tenancy but also prohibited any forms of tenancy in agriculture in the future. By this legislation all those cultivators who were tenants became owners of land overnight. The paradox of Kerala agriculture is that, contrary to expectations, both area and output started to decline after the implementation of the land reforms.

There are three factors that mitigate technological change in paddy cultivation in Kerala. The break-up of the joint family and the high growth of population in the State over a long period accelerated the process of partitioning of cultivable land resulting

in smaller and smaller size of average holdings. This fact is fully reflected in the size distribution of agricultural holdings in the State. In 1961-62, the average size of holdings owned by 87 per cent of rural households was less than 1.01 hectares and the area owned by them constituted 30 per cent of the total. 13.5 per cent of the total area belonged to 0.24 per cent of the households owning more than 10 hectares. By 1981-82, only 0.05 per cent had holdings above 10 hectares and the total area was only 1.59 per cent. On the other hand, 46 per cent of the total area was owned by 91 per cent of the rural households owning less than 1.01 hectares.⁴³ While these changes partly reflect the results of the implementation of the land reforms in the State, such small holdings are not economic for undertaking either major investments or for generating adequate income for the family. They would be viable only if they were to be cultivated by own family labour.

The second factor is that for a large proportion of the households who own land, agriculture is not their principal means of family income. Of the total number of households who own less than 2.5 acres of land, agriculture is the principal means of livelihood only for 57 per cent.⁴⁴ This group may be using more of family rather than of hired labour for cultivation. The decision to cultivate the land or not by the 43 per cent of the rest of the households would be strongly influenced by the level of wage rates as they may be employing wage labour for cultivation. The occupational data collected by the population censuses indicate that this shift from agriculture had already begun in the 1960s (although this was a period when the area under paddy cultivation rose). Cultivators as a class are on the decline in Kerala and this trend is most pronounced since 1971 (see Table 13). While higher agricultural wages obviously contributed to this phenomenon, this process could not have been as pronounced as it was without alternative avenues for earning incomes opening up for those households who opted out of agriculture. Such avenues were opened up by the flow of remittances from the West Asia to Kerala. It was pointed earlier in the paper that the amount of household consumer expenditure exceeded the State domestic product by 5 per cent. This increase in consumer expenditure promoted the expansion of trade, transport, banking and a host of other non-agricultural activities in the State and this expansion enabled the marginal cultivators to move out of agriculture. High levels of literacy and more years of schooling probably also helped this transition.

The third factor which might have contributed to the decline in area, output and employment in paddy cultivation has already been hinted upon earlier. In the context of the aggregate deficit in food in Kerala, the owning of paddy land was an insurance against unforeseen grain shortages and provided a secure source of grains for self consumption. Since 1977 the availability of rice and wheat through the public

distribution system as well as in the open market has improved; at the same time, the prices of these grains were also more or less stable. Households which had earlier cultivated for their own consumption found that they could purchase grain at a lower price than the cost they would have had to incur if they were to cultivate the land themselves.

UNIONISM AND WAGES

The existence of relatively high agricultural wages in Kerala compared to those of other States in India has been generally attributed to the unionisation of agricultural labour in Kerala.⁴⁵ Union activities were most strong in the two major rice producing regions, namely the Kuttanad region and Palghat district.⁴⁶ An examination of wage relativities suggests that the agricultural labour unions succeeded in pushing up their wages during the period 1965 to 1975. This period coincided with food shortages and high farm harvest prices. We have already indicated earlier that the wage relativities were narrower during this period. Unions might succeed in raising wages in a tight product market when the product prices are rising. At such a time, unions could argue that it was only fair that farmers share a part of their windfall gains with workers. In a weak product market this type of argument has no value. This explains why the wage relativities widened since 1976 when the farm harvest prices settled down to a lower level. However, agricultural workers are able to push up their wages by 1984 probably by appealing to parties and

again unionism might have aided in this revision. When the relative wage considerably worsens unions might argue that wage parities be brought back to the socially accepted norm whatever be the conditions in the product market.⁴⁷

Unions have certainly played an important role in improving the working conditions of labour in the State. While the agricultural labourers are unionised, the construction workers—skilled and unskilled—remain largely outside union organisation; but they too benefit from the actions of agricultural workers unions due to the importance attached for the adherence to wage norms.

V Conclusion

This paper has attempted an analysis of the relationships between wages, employment and output in the agricultural sector of the Kerala economy. The finding of this analysis is in contrast to Kerala's creditable performance in the social sectors such as education, health and family welfare.⁴⁸ The outstanding performance of the social sectors has been attributed to the success in providing public goods and making them accessible to most of Kerala's population. As a result, Kerala has now a life expectancy over 72 years for women, the infant mortality rate in the rural sector is close to 27 per 1000 live births, has a birth rate of around 22 per 1000 population and the rate of population growth has declined to about 1.5 per cent per annum. These achievements are,

TABLE 13: CULTIVATORS AS PERCENTAGE OF TOTAL WORKERS

| Districts | Sex | 1961 | 1971 | 1981 |
|---|--------|-------|-------|-------|
| Trivandrum | Male | 23.80 | 17.17 | 10.99 |
| | Female | 14.97 | 2.08 | 6.26 |
| Quilon | Male | 38.03 | 34.21 | 24.63 |
| | Female | 16.65 | 1.96 | 8.75 |
| Alleppey | Male | 22.61 | 20.55 | 14.91 |
| | Female | 8.58 | 1.97 | 5.26 |
| Kottayam, Ernakulam and Idukki | Male | 21.89 | 23.51 | 17.31 |
| | Female | 16.00 | 2.75 | 8.57 |
| Trichur | Male | 18.19 | 17.27 | 12.13 |
| | Female | 13.54 | 4.81 | 5.53 |
| Palghat, Malapuram, Kozhikode and Cannanore | Male | 19.29 | 19.84 | 14.57 |
| | Female | 19.72 | 7.52 | 8.27 |

Source: Census of India, Kerala State, 1981.

TABLE 14: PADDY ACREAGE RESPONSE TO PRICE AND WAGE RATE

| | Equation 1 A_1 | Equation 2 A_1 | Equation 3 A_1 |
|------------|------------------------|------------------------|------------------------|
| Variables: | | | |
| A_1 | 0.7990 (8.5705)* | 0.4810 (2.5472)** | — |
| P_1 | 209.17 (1.8098)*** | 199.36 (1.6887) | 408.15 (1.6633)*** |
| P_1^2 | — | — | 500.73 (1.9858)*** |
| W_m^1 | -4,625.70 (-3.4202)* | — | -14,048.01 (-2.4250)** |
| W_f^1 | — | — | -646.41 (-0.1015) |
| W_1^2 | — | -13,785.03 (-3.4544)* | — |
| Constant | 1,67,966.85 (2.2298)** | 4,77,021.89 (2.7073)** | 8,08,311.64 (49.1165)* |
| R^2 | 0.94 | 0.98 | 0.83 |
| F | 148.81 | 182.61 | 29.68 |

Notes: Figures in parentheses are t values. Levels of significance: * = 1 per cent; ** = 5 per cent; *** = 10 per cent. A: Area under paddy cultivation in hectares. P: Farm harvest price of paddy. W_m^1 : Wage rate of male agricultural worker. W_f^1 : Wage rate of female agricultural worker. t: Agricultural year

no doubt, the result of a number of equitable social and economic policies that have been pursued in this State for a considerable length of time. Now the time has come to ask the question: Can Kerala sustain this pattern of development? The answer to this question, I am afraid, may be a negative one unless Kerala is able to initiate and sustain a high growth rate of its economy. Since mid-seventies, the Kerala economy's buoyancy is solely due to remittances from the Gulf countries.⁴⁹ Any reversal in the fortunes of Kerala workers in this region will have disastrous consequences for Kerala.

This study is an attempt to identify some of the factors hindering the growth of the economy. The high wage rate in the economy has been an important factor at least in the poor performance of the agricultural sector in Kerala. The bio-technological and institutional innovations necessary to sustain a high wage rate in agriculture were totally ignored in its agricultural development programmes. While Kerala succeeded to a very large extent in developing and implementing a rather coherent and integrated social development programme, it appears from this analysis that it has not done so in the field of economic growth.

Notes

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- 1 Some of the most interesting recent literature on labour market behaviour in developed countries are by Richard Freeman (1990), Assar Lindbeck and Snower (1989), Lawrence Summers (1990) and Robert Solow (1990). The literature on developing economies is summarised by Hollis Chenery and T N Srinivasan (1989) and in Hans Binswanger and Mark Rosenzweig (1984).
- 2 See Amit Bhaduri (1973) and Pranab Bardhan and Ashok Rudra (1986) and Pranab Bardhan (1984). Mohan Rao (1988) has provided a useful review of this literature. Another review is by Krishna Bharadwaj (1988). Bliss and Stern (1982) has a discussion of the theoretical literature on the efficiency-wage hypothesis and an investigation of inter-linkages at the village level.
- 3 The idea of dual labour market is implicit in Arthur Lewis' (1954) model on "unlimited supplies of labour". Peter Doerger and Michael Piore (1972) employ the concept of dual labour markets in the context of developed economies.
- 4 Ramachandran (1990), "Manual labour is the only alternative occupation open to the propertyless and the uprooted in the village,

to those who lose their land, and to those for whose traditional trade, craft, or service the demand is dead or dying", p 90.

- 5 Wage rates are not solely determined in the same manner as prices or commodities and that social custom might be important in their determination have been espoused, among others, by John Hicks (1955), Phelps-Brown (1971) and Robert Solow (1980, 1990). "More precisely, I suspect that the labour market is a little different from other markets, in the sense that the objectives of the participants are not always the ones we normally impute to economic agents, and some of the constraints by which they feel themselves bound are not always the conventional constraints. In other words, I think that among the reasons why market-clearing wage rates do not establish themselves easily and adjust quickly to changing conditions are some that could be described as social conventions, or principles of appropriate behaviour, whose source is not entirely individualistic" (Solow, 1980, p 3).
- 6 See Ian McDonald and Robert Solow (1985).
- 7 See Department of Economics and Statistics, Government of Kerala (1985), p 8.
- 8 Ibid.
- 9 Ibid.
- 10 Ibid.
- 11 See T N Krishnan (1987).
- 12 Per capita consumer expenditure estimated using the figures provided in National Sample Survey, *Sarvekshana* (1989) State domestic product figure taken from Yearbook (1989).
- 13 This is consistent with the estimates of remittances arrived by I S Gulati and Ashoka Mody.
- 14 The value of loans taken by labour households from employers constituted only 2.78 per cent of total loans. Department of Economics and Statistics, Government of Kerala (1985), p 155.
- 15 Report of the Minimum Wages Committee (1956), "The labour population in the State is comparatively more literate than those in other States of India, and they do not lent themselves easily to exploitation. Labour is getting increasingly conscious of its rights and consequently the system of 'attached labour' is practically dying out of the field", p 9.
- 16 Both rural and urban unemployment are highest for Kerala among the different States, varying between 6 and 12 per cent depending on the definition of unemployment. See National Sample Survey, *Sarvekshana* (1988).
- 17 Ibid, (1988).
- 18 See John Hicks (1963), review of *The Theory of Wages* by G F Shove, who criticises Hicks thus: "A theory of wages must surely formulate a definite set of principles which determines the whole system of wage-rates (i.e. the various rates ruling in the various industries, occupations and localities) either in actual circumstances or at least in the hypothetical conditions selected for treatment", p 249.
- 19 See the citations in (5) above. The most persuasive view that labour market is a social institution is propounded by Solow (1990).
- 20 Granger (1969) proposed a concept of causality which can be analysed within the framework of a VAR process.
- 21 Christopher A Sims (1972) developed further the logic of Granger causality to test for feedback mechanisms.
- 22 See Craig S Hakkio and Charles S Morris (1984) for a detailed guide to vector autoregressions.

- 23 See Christopher A Sims (1972). Also Judge, G G, R C Hill, W E Arifits, H Lutkepohl and T C Lee, 2nd Edition (1988), section 18.5.
- 24 Within year coefficients of variation were even smaller than between year coefficients of variation.
- 25 McDonald and Solow (1985) and the various articles in Akerlof and Janet Yellin (1986).
- 26 A study that attaches great significance to relativities in pay determination is by Adrian Wood (1978). This study does not appear to have received the attention it deserves.
- 27 V K Ramachandran (1990) states, "looking at the overall access of persons of different castes to different occupations... the results are clear:
 - the occupations that were least caste-heterogeneous were artisan and traditional activities (there are long-standing social barriers to entering these sunset activities);
 - the next was the category of landlords (there are, *inter alia*, formidable economic barriers here); and
 - the most caste-heterogeneous class of all was that of agricultural labourers: agricultural labour is the greatest leveller of castes in the village", p 71.
 See also Bopagamage and R N Kulahalli (1971).
- 28 There is a growing literature in sociology on labour market behaviour that attaches great importance to perceived social norms and the role of status. For instance, see W G Runciman (1966) and Jon Elster (1989).
- 29 See Akerlof (1980) who discusses social custom and the role of social stigma in a different context to explain the persistence of unemployment.
- 30 See K P Kannan (1988).
- 31 The Government of Kerala periodically announces the revision of wage rates to take into account the changes in cost of living. The government also appoints committees to work out minimum wages at irregular intervals.
- 32 Report of the Minimum Wages Committee (1956), p 5, para 10.
- 33 Ibid, p 13, "The Committee has given serious thought to the several concepts of 'minimum wage' and agreed that the minimum wages in agricultural employments, should have the structure and contents of a 'fair wage'".
- 34 The idea of 'fair wages', is very old in the literature. It has become an important analytical base in recent literature in explaining trade union behaviour. See Peter Swenson (1989).
- 35 The following observation of J R Hicks (1955) is of great interest in this context:

"It has never been the general rule that wage rates have been determined simply and solely to supply and demand. Even on pure grounds of efficiency it is desirable that the wage which is offered should be acceptable, acceptable both to the worker himself and to those with whom he is to work. There has in consequence always been room for wages to be influenced by non-economic forces—whether by custom (which economically speaking, means supply and demand of the day before yesterday), or by any other principle which affects what the parties to the wage-bargain think to be *just* or *right*. Economic forces do affect wages, but only when they are strong enough to overcome these *social* forces", p 390.
- 36 See Ramachandran (1990) on methods of recruitment pp 196-198. He states, "The village labour market is also characterised by very high levels of unemployment. In

such circumstances, the burden of finding a job falls squarely on the worker. The employer does not have to search for a labour force as such, his task involves employing the best possible workers, employing them on time, and deploying their labour efficiently", pp 197-198.

An important consideration in this context is the durability of the relationship Hicks (1974) emphasises this aspect thus "There is a distinction which I made, long ago, in my 1932 book on *Wages* from which I may begin. It is the distinction between casual employment, the single job employing no durable relationship, and regular employment, in which people work together and go on working together. Now it is necessary, purely on grounds of efficiency, in regular employment, that both parties, employer and employed should be able to look forward to some durability in their relationship. Yet if the worker is to be free to move (and if he is not free to move it is semi-slavery) there can be no such reliability unless there is contentment, or at least some degree of contentment. So it is necessary for efficiency that the wage-contract should be felt by both parties but especially by the worker, to be fair", p 64.

There is considerable literature on nutritional intake, work effort and productivity. See Nevin S Scrimshaw (1987) for the citations on this topic. Also Spurr (1984), Immink and et al (1984) and Nevin Scrimshaw and M Behar (1976).

The wage productivity relationship via nutrition was first developed by Leibenstein (1957) in the context of poor agrarian economies. A V Jose (1988) found that productivity was an important factor in explaining the inter-state variation in agricultural wages. In a regression, he uses productivity as an independent variable. Our approach suggests that the wage productivity relationship involves simultaneity but Jose fails to take this into account.

The theoretical relationship between wage relativities and product demand is analysed in detail in McDonald and Solow (1985). See paper by N Krishnaji (1988).

In our analysis, we have not considered crop substitutions arising from changes in relative prices within agriculture. Kannan and Pushpangadan (1988) have decomposed the growth in productivity separately for food and non food crops taking into account the growth in wage rates. National Sample Survey, Sarvekshana (1987).

National Sample Survey (1988).

See Pranab K Bardhan (1970).

See K P Kannan (1988).

The performance of Kerala in education, health and family planning is well documented. See United Nations (1975), T N Krishnan (1975, 1989), Halstead, Scott B et al (1985) and Mari Bhat (1990). T N Krishnan (1989). T N Krishnan (1991).

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Sex in the Empire

Gautam Sen

Empire and Sexuality: The British Experience by Ronald Hyam; Manchester University Press, 1990; pp IX + 234, £ 35.00.

RONALD HYAM's study combines insight and latent (and not-so-latent) prejudice in a nostalgic account of sexual mores and practices in the British empire and its resonance in domestic opinion and events. These are issues which enduring prudery, and reductionism and economism in the social sciences have conspired to obscure. This has seriously understated the range and complexity of motivation in human conduct, satisfying, paradoxically, one aspect of this motivation itself: sexuality and apprehension of it.

Largely hidden from the 'intersubjective' discourse is the place of sexuality, in the fully, fleshed out (so to speak) story of imperial conquest. Along with booty, pillage and murder, conquerors have shown a universal and immediate interest in the women of the conquered people. The women of the losing side provide, in addition to labour, sexual services,¹ initially through rape and abduction and then through adaptive institutionalisation to create a sustainable *modus vivendi* in parallel with other longer term colonial and imperial relationships: "The evidence of the pervasive significance of prostitution for the British Indian army alerts the historian to what may be a central feature of the expansion of Europe as a whole... as much a system of prostitution networks as it was (in Kipling's famous phrase) a web of submarine cables" (pp 133 and 212).

Hyam is dismissive of feminist analyses in offering explanation for sexuality in the empire, except at a high and thoroughly opaque level of abstraction, at best, or as a form of unilluminating blanket condemnation. He quotes the sheer implausibility of Susan Brownmiller's generalisation about all men at all times which substitutes rage for cold analysis. But Hyam then proceeds to tell a story that easily provokes anger, a story of cynical exploitation of non-European women by white men. It is also exceptional, contrary to Hyam's conviction, for feminists to assert that lesbian love is the only legitimate sexual relationship (p 17). Where feminist analysis fails is not in its justifiable outrage but in oversimplifying. American (the bulk) and European feminist analysis, to which many Third World feminists pay obeisance in the same way Third World Marxists do to their inviolable imported texts, suffers from the ethnocentric arrogance of its origins, denying the legitimacy of other societies, except as backward objects of inquiry awaiting their intellectual and political attention. On the question of sexual interaction in the empire between the

conquerors and subject people the missing link is race, a feature which Hyam recognises as an explanatory factor but does not integrate in the detailed analysis. The feminist view of race is distinguished chiefly by its banality, just as Hyam's nostalgia about empire makes him predictable in another way. The notion of serious conflicts of interest between subject peoples and their masters is left only to the reader's imagination, Hyam reserves his own for the minutiae of sexual behaviour. This is a story for the boys.

Another issue addressed by Hyam is the causes of prostitution in general and its scale in the empire in particular. Hyam is sceptical of the view that poverty is a significant reason although he accepts the fact that it is undoubtedly a permissive factor. He then proceeds to make the extraordinary claim that the prevalence of child prostitution refutes economic causation (p 137)! I fear this inference is only revealing of authorial prejudices. I would have thought that the deployment of children as vehicles for sexual gratification (as in the contemporary Philippines) leads to money changing hands and it is the one type of 'prostitution' (a misnomer since it lacks the possibility of adult voluntarism) which is eminently of an economic character. However, be that as it may, it is possible to conclude that the explanation for prostitution is in fact basically economic, but the exact process is both surprisingly simple and also contrary to the poverty/economic equation frequently posited. The latter obfuscation arises because a market for human intimacy challenges fundamental notions about society and women (especially) and it provides, in addition, an agreeably progressive and transitory cause.

There are many immediate causes for the extent and types of prostitution but, as Hyam correctly points out, since it has always existed in time and space and at every level of society, it cannot be poverty alone that drives women to it. The only other conventional reason can be coercion (many prostitutes disagree) and patriarchy, the weakness of which as an explanation is its apparent ability to explain an excessively large number of diverse phenomena. Without rejecting the relevance of power in social relationships altogether because patriarchy could still be regarded as informing if not accounting for prostitution, it is necessary to ask a different question. The fact that female prostitution exists can, given its immense longevity, be regarded as a not very interesting tendency for markets to form in virtually all things in response to demand,

the elevated capacity for human love, freely given, etc, notwithstanding. The attempt to restrict prostitution expresses itself in higher prices rather than superior moral conduct.

The significant question then is the absence of similar markets for male heterosexual prostitution. The fundamental answer is a basic mismatch in supply and demand, i.e., there is an excess supply of sexually available males and an obverse shortage of females. According to Kinsey, "...only about two per cent of men are not interested in sex, the proportion of women with a weak response is nearer thirty per cent" (quoted by Hyam, p 7 and fn 24). The exact causes of this phenomenon and its durability are not material to explaining why men are seeking to buy and/or coerce sex from women, children and other men. Such an underlying explanatory factor does not preclude the potency of subsidiary historical and contingent reasons, including imperial dominance (see, for example, p 172) and the exercise of power in general, poverty and even individual career preferences. The history of sexuality in the empire is primarily about prostitution and in a situation where markets (indeed most markets) operate in the shadow of imperial political and military power rather than the mundane forces of supply and demand alone.

Hyam's study gives wide coverage of the British empire, in India and Africa and elsewhere, often unashamedly drawing attention to taboos and taboo subjects. His comment on the self-limiting nature of concubinage in Africa, "since African women were mostly unattractive to look at" highlights a brutal and widely-held prejudice (p 177). He also interweaves the analysis of the sex life of empire with sexual behaviour at home in Britain and changing moral codes. Hyam's approval of sexual licence in the empire (exclusively between white men and non European women) is fully reflected in a converse distaste for the so-called Purity Campaign, launched in Britain in 1869. Some of the aversion to the latter is understandable if merely because the ethnocentrism of its presumptions was unselective in intent if not practice. But Hyam extends his reflective distance to describing the medically and psychologically devastating practice of clitoridectomy in Kenya on pragmatic grounds: because "the outcome of the confrontation over clitoridectomy was a sharp reminder to the pretensions of Protestant missionaries that the customary sexual order in Africa was not lightly to be interfered with, still less derided" (p 196). The missionary view that the practice was not dissimilar to the Hindu custom of suttee was less "quixotic" (pp 191 and 196) than Hyam's relativism in "approving" the sexual opportunities provided by empire.

The account of the sexual activities of empire builders from the time of Clive of India and Clive himself was one of virtually

unlimited opportunity and an inexhaustible supply of women of empire, suggesting more than mutual attraction, unless the widely held view that non-European women are over-sexed proves accurate. Builders of empire, from Clive down to the commonest soldier, from India and China to the Hudson Bay Company, indulged every possible sexual whim, sometimes through marriage but more generally through mass prostitution and concubinage. The easy taking and discarding of concubines, making real the ultimate male fantasy of sexual paradise. To be an attractive Asian or African boy, even a rather small one, was also unsafe. But if the imperious British male had any preferences, it was to beget with a white woman, fuck with an Asian female (have her keep house) and sodomise Pathan boys when possible. The empire was sexual opportunity itself for the individual as much as booty for the mother country: "The girls were cheap and sensuous. If the army had any doubts about their cleanliness, then an officer could burn their huts and restock with Japanese" (p 108).

The authorities, when not themselves involved in the fray, were concerned about VD (that is among the soldiery) and opinion at home, which from the 1870s increasingly sought to ensure racial purity and social distance for an endangered imperial race of rulers. The obsession with sexual behaviour in Britain itself, especially the licentiousness of the working class (and the widespread prevalence of incest) arose partly from fears provoked by the poor condition of army recruits. It was this anxiety which spilled over into empire. Already by the 1790s mixed marriage had been ended by Cornwallis in India and social distance was further entrenched by Wellesley in the aftermath of the tremors of rebellion in the French San Domingo and execution of all whites by the mulatto Dessalines (pp 116-7). But sodomy and concubines continued to flourish. It was the arrival of wives that finally put an end to the native mistress. By the early twentieth century, the Smuts' purge of prostitution in South Africa began the "reversal of the trend towards turning the whole world into the white man's brothel..." (p 148). The memsahib has, in fact, been wrongly credited with causing the downfall of empire by some by "...making it impossible to meet Indians as friends" (p 119). Protecting the memsahib from the threat, however remote, of the black male was an imperative (see p 106 for evidence of the contrary situation in actuality).

It is this issue which Hyam addresses in the conclusion to his rich, sometimes perverse, study of sex in the empire: "one thing is certain. Sex is at the very heart of racism... there are many other factors but the peculiarly emotional hostility towards black men which it has so often engendered requires a sexual explanation. From New Orleans to New Guinea, from Barbados to Bulawayo, from Kimberley to Kuala Lumpur, the quintessential taboo to be explained is the white man's formal objection to intimacy

VAM ORGANIC CHEMICALS LTD.

NOTICE

We hereby notify for the information of the public that Vam Organic Chemicals Limited proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under Sub-Section (2) of section 92 of the Monopolies and Restrictive Trade Practices Act, 1969, for the approval to the establishment for a new undertaking/unit/division. Brief particulars of the proposal are as under:

- 1 Name and Address of the Applicant:
Vam Organic Chemicals Ltd.,
3rd Floor, Skyline House,
85 Nehru Place, NEW DELHI - 110 019.
- 2 Capital structure of the applicant:

| | (Rs. in lakh) | |
|--------------------------|---------------|------------|
| | Equity | Preference |
| a) Authorised | 1460.00 | 40.00 |
| b) Issued and Subscribed | 516.42 | 38.50 |
| c) Paid up | 516.26 | 38.50 |
3. Management structure of the applicant organisation indicating the names of directors including managing director/wholetime director and manager, if any:
The company is managed by the Board of Directors consisting of

| | |
|---------------------------|----------------------|
| 1. Shri M.L. Bhartia | — Chairman |
| 2. Shri S.S. Bhartia | — Managing Director |
| 3. Shri H.S. Bhartia | — Wholetime Director |
| 4. Shri U.S. Bhartia | — Director |
| 5. Shri A.S. Bhartia | — Director |
| 6. Shri Arbinday Ray | — Director |
| 7. Shri P.K. Khaitan | — Director |
| 8. Shri S.S. Kanoria | — Director |
| 9. Shri J.B. Dadachanji | — Director |
| 10. Shri R.K. Bhargava | — Director |
| 11. Shri Sunanda Prasad | — Director |
| 12. Shri Lalit Srivastava | — Director |
4. Indicate whether the proposal relates to establishment of a new undertaking or a new unit/division
A division
5. Location of the new undertaking/unit/division
Bharthana, Etawah Distt. U.P.
6. Capital structure of the proposed undertaking
As mentioned in Sr. No 2.
7. In case the proposal relates to the production, storage, distribution, marketing or control of any goods/articles, indicate

| | |
|----------------------------------|-----------------------------------|
| (i) Name of goods/article | Ethylene Vinyl Acetate Copolymers |
| (ii) Estimated licensed capacity | 6000 TPA |
| (iii) Estimated annual turnover | Rs. 30 Crore at full capacity |
8. In case the proposal relates to the provision of any service, state the volume of activity in terms of annual measures such as value, income, turnover, etc.
Not Applicable
9. Cost of project
Rs. 110 Crore
10. Scheme of finance, indicating the amounts to be raised from each source.

| | |
|--------------------------------|------------------|
| Internal Accruals | Rs. 27,50,00,000 |
| External Commercial Borrowings | Rs. 25,00,00,000 |
| Debentures | Rs. 28,75,00,000 |
| Term Loans/Supplier Credits | Rs. 28,75,00,000 |

We also notify for the information of the public that the location of the new division has been changed from Tehsil Kashipur, Distt. Nainital, State U.P. to Tehsil Bharthana, Distt. Etawah, State U.P.

Any person interested in the matter may make a representation in quadruplicate, to the Secretary, Department of Company Affairs, Government of India, Shastri Bhawan, New Delhi, within 14 days of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein.

For VAM ORGANIC CHEMICALS LIMITED

(Sd/-)

(S.S. Bhartia)

MANAGING DIRECTOR

Dated 27.6.1991

between black men and white women" (p 203).² It is with this deep-seated anxiety that modern feminism has found an unspoken resonance in the contemporary hysteria over the black rapist and mugger and the religious fanatic. The social powerlessness of the black male³ in racist white society is accurately reflected in hostility towards his sexuality, provoking, in turn, abandonment by women of his own community, to which his violently conservative reaction corresponds. The attendant counterpart feminist urge to liberate the black woman finds a historical echo of white male interest in the 'pretty ethnic', now the rage in men's magazines. In the words of Magistrate Samuel Sneade Brown of the 1830s ICS, the native woman: "...so amusingly playful, so

anxious to oblige and please, that a person after being accustomed to their society shrinks from the idea of encountering the whims or yielding to the fancies of an Englishwoman" (quoted in Hyam p 117). Marxist opinion on racism still finds itself rabbiting on unstopably about class oppression.

Notes

1 Plus reproductive roles in some circumstances; also see pp 160-61, 171-79 and *passim*.

2 Also see p 216, footnote 7.

3 This powerlessness extends from complete loss of control over his own sexuality (and family life) under slavery, to the role of catamite in conditions of socio-economic subordination (also see p 98).

West's Unacknowledged Debt

Burjor Avari

The Crest of the Peacock: Non-Western Roots of Mathematics by George Gheverghese Joseph; I B Tauris, London, 1991.

WE live in an age dominated by the scientific and technical ideas of the West. In every corner of the globe wise men and women pay homage to the intellectual superiority of the West. It is the dream of every aspiring and ambitious student in the so-called Third World to travel to places such as the US, Britain and Germany in order to learn more techniques and skills. The West has come to be accepted as the unchallenged possessor of the secrets of science. It is the place where pilgrims, in search of secular knowledge, come to learn the mysteries of physics, mathematics, engineering, micro-computers and a host of other sciences.

It was not always like that, however. Until just two centuries ago the West was a net importer of ideas rather than the giver. Some of the most creative concepts came from places which were far away from the West. Unfortunately this has all been forgotten in the last two hundred years. The world-wide domination of the West, the unparalleled prosperity the West came to achieve and the sheer pressure that the events of Western history came to exert over the course of world history—all these forces obliterated accurate knowledge about the history of ideas and their transfer. No one bothered to remember or acknowledge the intellectual debts of the West. Western scholars were quite prepared to bask in the notion that they were the inheritors of some unique and superior wisdom, a wisdom whose roots they traced back to classical Greece and to the Greek genius, and non-Western scholars either rested content in the ignorance of their own heritage or were too much under the thrall of the glitter of the West to seriously challenge the West's understanding of intellectual history.

Now things are beginning to improve, however slightly. The UNESCO, for example, has taken a lead in presenting to the intellectual world hitherto unacknowledged

evidence about the unique African heritage; many specialist institutions are promoting an understanding of the movement of ideas and, through the efforts of distinguished Western scientists like Joseph Needham of Cambridge, a more balanced evaluation of the non-Western contributions in science, such as those of China, is beginning to take place. The real successes will only be scored when the intellectuals of the non-Western world begin to take their heritage more seriously and embark on systematic researches.

It may be that the non-Western intellectuals will have to have a long acquaintance with the West before they are sufficiently aroused to look into the hidden by-ways of the history of ideas. George Gheverghese Joseph is one such person who has just published a path-breaking book on the history of mathematical ideas and their transmission. Born in Kerala, incidentally a great centre of Indian mathematical wisdom, although hardly thought of as such in the West, and brought up in Kenya, George Joseph acquired his higher education in the West and has worked at Manchester University since the 1960s. He is at home both with the history of mathematics and modern mathematics, and that makes his book convincing and credible.

In the book *The Crest of the Peacock* (the title is taken from an ancient Indian aphorism dating back to 500 years before Christ) Joseph takes us through a grand historical tour of mathematics in the non-Western world. He starts with some of the earliest mathematical notions from equatorial Africa and South and Central America. He then moves on to discuss the critical contributions of Egypt and Mesopotamia to Greek mathematics. Next he looks at some of the highly original mathematical thinking from China and

India; and finally he sums up the Arab contribution to the making of modern mathematics. Through all the countries that he takes us he provides a fascinating list of real and original examples and problems, with their solutions, from each mathematical tradition. After reading only a part of this book and taking note of all the forgotten non-Western mathematicians, along with the scholarly references that Joseph cites, one is both angry and perplexed as to why so little of non-Western mathematical tradition is known by the educated public both inside and outside the West. Could it be that the powerful custodians of the Western scholarly establishment prevent it from being known too widely, in case the entire historical rationale at the heart of the notions of Western intellectual supremacy is threatened by an alternative view of the history of ideas? One senses that Joseph has certainly, understood and grasped the significance of the marked reluctance and evasiveness of Western scholars in acknowledging their intellectual debts.

In perhaps the most important chapter of the whole book, the very first one, which is called 'The History of Mathematics: Alternative Perspectives', Joseph touches the heart of the matter when he explains the mathematical signposts and transmissions across the ages through the means of trajectories. The classic Eurocentric trajectory, dealing with mathematical heritage, is that which sees Greece as the fountain of all wisdom and which then traces the course of this wisdom through such vicissitudes as the Dark Ages and then flourishing through the Renaissance into the sunlit plains of modern European intellectual history. An amended version of this trajectory would acknowledge, only marginally, the inputs of Egypt and Mesopotamia and the role of the Arabs as preservers, storers and translators of Greek mathematical texts during the Dark Ages. Joseph convincingly demolishes the case for both the classic Eurocentric trajectory and its amended version. Instead, he proposes his own multinational, multi-cultural trajectory, in which mathematical knowledge and heritage pass on in history through the filter of many lands and peoples. Under this scenario, the modern West received the best of the mathematical ideas of India, China, Greece, the Hellenistic world, etc, only through the efforts of intellectuals and thinkers who lived in such cities as Jund-i-Shapur in Sassanian Iran, Baghdad of the Abbasid Caliphate, Fatimid Cairo, and Cordova and Toledo in Muslim Spain.

Joseph's historical analysis is convincing not least because of the meticulous care he has taken over the veracity of his evidence and data. His clear and rational unearthing of intellectual history of mathematics must be considered as the only approach that will remotely have a chance of successfully challenging the entire fortification built around the legitimacy of Western intellectual triumphalism.

INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE
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d) Knowledge of at least one language of the research area, viz , Kannada, Tamil and Telugu.

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REGISTRAR

Ramamurti Report on Education in Retrospect

Amrik Singh

In May 1990 the National Front government appointed a committee under Acharya Ramamurti to go into the distortions in the country's educational system. The committee's report outlines its principal concerns as equity and social justice, decentralisation of educational management, establishment of a participative social order, inculcation of enlightened and humane values and empowerment for work. This paper undertakes a detailed evaluation of the contents of the report.

I

PERHAPS no other report on education since 1947 has had the same series of mishaps as the Ramamurti Report has had. The committee was appointed in May 1990 in pursuance of a pledge by the National Front (NF) in its election manifesto that the educational policy would be reviewed. The said manifesto talked of abolishing capitation fee and other distortions in education. But what it specified in particular was the 'elitist aberrations' in the educational system.

Properly speaking, such a committee should have been appointed soon after the NF government took over in December 1989. But something odd happened. The prime minister did not appoint anyone to the department of education, not even a minister of state, to look after the portfolio. Questions in parliament were answered by the minister of state for science and technology and that is how things carried on for the first four to five months.

One of the first things that the new minister of state, when appointed, did was to appoint a committee under the chairmanship of Acharya Ramamurti, a well known Gandhian and social activist. The other members of this committee were half a dozen vice-chancellors, an ex-vice-chairman of the UGC, a few academics including a retired college principal and only three persons connected with primary or elementary education. The additional secretary of the department of education was appointed as the member-secretary.

There was something odd about the choice of the members. Not many of them had first-hand knowledge of the school system whereas the starting point of the review was what came to be described as the 'elitist aberrations'. As it turned out, only a couple of members devoted time and attention to the task in hand; the rest only attended meetings which were not all that many. The bulk of the job was done by a couple of members and the member-secretary and his staff. Whether what the latter did was two-thirds or three-fourths of the total job is a matter of opinion. As far as the members were concerned, at least one of them confessed to the writer of this paper that he had not read the full report even after

publication.

There were two reasons for this somewhat unusual state of affairs. One, the committee's terms of reference were to review the 'National Policy on Education, 1986 and Its Implementation'. In a sense thus, the parameters were set by what the 1986 policy had laid down. As a corollary, it was also to suggest revision of the policy within a given time frame. This in turn leads to the second point.

In September, 1990, that is to say about four months later, the committee put out a discussion paper entitled 'Towards an Enlightened and Humane Society'. It was circulated so as to provoke some discussion. By the time the reactions came in and began to fall into some kind of a pattern, the country was overtaken by political instability and, in early November, the V P Singh government which had appointed the Ramamurti Committee fell.

One consequence was obvious. No one knew if the Ramamurti Committee (whatever it recommended) would be taken seriously by the new government. Strictly speaking, such a thing ought not to happen but then it did happen. As if this was not unsettling enough, the new minister of state for education made it known in no uncertain terms that he was in favour of the Navodaya Schools.

To review their status and working had been more or less the starting point of the appointment of the Ramamurti Committee. For a few weeks thus the country witnessed a curious spectacle. The new minister of education lost no opportunity to make it known that as far as this particular issue was concerned his mind was already made up. Whatever interest or enthusiasm the members of the committee had in the first instance now began to wane.

Nobody in the government took the position that events had overtaken the Ramamurti Committee and that it could be wound up or anything of that kind. On the contrary, its mandate was renewed. In practice however, apart from one or two members who were keen to complete the job, most of them lost interest in whatever was happening. It is in this light that the statement made earlier should be seen. The secretariat did

not wish to leave the job unfinished and therefore it persisted and worked under enormous pressure and finalised the report by the due date. The whole committee came together to spend some time looking it over but did not carry out any real changes.

II

In a brief chapter of five pages entitled 'Approach' the committee has described its principal concerns as follows:

- equity and social justice.
- decentralisation of educational management at all levels
- establishment of a participative social order.
- inculcation of values indispensable for creation of an enlightened and human(e) society.
- empowerment for work.

Having enumerated them, the committee is forthright enough to say that education has to be viewed in the overall context of social, economic, regional and gender-based disparities. For example, any emphasis on vocationalising education would carry no meaning unless, concurrently, the government were also to lay down an appropriate income and wages policy. Likewise, policies concerning removal of economic disparities such as for land reforms, employment, health and nutrition, etc, would have to be concurrently established/reviewed. This is both honest and realistic.

What the committee does not say but could have said was that unless the whole strategy of development is remodelled, secondary concerns like education can achieve only limited ends. All reviews of education since 1947 have suffered from this handicap. They have made recommendations in respect of education and not gone on to underline the integral relationship between education and the social and economic policies of the country. This committee has chosen to do so and to that extent shows a greater sense of realism.

In fact the Ramamurti Committee goes further. It has questioned the re-designation of the ministry of education as the ministry of human resource development. In its opinion, the human being is to be valued as more than mere resource. In order to emphasise the utilitarian overtones of the expres-

tion 'human resource development' the committee has recommended that the old nomenclature be re-adopted.

According to it, the term education is broad enough to encompass the various aspects of culture and arts, youth affairs and sports and women and child development. In this connection the committee also refers to the need for inculcation of values which objective has to be seen as distinct from the output of individual schemes and programmes. As the committee says, "The hidden curriculum as distinct from the explicit one obtaining in the classroom situation, is much more important for the development of a balanced personality amongst the students."

Some of the ideas implicit in the earlier chapter entitled 'Approach' are developed further in another chapter entitled 'Roles, Goals and Values in Education'. But since the committee had already taken the view that its focus is going to be on 'alternative modalities of implementation', it is to the subsequent chapters that attention might be turned.

III

What was described as equalisation of educational opportunity in the report of the Education Commission (1964-66) has been equated with equity social justice and education in this report. This chapter has five sections and each one of them goes into considerable details in regard to the issues raised. These sections are education and women's equality, education for the SC/ST and other educationally backward sections, education of the handicapped, a common school system and Navodaya Vidyalayas. The first section alone takes approximately 30 pages and the whole chapter takes about 90 pages.

That is not all. Another four chapters deal with related issues like early childhood care and education, universalisation of elementary education, adult and continuing education, and education and the right to work. These chapters come to approximately 200 pages. Considering the fact that the whole report has 369 pages, it is evident that, in terms of proportions, a good deal of attention has been given to issues relating to social justice and education and allied matters. Added to that is the fact that higher education does not receive even 20 pages. The focus of the report should thus become clear even in the light of the attention that is given to those dimensions of education which deal with areas that have remained neglected so far.

It should be clear from this brief reference in regard to the relative importance of different themes that the thrust of the committee's report is in favour of issues that concern the vast majority of the people. Their welfare has been neglected for very long. Over the years, the focus has been so consistently in favour of the middle class and at the cost of the poor and the deprived that the educational scene has become acutely unbalanced. The basic problem in Indian education today is the neglect of elementary education. Other problems important as

they are in their own ways, are relatively less important in the context of the plight of the illiterate masses.

What needs to be noted is that this committee has not only its heart in the right place but has gone about its job of analysis in a manner which shows both concern and intimate knowledge of the ground situation. There is something appropriate about beginning with education and women's equality. The general thrust becomes clear right in the beginning when it is mentioned that as against 53 per cent for men, the rate of illiteracy among women is 75 per cent. (All figures are based on the 1981 census and appropriate adjustments may be made by those who have access to the 1991 figures.)

In this connection, the 1986 policy is referred to in a critical manner. According to this committee, the thrust of that policy lay in intervention *within* the educational system whereas the real constraints which are socio-economic and cultural in character are *outside* the school system. These have a direct bearing on the education of girls. When it comes to raising of the status of women, education *alone* is not the agent of change. Education is one factor, and an important one at that, but there are other factors also at work and those must not be lost sight of. Having defined their approach in this explicit manner, the committee discusses this issue under a number of sub-heads. The tone and quality of discussion shows insight as well as first hand knowledge as to how things are happening out *there*. Most people who are concerned with policy making are not adequately aware of what is happening in the field. This report however speaks from that perspective and is all the more valuable for that.

The sub-heads referred to above may be enumerated here: access to education and quality of learning; content of education and gender bias; vocational education; training of teachers and other educational personnel; research and development of women's studies; representation of women in the educational hierarchy; empowerment of women; adult education; resources and management. It is not possible to go into details here but some of the insights that the report offers may be quoted:

(a) "As much as 29 per cent of the entire time of a girl-child in rural areas is spent in the collection of fuel and 20 per cent in fetching water. Care of siblings also accounts for a significant proportion of a girl's time."

(b) "There is a crucial link between the easy access to water, fuel and fodder and schooling of girls. This understanding needs to be *explicitly* reflected in the policy of government and be concretised in operational designs."

(c) "Without providing fulfilled day care services, particularly for the 0-3 age groups, no school programme can hope to become accessible to older girls in the 6-14 age groups."

(d) "At present 48.6 per cent of habitations representing about one fifth of the country's rural population do not have a primary school. Only 13.1 per cent of habitations

have middle schools. The poor availability of middle schooling may be a major constraint in the retention of girls in schools."

(e) "Vocational training courses for girls...at the secondary stage should be provided in order to expand the social base of vocational education. Opportunities should be especially given to dropouts after middle schools."

(f) "Teacher training programmes in general require a critical evaluation and re-orientation within which the incorporation of women's perspective should be a key dimension. This would include sensitivity to women's issues and awareness of the problems in education of girls."

(g) "Women's study centres should be organised in all the universities and recognised social science research institutions within the Eighth Plan."

(h) "The Programme of Action (POA) recommends that women may be given 'preference in recruitment of teachers upto school level', but it does not look into problems of accommodation, security, child care, etc, which constrain women teachers particularly in rural areas."

(i) "The proportion of women teachers in primary, middle and high schools should be increased to atleast 50 per cent."

(j) "The POA concept of women's empowerment has the following two lacunae: (a) It presents the concept of empowerment of women as a process confined to women only and to be organised in isolation of men in the same community; (b) It does not refer to the critical role of raising, through education, awareness regarding the issues of women's health, including reproductive health and sexuality in the larger dimension of empowerment of women."

(k) "Earmarking 50 per cent of the elementary sector allocation for measures to increase girl's participation and making this allocation non-divertible" should be ensured.

(l) "Continuance of all centrally sponsored schemes relating in part or in full, to women's education may be treated in terms of the detailed recommendations" regarding decentralisation.

As should be evident, these few insights and observations represent a mode and timbre of thinking which is more or less at total variance with the way things are happening today. The bulk of the policy-makers are conservative, rule-bound and unathletic in their outlook. Those who implement orders issued from above do so without any sense of commitment and are devoid of imagination of initiative, or almost so. The perspective envisaged here is in a way so radically different from what obtains today that it will require a total overhaul of the existing administration structure and a new ethos of work before these recommendations can be put into effect.

This is not said by way of criticism or disagreement with whatever has been sketched above but it needs to be noted that the committee has not gone into the question of how, in what manner and at what pace, can some of these things be done. Elsewhere

in the report where decentralisation and participative management are discussed, the issue is brought up again but that is not the same thing as working out some kind of a work-plan which would ensure that a new wind blows though the stagnant system as it is run today. In other words, what is presented here assumes a different outlook on special issues as well as a radically reorganised delivery system. Neither of these assumptions has any leg to stand upon.

Whatever has been happening over the years has, whether it was so intended or not, strengthened the colonial system which we inherited in 1947. The essence of the system was that orders were given from above and those were to be carried out. Our main contribution since 1947 has been to make the system inefficient as well as corrupt. In consequence the delivery system today is distinctly less satisfactory than it was some decades ago.

IV

The 1986 policy viewed education for equality in two dimensions, viz, removal of disparities and equalisation of educational opportunities. That policy also recommended a series of steps most of which had been under implementation in one form or another even before 1986. Over the years however, the gap in the growth of literacy between the SC/ST's and the rest had been widening. Data given by the commissioner for SC and ST and various other authorities is quoted in the report in support of this contention. Even the dropout rate in the SC and ST categories is distinctly higher as compared to the rest.

Nonetheless the committee surveys the whole scene afresh but is unable to come up with any new measures except to suggest certain marginal improvements like more intensive remedial coaching, increased recruitment of SC and ST teachers, incorporation of the rich diversity of the tribal cultural identities in the co-curriculum, a special component plan and tribal sub-plan, more effective monitoring, intensive area approach, identifying a single focal agency in each state to mastermind the whole operation as also report to the Centre and so on. The fact that the committee is unable to come up with any new proposals should not be a cause for surprise or a point of criticism. On the contrary what it underlines is the fact that the existing modes of performance are inadequate, inefficient as well as underfunded and what requires to be done is to attend to the basic problem of the social and economic development of these neglected sectors of the population.

Similarly, in regard to minority groups, no new measures are proposed except that what is already laid down needs to be implemented much more vigorously. In a sense the same approach is recommended in respect of the handicapped category too.

Even without the help of data which is used in abundance, various surveys that are conducted from time to time have made it clear to all observers of the Indian scene that

what has come in the way of the more effective spread of primary education is the sheer poverty of vast sections of the population. Our strategy of development has by and large ignored them and their interests. Advances in various directions have been made and the Indian economy today is much stronger than it was four decades ago. But what has remained unchanged all these years has been the welfare of the deprived and the underprivileged and if any analysis of the contemporary scene in education chooses to linger over these problems, it is not only unavoidable but the right thing to do.

The 1986 policy too had given evidence of this concern and what the Ramamurti Committee has done is to build further on it, suggest certain improvements and give evidence of purposeful and concrete thinking. Where it errs is in assuming that a new perspective, if presented, would inspire people and make them act differently. This can happen provided, to use the oft-quoted phrase, there is political will and, secondly, the administrative system is enabled to take the load of increased responsibilities. While something is said about increased funding, the set of proposals made in that connection do not amount to much. It appears that the committee was not particularly well informed in regard to those issues; but more of that later.

V

After a fairly detailed discussion of the various aspects and dimensions of equity, social justice and education, the report in a natural sequence moves on to the theme of a national system of education. As might be recalled, this concept had been advanced first by the education commission in 1966. That commission had advocated the establishment of neighbourhood schools. A child was expected to go to the neighbourhood school whereas today what is happening is exactly the opposite.

Children are quite often transported to long distances so as to be enrolled in a particular school. Most of these schools are privately run and may be, without exaggeration, described as elite institutions. Put another way, today there are two sets of schools in the country, one for the children of affluent parents and another for the rest. It was this policy which was sought to be reversed by the education commission. That has not happened and it is on record that this was one of the more controversial recommendations of the education commission.

The 1986 policy reiterated its support to it. The POA also had suggested a few concrete steps but as this report says, it did not spell out 'any modalities or action programmes'. Having said this, even this report does not offer much by way of a plan of action. Rather it is implied that provision of significantly increased outlay for elementary education would help in the building up of the required levels of infrastructure and quality of education. Once this happens, schools now run either by the government

or by local bodies, etc., would grow into genuine neighbourhood schools.

It must be added in fairness however that this report does suggest phased implementation of a changeover within a 10-year time frame. Furthermore, it also advocates 'essential minimum legislation, particularly to dispense with early selection process, high tuition fee, capitation fee, etc'. It also suggests a combination of 'incentives, disincentives and legislation'. In other words, this committee too expresses itself in favour of the common school system but puts its faith in general improvement along a wide front. Once the situation starts improving, it stands to reason that the neighbourhood schools would not be looked down upon with contempt as they are now.

This perhaps is correct but the set of proposals presented in the report does not seem to take into account the stubborn resistance that would be offered by the elite section of the society. This section wants an advantage for itself. As of today, apart from the other advantages of a good infrastructure, better student-teacher ratio and a dozen other things, the elite category have the advantage of operating through a tongue which gives it an edge over others. The ability to wield English effectively confers such an unmistakable advantage upon those who can do so that they outdistance others. This aspect is not even touched upon in the report at all though there is a brief reference to it in a later chapter dealing with languages in education.

VI

It is in respect of the continuance or otherwise of the Navodaya Vidyalayas (NV) that its ambivalence of views comes across somewhat more clearly. Also the issue is discussed in some more detail. Both pros and cons are discussed as well as elaborated.

According to the 1986 policy, this scheme was calculated to serve two ends. One was to provide high quality education to bright children who do not have access to it today. Secondly, 75 per cent of the seats were to be reserved for students from rural areas. Reservations for SC and ST students were prescribed as per their actual population in the district (on the basis of one school per district) subject to a maximum of 15 and 7.5 per cent respectively as laid down in the Constitution.

How has this scheme worked? Approximately two-thirds of the districts in the country have been so far covered. Around 50,000 students are enrolled in them, ¾ths of them being boys and ¼th girls. As against the target of 75 per cent for rural children, the enrolment is higher in those categories by 2.5 per cent. The SC students are a little less than 20 per cent and the STs are a little over 11 per cent. 41 per cent of the students come from families below the poverty line and 63 per cent from families with an income of less than Rs 12,000 per year. Of the students, 16 per cent of the children are first generation learners and 70 per cent of them come from families which had no access to college

education. The per capita expenditure is a little less than Rs 10,000 per student. If progress has not been more impressive than what has been detailed above, it was because funds of the required magnitude were not made available. Secondly, to start with, teachers were proposed to be taken on deputation and therefore only 75 per cent of those included in the cadre strength could be appointed.

As stated above, the committee was sharply divided over this issue. Those who were not in its favour objected to the high per capita cost, the limited coverage, the academic confusion caused by the teaching of science through English and of social sciences through Hindi and so on. Not only that, the percentages of admission has begun to show a declining trend, many children were unhappy because they could not get adjusted, there was no involvement of the local community etc. Nor were all the tests culture-free or training free. Above all, a high percentage of children seemed to belong to middle income groups. Worse than that, a survey showed that children often seemed to be withdrawn and alienated from the village community and there were situations of conflict between the school community and the local community.

However, those who favoured the scheme affirmed that they had no philosophical aversion to elitism. If the existing schools were biased towards the richer section of the countryside, this could be taken care of. What is more, the functioning of the schools could be improved in so many ways by appropriate linkages with the District Institutes of Education and Training, (DIET) and other similar institutions. Lastly, it was not fair to evaluate the scheme so shortly after its commencement.

Unable to take a unanimous decision, the committee recommended that no further N Vs be established and the scheme be further reviewed after two to three years. Three major States—Assam, Tamil Nadu and West Bengal—had refused to participate in it and this fact also had to be taken into account. Meanwhile the concept of nurturing special talent which appears to underlie the establishment of these schools may be redefined, the process and mode of selection may be broadened as well as refined and the present life style and value orientation of these schools may be changed.

The committee also went on to suggest three different alternatives and discussed the merits and demerits of each alternative. Considering that this was the one issue which seemed to be the occasion for the appointment of the review committee, this recommendation looks like a bit of an anticlimax. Originally it was visualised that the scheme would be discontinued. In the event it turned out that it would continue and would be re-evaluated and reviewed in 1992-93. In a sense, the current social and political situation is so charged with controversy and tension that it is just as well that a decision on this issue has been deferred. The inability to take a clear cut decision may be the outcome of certain accidental factors

but it may turn out that this particular decision, or non-decision if it may be put that way, may not eventually prove unwelcome.

VII

After the section on education and woman's equality, the next strong section is on early childhood care and education (ECCE). The treatment of this theme is done with equal sensitivity, commitment and sense of concreteness. In a sense the real merit of this particular chapter is to put early childhood care and education at the centre of things. To some extent this is a recognition of the fact that because of poverty, children are neglected and, since they are neglected as children, there is no question of their receiving the kind of attention which would ensure their becoming a part of the network of literacy—a prerequisite both for equity and empowerment.

The committee interprets Article 45 of the Constitution as a directive principle which seeks to ensure that *every child up to the age of 14* shall receive free and compulsory education. Articles 39f, 46 and 47 respectively are interpreted to lend further support to this constitutional directive. Having done this, the committee goes on to say that this directive has so far been interpreted much too narrowly. It is made applicable only to the education of children from the age of five or six onwards. The committee however is of the view that 'ECCE is part of the provision originally envisaged under the Constitution for the development of all children until they complete the age of 14 years'.

The report adds that 'ECCE is also of immense significance from two other standpoints—universalisation of elementary education and equality of opportunities for women. *Directly* it helps to prepare the young child for school and *indirectly* it can enable girls engaged in taking care of younger siblings to attend school. The report sums up these formulations by saying, "ECCE, therefore, is a cross-sectoral programme addressing the intersecting needs of women, children and girls."

Harking back, the committee recalls the view of the education commission in having emphasised the importance of pre-primary education in child development and of its critical link with enrolments, retention and learning outcome in primary schools. The 1986 policy, however, contented itself with steps to reduce 'the prevailing wastage and stagnation in schools' and other related recommendations and did not choose to go beyond that.

In this connection, it refers to the rapid strides made by the Integrated Children's Development Scheme (ICDS) programmes in the late 70s and the early 80s. This programme is both a part and an extension of the Minimum Needs Programme (MNP) and one of the recommendations now specifically made is that the ECCE should be formally and legitimately included in the MNP.

This is a recommendation of far reaching importance. In the years to come the MNP

is likely to expand both in scope and coverage. Should that come to pass, it would have an undoubted impact on the spread of elementary education as well as the level of employment in the rural sector. The report explicitly recognises that the ECCE has 'a potential of (being) a significant generator of skilled employment for women'. If and when this happens, it would change the social and economic contours both of the countryside and slum areas in towns and cities.

The committee has estimated that children below six number about 14 crores and therefore constitute 17 per cent of the population. As of this moment, only 10 per cent of the target group receive some amount of child care services. The immensity of the tasks that requires to be attended to is thus obvious. Indeed it would require massive deployment of resources if the target of providing early child care services to all children in that age group is to be met. This single fact makes it indubitably clear that with the magnitude of funds available now it would not be possible to achieve anything more than a fraction of what is proposed to be done.

Where would additional funds come from? The national wealth has to grow before it becomes possible to divert resources to responsibilities like early childhood care. Apart from other things, all those factors which come in the way of better productivity and wastage of national wealth would have to be overcome. Clearly this cannot happen unless the strategy of development followed over the last four decades is radically overhauled. There is a good deal wrong with education at every level but what is happening in the sphere of social and economic policies is perhaps even more wrong and indeed in need of drastic surgery.

While the 1986 policy and the POA were conceptualised and developed by the department of education, the responsibility for actual implementation of the ECCE programme was transferred to the department of women and child development at the centre and the departments of social welfare at the State level. No wonder there was lack of alignment in their respective approaches and lack of co-ordination at every step. The committee goes into details in regard to strategies and models and emphasises the principles of diversity, flexibility and decentralised funding and management. Even such an obvious thing that the ECCE centres should be linked physically as well as programmatically with the primary schools has been so far overlooked.

Not only that, the 1986 policy emphasises ICDS, a centrally sponsored scheme, as the major vehicle for the achievement of ECCE goals. A survey conducted in seven States has shown that the rigid and top heavy ICDS programmes is 'weak in content and quality, costly, limited in access and is often poorly implemented'. From this it follows that the ICDS should function "in a decentralised and localised manner, encouraging local women's groups to develop models and structures suited to their needs". Recognis-

ing the holistic nature of child development, the 1986 policy had emphasised the comprehensive and integrated nature of ECCE. What was recommended, however, did not get implemented nor did the basic principles of curriculum and content of ECCE get translated into localised content.

A significant weakness of the 1986 policy was that it was silent on the entire subject of training for the ECCE programmes and on the status of the child care workers. The committee therefore goes into details in regard to the link between programme quality on the one hand and wages, job satisfaction, social status and motivation on the other. It follows from this that nothing can be done in this behalf unless educational complexes and DIETs proposed elsewhere are encouraged to assume responsibility in respect of training and networking. In order to make the whole thing effective, a system of accreditation of training programmes and agencies would also have to be developed as originally visualised in the POA.

In fact, the ECCE programme is inconceivable without massive decentralisation and employment of lakhs of additional workers. The committee feels so strongly in regard to the bureaucratic functioning of the whole thing that it says that 'it is time that we introduced a sense of realism in our management system'. It goes on to say that while voluntary effort may be promoted, the real key to success in this area is 'in the direction of non-formalising the ECCE institutional framework'. In conclusion, it adds that there is no alternative to handing over the management of the ICDS and other ECCE programmes to local groups, preferably poor women's groups through the panchayati raj framework. Can it happen? It can, provided the existing overcentralised system is dismantled and genuine and extensive decentralisation is ensured.

Resources would be a constraint in any case. The 1986 policy was more or less silent on both the magnitude of the resources required and the manner in which these were to be raised. Even the POA depended upon the help of the government and little more than that. This committee however favours that a central fund for child care services should be set up at the national level. But having made the recommendations it does not go into details and that is a crucial weakness. The committee estimates that even if 4.9 crore children (a hypothetical target) are to be covered by 1995, an annual minimum expenditure of about Rs 4,900 crore (at 1989 prices) would be required by that date. Are funds of this magnitude available? No less important, are there prospects of such funds being raised?

As stated above, this particular chapter puts into sharp focus the magnitude of the problem and the crucial importance of being able to provide child care services for children in that age group. Unless this is done, Gandhiji's statement made in London in October 1931 would perhaps be proved correct. He had said, "I defy anybody to fulfil the programme of compulsory primary education of these masses inside of a cen-

tury?" When he had made the above statement, India's population was approximately one third of what it is today.

VIII

After much detailed discussion of the ECCE programme, the theme of universalisation of elementary education (which is very well documented in the report) need not be dwelt upon at length except that certain observations made in the course of the analysis need to be highlighted. These are listed below:

(a) Having dealt with primary education, so to speak, in the earlier chapter, the focus now is on post-primary or elementary education.

(b) Since a substantial number of children are engaged in child labour, there is no alternative except to 'educationalise the work'. How to do it is however not gone into in detail.

(c) The prevailing curriculum of elementary education suffers from several defects. Only the cognitive domain (recalling facts at the time of examinations) is stressed and the component of skill formation is more or less missing. Social and cultural inputs from the community are also lacking. There is an utter absence of activity-based learning. Nor are enquiry, exploration or creativity encouraged. Above all, the mode of transaction is essentially non-participative. Unless these deficiencies are taken care of, children would find attendance in schools neither interesting nor profitable.

(d) "The school teacher is at the bottom of a vast bureaucratic machinery where there is hardly any scope for charting fresh course of action". No wonder the inspectorate system kills all initiative, obliges the teachers to adopt a stratified outlook and in the process their competence in pedagogy, gets seriously undermined.

(e) The three thrust areas at that level should be (i) convergence of services that the school can provide, particularly for girls, (ii) linkage between the school and the community and (iii) decentralise and promote the participative mode of educational planning and management.

(f) At present curriculum development and content planning in the primary and middle schools is determined by what is planned at the +2 level. This unnecessarily burdens the child in the elementary school and does not allow the elementary school level to become a self-contained stage of schooling. A good deal more is said in this vein but, for the most part, it is repetitive in character and need not be dilated upon.

Non-formal education (NFE) is the next topic to be taken up. It was introduced in the Sixth Plan and is operating in about 2.4 lakh centres including almost 78,000 centres exclusively for girls. But the programme has failed to take off the ground for a number of reasons, the most obvious of them being that the State governments are not prepared to commit resources to this programme, the administrative system does not give it the requisite autonomy and, worse than that, there is generally a lack of faith among the func-

tionaries and the families of children who are supposed to benefit from them. No wonder the instructors are underpaid, learning material is not easily available, lighting arrangements and instructional equipment are below the acceptable level and the quality of instructors as also their training leaves much to be desired.

As if all this is not deplorable enough, those who are working in the NFE are equated with those who are working in the formal system and thus there is confusion about parallel cadres and systems and so on. The answer of the committee to these problems is to non-formalise the formal school. This can be done in a variety of ways. It should be possible for instance to shift the school timings to mornings, afternoons or late evenings as suits the convenience of the children, choose the school calendar to suit the rhythm of agricultural activities, reduce school hours but increase the learning hours and so on. It is also proposed that in addition to the regular teaching staff there should be para-teachers or 'shiksha karmis' as they are called in Rajasthan.

Management in that case would have to be decentralised and village education committees would have to be set up. Not only that, the local community would have to be empowered in a substantial way before any one of these innovations can be carried out. The sad fact is that most of us have been so accustomed to receiving orders from above that all that the bulk of us can do is to carry them out, and not always efficiently either. If this situation is to change, there would have to be some kind of a shift of social opinion, a re-working of the existing social relations and the emergence of a whole new crop of people who would prefer to break with the dead weight of tradition. This is such a tall order that all that one can do is to say good luck to them.

Operation Blackboard was one of the powerful initiatives taken by the Centre in the 1986 policy. That policy sidestepped the issue raised by the 42nd amendment whereby education had been made a concurrent subject. Hardly had anything been done in pursuance of that amendment. In order to solve the gap between profession and practice, the 1986 policy laid down that the Centre should take a much greater load in respect of education than it had done hitherto. In concrete terms the strategy of Operation Blackboard was devised.

In three years from 1987 to 1990, a sum of Rs 373.22 crore was made available to the States. Also a sum of Rs 719 crore was committed to the States for school buildings. In this way, 57.70 per cent of primary schools were covered in respect of an additional room, a second teacher, preferably a woman, etc.

To some extent that was gratifying and the committee has described it as laudable. At the same it has criticised the scheme in no uncertain terms. The whole thing is handled by the Centre and, in that respect, is an example of overcentralisation. Certain defects in its operation have also been brought out (for instance, West Bengal wanted buildings

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rather than additional teachers but this conflicted with the scheme as envisaged by the Centre) but the most serious of them is the fact that the States have no initiative and every thing is handed down by the Centre. One of the recommendations made by the committee therefore is that all decision making in this area should be delegated to the States. In course of time the Centre should provide funds, project ideas, perhaps ensure a certain measure of monitoring and little more than that.

IX

As a follow up of the 1986 policy, a National Literacy Mission (NLM) was launched in 1988. It has had some success. In addition several other projects have been launched in about 60 districts in different States. To what extent they are successful or not remains to be seen. So far the only notable success has been in Kerala. When the report was being written this success had not yet become public but it was clear that things were moving in the right direction. What requires to be noted is that this committee has enlarged the whole concept of adult and continuing education. To quote its precise words:

The questions of survival, development and justice are to be interwoven into content, pedagogy and learning situation of adult, letting literacy come in organically in the process when, and if, it becomes the felt need of the adult learners. This understanding would help in avoiding the disproportionate emphasis on literacy campaign.

As a matter of fact, the principal weapon being used by the NLM is the mounting of the literacy campaign in various districts. This means the involvement of the entire population to the extent it is possible. The government does what it can and so do different voluntary agencies including those connected with various religious denominations. The idea is to involve everyone. In Kerala in particular, the clergy of various religious communities helped a great deal. Indeed so did a large number of unemployed youth of both sexes. Unemployment is fairly widespread in the State. Once the campaign got going, they got drawn into it and quite a number of them did highly creditable work.

It may be recalled in this connection that a National Adult Educational Programme (NAEP) had been launched in 1978. For a variety of reasons it did not do all that well. A decade later it was rechristened as the National Literacy Mission? and given a new thrust and organisation. What the initial experience has shown is that, more than anything else, it is the campaign method which has proved particularly useful. The committee however cautions against applying this approach to all parts of the country at random. This is because levels of awareness differ in different States. Unless the local situation is assessed and corresponding adjustments are made, it will not be advisable to rush headlong.

There is no denying the fact that NLM has to some extent succeeded in placing adult

literacy on the national agenda. But literacy, the committee insists, should not be thrust on the learners. It should emerge as a felt need of the youth and it is only when that need expresses itself in a certain way that it should be met. This is a salutary piece of caution. What is even more salutary is another piece of caution when the committee observes that the universalisation of elementary education should be given top priority both in educational planning and resource allocation. Once that happens, no child in the early 90s would grow into an illiterate adult in the next century.

To some extent, something of this kind had been done in the early 50s too. Nobody had advocated such an approach, formally speaking. But in State after State, a kind of unstated decision came to be taken. In terms of it, the pursuit of adult literacy was abandoned in favour of diverting all attention to the improvement of schools. It so happened however that even that objective remained unfulfilled. In plain words, both the formal and the non-formal systems became dysfunctional. In reviving the earlier approach, however the committee has taken extraordinary pains to ensure that ECCE is made functional as well as effective. If that happens, this shift of strategy can produce good results. In brief, the whole experiment would have to kept under watch.

X

While the 1986 policy talked of vocationalisation, this committee goes much beyond that and brings in the concept of education and the right to work. This latter concept was projected by the National Front before the 1989 election and was also included in its manifesto. There was a good deal of discussion of the subject when the NF government was formed. But no concrete steps could be taken to ensure the achievements of this objective. Meanwhile all kinds of dissenting opinions were also expressed. The objective was regarded as unfeasible as to some extent it is.

What the committee however has done is to link it up strongly with vocationalisation. It starts by saying that the concept of vocationalisation as presented in the 1986 policy was linked to secondary education and no more. Its purpose was to enhance individual employability. Furthermore vocational education was seen as a distinct stream intended to prepare students for identified occupations. Vertical mobility for vocational graduates was to be provided through bridge courses and even a specific target (10 per cent of students at the higher secondary level by 1990 and 25 per cent by 1995) was fixed.

The committee is of the view that vocationalisation is not merely to "impart saleable manual skills but to relate hand with head and heart so that productive labour and socially useful work becomes a medium for developing creative intelligence and a knowledge base on which one could keep building throughout life". This is well put and recalls the fundamental insights of Gandhi, Tagore, Zakir Hussein and several others. Each one of them emphasised the

fact that one discovers oneself through the medium of work.

The committee is aware of the fact that this approach marks a complete break with the traditional approach. The existing class/caste attitudes militate against the adoption of such an outlook. What was more, the 1981 census counted almost as many as 2 crore technically qualified persons who were available in the labour force but almost 90 per cent of them were still looking for jobs. Clearly the problem is not as simple as it is usually made out to be.

It cannot be claimed that the committee deals with this problem adequately. To suggest that work experience or socially useful productive work should be linked with various other subjects both at the level of content and pedagogy is in order but does not go far enough. The issue requires to be discussed in much greater depth than has been done. It must be acknowledged however that the committee retrieves the situation somewhat by insisting upon one fact. According to it, classes IX to XII should be viewed as a distinct stage of education and instruction in the classroom should be planned for one, two, three or four years, as the case may be, in the academic or the vocational stream. There should be perfect interchangeability between the two streams and no artificial barriers should be erected. The principles of modular courses and credit accumulation can also be introduced.

In this connection, a reference is also made to how the Shramik Vidyapeeths, the ITIs, the polytechnics and the rural institutes function. Each one of them caters to the highly diversified employment market, both in the organised and unorganised sectors. There is one notable omission in the report and that relates to the institutional setup of agricultural polytechnics. Some innovative work is done in agricultural universities but how those innovations are to be disseminated is a somewhat neglected area. There was a brief mention of agricultural polytechnics in the Sixth Plan but there has been no follow up, and the subsequent plan did not even refer to the need for such polytechnics. This report also fails to do so. Except that it makes one important statement:

If the vocational courses are not meaningfully linked with the user agencies, empowerment for work would remain an idle concept. The isolation of vocational education from the employment market in the organised and unorganised sectors must be broken.

There is a brief discussion of the various models of vocational education. But much more important than that are two crucial recommendations made in this respect. One relates to how teacher education courses for vocational education at both the secondary and post-secondary levels should be re-designed. What is required is to avoid the "near exclusive emphasis on knowledge through theory alone". Secondly, the committee favours decentralisation of management, planning and implementation to the level of individual high schools or school complexes as well as colleges and universities. It would have done no harm had the

committee chosen to go into further details of some of the issues involved.

This is particularly important because the strength of this report lies in the way it has focused attention on programmes and activities at the grassroots level. The committee has also taken note of the size and magnitude of the vast unorganised sector and of the realities of social and economic life. Since that had been done it was all the more incumbent upon it to go into the issue of vocationalisation and the right to work in greater detail as well as concreteness.

XI

To go on with a detailed analysis of the rest of the report may be advisable but it is not important. Issues like higher education, technical and management education, languages in education, content and process of education, teachers and students, decentralisation and participative management and resources for education are gone into in the remaining chapters. Quite a few of them have some interesting and significant things to say but what may be described as the core of the report comes to an end with page 217. This point of view needs to be further explained.

The chapter on higher education is one of the more brief chapters in the report. It advocates selectiveness in admissions, new management for universities, the importance of extension and research, curriculum development and so on. Autonomous colleges are also supported. Most of these things are a rehash of what was contained in the 1986 policy or even earlier documents. But there are a couple of things which need to be referred to either because reiteration by the committee is helpful or because certain new initiatives are suggested.

Two of the new initiatives proposed are restructuring of the UGC with at least five full time members, apart from the chairman and the vice-chairman, with specialisation in specific areas and tribunalisation of justice in centres of higher education as suggested by the Law Commission. In one important respect, the committee differs with the 1986 policy. It is not in favour of a National Council of Higher Education for, in its opinion, it would be some kind of a fifth wheel on the coach. On the other hand, the committee has suggested a two-tier structure, a council of ministers which would include those holding portfolios like education, agriculture, health, law, science and technology and a council of secretaries dealing with these subjects together with the finance secretary and the secretary of planning. The former body should be presided over by the prime minister with one of the ministers being a vice-chairman by rotation. The committee has also reproached the Central government for violating its own guidelines; a case in point was the establishment of Assam and Nagaland universities.

To enlarge upon any one of the other recommendations is not going to either break new ground or throw much fresh light on the issues that clamour for solution. In

UNIVERSAL INDUSTRIAL LEASING COMPANY INDIA LIMITED

Regd. Office: 'Nehru House', 4, Bahadur Shah Zafar Marg,
New Delhi - 110 002.

NOTICE

It is hereby notified for the information of the public that Universal Industrial Leasing Company India Limited proposes to give to the Central Government in the Department of Company Affairs, New Delhi, a notice under sub-section (1) of Section 21 of the Monopolies and Restrictive Trade Practices Act, 1969, for substantial expansion of their undertaking. Brief particulars of the proposal are as under:-

1. Name and Address of the Owner of the undertaking : Universal Industrial Leasing Company India Limited,
4, Bahadur Shah Zafar Marg,
New Delhi - 110 002.
2. Capital structure of the Owner organisation :

| | |
|--|----------------|
| Authorised | |
| 13 1/2 % Preference Equity | —Rs. 10 lacs |
| | —Rs. 200 lacs |
| Issued and Subscribed Preference @ Rs. 100 per share | Rs. 1008 lacs |
| Equity @ Rs. 10 each | Rs. 49.50 lacs |
| Paid up: | |
| 8 Preference Shares | Rs. 1008 lacs |
| 5000 Equity Shares @ Rs. 10/- | Rs. 50 lacs |
| 490000 Equity Shares @ Rs. 2/- per Share called up | Rs. 9.80 lacs |
3. Location of the unit or division to be expanded : 7, Council House Street,
Calcutta - 700 001.
4. In case the expansion relates to the production, storage, supply, distribution, marketing or control of goods, indicate
 - (i) Names of goods : Existing business of financing including leasing.
 - (ii) Licensed capacity/turnover before expansion : The turnover for the year ended 31st March, 1990 was Rs. 43.75 lacs approx.
 - (iii) Expansion proposed : Existing business by making further call on equity capital and issuing further equity shares effecting total addition of Rs. 91.18 lacs approx. to the existing paid up share capital.
5. In case the expansion relates to any service, state the extent of expansion in terms of usual measures such as value, turnover, income etc. : N.A.
6. Cost of the project : Additions to existing business as in item No. 4(i) above.
7. Scheme of finance indicating the amounts to be raised from each source :

| | |
|---|----------------------|
| The entire amount of expansion i.e. Rs. 91.18 lacs approx. will be made | |
| i) by making further call on Equity Shares | Rs. 39,20,000 |
| ii) by issuing further Equity Shares to Shareholders and Employees. | Rs. 51,97,500 |
| | <u>Rs. 91,17,500</u> |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhawan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein.

For UNIVERSAL INDUSTRIAL LEASING
COMPANY INDIA LIMITED

Place: Calcutta
Date: 18th June, 1991.

L.R. PURI
DIRECTOR

either event, these recommendations fall far short of what is required to be done.

The same thing can be said in regard to technical and management education. To say for instance that the IIT Review Committee Report should be implemented is neither here nor there. Similarly to advocate mobility and exchange of faculty between academic institutions, national laboratories and industrial establishment does not break any new ground. A whole series of steps to ensure cost effectiveness are suggested and something similar is enumerated even in respect of entrepreneurship development.

These suggestions are useful but do not add much to what is already known.

One particular proposal however which is linked with measures to check brain drain needs to be underlined. The committee advocates legislation to ensure that highly trained personnel put in three years of service in the country before they are allowed to go abroad. Something of this kind is happening in France. The recklessness with which we manage to export talent is unbelievable. While some of the other measures suggested are along conventional lines, this suggestion together with reference to what is done in France needs to be noted.

When it comes to the question of languages in education, the three language formula is reiterated. The difficulties of Urdu speaking people and the development of Urdu are dealt with in some detail. Something is said even in support of Sindhi and other inter-State languages. The need to develop Hindi as per Article 351 of the Constitution is underlined. Sanskrit too is not ignored and the decline of academic standards in this area is deplored. A new proposal has been made however and it relates to a fresh Linguistic Survey of India. 'The last one was conducted from 1898 to 1928. Since then things have changed a great deal and a fresh survey is called for.

In another chapter, there are useful hints about value education, educational technology, computer education, environmental awareness, sports and physical education, excessive emphasis on book learning and so on. An attempt to be comprehensive, so to speak! But what stands out is the suggestion that an Examination Reforms Commission should be established.

Whether it should be a commission or a somewhat lower level body can be a matter of opinion. Elsewhere in the report the role and potential of a National Testing Service has been reconsidered. It was suggested that it should be a development agency which is essentially engaged in research and renders certain specific services but it should not conduct tests in a centralised way. That is one point of view and it is as defensible as the opposite point of view. But why was it not possible to consider both proposals in an integrated form? In any case, the issue of examinations is touched upon but not explored in detail. In a sense, it is fundamental to a good deal of what is happening and should have been discussed much more thoroughly. Would not such a commission

duplicate and, to some extent, undercut the role and functioning of the UGC? This issue is not even raised.

There is another lacklustre chapter about teachers and students. One of the proposals relates to students' councils with the vice-chancellor as president. Any who knows anything about the working of the universities would not take long to recognise that the proposal is more unworkable than workable. It is odd that with half a dozen vice-chancellors on the committee, there was not that much pragmatism. Possibly the explanation lies in the fact that not many of them took a hand in the drafting of the report which was left essentially to the secretariat.

This unavoidably brief survey of approximately two fifths of the report serves to underscore the point that the core of what the committee did lay in the first 200 pages. For the rest, certain formalities had to be complied with, and those were complied with. If in the process, certain things were reiterated or a few new insights were projected it was as it had to be.

Even in the chapters dealing with resources and decentralisation and participative management, some of the things suggested in the earlier 200 pages are referred to again though some new important points are also made. One is the view of the committee which is not in favour of creating an Indian Education Service as advocated by the 1986 policy. Instead the committee advocates a cadre of educational advisers at the State level as in the Centre.

The second important recommendation made by the committee is that fees should be raised in such a manner that the richest quartile of the people bears 75 per cent of the cost of education, the next richest quartile bears 50 per cent and the one after that 25 per cent. The last of the economically weak quartile (to be appropriately defined) need not bear any part of the cost. While sound in principle, the proposal is not elaborated in as much detail as it should have been. Similarly in regard to loans and scholarships, something is said more or less in passing but the proposal is not elaborated as it deserved to be. Perhaps by then fatigue had set in and time was running out and so certain things were included but not dilated upon.

In any case, the chapter which deals with the question of resources is one of the weaker ones in the report. This chapter should have been drafted with greater care and with much more attention to detail. More than that, the linkage of education with the mode and process of planning should have been brought out. One of the weaknesses of all educational policy making bodies has been that they usually operate on their own and not in co-ordination with those engaged in planning. What it amounts to is more or less this; education ploughs a lonely furrow and, to that extent, remains isolated from the mainstream.

It was for these reasons that it was stated earlier on that the really valuable part of the report consists of the first 200 pages where

issues relating to equity and social justice are viewed in the background of the constitutional directive to provide compulsory schooling for children up to the age of 14. If in the years to come, this report is remembered, it will be for having broken new ground as far as education at that level is concerned.

XII

Finally, two questions may be raised. One was in fact raised quite early when it was affirmed that without a new ethos of work and a radical restructuring of the delivery system, most of the things suggested in the report would remain unimplemented. This is an aspect of the problem into which the committee has not chosen to go. It can be argued that it was beyond its terms of reference. This is valid up to a point and need not be dismissed out of hand. But then this is precisely what leads to the other related question.

Why is it that things recommended by the 1986 policy were not acted upon? Was it lack of funds? Was it the weakness of the delivery system? Was it lack of political will? Or was it some other explanation? Each one of these factors was responsible for non-implementation to some extent. If it was to be ensured that what was now being recommended should get implemented, it would have certainly helped matters if some analysis of the causes of non-implementation had been undertaken. A proposal like a National Council of Higher Education may require legislative action. But a proposal like Operation Blackboard which had some limited success could have been promoted with greater vigour only if more funds had been available. Not to have dwelt upon these issues is a real weakness of the report.

Members of a review committee should be free to talk about these matters. In this report, there is evidence of a certain independence of mind and boldness of assertion which is refreshing. In other words it was not for want of courage or assertion that the committee did not go into these issues. Presumably the committee did not feel too confident about what was likely to happen to its recommendations and, therefore, it chose to conform to conventions rather than stick its neck out.

What has happened since more or less confirms these apprehensions. Because of political instability, non-decision-making is the order of the day. But why should every issue wait upon political clearance? A large number of them can be decided at lower levels and are instances of decisions taken, or not taken, rather than of policy initiatives. It is time that at least those were taken. As of this moment, the union minister (in consultation with State education ministers) is to appoint a committee on behalf of the Central Advisory Board of Education and it is this committee which will go into this report further and decide what can or cannot be done. And so it goes on and on and on.



BANQUE NATIONALE DE PARIS

(INCORPORATED IN FRANCE WITH LIMITED LIABILITY)

(INDIAN BRANCHES)

BALANCE SHEET AS AT 31ST MARCH, 1991

| 31 03 1990 Rs P | CAPITAL AND LIABILITIES | Rs P | Rs P | 31 03 1990 Rs P | PROPERTY AND ASSETS | Rs P | Rs P |
|--------------------|--|--|------------------|---|---|---|------------------|
| Not Applicable | 1. Capital Deposited with Reserve Bank of India under Section 11(2) of the Banking Regulation Act 1949 Government Securities of the face value Rs 40500000/- (market value Rs 40417000/-) included in investments on the opposite side | | Not Applicable | 74 844 194 28 | 1. Cash In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes) | | 175 913,997 29 |
| 2 444 000 00 | 2. Reserve Fund and Other Reserves As per last balance sheet Statutory Reserve transferred from Profit and Loss Account | 14 245 000 00 | | 996 062 19 15 120 155 82 15 716 218 21 | 2. Balances with other Banks: (i) In India (ii) Outside India | 662 223 24 47 975 900 44 | 18,638,123 67 |
| 10 801,000 00 | | 4 856 000 00 | 17 091 000 00 | 996 062 19 15 120 155 82 15 716 218 21 | On Current Account (i) In India (ii) Outside India | 662 223 24 47 975 900 44 | |
| 14 245 000 00 | | | | | On Deposits (i) In India (ii) Outside India | | |
| 1,000 000 00 | 3. Deposits and Other Accounts: Fixed Deposits (1) From Banks (2) From Others Savings Bank Deposits Current Accounts Contingency Accounts, etc. | | | 160 000 000 00 | 3. Money at Call and Short Notice | | 100,000,000 00 |
| 805 812 190 32 | | 866 859,071 65 | | | 4. Investments (At cost or market value whichever is lower) (i) Securities of the Central and State Governments and other Trustee Securities including Treasury Bills of the Central and State Governments (ii) Ordinary Shares (other than held in Head Office books) Partly paid—Unquoted Fully paid—Quoted Fully paid—Unquoted (iii) Debentures or Bonds (iv) Other Investments— ITTI (v) Gold | | |
| 114 684 966 45 | | 127 670 271 49 | 1 593 481 174 93 | | | 605 510 490 00 | |
| 50 624 114 56 | | 1 522 67 | | 581 875 742 12 | | | |
| 630,465 443 05 | 4. Borrowings from other Banking Companies, Agents, etc. (1) In India (2) Outside India | 598 940 308 12 | 449 017 880 66 | | | 290,990 00 510 800 00 626 500 00 | |
| 1,604,474,914 32 | | | | | | | |
| | PARTICULARS (i) Secured by Corresponding advances to customers (ii) Unsecured | 145 520 300 00 203 497 900 66 349 017 800 66 | | 559 100 00 578 000 00 | | | |
| | 5. Bills Payable | | 91 393 667 89 | 583 014 042 12 | | | 686,898,700 00 |
| | 6. Bills for Collection being Bills Receivable as per Contract (i) Payable in India (ii) Payable outside India | 266 951 045 84 90 806 781 49 | 457 057 827 33 | | 5. Advances (Other than Bad and Doubtful Debts for which provision has been made to the satisfaction of the auditors) (i) Loans Cash Credits Overdrafts, etc. (i) In India (ii) Outside India (ii) Bills Discounted and purchased (including Treasury Bills of the Central and State Governments) (i) Payable in India (ii) Payable outside India | | |
| 268 910 235 74 | | | | 685 427,269 95 | | 987,321,651 31 | |
| 46 210 544 85 | | | | 685 427,269 95 | | 987,321,651 31 | |
| 914 729 780 58 | | | | | | | |
| | 7. Other Liabilities (i) Branch adjustment (in India) (ii) Head Office and Balances of Foreign Branches (iii) Income accounted in advance | 9,876 274 92 131,144,900 60 16,512,349 00 | 157 553 513 52 | 406,614,078 62 54 051,746 78 460,664,825 40 | | 316,304,308 91 41,081,609 60 399,385,908 55 | |
| 14 999 997 42 | | | | 1,046,092,095 35 | (Particulars of Advances as per attached Schedule) | | 946,787,969 86 |
| 125,909 340 38 | 8. Acceptances, Endorsements and Other Obligations per Contract | | 403,239 185 33 | | | | |
| 16 015,773 21 | | | | | | | |
| 154,485 121 04 | | | | | | | |
| 681,367 150 92 | | | | | | | |
| 1,804,899,298 96 | Carried Forward | | 2,968,814,098 66 | 1,879,664,549 96 | Carried Forward | | 2,868,157,798 82 |



BANQUE NATIONALE DE PARIS

(INCORPORATED IN FRANCE WITH LIMITED LIABILITY)

(INDIAN BRANCHES)

BALANCE SHEET AS AT 31ST MARCH, 1991

| 31.03.1990 Rs P | CAPITAL AND LIABILITIES | Rs P | Rs P | 31.03.1990 Rs P | PROPERTY AND ASSETS | Rs P | Rs P |
|--------------------|--|------------------|------------------|--------------------|--|----------------|------------------|
| 2,994,899,298.96 | Brought Forward | | 2,968,814,098.66 | 1,879,664,549.96 | Brought Forward | | 2,068,157,790.82 |
| | 9. Profit and Loss: | | | | 6. Bills receivable being | | |
| 35,744,299.79 | Balance of Profit brought forward | 72,272,227.02 | | 268,519,235.73 | Bills for Collection per Centre | | |
| 6,675,455.00 | Less: Amount remitted to Head Office | 1,254,617.25 | | 46,210,544.85 | (i) Payable in India | 266,951,045.84 | |
| 29,068,844.79 | | 71,017,609.77 | | 314,729,780.58 | (ii) Payable outside India | 90,106,781.49 | 357,057,827.33 |
| | Profit for the year as per Profit and Loss Account annexed | 19,276,114.99 | | | 7. Contingent Liabilities for Acceptances, Endorsements and Other Obligations per Centre | | |
| 54,084,382.23 | | 90,313,604.36 | | 691,367,190.92 | | | 403,239,115.33 |
| 83,073,227.02 | Less: 20% of Profit transferred to Reserve Account | 3,896,000.00 | | | 8. Premiums, Less: Depreciation: | | |
| 10,801,000.00 | | 86,417,604.36 | | 7,170,989.12 | Cost as per last Balance Sheet [see note 1d (ii)] | 7,170,989.12 | |
| 72,272,227.02 | Balance of Profit Merged with Head Office and Balances of Foreign Branches | 86,417,604.36 | | 7,170,989.12 | Additions during the year | | |
| | 10. Contingent Liabilities: | | | | Less: Depreciation written off upto 31st March, 1991 | 1,366,490.80 | |
| | (i) Claims against the Banking Company not acknowledged as Debts | 9,802,830.75 | | 1,297,055.00 | | | 9,804,539.12 |
| 1,002,830.75 | (ii) Guarantees issued | 1,498,503,680.35 | | 9,873,954.12 | 9. Furniture and Fixtures Less: Depreciation [see note 1d (ii)] | | |
| 1,499,362,313.25 | (iii) Liability on Bills of Exchange rediscounted | 694,428,880.45 | | 27,123,764.75 | Book Value as per last Balance Sheet | 29,924,263.21 | |
| 1,023,593,165.80 | (iv) Liability on account of Outstanding Forward Exchange Contracts | 903,161,015.00 | | 3,429,252.93 | Additions during the year | 4,572,465.06 | |
| 2,454,860,922.92 | (v) On partly paid shares of Joint Stock Companies | 257,490.00 | | 30,553,017.66 | Less: Deductions during the year | 8,904.62 | |
| 6,900.00 | | | | 628,754.45 | Less: Depreciation—written off upto 31st March, 1991 | 34,487,826.65 | |
| | | | | 29,924,263.21 | | 22,885,983.62 | 11,604,843.03 |
| | | | | 88,648,847.62 | 10. Other Assets: | | |
| | | | | 11,276,215.99 | (i) Head Office and Balances other with foreign branches | 6,612,996.89 | |
| | | | | 869,966.06 | (ii) Interest accrued on investments | 16,086,987.82 | |
| | | | | 19,993,995.33 | (iii) Other interest and commissions receivable | 13,262,695.38 | |
| | | | | 13,034,287.69 | (iv) Tax payments less provisions | 58,531,218.03 | |
| | | | | 32,963,533.53 | (v) Stamps | 81,211.54 | |
| | | | | 77,712.70 | (vi) Prepaid expenses and Sundry Amounts receivable | 11,133,233.16 | |
| | | | | 9,258,766.53 | (vii) Deposits | 36,836,290.46 | |
| | | | | 15,243,579.46 | (viii) Vehicles less depreciation | 478,478.14 | 122,952,983.03 |
| | | | | 466,026.49 | | | |
| | | | | 91,987,667.79 | 11. Non-Banking Assets acquired in satisfaction of claims | | |
| | | | | | | | |
| 2,994,899,298.96 | TOTAL RUPEES | | 2,968,814,098.66 | 2,994,899,298.96 | TOTAL RUPEES | | 2,968,814,098.66 |

As per our attached report of even date

For S. B. Dhillon and Company
Chartered Accountants
Sd/-
MR. S. J. MERCHANT
Partner

For Banque Nationale de Paris
Sd/-
MR. J. C. THIRMOGA
Chief Executive and Country Manager

Dubai: 27th June 1991.



BANQUE NATIONALE DE PARIS

(INCORPORATED IN FRANCE WITH LIMITED LIABILITY)

(INDIAN BRANCHES)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1991

| 31 03 1990 | EXPENDITURE | | 31 03 1990 | INCOME (Less provision made during the year for Bad and Doubtful Debts and other usual or necessary provisions) | |
|----------------|---|----------------|----------------|---|----------------|
| Rs P | | Rs P | Rs P | | Rs P |
| 111 534 862 29 | 1 Interest paid on Deposits Borrowings Head Office Foreign Branches Accounts etc. | 120 416 702 44 | 250 542 279 71 | 1 Interest and Discount including from Head Office and Foreign Branches | 246,799,657 14 |
| 36 676 266 48 | 2 Salaries and Allowances and Provident and Gratuity Funds | 41 243 349 11 | 51 797 991 89 | 2 Commissions Exchange and Brokerage | 40,821,024 39 |
| 15 000 00 | 3 Directors and Local Committee Members Fees and Allowances | 16 100 00 | 63 690 00 | 3 Rents | 63,690 00 |
| 7 589 652 15 | 4 Rent Taxes Insurance Lighting etc. | 7 760 414 49 | | 4 Net Profits on Sale of Investments Gold and Silver Land Premises and Other Assets (not credited to Reserve or any particular Fund or Account) | 1,953 950 78 |
| 341 947 00 | 5 Law Charges | 371 594 15 | | 5 Net Profits on Revaluation of Investments Gold and Silver Land Premises and other Assets (not credited to Reserves or any par ticular Fund or Account) | — |
| 1 514 082 08 | 6 Postages Telegrams and Stamps | 1 430 307 31 | | 6 Income from Non Banking Assets and Pro fits from Sale of or dealing with such Assets | — |
| 150 000 00 | 7 Auditors Fees | 170 000 00 | | 7 Other Receipts | 1 815 627 12 |
| 4 712 954 16 | 8 Depreciation on and Repairs to the Banking Company's Property | 4 731 268 64 | | | |
| 3 356 861 13 | 9 Stationery Printing Advertisements etc. | 4 475 329 68 | | | |
| — | 10 Loss from Sale of or dealing with Non Banking Assets | — | | | |
| 84 689 306 26 | 11 Other Expenditure (including Income Tax Provision and Head Office Supervision Charges) | 93 958 779 04 | | | |
| 94 014 182 23 | 12 Balance of Profit | 19 276 114 59 | 161 542 68 | | |
| 404 565 504 28 | TOTAL RUPEES | 291 449 959 43 | 404 565 504 28 | TOTAL RUPEES | 291 449 959 43 |

Notes forming part of the Accounts for the year ended 31st March, 1991

1. SIGNIFICANT ACCOUNTING POLICIES
 - (a) The foregoing/accompanying financial statements have been prepared on the historical cost basis and conform with the statutory requirements prescribed under the Banking Regulation Act 1949 as also with the generally accepted accounting practices within the banking industry.
 - (b) Foreign Currency Transactions
 - (i) Assets and Liabilities in Foreign Currencies are translated at the rates notified at the year end by FEDAI and contingent liabilities in respect of forward exchange contracts is converted at contracted rates.
 - (ii) Outstanding forward exchange contracts are revalued at the rates notified by FEDAI at the year end and resulting gains/losses on revaluation are credited/debited to Exchange Income account.
 - (c) Investments in Securities
 - (i) Investments in Government and other approved securities in India have been valued at the lower of Cost or Market value on a scrip by scrip basis.
 - (ii) Investments in Unapproved securities are valued at cost.
 - (d) Advances
 - (i) Provisions for Bad & Doubtful Debts are made based on periodic appraisals by Management of the portfolio which are in the satisfaction of the Auditors. Advances in the Balance Sheet are stated after deductions of provisions.
 - (ii) Provisions are made on a gross basis with tax relief being accounted for only in the year of write off.
 - (e) Fixed Assets
 - (i) Fixed Assets have been valued at Cost less depreciation. Depreciation is provided on the written down value method adopting income tax rates.
 - (ii) Fixed Assets had been revalued in the books of the Indian Branches of the Bank as at 1st January 1969 by adopting cost in respect of premises and income tax written down value in respect of vehicles furniture and fixtures.
 - (iii) Premises include shares in Housing Companies of Rs 5 064 347/ (previous year Rs 5 064 347) on which no depreciation has been provided.
 - (f) Staff Benefits
 - (i) The Bank has created separate Recognised Funds for Pension and Gratuity. Provisions for Pension/Gratuity benefits to staff have been made on an accrual basis as certified by the Actuary.
 - (g) Income Recognition
 - (i) Interest Income is recognised on an accrual basis.
 - (h) General
 - (i) The profit in the Profit and Loss Account is after accounting for inter alia provisions for tax, provisions for doubtful debts as also for the other usual and necessary provisions but before transfer to Reserves of the amount of 20% of profits prescribed by Reserve Bank of India.
2. Particulars of remuneration to Chief Executive Officer in India

| | | |
|--|------------|------------|
| | 31 03 1991 | 31 03 1990 |
| | Rs P | Rs P |
| Salaries and Dearness Allowance | 127 704 86 | 269 751 89 |
| Other Allowances | 9 540 00 | 6 660 00 |
| Bonus | 57 680 60 | 45 119 20 |
| Money value of other benefits and perquisites (including furnished accommodation utilities and car calculated according to the income tax rules) | 125 286 60 | 147 299 30 |
| Total Rs | 317 932 06 | 468 790 47 |
3. In respect of tax matters in dispute amounting to Rs 66 700 581/ upto the accounting year 1990 where the bank/tax authorities have preferred appeals no provision has been made in respect of these matters pending the final outcome of these appeals. However the amount of unremitted profits and Head Office charges withheld in India is more than adequate to cover the liability if any that may arise in this regard.
4. Previous year's figures have been regrouped wherever necessary.

As per our attached report of even date

For S. B. Billimoria and Company
Chartered Accountants

Sd/

MR S J MERCHANT
Partner

For Banque Nationale de Paris

Sd/

MR J C TREMCHA
Chief Executive and Country Manager

Bombay 27th June 1991



BANQUE NATIONALE DE PARIS

(INCORPORATED IN FRANCE WITH LIMITED LIABILITY)

(INDIAN BRANCHES)

Schedule of Particulars of Advances Required by the Banking Regulation Act 1949 (Act/FSX of 1949) Attached to and Forming Part of the Balance Sheet as at 31st March, 1991

| 31 03 1990 | PARTICULARS | Rs. | P. | 31 03 1990 | PARTICULARS | Rs. | P. |
|------------------|--|-----------------|----|---------------|--|---------------|----|
| 624 447 826 90 | 1 Debts considered good in respect of which the banking company is fully secured | 587 195 655 17 | | 19 146 496 54 | 5 Debts due by the directors or officers of the Banking Company or any of them either severally or jointly with any other persons | 23,048 647 46 | |
| 446 664,681 51 | 2 Debts considered good for which the banking company holds no other security than the debtors personal security | 260 236 1079 81 | | | 6 Debts due by the companies or firms in which the directors of the banking company are interested as directors, partners or managing agents or in the case of private companies as members | | |
| 75 089 507 14 | 3 Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors | 99 295 104 88 | | | 7 Maximum total amount of advances including temporary advances made at any time during the year to directors or managers or officers of the Banking Company or any of them either severally or jointly with any other persons | 25 480 505 31 | |
| | 4 Debts considered doubtful or bad not provided for | | | 19 505 040 00 | 8 Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the directors of the banking company are interested as directors partners or managing agents or in the case of private companies as members | | |
| | | | | 2 058 441 70 | 9 Due from banking companies | 132 926 57 | |
| 1 046 092 095 45 | TOTAL DEBTS | 946 707 569 86 | | | | | |

Auditors' Report on the Indian Branches of Banque Nationale de Paris under Section 30 of the Banking Regulation Act, 1949.

We have audited the attached Balance Sheet of the Indian Branches of Banque Nationale de Paris as at 31 March 1991 signed by us under reference to this report and the relative Profit and Loss Account of the Indian Branches of the Bank for the year ended on that date.

In accordance with the provisions of Section 29 of the Banking Regulation Act 1949 read with the provisions of sub-sections (1) (2) and (5) of Section 211 and sub-section (5) of Section 22 of the Companies Act 1956 the Balance Sheet and Profit and Loss Account together with the notes thereon are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act 1956. The accounts are therefore drawn up in conformity with the Forms A and B of the Third Schedule to the Banking Regulation Act 1949.

We report that subject to and read with the foregoing remarks:

(1) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit and have found them to be satisfactory.

(2) The transactions which have come to our notice have been in our opinion within the power of the Indian Branches of Banque Nationale de Paris.

(3) In our opinion proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books.

(4) The above mentioned Balance Sheet and Profit and Loss Account of the Indian Branches of the Bank dealt with by this report are in agreement with the books of account.

(5) In our opinion and to the best of our information and according to the explanations given to us the accounts together with the notes thereon and subject to note 1(d) (ii) dealing with fixed assets and note 4 with certain taxation matters under appeal give the information required by the Companies Act 1956, in the manner so required for Banking Companies and on such basis give a true and fair view in the case of the Balance Sheet of the state of affairs of the Indian Branches of the Bank as at 31 March 1991 and in the case of the Profit and Loss Account, of the profit of the Indian Branches for the year ended on that date.

For S B BILIMORIA & CO
Chartered Accountants

(Sd/-)

MR V J MERCHANT
Partner

Bombay 27th June 1991

Growing Regional Inequalities in Gujarat

Surendra J Patel

There are two Gujarats: one, the developed industrial belt from Gandhinagar to Vapi; and the other, the poor, agricultural parts of the State consisting of Saurashtra, Kachch and the north-eastern, eastern and southern districts.

The author sketches, with a broad brush, the outlines of the two unequal Gujarats and reviews past efforts, conspicuously unsuccessful, to deal with the problem of regional inequalities in the State. The note ends with a call for more vigorous policies to reverse the trend towards worsening regional disparities.

*Jyan jyan vase ek ek Gujarati
Tyan tyan sadakal Gujarati.*

—Khabardar

POET Khabardar had sung of Gujarat's universality. His Gujarati was one Gujarati. It accompanied a Gujarati wherever he went the world over. This was the poet's love for Gujarat—one Gujarati. But reality is not that simple. There are at least three Gujaratis, not one. One of them is inhabited by about one to three million Gujaratis living outside, in India and abroad. The other two Gujaratis are right here in Gujarat. One, the rich, prosperous, developed industrial belt from Gandhinagar to Vapi. The other Gujarati consists of Saurashtra, Kachch and the north-east, east and south districts. This Gujarati is relatively underdeveloped, poor, agricultural. It encircles the rich heartland of Gujarat.

For this coincidence of geography and development, I have called the richer heartland, the Centre, and the poorer encircling districts, the Periphery. Such extremes do not exist in Gujarat alone. Their existence is universal—in other States of India, in other countries and among groups of countries. The whole world is a divided world, an unequal world. Many names are used to describe this reality—the developed and the developing countries; the North and the South; the Centre and the Periphery; the rich and the poor countries; the industrial and the agricultural regions. Whatever the name employed, the meaning is the same—in the world, in India, in Gujarat Gujarat too is thus a mini-mirror of the unequal world.

I will try here to see what the Gujarati mirror shows. For this, we look first at the efforts made earlier to face this problem without any success so far. Then I will sketch with a broad brush the outlines of the two unequal Gujaratis. This will be followed by showing why it is important to give very high priority to overcoming this inequality. This paper ends with a call for more vigorous policies to reverse rapidly the trend towards increasing regional inequality. This effort has been inspired by the hope that through timely advance action Gujarat may avoid harsher conflicts in the future.

I

A Glance at Past Efforts

The subject of regional inequalities is neither new nor a neglected one. It has been

with us since the dawn of history. Together with other types of inequalities, it has been much studied everywhere. The vast literature which has mushroomed on it need not detain us here. But we must look at what was attempted in the past. By understanding the past, we may be better equipped to face the future. At least four landmarks stand out for the past.

The first landmark was established in 1965. The Planning Commission suggested to the State governments that they classify their backward regions into five categories: desert areas, drought-affected regions, hill and border areas, tribal regions and densely populated areas with low income and employment levels. The last area was to be identified on the basis of 15 indicators of development of the districts concerned. The Gujarat government considered that a district was too large a unit. It therefore chose a taluka as the basis, and applied to it 11 available indicators of development.

A bare 10 years after Gujarat became a separate State, a high-level Committee on Balanced Development of Gujarat was established in June 1970. Jaisukhlal Hathi was its chairman. The report of the committee was submitted in 1971. It illustrated regional inequality in Gujarat with data for various talukas of the State. It identified 56 talukas as very backward.

In December 1971, the Gujarat government decided to give additional financial assistance of Rs 75 lakh per year for minor irrigation and road works. The government thought that its resources were limited. The grant was therefore given to only 33 talukas; and it did not cover industries and electrification. Among these talukas was Lila in Amreli district, Bhesan in Junagadh district and Kalavad in Jamnagar district.

There were some changes in the basis of this grant and in the coverage of the area. A Review Committee was appointed in April 1978. We know little of what the Review Committee found in regard to the success of the government effort of the preceding 12 years. But regional inequality in Gujarat must have survived long after both the Hathi Committee and the Review Committee. The problem had not disappeared. It could have become even sharper. It attracted much attention when the Seventh Five-Year Plan was being prepared. New elections were to take place soon.

The Gujarat government therefore did exactly what governments always do. A new Committee for Development of Backward

Areas was established in December 1984 with an eminent economist and a very senior former civil servant, I G Patel, as its chairman.

There was a notable difference in the terms of the Hathi and the Patel Committees. The Hathi Committee had a wider mandate—'balanced development'; the Patel Committee, in contrast, was to deal with a limited concern—'backward areas'. This may be taken as a reflection of the Gujarat government's functioning. The 14 years which separated the Hathi Committee from the Patel Committee marked a retreat rather than an advance.

The Patel Committee examined in detail data for 184 talukas of Gujarat searching for the backward talukas. The level of development in each taluka was compared by using 25 indicators. They covered agriculture, industry, infrastructure and social and economic welfare. Each taluka was then ranked according to these 25 indicators. All these rankings were then combined to build one single rank indicator, showing where each taluka stood on the ladder of development. In recent years, rank indicators have been used for combined elements which are inherently very different and should not therefore be combined without devising a system of weights for them. This is a serious methodological weakness of the Patel Committee, but this is not the place to take it up for detailed discussion.

I think the report of this committee, submitted in two volumes in August 1984, is a sophisticated attempt to identify backward talukas. But the committee itself was afraid not without reason, that its report might appear "rather long on analysis and short on recommendations".

The committee classified the 184 talukas of Gujarat into four groups: (1) most backward; (2) backward; (3) relatively developed; and (4) relatively more developed. It identified 56 talukas as the most backward in the State. It had warned against the earlier measures of allocating Rs 1 or 2 lakh per taluka as a special grant. Such a modest amount, it concluded, does not serve any real purpose (paras 4.4 and 4.5). Instead, it recommended "strategic intervention on a long scale" (para 4.21).

The government took the gentle recommendations of the Patel Committee in its stride. The pressing need for taking bold action urgently was now gone. The elections were over. The government had other objectives. So it did what governments in India

have done under similar circumstances; continue with the past pattern of the useless pursuit of ridiculously small grants and hope that the problem will disappear one day.

It followed up with three relatively easy steps. This was a bit more generous gesture than that of the Hathi Committee.

The number of talukas considered backward, 56 in 1970, remained the same in 1984. Why this stability of number is a mystery we cannot explore here. But the level of the grant was raised from 'Rs 2 lakh' to 'Rs 2 to 3 lakh'. Never mind, prices too had gone up three times in these 14 years. The real value of the grant in 1985 was thus less than one-half of the 1970 level. That in itself is a good indicator of how much the government was concerned about backwardness!

Now the Patel Committee had finished its work. Indira Gandhi was assassinated. Rajiv Gandhi became prime minister with an overwhelming majority in parliament. Amarsinh Chaudhury, himself an Adivasi, took over as the new Gujarat chief minister. But there was little change in the traditional three-track approach of the Gujarat government. Its mild actions along this track were:

(1) Officials in charge of different sectors were advised to pay special attention to the needs of these 56 really backward talukas. Only god and the government know how this advice was carried out

(2) Each of the 56 talukas was granted funds of Rs 2 to 3 lakh as additional financial

outlay under decentralised district planning. The sum was too small for too big a job. This may be illustrated by two simple comparisons:

(a) The population of a taluka in Gujarat ranged between one to two lakh. A grant of Rs 2 to 3 lakh to a taluka, therefore, simply meant an average handout of 1 to 1.5 rupees per person—not much higher than what a medium-income family would offer on one single temple visit.

(b) Another comparison may be tried. The maximum sum which could have been paid under this scheme would be Rs 168 lakh (56 talukas x 3 lakh rupees)—a silly little token sum which was 0.017 per cent, or no more than one-five thousandth, of the total gross state product (GSP) of Rs 10,379 crore in 1985-86! Was there anyone in State government who believed that this tokenism would in any way help the backward talukas? The absurdity of the action was enormous. But then politics is too often a play of perversities!

(3) There was also a continuation of the reduction from 25 per cent to 10 per cent in the amount of counterpart funds which each taluka was generally required to raise in order to benefit from various official incentive schemes for development. Nobody knows what this complex measure achieved.

Having done this, the State machinery must have felt satisfied with itself. All that was necessary to be done was done. That Amarsinh Chaudhury was the chief minister made no difference. The Gujarat government had its own motion. Nothing more was thereafter asked about how the 56 talukas utilised the grants and what 'benefits' they got from the grant. Nor was there any further review of what actually happened. Did any of the backward talukas take off? Did the economic and social distance between them and the rest of Gujarat actually increase rather than narrow? There was a deafening official silence. It must have been hoped that it would not be shattered by awkward questions.

The Patel Committee must have outdone itself. There were no more committees thereafter. The third and the fourth landmarks were therefore studies by academicians. They provide additional data on the subject. The Centre for Monitoring Indian Economy (CMIE) published in July 1985 a two volume study *Profile of Districts* containing comparative data on nearly all the districts of India. It made it possible thereby to prepare a very rough proxy indicator for the level of gross district output (GDP) for 412 districts of India. It evolved for this purpose a composite index based on nine indicators and their relative weights. Those weights were meant to reflect the structure of the main components of the possible gross product of the districts. The results of this CMIE exercise were published under the title *District Level Data for Key Economic Indicators* (Bombay, November 1987).

The last landmark was the study incorporating the papers presented at a special seminar organised in 1988 by the Bhavnagar

University on *The Economy of Saurashtra: Problems and Prospects* (Bhavnagar, 1990). I had been invited in 1988 to write the Note which outlined the basic issues to be faced, and which was sent to all participants in the seminar to serve as a basis for discussion. The papers for the seminar were published by an Editorial Committee chaired by D T Lakdawala. This publication was followed by a pamphlet in Gujarati, *Saurashtra Taran-vallanpani* (1990) which stressed the intense water crisis in Saurashtra. It gave expression to Saurashtra's suffering by twisting the affectionate words Meghani had used as a title for his *Sorath Taranvehtanpani*.

I wonder why these studies have not exercised serious influence on development processes in the State. It may reflect the indifference of politicians (with the outstanding exception of Sanat Mehta) to such ideas, except at election time when they could be used to get votes. The passive attitude of the people in the backward talukas must have also contributed.

This is probably too long a review of the past studies on the subject. But I think they merit a recall, lest we forget past history. Past studies need to be rescued from decay on library shelves. And future studies on the subject and formulation of more comprehensive policies will have to be built upon the foundations they have laid.

II

Two Gujarats: Rich and Poor

As I mentioned earlier, there are indeed two Gujarats in Gujarat, not one. One of them is the heartland of Gujarat. It is a long narrow strip stretching from Gandhinagar up to the border of Gujarat with Maharashtra. Two arteries of rail and road serve parts of its seven districts (Gandhinagar, Ahmedabad, Kheda, Vadodara, Bharuch, Surat and Valsad). Running to Bombay nearly parallel to each other through Gujarat, they link the population of this heartland of Gujarat to Bombay. The total population of these seven districts was 153 lakh in 1981, or about 45 per cent of Gujarat's total (see Table 1).

This is the prosperous, the well-to-do, the advanced, the developed, the industrial, the rich part of Gujarat. But it should not be imagined that all the 153 lakh people who inhabit these seven districts are equally rich. Indeed, there are many talukas in these seven districts which are relatively very poor, very underdeveloped, most backward. The Patel Committee had identified 17 out of a total of 44 talukas of Vadodara, Bharuch, Surat and Valsad as most backward. The population of these poor 17 talukas was 21 lakh. These people should be excluded from the total population of the rich, well-to-do heartland of Gujarat. When this is done, the heartland's population will be reduced by at least 21 lakh, bringing it down to 132 lakh, or some 39 per cent population of the whole of Gujarat. In addition to the population of these 17 most backward talukas, we should, to be precise, also exclude that of other

TABLE 1: DISTRIBUTION OF POPULATION BY DISTRICTS IN GUJARAT, 1981

| | Number* (in thousand) | Share (in Per Cent) |
|---------------------------|-----------------------------|---------------------------|
| I Poor Periphery | 18,770 | 55.1 |
| Saurashtra | 9,570 | 28.1 |
| 1 Jamnagar | 1,190 | 4.1 |
| 2 Rajkot | 2,090 | 6.1 |
| 3 Surendranagar | 1,030 | 3.0 |
| 4 Bhavnagar | 1,880 | 5.5 |
| 5 Amrali | 1,080 | 3.2 |
| 6 Junagadh | 2,100 | 6.2 |
| The north east | 9,210 | 27.0 |
| 7 Kachch | 1,050 | 3.1 |
| 8 Banaskantha | 1,670 | 4.9 |
| 9 Sabarkantha | 1,500 | 4.4 |
| 10 Mehsana | 2,550 | 7.5 |
| 11 Panchmahals | 2,320 | 6.8 |
| 12 Dangs | 115 | 0.3 |
| II Rich Heartland | 15,300 | 44.9 |
| 13 Gandhinagar | 290 | 0.8 |
| 14 Ahmedabad | 3,880 | 11.4 |
| 15 Kheda | 3,010 | 8.8 |
| 16 Vadodara | 2,560 | 7.5 |
| 17 Bharuch | 1,300 | 3.8 |
| 18 Surat | 2,490 | 7.3 |
| 19 Valsad | 1,770 | 5.7 |
| III Gujarat: total | 34,090 | 100.00 |

Note: * Rounded to the nearest 10 for 4 digit, and 5 for 3 digit figures. Because of rounding figures may not add to the totals.

Source: Government of Gujarat, *Statistical Abstract of Gujarat State: 1985 and 1986*, Gandhinagar, 1987.

talukas in these districts which were classified by the Patel Committee as backward. When this is done, the population inhabiting the long narrow strip of rich Gujarat should be some 100 lakh, or about 10 per cent of the total.

It should be recognised at the outset that a study of regional disparities concerns itself with relative prosperity and poverty of geographically identifiable regions and not people in general. After all, if we are to take into account the vast numbers of the poor people in the major cities in the heartland for instance, Ahmedabad, Kheda, Vadodara, Bharuch, Surat, Valsad and several others) we will have to reduce the population of the heartland further by several lakh to make it merit the title of 'rich, prosperous'. This is the inherent limitation of all geographically space-bound area or regional studies. To be fair, we would also have to subtract the population in the relatively more developed talukas of what I have termed the poor periphery. There is at the present state of the study no simple solution to this difficulty. That is why I wanted to give a warning right at the beginning. Everything that is written below is to be read subject to this limitation.

I should also add another qualification. I would agree with the use of a taluka rather than a district by both the Hathi and the Patel Committees to identify backwardness in a region. But I do have, however, several misgivings about their use of talukas for development purposes. The nerve centre of administrative decision-making, planning, implementation and monitoring in India, and also in Gujarat, remains a district. For this reason alone the problems of most backward talukas of a district should be placed within the overall framework of a given district. Only then an integrated planned approach on a comprehensive basis could be derived and implemented. Such an integrated approach would then make it possible to reject the smug satisfaction with which succeeding governments in Gandhinagar have for quarter of a century considered handouts of paltry sums as a solution to regional inequalities.

Before the methodological quantifications become too boring, I must quickly turn to the second Gujarat, the poor Periphery. We may then avoid the all too common scathing remark that methodology is the last resort of the scoundrel. The poor Periphery tells a very different story. It is poor, underdeveloped, weak, agricultural, non-industrial and even less educated.

I have called this part the Poor Periphery of Gujarat for a very good reason. It stretches from the six districts (Bhavnagar, Junagadh, Amreli, Rajkot, Jamnagar and Surendranagar) of Saurashtra in the south-west and west of Gujarat to the district of Kachch in the north-west, and ends with the long arch of six districts (Mehsana, Sabarkantha, Bansakantha, Panchmahals and Dang) in the north east and south of Gujarat. These 13 districts almost completely encircle the Rich Heartland I have described earlier. The encirclement is com-

plete if we add to it the most backward 17 talukas of south-east Gujarat, the Bay of Cambay. The population of these six districts is about 190 lakh or some 55 per cent of Gujarat. With the addition of the most backward and backward talukas, it will be about 240 lakh, or some 70 per cent of Gujarat's total population. This Periphery thus contains a much larger part of Gujarat's population—not a very happy situation if the Heartland were ever to face severe opposition from the encircling Periphery.

I have tried to summarise some basic information on the two Gujarats in Table 2. Before we begin to examine this information, I should warn about its weaknesses. At least four such weaknesses should be pointed out here.

First, these data are limited to districts which usually contain, as both the Hathi and Patel Committees have underlined, many talukas which are really very backward as well as those which are relatively developed. Second, the data are relatively, if not altogether, ancient in some cases—for example, those dealing the crude estimates of total and sectoral output.

Third, the data outline Gujarat's image at a point of time, a photographic snapshot. They do not present, as with a movie camera, the scene changing over a period of time. We are therefore unable to see the changes which have taken place over time.

These changes, so critical to assessing development, are simply absent in this as well as the pictures given by the Hathi and the Patel Committees. But they are central to any perspective of development.

Fourth, the indicators are far from comprehensive. They are too spotty. There are too many gaps. Some of them are very substantial in nature. They do not tell us anything about the total district product; its structural distribution; the volume of domestic savings and investment; net financial transfers from all sources—the Centre, the State and private; and investments in all projects by sector. These key parameters are missing here as also in the work of the earlier committees.

With such deficiencies in data, one should hesitate a lot before constructing an overall image. I thought of giving up the attempt several times. But I have persisted, despite all misgivings, mainly because the earlier Hathi and Patel Committees too, with all the resources at their command, set an example of persistence. I have underlined these weaknesses mainly with the hope that it would put pressure on the State statistical and economic offices to fill up such major gaps. To put such pressure on them was indeed one of my objectives, because I do consider that the available data can be imaginatively used to fill in these critical gaps in information.

TABLE 2: REGIONAL INEQUALITIES IN GUJARAT

| Item | Unit | Periphery | Heartland | Gujarat Total | Periphery (Percentage Share) | Heartland | Periphery/ Heartland Ratio* |
|-------------------------------------|-----------|-----------|-----------|---------------|---------------------------------|-----------|--------------------------------|
| General | | | | | | | |
| (1) Population (1981) | mill | 18.8 | 15.3 | 34.1 | 55 | 45 | 1.25 |
| Output, 1979-81 | | | | | | | |
| (2) Per capita | Rs | 580 | 1260 | 890 | .. | .. | 0.45 |
| (3) Total | Rs crore | 1110 | 1930 | 3040 | 36 | 64 | 0.55 |
| (4) Primary | " | 760 | 400 | 1160 | 65 | 35 | 1.85 |
| (5) Secondary | " | 150 | 630 | 780 | 18 | 32 | 0.20 |
| (6) Tertiary | " | 200 | 900 | 1100 | 18 | 82 | 0.20 |
| II Agriculture, etc. 1983-84 | | | | | | | |
| (7) Forests | mill ha | 1.4 | 0.5 | 1.9 | 73 | 27 | 2.70 |
| (8) Gross sown area | " | 8.1 | 3.1 | 11.1 | 73 | 27 | 2.70 |
| (9) Area irrigated | " | 1.8 | 0.8 | 2.6 | 69 | 31 | 2.20 |
| (10) Foodgrain output | mill tons | 3.9 | 1.8 | 5.7 | 68 | 32 | 2.10 |
| III Industry, 1985 | | | | | | | |
| (11) Factories | '000 | 4.66 | 10.17 | 14.83 | 31 | 69 | 0.45 |
| (12) Factory emp | " | 193.3 | 472.3 | 665.6 | 29 | 71 | 0.40 |
| (13) Employment per factory | No | 41 | 46 | 43 | .. | .. | 0.90 |
| IV Education, 1981 | | | | | | | |
| (14) Literates students | mill | 7.3 | 7.6 | 15.9 | 49 | 51 | 0.95 |
| (15) Primary | " | 3.1 | 2.6 | 5.8 | 54 | 46 | 1.10 |
| (16) Secondary | " | 0.61 | 0.67 | 1.28 | 48 | 52 | 0.90 |
| (17) Higher | " | 87 | 170 | 257 | 34 | 66 | 0.50 |

Note: * Rounded to the nearest 0 or 5.

Source: Government of Gujarat, Gandhinagar, *Statistical Abstract of Gujarat State: 1985 and 1986*; output (in 1970 prices) taken from Sanatbhai Mehta, "Challenge of Balanced Development of Gujarat", paper presented at Bhavnagar University seminar on 'Economy of Saurashtra: Problems and Prospects', Bhavnagar, 1990, pp 15-17; the per capita figures for the Periphery are my weighted average.

Whatever, the government does or not do, the State secretariat in Gandhinagar should soon set in motion efforts to fill in these gaps. Those gaps are not that difficult to fill in. Only thereafter will all the exercises on district planning and overcoming regional backwardness begin to assume meaningful character.

In view of the weaknesses of the data, I am not going to pretend to be scholarly. Nor am I suggesting that the image is complete in details. But I do believe that even an impressionistic image needs to be presented, no matter how sketchy the outline, if the official arthritis of the last 25 years is to be overcome. The succeeding governments in Gujarat have made too loud noises for too little action on this subject.

Even a cursory glance at Table 2 shows that the per capita output in the Heartland of Gujarat was almost twice as large as in the periphery (lines 2, 3, 4, 5 and 6). The difference was smaller for Saurashtra, but much larger, 3 to 4 times for Kachch and the other six districts in the north, north-east and the south of Gujarat. These figures are over 10 years old. The position now must be much sharper, since during this period the Periphery suffered a prolonged and severe drought and the industrial output in the Heartland nearly doubled.

Agriculture is the dominant activity in the Periphery. The poorer Periphery of Gujarat has 73 per cent of Gujarat's forest and gross sown area. It also reports a much larger irrigated area. This is understandable, since 10 of these 12 districts suffer from rather low and uncertain rainfall. They are not blessed by the bountiful waters of Gujarat's perennial rivers which irrigate most of the Heartland. They had therefore to resort to an intensive exploitation of ground-water.

Much of this rich treasure of ground-water, accumulated over millennia of history, has now been exhausted by the most extensive use of diesel and electric pumps. The ground-water resources are now mostly used up. Water levels in wells, particularly in most of Saurashtra, have gone down from 30 to 50 feet to over 150 feet. In consequence, when the rainfall is exceptionally low, these districts suffer very serious hardships, as was the case between 1983 and 1988. If these districts were not part of Gujarat, from where help came in the form of food, cattlefeed and water, they would have been declared famine or near-famine areas, as was the case with the Sahel countries around the periphery of the Sahara desert.

Using very old (1979-81 base) output estimates, we find that the Periphery did produce nearly 65 per cent of the primary output (including forestry, fishing and mining) of Gujarat. Its foodgrain output was substantial, almost two-thirds of the total of Gujarat.

These figures have led many observers to conclude that the Periphery of Gujarat is quite well developed. They have looked at its agriculture and its commercialisation and diversification and they have at once rushed to the conclusion that this mostly arid and

semi-arid periphery is indeed a very prosperous agricultural region of Gujarat!

Such a conclusion is, however, as misleading as that of several observers of the Third World or the South, who have used the larger share of agriculture in the Third World's total output as an evidence of its agricultural advance. In reality, all the poor countries of the world, and all its poor regions, always have a relatively much larger share of agriculture in their total output. There is nothing extraordinary in this. It does not imply that these regions are agriculturally developed. It only means that other sectors of the economy of these countries and regions, for example, the industrial and industry-related modern services, are not very much developed there. In consequence, agriculture looms very large in the overall image of these generally underdeveloped regions. This is how it has always been so.

In fact, the picture in Gujarat is not much different from that between the developed and developing countries, or the North and the South the world over. Gujarat also has its own developing regions, which are actually spread as a Periphery around the Heartland of the State.

This can be seen more clearly when the data on the industrial and the services sectors are examined. The Heartland of Gujarat has 69 per cent of all factories, 71 per cent of all factory workers and as high as 82 per cent of the output of both the secondary and the tertiary sectors. I should add here that the output figures relate to the period 1979-81. Similar data are not available for the subsequent decade. In view of the rapid expansion of industries and services in the Heartland and the shrinkage of agriculture in the Periphery thereafter one can generally conclude that this share must have increased. In consequence, the Heartland may now be accounting for anywhere up to 85 to 90 per cent of the total industrial output of Gujarat or virtually the same share which the developed countries have in world industrial output.

We do not really have good estimates for the services sector, but we may use data on education as a proxy indicator for it. Education, as we all know, is at the same time both an end and a means of development. To put it in other words; it is at the same time a consumption good because it satisfies a basic common human desire to be more enlightened. And as human capital, it is also a strategic means, or an instrument of investment for accelerating development.

We see that the difference between the Heartland and the Periphery of Gujarat is not very serious for enrolment in primary education. The Periphery is a bit behind the Heartland in secondary education. But a much sharper difference is to be noticed in enrolment in higher education. The Heartland with a much smaller population of Gujarat accounts for as high as two-thirds of the total enrolment in higher education in the whole of Gujarat. Moreover, the difference may be even greater if we are able to take into account the concentration of

institutions of more advanced education in the Heartland, which are in general also qualitatively superior. Thus, the more prosperous part of Gujarat has not only a disproportionately much larger share of enrolment in higher education, it has also a higher level of quality of education imparted to its students. Here is probably the key element which will continue to increase the economic and social gap between the Heartland and the Periphery of Gujarat. But an important qualification is in order here. It is well known that many of the students from the Peripheral districts enrol in the more advanced institutions of higher learning generally located in the larger cities in the Heartland. The percentage shares shown in Table 2 thereby somewhat exaggerate the actual difference.

III

New Setting for Social Conflicts

Some may find it difficult to appreciate why so much fuss is being made about regional inequality. There are several reasons why such inequality has begun to assume in the recent period increasing importance for public policy. The first reason is the very existence of such inequality. People may not take very seriously the Declaration of the Rights of Man (1789) issued during the French Revolution. Nor may they be aware of the marginally earlier Declaration of American Independence which began with the ringing words that all men are created equal. Most people do see inequalities in everyday life and may be prepared to tolerate them, unless these inequalities present themselves in rather a sharp, concentrated and an unreasonable form. Regional inequality is beginning to assume such a form.

Second, such inequality may be tolerated if people remained ignorant of its existence. In the age of instant communication, people in poorer regions learn very rapidly of other regions being better off. They begin to suspect that they are being discriminated against. Such suspicions assume considerable importance in a formally democratic set-up. There the politicians have to face the people now and then to be elected. This is the time when promises are made to eliminate gross inequalities. Weak memories of people may protect for a while political leaders forgetting these promises. But they should not be counted upon to serve as a permanent shield.

The third factor has increasingly assumed greater importance the world over. In earlier periods, conflicts among people centred on the family, the clan and the tribe. These conflicts are now less dominant than before. Since early 19th century, they have been submerged into two other types of conflicts which have dominated the world state. They are conflicts among nation states and class conflicts.

The conflicts among nation states sprang either in the form of wars by imperial power to conquer colonies, or wars among the col-



HIGHLIGHTS OF ANDHRA BANK'S PERFORMANCE 1990-91

BALANCE SHEET AS AT 31ST MARCH, 1991
STATEMENT OF POSITION: CONDENSED VERSION

| As at 31st March 1990 | | As at 31st March 1990 | |
|--------------------------|--|--------------------------|--|
| CAPITAL AND LIABILITIES | | PROPERTY AND ASSETS | |
| Rs. in Lacs | | Rs. in Lacs | |
| 2 200 | 1 Capital | 57 800 | 1 Cash |
| 4 000 | 2 Reserve Fund & Other Reserves | 2 447 | 2 Balance with other Banks |
| 3 22 570 | 3 Deposits & Other Accounts | — | 3 Money at Call & Short Notice |
| 16 658 | 4 Borrowings from Other Banking Companies, Agents etc. | 1 06 402 | 4 Investments |
| 8 608 | 5 Bills Payable | 1 68 441 | 5 Advances |
| 12 728 | 6 Bills for collection being Bills Receivable — as per contra | 12 727 | 6 Bills for collection being Bills Receivable — as per contra |
| 4 742 | 7 Other Liabilities | 10 957 | 7 Constituents' Liabilities for acceptances, Endorsements and other obligations—per contra |
| 10 957 | 8 Constituents' Liabilities for acceptances, Endorsements and other obligations per contra | 690 | 8 Premises less Depreciation |
| 175 | 9 Profit & Loss Account | 2 071 | 9 Furniture, Fixtures etc. less Depreciation |
| | | 21 274 | 10 Other Assets including Silver |
| | | — | 11 Non Banking Assets acquired in satisfaction of claims |
| | | — | 12 Profit & Loss Account |
| 4 82 608 | TOTAL | 4 82 608 | TOTAL |

PROFIT AND LOSS ACCOUNT FOR THE PERIOD OF 12 MONTHS ENDED 31ST MARCH, 1991

| Year ended 31st March 1990 | | Year Ended 31st March 1990 | |
|-------------------------------|--|-------------------------------|---|
| EXPENDITURE | | INCOME | |
| Rs. in Lacs | | Rs. in Lacs | |
| 22 160 | 1 Interest paid on Deposits, Borrowings etc. | 40 728 | 1 Interest and Discount |
| 6 604 | 2 Salaries and Allowances, Provident Fund, Gratuity etc. | 2 515 | 2 Commission, Exchange and Brokerage |
| Nil | 3 Directors' Fees & Allowances | Nil | 3 Rents |
| 1 867 | 4 Rent, Taxes, Insurance, Lighting etc. | 41 | 4 Net Profit on sale of Investments Gold & Silver Land, Premises and other assets (Not credited to Reserves of any particular Fund or Account) |
| 61 | 5 Law Charges | Nil | 5 Net Profit on revaluation of Investments Gold and Silver Land, Premises and other Assets (not credited to Reserves or any particular Fund or Account) |
| 179 | 6 Postage, Telegrams and Stamps | Nil | 6 Income from Non Banking Assets and Profit from sale of or dealing with such Assets |
| 28 | 7 Auditor's fees | 169 | 7 Other Receipts |
| 551 | 8 Depreciation on and Repairs to Bank's Property | | |
| 252 | 9 Stationery, Printing, Advertisements etc. | | |
| Nil | 10 Loss from sale of or dealing with Non Banking Assets | | |
| 961 | 11 Other Expenditure | | |
| 775 | 12 Balance of Profit | | |
| 43 241 | TOTAL | 53 241 | TOTAL |

colonial powers themselves to retain or to share colonial possessions, as was the case with the first and the second world wars. There was also another side to this conflict: colonial rebellions against imperial powers for national independence. National independence movements in Europe of the 18th and the 19th century, and in the developing countries during the post-second World War period furnish examples of such conflicts.

The second form of conflict made its appearance after the industrial revolution. A new class came into existence, the working class. This was followed by the establishment of trade unions, strong advocacy by Karl Marx and other socialists of workers' rights, and establishment of socialist parties of various shades. Conflicts *within* nations thereafter increasingly assumed the form of class conflicts for sharing in the gains of economic, social and political development.

In the recent period, both these forms of conflicts have lost much of their earlier momentum. Nearly all the former colonies have now liberated themselves. Some 160 countries have been recognised as member states of the United Nations. Their national frontiers are now by and large considered inviolable. Exceptions do occur. The recent example of the Gulf conflict demonstrates that a violation of clearly recognised frontiers is not easily tolerated. We still have conflicts among nation states, but they have receded from the world stage.

In a similar fashion, class conflict too has lost much of the earlier sharpness of its edge. In developed Western economies, living conditions have generally improved considerably. The struggle for sharing the gains of development has become institutionalised. Class conflict has thereby declined in importance. The recent eclipse of socialism in Eastern Europe has added to the acceleration of this decline.

One would have liked to believe that the decline of the classical conflicts (national and class) has now brought humanity to a conflictless, peaceful Buddhist Nirvana. Alas! That still seems to be far away. Other conflicts have begun to replace the national and the class conflicts. Several varieties of such conflicts have become important: for example, regional, ethnic, religious, communal and caste conflicts. These new forms of conflicts by and large, though not exclusively, feed upon economic, social, political and other types of inequalities. The reasons often get inter-mingled, so much so that it is never very easy to identify which particular factor among those listed above was the decisive cause.

It is beyond the scope of this essay to suggest which kind of conflicts would arise out of the growing regional inequalities in Gujarat. I do not have that crystal-ball. But it does not require much wisdom to suggest that if the regional inequalities were to continue growing, as they seem to have done in the past decades, they will become the breeding ground for serious social and political instability in Gujarat in the years

to come.

The main purpose of this essay is to draw attention to these possibilities so that wiser counsel may prevail over shortsighted selfishness, particularly among political leaders. Dynamic statesmanship could then take remedial action in advance, which could help avert future disaster. An integrated set of policies might then be devised to foster vigorously a more balanced development of most of the State. Gujarat could then overcome the dominant sense of smug satisfaction which prevails in the upper levels of political leadership. In consequence, an integrated allocation of investment and a transfer of resources may be made in an orderly and an integrated fashion so as to assist the less advanced without punishing the more advanced.

IV

A Few Areas for Immediate Action

It should not be imagined that regional inequalities would be rapidly overcome in the near future. Nor should we at the same time pretend that they will soon disappear, relieving us of this worry, through the casual handout of two or three lakhs of rupees to this or that taluka. The experience of the past 30 years of indifferent action by the State government clearly warns us against entertaining any such delusion. We should, therefore, initiate as soon as possible some action which would prepare us better to grapple with this formidable problem in the years to come. The suggestions made below, rather modest, aim at this objective.

(1) Avoid using the word 'backward'. We should define the problem in terms of the title of the Hathi Committee (1970), and not the Patel Committee (1984). Balanced development is a more sensible overall objective.

One can indeed argue that without an accelerated development of the less developed parts of Gujarat, the advance of Gujarat as a whole is likely to be compromised. As Lincoln wisely suggested a long time ago: a house divided cannot long endure in peace. This does not mean that policies will not have to be directed towards specific target areas—the most 'backward' or the least developed talukas.

By spelling out the implications of the objective of a balanced development of Gujarat, it should be possible to situate the specific needs of the least developed talukas into an overall framework. We would then avoid the *ad hoc*, unco-ordinated 'handout' policies which have characterised the past without any noticeable impact. One might even suggest that regional inequalities have become sharper despite these handouts. And may be even *because* of them, since they prevented the search for more efficient approaches.

(2) Once such a general framework is adopted, we can initiate a new inquiry aimed at:

(i) Identifying the nature and size of

regional imbalances and how they have grown over the last 30 years. Most data for that aim do exist now.

(ii) Assessing the reasons why past policies have failed in arresting the growth in such inequalities.

(iii) Establishing sensible long-term objectives regarding which disparity may be overcome through policy for which area. New policies could then be devised which would be more objective and area specific.

(3) Policies for integrated development of Gujarat as a whole could then be formulated to balance investment and development expenditure flows in a given region with the needs of accelerating its progress. Attention could be focused on Gujarat as a whole—all of its four colour bands which will demarcate, as in a rainbow, in more specific colours its more developed and developed from the backward and the most backward areas.

(4) The approach outlined in (2) and (3) above need not wait for government decision. Political instability may make that difficult at present. The task can be undertaken by a research institute, possibly with supportive government co-operation. Indeed, there is considerable advantage in an autonomous research team handling this critical problem. This could ensure an independent and objective treatment of the subject.

(5) Since 1984, a significant change in Gujarat has taken place as a result of the poor rains in mid-eighties. This underlines the importance of a new initiative on the subject. The images of the Hathi Committee (1970) and the Patel Committee (1984) must have greatly altered since then.

(6) A unit should be established within the State secretariat which will, on a continuing basis, develop and collect data, assess the impact of policies, persuade and monitor the comparative progress achieved by various regions of Gujarat. It should study trends in output, investment and development expenditure financed by the Centre, the State and private persons. It should take stock of differences not only in income but also in productive assets and economic power.

(7) The unit, or a research team, should also study the possible impact of any large project (for instance, oil and gas development, Narmada project, etc) on regional imbalances. Regional inequality is a strategic element in social environment, and should be taken into consideration as such in any new project proposal.

(8) The efforts outlined above could, if pursued, supply the necessary informed basis on which district planning could proceed. Without such a basis, district planning would be like the blind leading the deaf, the dumb and the lame.

District planning would then be rescued from its current pale bureaucracy-dominated image. A way could then be opened to make it alive by active popular participation in shaping and implementing the district plans.



بنك أبوظبي التجاري المحدود
Abu Dhabi Commercial Bank Limited
 رأس ماله الامارات العربية المتحدة مسجلة محدود
 Incorporated in the United Arab Emirates with Limited Liability

BOMBAY BRANCH
BALANCE SHEET AS AT 31ST MARCH, 1991
 (Currency Indian Rupee)

| March 31 1990 | CAPITAL AND LIABILITIES | Rs. | March 31 1991 | Rs. | PROPERTY AND ASSETS | March 31 1991 |
|---------------|--|--|---------------|-----|--|----------------|
| | 1 Capital Face value of securities deposited with Reserve Bank of India under section 10(2) of the Banking Regulation Act 1949 | 1 600 (NR) (H) | | | 1 Cash In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes) | 34 088,679 30 |
| | 2. Reserve Fund and Other Reserves Reserve Fund Opening Balance 2 85" 052 (H) Add Transfer from Profit & Loss Account 650 (NR) (H) | 2 212 (052 (H) 625 (NR) (H) 2 85" 052 (H) "55 170 (H) | | | 2 Balances with other Banks: On current account (i) In India 25 48" 140 61 (ii) Outside India 11 351 811 15 | 46 848,951 76 |
| | Investment allowance reserve As per last Balance Sheet | 4 4" 052 (H) | | | On Deposit Account (i) In India Nil (ii) Outside India Nil | Nil |
| | Special reserve | "55 170 (H) | | | 3 Money at call and short notice | 36,838,951 76 |
| | As per last Balance Sheet 1 200 (NR) (H) Add Transfer from Profit & Loss Account Nil | 1 200 (NR) (H) 1 200 (NR) (H) 4 "92 222 (H) | | | 4 Investments: (i) Securities of the Central and State Governments and other Trustee Securities including Treasury Bills of the Central and State Governments (ii) Fully paid up equity shares (iii) Debentures or Bonds (iv) Other Investments (v) Gold | 150,000,000 00 |
| | 3. Deposits and Other Accounts Fixed Deposits (i) From Banks 90 (NR) (NR) (H) (ii) From Others 32" 688 952 ~ | 1 200 (NR) (H) 41" 688 952 51 29 620 (NR) ~ | | | 5. Advances (see Note 1): (Other than bad and doubtful debts, for which provision has been made to the satisfaction of the auditors) (i) Loans, Cash Credits, Overdrafts etc (ii) In India 24,424,912 32 (iii) Outside India Nil | 119,917,275 00 |
| | Saving Bank Deposits Current Accounts Contingencies Accounts, etc (i) From Banks 472 "8" 47 (ii) From Others 98 602 164 10 | 99 074 951 47 546 383,909 75 | | | | 24,424,912 32 |
| | 2,078,742 17 125,749,545 00 125,828,287 17 398,751,048 05 | | | | | |



بنك أبوظبي التجاري المحدود
Abu Dhabi Commercial Bank Limited
 ماسندولة الامارات العربية المتحدة مسؤولة محدودة
 Incorporated in the United Arab Emirates with Limited Liability

BOMBAY BRANCH

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 1991
 (Currency Indian Rupee)

| 1990 Rs | EXPENDITURE | 1991 Rs | 1990 Rs | INCOME | 1991 Rs |
|----------------------|---|----------------------|----------------------|--|----------------------|
| 34 050 623 94 | 1 Interest Paid on Deposits Borrowings etc | 38 786 705 78 | | (Less Provision made during the year for Bad and Doubtful Debts and other usual or necessary provisions) | 53 762 456 17 |
| 4 322 979 42 | 2 Salaries Allowances Provident Fund bonus etc | 5 25 612 98 | | | + 84 084 74 |
| 49 815 95 | 3 Directors and Local Committee Members fees and allowances | 15 (996 00) | 46 754 644 39 | 1 Interest and discount | Nil |
| 2,822 939 16 | 4 Rent Taxes Insurances Lighting etc | + 862 + 30 58 | 4 12 7 7 7 66 | 2 Commission Exchange and Brokerage | Nil |
| 245 866 33 | 5 Law Charges | 26 962 35 | Nil | 3 Rents | Nil |
| 1,093,910 61 | 6 Postage Telegrams and Stamps | 1 291 609 73 | | 4 Net profit on sale of Investments Gold and Silver Land Premises and Other Assets (not credited to reserves or any particular fund or account) | Nil |
| 45 000 00 | 7 Auditors fees | 50 (100 00) | 16 8 7 7 (0) | 5 Net Profit on revaluation of Investments Gold and Silver Land Premises and Other Assets (not credited to reserves or any particular fund or account) | Nil |
| 2 266 121 44 | 8 Depreciation on and repairs to the banking company's property | 2 349 848 (0) | | 6 Income from non banking assets and Profit from sale of or dealing with such assets | Nil |
| 666 448 99 | 9 Stationery Printing Advertisements etc | 8(9) 840 26 | Nil | 7 Other Receipts | Nil |
| Nil | 10 Loss from sale of or dealing with non banking assets | Nil | | | |
| 1,566,417 86 | 11 Other Expenditure | 1 265 346 17 | Nil | | |
| 2,968,173 53 | 12 Balance of profit for the year | 3 185 088 95 | Nil | | |
| 50,098,297 05 | TOTAL | 58 609 540 90 | 50 098 297 05 | TOTAL | 58 609 540 90 |

Notes to the Accounts annexed

For our report attached
 For A F Ferguson & Co
 (Chartered Accountants)

ND
 F N P N R I
 PARTNER

BOMBAY
 DATED 28th June 1991

ABU DHABI COMMERCIAL BANK LIMITED—Bombay Branch

34/-
 AHMED SALEH AL BANNA
 CHIEF EXECUTIVE—INDIA

BOMBAY
 DATED 28th June 1991



بنك أبوظبي التجاري المحدود Abu Dhabi Commercial Bank Limited

مستند مسؤولية
Incorporated in the United Arab Emirates with Limited Liability

BOMBAY BRANCH

NOTES AND SCHEDULES TO FINANCIAL STATEMENTS AS AT MARCH 31, 1991

1 Schedule of Particulars of Advances required by the Banking Regulation Act 1949

| March 31 1990 Rs. | PARTICULARS | March 31 1991 Rs. | Rs. | Rs. |
|----------------------|--|----------------------|----------------|---|
| 17 208 580 68 | (i) Debts considered good in respect of which the Banking Company is fully secured | 20 867 036 18 | 486 920 00 | (i) Debts due by the directors or officers of the Banking Company or any of them either severally or jointly with any other persons |
| 191 462 680 17 | (ii) Debts considered good for which the Banking Company holds no other security than the debitors personal security | 161 416 194 85 | Nil | (ii) Debts due by companies or firms in which the directors or managing agents or in the case of private companies as members |
| 36 007 463 47 | (iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors | 38 229 125 71 | 398 650 00 | (iii) Maximum total amount of advances including temporary advances granted during the year to the directors or managers or officers of the Banking Company or any of them either severally or jointly with any other persons |
| Nil | (iv) Debts considered doubtful or bad not provided for | Nil | 187 177 003 37 | (iv) Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the directors of the Banking Company are interested as directors partners or managing agents or in the case of private companies as members |
| 214 578 544 52 | | 20 512 165 79 | | (v) Due from Banking Companies |

2 Re-muneration paid to the Chief Executive in India

| March 31 1990 Rs. | March 31 1991 Rs. |
|----------------------|----------------------|
| 169 125 00 | 175 087 08 |
| 688 271 00 | 145 777 40 |
| 857 399 00 | 567 261 00 |

3 PRINCIPAL ACCOUNTING POLICIES

- General
The accounts of the company are prepared on the basis of the historical cost method and conform to the statutory provisions and practices prevailing in the country.
- Transactions in foreign exchange
(a) Monetary assets and liabilities have been translated at the exchange rates prevailing at the close of the year.
(b) Income and expenditure items have been translated at the exchange rates ruling on the date of the transactions.
(c) Profit or loss on forward contracts have been accounted for.
(d) Investments
Investments are stated at the lower of aggregate cost or market value.

- Advances
(i) Advances are net of provisions for identified bad and doubtful debts which are made based on a periodic review of advances.
(ii) Advances are shown net of bills discounted with financial institutions.
- Fixed Assets
(a) Premises and other fixed assets have been accounted for at their historical cost.
(b) Depreciation has been provided for on the written down value method at the rates prescribed in Schedule XIV of the Companies Act 1956.
- Staff benefits
Provisions for gratuity benefits have been made on an accrual basis and such provisions have been separately funded.
- Net Profit
The net profit disclosed in the profit and loss account is after:
(i) Provisions for taxes on income in accordance with statutory requirements.
(ii) Provisions for doubtful advances.
(iii) Head office administration expenses have been provided in the accounts to the extent allowed by the tax authorities in the completed tax assessments of the bank. In respect of assessments not completed the charge on this account has also been worked out on the basis adopted by the Department for such allowance. The entire amount on this account has been debited in the current year's accounts.
- In prior years the provision for doubtful debts relating to the Bombay Branch has been recorded in the books of the Head Office.
- Provisions
All financial statements have been audited by a firm of chartered accountants other than M/s. A F. K. R. & Co. The figures for the prior period have been reclassified wherever necessary.



بنك أبوظبي التجاري المحدود
Abu Dhabi Commercial Bank Limited

تاسيسه دوله الامارات العربيه المتحده بمقره محدوده
Incorporated in the United Arab Emirates with Limited Liability

BOMBAY BRANCH

**AUDITORS' REPORT ON THE ACCOUNTS OF THE BOMBAY BRANCH OF
ABU DHABI COMMERCIAL BANK LIMITED
UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949.**

We have audited the attached Balance Sheet of the Bombay Branch of Abu Dhabi Commercial Bank Limited (incorporated in the United Arab Emirates with limited liability) as at March 31, 1991 and the related Profit and Loss Account of the Bombay Branch of the Bank for the year ended on that date signed by us under reference to this report.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956, the Balance Sheet and Profit and Loss Account together with the notes annexed thereto, are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act, 1956. The accounts are, therefore, drawn up in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act, 1949.

We report that:

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory.
2. the transactions during the year which have come to our notice have been, in our opinion, within the powers of the Bombay Branch of the Bank.
3. in our opinion, proper books of account as required by law have been kept by the Bombay Branch of the Bank so far as appears from our examination of these books maintained and produced to us.
4. the abovementioned Balance Sheet and the Profit and Loss Account of the Bombay Branch of the Bank dealt with by this report are in agreement with the books of account.
5. in our opinion and to the best of our information and according to the explanations given to us the Accounts together with the notes thereon, subject to Note 5 dealing with the provision for doubtful debts, give the information required by the Companies Act, 1956, in the manner so required for Banking Companies and on such basis give a true and fair view in the case of the Balance Sheet, of the state of affairs of the Bombay Branch of the Bank as at March 31, 1991 and in the case of the Profit and Loss Account, of the Profit of the Bombay Branch for the year ended on that date.

BOMBAY
DATED: 28th June, 1991

For A. F. Ferguson & Co.
Chartered Accountants

Sd/-
F. N. PAVRI
PARTNER

Autonomy of Demographic Variables

K N Harilal

MARI BHAT and Irudaya Rajan (*EPW*, September 1-8, 1990) begin their paper on demographic transition in Kerala with the following words of Lord Kelvin, "when you can measure what you are speaking about, and express it in numbers, you know something about it, but when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind, it may be the beginning of knowledge, but you have scarcely, in your thoughts, advanced to the stage of Science, whatever the matter may be" Notwithstanding well known objections to the cited and similar approaches to the theory of knowledge we appreciate the quest for precision and accuracy. However, while encouraging the urge for precision, we should also ensure that the precise statements and numbers so derived truly represent the original ideas lest we all be caught up in a mess of precise but meaningless numbers.

As true followers of Lord Kelvin and in their capacity as trained demographers, the authors have undertaken to employ a rigorous quantitative approach to test some important hypotheses on Kerala's demographic transition which have remained popular without any thorough empirical scrutiny for long. Through a painstaking statistical analysis the authors have identified female literacy as the single most important factor in explaining the demographic transition in Kerala. What makes the study different, however, is not the identification of the most important causative factor, but rejection of 'trivial and incidental' ones. Interestingly, factors so rejected by the authors include many unique features of Kerala economy and society (hereafter Kerala specific factors) which were given undue importance in all the hitherto existing studies on the State's demographic transition. Conclusions of the study, therefore, imply that the population of Kerala would have had the same demographic experience regardless of the specificities of the region's socio-economic evolution. In this brief note, which need not to be taken as a complete critique, we argue that the empirical evidence and the results of statistical analysis presented in the paper are inadequate to draw such drastic conclusions, particularly those on the so-called Kerala specific factors.¹ The numbers presented and then derived by the authors may be very precise but do not fully represent the ideas that the authors have attributed to them.

I

First for identifying factors responsible for the low levels of infant and child mortality they have used cross-section data (1981) for

19 districts in and around Kerala. One of the explanatory variables employed in the regression analysis was a dummy variable designed to capture the impact of all variables that are not directly controlled but which may be unique to Kerala. Contrary to expectations, the coefficient of the dummy variable representing the State was well short of the 5 per cent significance level. Once the effects of higher female literacy and health personnel, the two explanatory variables found to be important, were controlled, levels of under five mortality in the districts of Kerala were not very different from districts in other States. Nor were the results of the regression analysis on the determinants of fertility rate. Here again the coefficients of the Kerala dummy were not statistically significant. Literacy of women and the percentage of Muslims in the population were the only variables found to be important.

This, in short, is the core of their quantitative analysis which enabled the authors to reject all the State specific factors. The authors have cited some such Kerala specific factors mentioned in earlier studies, viz, political will, egalitarian reforms, public distribution system, female autonomy, personal hygiene, ecology and unemployment. Interestingly these are not the only State specific factors that they have rejected. The authors can rightfully claim—thanks to the skilful use of dummy variables—to have tested everything that is unique to Kerala.

The results of their regression analysis, as the authors themselves acknowledge, are surprising. It would even mean that demographic transition of the State can be explained independently of the region's history. Before jumping to this conclusion, one should examine the possible indirect effects of the so called State specific factors. In order to examine such indirect causation, the authors have carried out a few more regressions using adult female literacy and the size of the workforce engaged in health services as dependent variables. Surprisingly, here again the results are not very encouraging for those who 'waste' their time in archives. The coefficients of dummy variable representing Kerala State were positive and significant in the female literacy regressions but negative and significant in the health personnel regressions. It is a great relief to see that the demographic status of Kerala State had something to do with the high female literacy among its people. But after controlling for other covariates, the districts of Kerala had a lower stock of health personnel.²

Do the statistical analyses and their results fully justify the conclusions drawn from them, particularly those on the Kerala specific factors? Our considered opinion is

that the authors should have been a little more cautious while interpreting the results. Let us explain why. In the first phase of their regression analysis, the authors have found female literacy to be the most significant explanatory variable. In our opinion, female literacy itself might have operated as a rough indicator of the socio-economic transition in the State, leaving hardly anything for the dummy variable to capture. In the second phase where they examined indirect causation, the authors have introduced more explanatory variables, viz, population density, percentage of Christian population and percentage of child marriages among females. These factors in their turn would have also robbed the dummy variables of the unique features of Kerala which they were expected to capture. Will it be possible then to say, as the authors do, that the Kerala factors operated only through the identified variables, particularly, female literacy? Here again we solicit caution. Why we are sceptical may be explained in terms of an analogy. Suppose the coefficients of dummy variables are all statistically significant. Will it make us say that the long list of State specific variables, if at all they can be listed, so operated through the dummy variable? If so, what is the analytical significance of the statement that Kerala specific factors, if at all they operated, did so through female literacy? Unfortunately in regression analysis the numbers more often than not, do something more or less than what we expect or assign them to do. If the numerical values given to the dummy variables can capture the unique features of Kerala, why should not another set of numbers which we associate with female literacy do the same job? We cannot impose the norm of 'one at a time' on these numbers.³ For instance, the authors decided that the percentage of Christian population would represent the role of Christian missionaries in the promotion of education and health. They were right, but what if the percentage of the Christian population signifies something more? Christians being one of the leading communities in what the authors refer to as Kerala's transition from familial to capitalist mode of production, districts with relatively more Christians should have been in the forefront of Kerala's socio-economic transition. Therefore, the percentage of Christian population might have captured, without our concurrence, various features of the regions' historical evolution which the authors have sought to ignore.

Selection of nine bordering districts for comparison, which share many features of the State, particularly of the Malabar region, may be cited as another reason for the low key performance of the dummy variables which were expected to capture the Kerala specific factors. Further, as the authors themselves have pointed out, cross-section analysis may not capture historically impor-

tant factors if they do not exhibit substantial cross-sectional variation. In fact this limitation of the cross-section data may also help to explain why the regression analysis could not capture some of the Kerala specific factors. The advantage that the State used to enjoy in certain areas giving rise to the cross-sectional variation with respect to some important variables would have disappeared over time.⁴

II

In order to be fair to the authors, we should also examine the descriptive arguments they put forward to establish the autonomy of the demographic variables and female adult literacy from the socio-economic factors specific to the State. As numbers can be meaninglessly precise, descriptive arguments can be meaningfully vague. We do not propose to cover the entire gamut of their arguments; instead we restrict ourselves to the arguments related to the higher social status of women and structural changes in the economy.

First, let us see how the authors have discarded the notion that high social status of women in Kerala had contributed to the decline in fertility rates. According to the authors the higher status of women in Kerala would mean the absence of strong preference for sons among Kerala's couples. Once this definition of status of women was formulated, the authors tried to examine the relationship between contraceptive use and the number of surviving sons. The authors believe that a society without any strong preference for sons should be characterised by more couples accepting family planning methods at lesser number of surviving sons. The data on contraceptive use, the authors claim, would help us explode the myth that there is no strong preference among Kerala's couples for sons. We beg to disagree. In order to be conclusive on this score we need more information including the number of all surviving children and their sex. For about 50 per cent of the couples, it is only reasonable to assume that their first surviving son will also be their first child. Is it not normal, even according to Kerala standards, to look for a second child? If so, will it not be too much on our part to expect the parents to accept family planning methods before their second child? To the extent there are other categories of couples including those who had a daughter first, use of contraceptives at fewer surviving sons is definitely better in Kerala, which the authors have chosen to ignore. Further, the authors seem to overlook the fact that apart from the sex distribution of surviving children, there are many other factors that influence the pattern of contraceptive use. The analysis on the use of contraceptives and the number of surviving sons hardly proves anything beyond doubt, leave alone presence or absence of any strong preference for sons.

The authors do not subscribe to the view that high social status of women in Kerala had contributed to the growth of female

literacy. In fact they have an alternative hypothesis which sees female literacy as a function of male literacy. The evolution of male and female literacy has a universal pattern; the inequality in literacy by sex would increase with the growth of literacy and come down only at very high levels of male literacy. Thus according to their hypothesis, at comparable levels of male literacy, female literacy will be more or less the same across the regions. If high female literacy in Kerala was the result of higher status of women, the pattern of evolution of male and female literacy in the State should have been different from the rest of India, which according to the authors, is not the case. They have observed that at the same level of male literacy, India and Kerala had approximately the same level of female literacy.

In this connection we have the following points to make. First, it is important to note that India lags Kerala by over 30 years in male literacy. Considering the presence of 30 or more odd years between the literacy figures compared, the authors should not have neglected even the marginal difference between Kerala and India. Second, their insistence on comparison of female literacy at the same level of male literacy is based on a questionable assumption that 'autonomy of women' and 'status of women' are identical concepts. Third, the authors seem to consider the State specific factors including the status of women as ahistorical categories, existing at all stages in history. We suggest that the special features that we attribute to Kerala should be seen only as products of history. If this view is accepted, it would be meaningless to say, as the authors do, that once upon a time the male-female disparity in literacy was severe in Kerala too. In fact, even if we accept the authors' contention that the pattern of literacy evolution in Kerala was not different from that of rest of India, it would not exhaust all that is unique about Kerala. What is important and unique about Kerala which demands explanation is the early beginning of the process of change with its positive impact on all aspects of social life including literacy, literacy differential by sex, fertility and mortality. Finally if female literacy is something that systematically follows male literacy as it was found to be in Kerala too, why so much noise about female literacy levels achieved by Kerala and its implications and lessons for other regions? Note that the authors have placed female literacy at the heart of Kerala's demographic transition and have even drawn a lesson or two from that example for the rest of India. The authors can blame only themselves for setting this trap into which they fall.

III

Between the two important schools of thought that dominate the current thinking on fertility transition, viz, 'structural change argument' and the 'diffusion perspective', the authors have chosen the latter as more appropriate to explain the Kerala case. The

'structural change argument' explains fertility transition mainly in terms of shifts in the balance of economic costs and benefits that child bearing entails to parents. But according to the authors fertility decline in Kerala had occurred without significant changes in costs and benefits of children. The authors are of this firm opinion because according to them, "except for a substantial rise in adult female literacy, in the last 30 years or so there have been very little structural changes in the economy or society that could have tripped the historical balance in the flow of 'wealth' between generations". Note the remarkable ease with which the authors push aside many important factors such as land reforms and the progressive weakening of matrilineal family system, which could not have but affected the "historical balance in the flow of 'wealth' between generations". They do not give any justification whatsoever for ignoring the weakening of the matrilineal system where property descended along the female line. Regarding the impact of land reforms, we should say that their approach is very casual. The impact of land reforms was felt more in the Malabar region than in the Travancore-Cochin area. But it was in the latter that fertility declined first and more rapidly. This cannot be taken as a sufficient reason for ignoring the impact of land reforms on fertility ratios because one can easily think of many other reasons for the relatively late and slower fertility decline in Malabar region. In fact, Malabar would have lagged behind the rest of Kerala despite a progressive role played by the land reforms.

Results of the authors' analysis on the structural features of the economy using parameters such as occupational distribution of labour force, proportion of workers dependent on wages and salaries, incidence of child labour and school enrolment rates were generally in favour of the 'structural change argument'. Kerala economy, in other words, was structurally prepared for an onset of fertility decline. Yet the authors have chosen to undermine the 'structural change argument' because changes in the structural parameters studied did not coincide with but predated the onset of fertility decline. The authors, obviously did not think of a possible time lag, not even the 10 months which could have been easily granted on biological grounds, with which structural factors would affect fertility levels in any country! The authors can also be blamed for not applying the 'time criterion' with the same rigour for evaluating the diffusion perspective. According to the 'diffusion school' fertility decline within marriages is basically the result of the spread of birth control technology. And as the authors put it, "a crucial role in the diffusion was played by literacy and educational levels, particularly those of women". The authors should have provided more convincing evidence to prove that these two factors, availability of birth control technology and the movement towards higher literacy, had coincided with

the onset of fertility decline in Kerala.

In our opinion, the two approaches to fertility decline, viz, 'structural change argument' and 'diffusion perspective', need not be considered as mutually exclusive. The statement that fertility decline within marriages is basically due to the spread of birth control technology is very close to the realm of tautology. This is particularly so because, according to the authors, only 15 per cent of the decline can be explained by the increase in female age at marriage. There is also no denying the fact that literacy, particularly among women, had played a very important role in the dissemination of birth control technology. But what made the people accept the birth control technology? Why did couples in Kerala "switch from having a large number of low quality children to a few number of better quality children"? According to the authors "the switch has come about from the changes in the perception about children's costs and benefits, and in this female education has made a significant contribution" (emphasis added). After having ruled out many important factors including real changes in costs and benefits that child bearing entails to parents, the authors are constrained to explain the rapid decline in fertility in terms of changes in perception about children's costs and benefits! A change in 'perception' without any real change to back it! A change in 'perception' independent of the rich history of social reform movements and the numerous struggles that brought about revolutionary changes in the region's economy and society!

In our opinion, if the authors retrieve some of those State specific factors, including structural changes in the economy, which were ignored without proper justification, the story of Kerala's demographic transition could be complete and more convincing. For the sake of such a balanced approach towards the question at hand, the authors may have to forego some of their conclusions. But then we will all have the satisfaction of having given history its due.

Notes

- 1 We have concentrated mainly on the evaluation of explanatory hypotheses. A more balanced review of the paper should have also considered other objectives of the study, especially the analysis on the trends in demographic variables.
- 2 Note that the authors have interpreted the coefficients as though the dummy variables were expected to represent the Kerala government rather than the State as a whole. Negative and significant coefficient of the Kerala dummy in the health personnel regression is explained in terms of 'not so remarkable' government expenditure. If the dummy was designed to represent the State, the authors should have considered the private initiative in health care, which they themselves have highlighted on a different occasion. Similarly, all the credits for developing the educational infrastructure should not have gone to the rulers.

3 The authors also agree that, at times, the numbers we associate with a selected variable can capture the effects of other covariates. According to them "studies that rely on bivariate analysis tend to exaggerate the importance of age and parity of mother because they spuriously capture the effects of other covariates such as education".

4 The point we wish to make may be illustrated

using the case of female literacy. As the present literacy drive spreads to the bordering districts of Kerala the inter-district variation in female literacy is likely to disappear fast. So much so that the cross-section data collected after the literacy drive may not show any significant relationship between inter-district variation in demographic variables and the female literacy rates.

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Edible Oil Policy: Skewed Design

A C Chhatrapati

S J PHANSALKAR and V P Gulati (*EPW*, February 2) have presented a comprehensive statistical review of the edible oil situation. However, their comments on government policies and their alleged impact on various interest groups fall short of objective analysis. They seem to have ignored the interplay of market forces in a highly competitive oilseed and oils economy or short-term political objectives of decision-makers.

Edible oils account for only about 5 per cent of consumer expenditure in India. As the authors have pointed out edible oils are necessary but not crucial to the health of humankind as are carbohydrates and proteins. Nevertheless, since the agitation on rising groundnut oil prices in Gujarat in 1964, oil prices have assumed unusual importance in the democratic polity of this country. Prices of proteins, pulses and non-vegetarian foods have risen much more than of edible oils but there is hardly any political comment. It is this short-term political angle of government policies which has resulted in several distortions in edible oil policies.

Take the case of allotment of significant quantities of imported oils to the vanaspati industry. Imports of edible oils started in 1964 in response to the agitation against high groundnut oil prices in Gujarat. The government could afford to import only soyabean oil under US PI-480. Raw solvent extracted soyabean oil is inedible. Developing consumer acceptance for such refined oil requires long-term marketing efforts. As vanaspati at the time was made entirely from groundnut oil government required the industry to use all the imported soyabean oil to release groundnut oil for direct consumption.

The vanaspati industry with about 60 factories was the only organised sector in the oil economy. Edible oils produced by thousands of oil mills, 'ghanis', etc, sold through lakhs of dealers were beyond the control of government. The availability of cheap imported oil for vanaspati became a handy tool for controlling the price of vanaspati which was politically important for the Central government.

The statements by the authors that "Vanaspati industry is the most stable and profitable segment of the edible oil sector" and "The vanaspati industry was given an average of 4.5 lakh m tonnes per year of imported oils at cheap prices, allowing the industry to make large profits", have no factual basis. No industry has prospered under government imposed statutory or informal price controls. The fate of vanaspati was no different. Disallowance of increases in manufacturing cost, enforcing prices even when imported oils were physically not available, imposing prices even when the proportion of imported oils used by the industry was below 50 per cent in a highly fluctuating indigenous oil market did cause frequent crises in the industry.

The only benefit the industry gained was the growth of the vanaspati market at a

higher rate than the general fat consumption because its prices were generally kept relatively lower as compared to those of major oils like groundnut and mustard. A reference to the representations by the vanaspati associations would show that they were opposed to price control. This is natural because when the prices of the raw material account for nearly 90 per cent of the cost of vanaspati excluding taxes and when the raw material prices fluctuate 30 to 80 per cent in a year seeking price stability in vanaspati was irrational. In a rising oil market vanaspati sold in the black. In a falling market vanaspati sold at a discount. Thus price control on vanaspati was a political decision which did not benefit the industry or the consumer much.

The authors also seem to have exaggerated ideas about the influence of oil millers and traders. No doubt, there are trade associations in all major centres of oilseeds and oil trade, primarily to evolve norms of orderly trade and provide mechanism for resolving trade disputes. Their capacity to influence government policies even at State levels, let alone Central level, is very limited. Other wise you would not have seen regular raids on millers and traders whenever prices rise, restrictions on inter-State trade, penal margins on credit, etc. Experience of the last 25 years shows that these measures are largely ineffective in influencing the oil price trends which continue to be governed by the local supply and demand of specific oils. In fact, the derisive name 'telia raja' coined by the politicians is a misnomer. Large oil mills in major centres disappeared in 1950s when excise duty was imposed on oils. Oil extraction is reserved for the small-scale industry for traditional oilseeds. Therefore, in the oil mill sector and in oil trade one can hardly find financially powerful units.

Solvent extraction industry came to be established primarily as an export-oriented industry. In 1950s Europe was facing a shortage of cattle feed. Solvent extracted groundnut meal therefore became a profitable export item. This led to the establishment of a large number of solvent units in Gujarat and Maharashtra where groundnut cake was available in plenty. Solvent extracted groundnut oil requiring refining did not fetch a good price. Mustard oil cake found no export outlet until very recently because of its high glucosinolates. The export market for groundnut meal collapsed after 1977 when aflatoxin in groundnut meal was found to be harmful to poultry and cattle. This led to closure of units in Saurashtra, etc.

When oil prices started rising and extraction of oils from rice bran and other minor oil-bearing materials became viable, new units were established in convenient locations, having special equipment to process such materials. The growth of soyabean crop again encouraged more units in Madhya Pradesh. Thus, the solvent extraction industry has continued to grow despite its large excess capacity because of specific needs in

location or processing technique. In the absence of an organised cattlefeed industry in the country solvent extracted meals have limited outlet in domestic markets. They continue to depend upon exports.

It is incorrect to say that solvent extraction *per se* is inimical to the interest of cattle industry. The world over only solvent extracted meals are used as the scientific opinion is that cattle do not require more than 1 to 1.5 per cent fat in their meal. What is needed for a healthy cattle industry is an organised cattlefeed industry. The authors are incorrect in their statement that high fat content in cake is necessary for the fat to be present in milk.

The authors incorrectly imply that large imports were encouraged as they help to produce financial surpluses for government. The primary consideration in arranging imports of oils from the beginning was the need to regulate the price of vanaspati and in 1980s to feed Public Distribution System in the hope of influencing the edible oil price level. I entirely agree with the authors that the allocations of imported oils was irrational in the sense that large quantities were released during the harvest season and that bulk of the oil was allotted to the oil seed producing States. In fact, the States with the largest number of the poor, viz, Bihar, UP, MP, Rajasthan and accounting for 25 per cent of the population received only 8 per cent of the total oil released for PDS.

It must be accepted that the release of cheap imported oil both to vanaspati and PDS did affect the farmers adversely as indigenous oil prices were kept depressed in relation to the general price index during 1978-86. It also encouraged fat consumption to go up in the country by nearly 40 per cent entirely through imports.

Punjabi Musalmans

J.M. Wikeley

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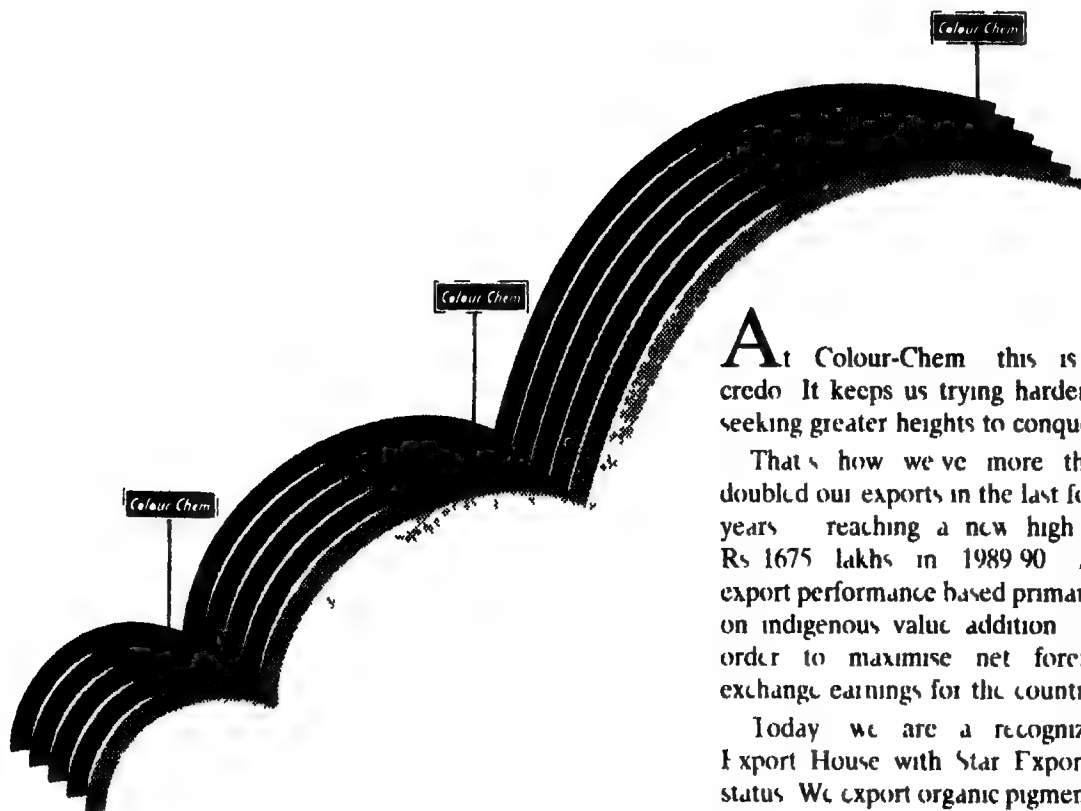
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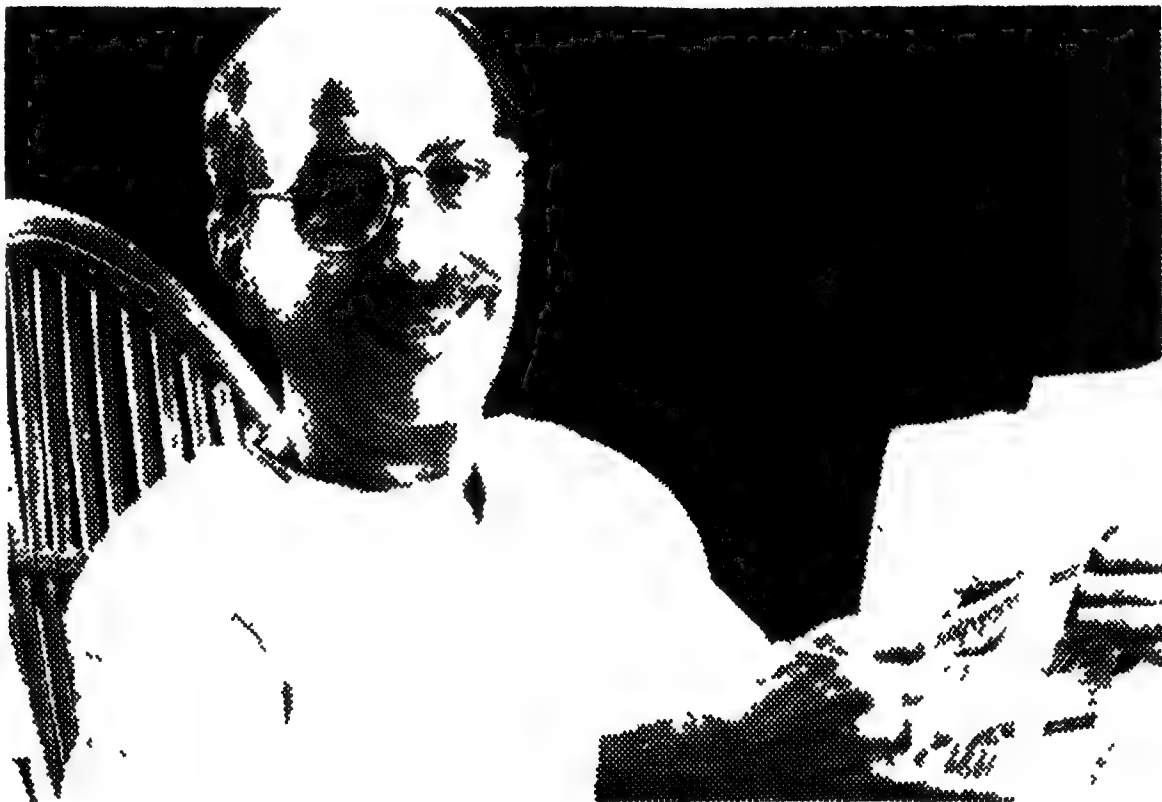
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Poverty: Cooked Up Figures

The massive reduction in the incidence of poverty in 1987-88, as reported by the Planning Commission in 1990, is once again largely a consequence of the peculiar statistical artefacts used by the commission. The appropriately computed incidence of poverty in 1987-88 comes to 44.8 per cent and 36.5 per cent, respectively, in rural and urban India, rather than the artificially low estimates of 32.7 per cent and 19.4 per cent reported to parliament by the Planning Commission in 1990.

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Economic Restructuring: Problems and Pitfalls

The current IMF-World Bank strategy towards India is designed to create conditions in which any residual reluctance on the part of decision makers here to agree to the most damaging conditionalities will be wiped out.

1647

India needs foreign private capital only where technological upgradation is required, as in capital goods and basic intermediates, or in areas where foreign capital is intended for export production so that there is a substantial net foreign exchange gain. Will the proposed amendment of FERA help achieve these objectives?

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The import-dependence of the industrial sector has increased in the post liberalisation period. The statistical evidence.

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Same Card

It was the Congress Party's resort to the Hindu card which prepared the ground for the sharpening of the BJP's communal stance and has, as the last election has shown, resulted in competitive communalism between the two major political parties.

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Hunting Houses

Calcutta's housing problem is compounded by a peculiar piece of urban legislation which, when twisted and turned the right way, allows for the operation of a corporation police builder nexus to the detriment of the poor.

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Smile Gone Sour

British Airways 'the world's favourite airline', is none too happy about the lifting of the ban on new 'slots' at Heathrow, its home base.

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Plants and Property Rights

If intellectual property rights are extended to plants, all aspects of agricultural development in third world countries—supply of seeds, incomes of farmers, absorption of technology and prospects for exports—will be negatively affected.

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The Problem

The Congress(I) is back in power, but the country's problems will not go away. For that party is the country's major problem. It is responsible for the mess in Kashmir, for Punjab's alienation from the rest of the country, and no one yet knows the sort of deal it has struck with the ULFA and Bodo insurgents.

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Unmodern Trends

Maharashtra's modern history has been subjected to increasing deification. And when personalities are turned into divinities, no critical assessment is possible. The land of Phule and Shahu Maharaj is falling back to medieval times and it is going to take a wide ranging movement to fight the unmodernity setting in.

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Left Out

In 1986 the revolutionary Left in Philippines almost ran aground amidst the upsurge of support to Cory Aquino. Why did the Left, despite its tradition of political analyses, fail to anticipate the new contradictions which were emerging and to give priority to the issues related to political democracy which became so essential then?

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LETTERS TO EDITOR

Pre-Election Police Terror

DEMOCRATIC rights have become 'sky flowers' to the sons of the soil in Telengana. More than 10 workers of various CPI(M) groups were killed by the police in fake encounters in a span of a month just before the elections. The reason for all this chaos, as the government sources stress, was the need to conduct elections 'freely' and to ensure 'law and order' in the villages. As per official assessments, 3,000 villages needed tight police 'bandobast' and were supposedly facing a law and order problem. That's why a 15,000 strong central police force was put in operation in Andhra Pradesh. These arrangements had been made in the wake of the call given by the CPI(M) People's War Group to boycott the Lok Sabha elections and another call given by other CPI(M) groups to support the revolutionaries wherever they were fighting the elections. Ironically both these calls escalated the range of repression of the police in certain areas. Police vans surrounded the villages, beat up everybody including women, children and the aged, dumped them in the police stations and subjected them to torture—beating with tyres, plucking out nails, giving electric shocks and lathi treatment—in addition to the routine 'encounter' and 'lock up deaths'.

In Karimnagar district, three members of the CPI(M) Chandrapulla Reddy group, Sridhar, Mallesham and Nazeer, were killed in fake encounters in April. Almost all the villages of Karimnagar Lok Sabha constituency were subjected to police attacks and torture for supporting the CPI(M) CPI candidate N V Krishnaiah. The police forced party workers to promise never to support CPI(M) CPI group candidates. The 'agreements' were mediated through the ruling party leaders including those of the Congress (I), TDP, BJP, Janata Dal, etc.

On May 2, an SI along with a five member team in a drunken state attacked Shahnagar of Ramadugn Mandala and created panic among the villagers. The women were beaten on their sensitive parts and the police alleged that the women had illegal contacts with 'sangham' leaders and workers. Later the villagers along with N V Krishnaiah met the district collector and showed him the wounds. In Adilabad district of Kashipet in May, three members of the CPI(M) CP group, J Mallaiiah, J Buchaiah and B Lingaiah were killed in fake encounters in Venkatapur village. In Burgampahad area in Khammam district a woman worker was cruelly killed in an 'encounter'. In Maddikanta village of Macharsally mandal an SI with his team made a lightning attack on May 3, terrorising the people and destroying property—grain pots, electric motors and utensils were thrown into wells, ration-cards, pass-books, money and valuable goods were carried away by the police. A pregnant woman and another who had just delivered were tortured cruelly. Padmajiwadi Daggi of Sadasivnagar mandal witnessed these events. The police forced the people to rub out the 'boycott' slogans. In

Vajjepally village in Gandhari mandal the police broke open the locks and ransacked property after the people had fled in terror. Talking to press persons the district SP, R P Meera, claimed that "200 militants have surrendered to the police in four months. If there are untoward incidents during the operations we are not responsible for that".

SURYA

Hyderabad

West Bengal: Uses of BJP

THE polls in the traditional Left bastion have revealed interesting features not foreseen either by the ruling Left Front or by its main electoral rival, the Congress(I). On the surface, the results do not show anything extraordinary, the Left Front has retained its overwhelming superiority in terms of the number of seats bagged. The Congress(I) has marginally increased its tally from 39 to 43 seats. The GNF and the Jharkhand Party (both supported by the Congress(I)) have got two seats and one seat respectively, and the SUCI has managed to retain its two seats. The Naxalite groups have improved marginally but are as yet far from emerging as a powerful force. The most significant aspect of the results, however, is the spectacular rise of the BJP from a position of near non-existence to one of considerable strength. It has not won a single seat, but has succeeded in obtaining about 12 per cent of the votes, mainly absorbing the negative votes against the Left Front or cutting into the already existing vote-bank of the Congress(I), thus frustrating the latter's hopes of capitalising on the Left Front's failures. The BJP's emergence as a force has caused surprise even among the Left Front leaders and is now widely discussed in the Bengali press.

However, the BJP has not only made in

roads into the vote-base of the Congress(I) but has influenced CPI(M) and even Naxalite supporters to some extent, particularly in the mofussil towns and the countryside. In West Bengal, there is no movement of the dalits and the backward classes to counter this onslaught of the VHP-BJP combine. Only one small organisation, the PCC, CPI(M) (it got about 70,000 votes in the assembly polls), publicly demanded the implementation of the recommendations of the Mandal Commission. And those sections of the masses who were disgruntled over the performance of the Left Front and found the Congress(I) too unorganised a platform have been assured by the BJP that their interests and grievances would be looked after.

The aggressive Hindutva of the VHP-BJP-RSS first came to the surface in this state before the Ninth Lok Sabha polls with the holding of brick worship ceremonies and the active clamour for a 'Hindu Rastra' by the BJP. The Left Front government did little to check this emerging Hindu wave and those who tried to put in some sort of active protest were mocked at by the CPI(M) ideologues. Again, the Marxist-led government saw to it that the bricks meant for the infamous Ram 'shilanyas' were safely carried through the state. It certainly boosted the morale of the Hindu chauvinists and their organisational activities were renewed with greater vigour. There are reasons to believe that they were tacitly encouraged by the ruling Left Front in the hope that this would cut into the Congress(I) votes and facilitate an easy victory for the front at the hustings. But the front and its main partner, the CPI(M), could not conceive that the BJP would emerge far stronger than they imagined. If in the coming years, the BJP creates more disturbances in the state the ruling Left Front government must now pay the price for its earlier stance.

AB

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To Kill the Patient

THE more he protests that he is not following the diktat from Washington, the faster is the finance minister losing his credibility. On top of it he splits hair about whether the reduction effected in the rupee's exchange rate by 19 per cent in the space of three days was depreciation, exchange rate adjustment or plain devaluation. The hard fact is that the government has been driven to accepting the most stringent of the conditionalities—a sharp devaluation of the rupee. The trade reform package recently prepared by the World Bank for India called for an initial devaluation of the rupee of 13 per cent and the ultimate figure was set at 22 per cent. Since the government has decided to devalue the rupee by almost 20 per cent straightaway, it would appear that we have not been given even the option of implementing the reform package in phases. Of course, the IMF could not be satisfied with devaluation alone. That the next thing it would demand was action on the trade front is borne out by the 13-point trade policy package unveiled by the commerce minister, which principally seeks to link practically all non-bulk imports to exports through the instrumentality of the REP. Here it is worthwhile recalling that the World Bank report had suggested precisely such a course of action. What now remains to be implemented is a sharp reduction in tariffs—the commerce minister has already hinted at this—and the reduction in the so-called fiscal deficit.

The Washington establishment believes that while liberalisation during the 1980s coupled with the more expansionary macro-economic policy and relaxation of restrictions on industrial investment and production decisions led to acceleration of the annual growth of value added in manufacturing, it is emphatic, quoting its "econometric simulation experiments", that "relaxation of import controls has not been responsible for the deterioration of India's balances of payments". This assertion simply flies in the face of the reality. The country's balance of payments had been under pressure throughout the 1980s, but it was in the second half of the decade that the deficit really surged. From 1.2 per cent of GDP in the first half of the decade it rose to 2.3 per cent in the latter half. It was the marked rise in imports in the Seventh Plan period, from Rs 17,135 crore in 1984-85 to Rs 34,416 crore in 1989-90 (the figure for 1990-91 is Rs 43,171 crore) which has created the payments impasse of today. The manner in which these additional imports were financed, namely, through commercial borrowing, including of the very short-term variety, and repatriable NRI deposits, have now compounded our problems. But the root cause lay in allowing imports far in excess of our current foreign exchange earnings. The major part, some nine-tenths, of the surge in imports was accounted for by what are referred to as non-bulk imports, comprising principally capital goods, components, raw materials and spares. How much of these additional imports were required to increase export production and how much for production of inessential items for the domestic market is a question that policymakers have avoided facing, no doubt deliberately because then the answers they would reach would have been very different from the ones they are being told to parrot. Hidden behind the figures of the trade deficit are also sizeable imports on government account, which possibly accounted for the bulk of the

cumulative gap in import data of as much as \$ 10 billion identified by the World Bank for the five-year period, 1985-86 to 1988-89. Basically, the point is that to explain the surge in imports in recent years, one does not have to go into the changes in the macro-economic scene so much as into the specifics of trade policy as it translated itself into various types of imports.

As regards the devaluation of the rupee, it is significant that during the period when the rupee underwent substantial depreciation—by as much as 70 per cent against the SDR between 1985-86 and 1989-90, far in excess of what was warranted to keep the real exchange rate stable—imports have sky-rocketed and the trade deficit widened. It was difficult, therefore, to see the rationale of the argument for further devaluation of the rupee. So when the finance minister asserts that the sharp devaluation he has now resorted to is in the national interest, he cannot have in mind reduction in the trade deficit, certainly not in the next few months or even years.

On trade reform, it would have been a total throwaway if the various export incentives had been continued after the sharp devaluation. But it is well to bear in mind that the new 'exim scrip', entitlement to which has been raised substantially, is bound to command a high premium, probably much higher than its old counterpart in view of the total link-up of non-bulk imports to these scrips. On the impact of the 13-point package on the trade deficit, one will have to wait and see when, if at all, any significant reduction does come about and then at what cost in terms of growth, inflation and equity.

While the finance minister is still to show his hand in the matter of the fiscal deficit, which in the World Bank scenario emerges as the principal villain of the piece, it is obvious that the emphasis on reducing the fiscal deficit rather than the budget deficit, or Reserve Bank credit to the government, is highly motivated. Analytically, it is the budget deficit which can be said to have a direct expansionary impact. On the other hand, a large part of what is referred to as the fiscal deficit may be, and actually is, nothing but transfer of household savings to the government. The basic point is that whatever may be the other implications of government borrowing from the household sector, when one is looking at the macro-economic impact of the government's fiscal operations, the appropriate concept of deficit is none other than that of the budget deficit, a concept of long usage in this country.

It is true that the budget deficit increased from 1.7 per cent of GDP in the first half of the 1980s to 2.1 per cent in the second half (the peak deficit of 3.1 per cent was reached in 1986-87). Also, there can be no two opinions that if inflation is to be contained the temptation to resort to budget deficits has to be firmly resisted. But since what the Washington establishment is forcing down our throats is a drastic reduction in the fiscal deficit, the possibility cannot be overlooked that even when the fiscal deficit is reduced there may well be no reduction in inflationary pressures. The government's fiscal operations will no doubt be curtailed, and perhaps quite severely, as a consequence of whatever measures the forthcoming budget proposes, but not necessarily their inflationary impact.

KASHMIR

Left in the Lurch

WHATEVER their objectives might be— independence from India or joining Pakistan —the militant groups of Kashmir are increasingly getting distanced from their goals. As in Punjab and with similar terrorist groups in other parts of the world, the means are overwhelming the ends. Kidnapping, indiscriminate killings, extortions and so on are leading them nowhere and are inviting instead from a vindictive state repression on the common citizens.

The end to the drama of kidnapping two Swedish engineers—who were released according to their abductors, but had escaped according to their own version—suggests the futility of such adventures indulged in by the militants. After keeping them in custody for 97 days, their abductors found that they had gained little. Their demand that the Swedes could be released only after Amnesty International was allowed to come to Kashmir and investigate into allegations of human rights violation was senseless. It is not as if such allegations had not been proved. Numerous Indian human rights groups, as well as journalists from India, had highlighted cases of atrocities by the Indian security forces in Kashmir. Their reports have received international publicity. In fact, Amnesty International had been using these India based reports to expose the role of the security forces at world conferences such as the recently held UN Human Rights Commission meet. Although one agrees that Amnesty International or civil liberties groups from other parts of the world should be allowed to come to Kashmir and see for themselves, one does not understand how this would help the cause of the Kashmiri militants. Yet another report about atrocities committed by the Indian security forces would reinforce the authenticity of the allegations already made by Indian human rights groups. But that is about all. How would it help the cause of the militants—whatever that cause might be? As it is quite evident now, Amnesty International was not willing to be blackmailed by the militants. After all, how can one expect a human rights organisation to accept conditions from a group of terrorists who themselves were violating the human rights of two innocent individuals by keeping them in custody?

In fact, had the militants been so concerned about the violation of human rights of their fellow Kashmiri citizens, they should have refrained from irresponsible actions like operation in heavily crowded localities which invariably led to loss of innocent lives. It seems, therefore,

that their demand for Amnesty International's attention was an afterthought following their realisation that the kidnapping of the two Swedes had become more of a liability than a really worthwhile catch (unlike the earlier cases of abduction of daughters of Indian VIPs).

What adds to the murky nature of militancy in Kashmir is the division within the ranks of the militants. While some (like the JKLF) want independence, others (like the Islamic fundamentalist Hizbul Mujahideen and similar other outfits) want integration with Pakistan. The latter prospect does not seem to inspire much confidence among ordinary Kashmiris, given the shabby treatment meted out to their fellow countrymen in Pak occupied Kashmir by Islamabad. The reports about the recent elections there and the repression following it should disabuse those among the Kashmiris on this side of the border who believe that things would be better if they become a part of Pakistan of their illusions. But the Islamic fundamentalist militants enjoy moral and armed support from Pakistan which gives them an edge over the JKLF. Most of the kidnappings, killings and extortions are being done by these fundamentalist groups whose superior fire power intimidates the ordinary Kashmiri citizens. Young victims of state repression, either out of the need for sheer protection or vengeance are gravitating to these groups who appear to be more powerful than the pro independence groups like the JKLF.

For the person in the street in Kashmir it is a traumatic situation. The atrocities by the Indian security forces push him to oppose the Indian state. But, unlike his counterparts in other areas of India, he does not have any democratic avenue to express his opposition. Unlike also the national liberation movements in other parts of the world, he does not have any participatory role in the secessionist movement in Kashmir, dominated as it is by a handful of terrorist groups which are getting more identified with Pakistani interests than with the cause of Kashmir's autonomy. Left without any option, the Kashmiri people are being dragged down into a politically self defeating, marsh, watched complacently by Left and secular forces in India which refuse to take up their cause and integrate it with their political programme.

DEVALUATION

Easy Way Out

FIRST when the rupee is devalued by 8.5 per cent, they deny altogether that it was a devaluation, claiming that it was only an adjustment of the exchange rate in the ordinary course of things. Within 48 hours, the rupee is devalued further, this

time by 11.35 per cent. This time nobody bothers to contest that it is a devaluation; now the whole effort is concentrated on rationalising the measure. It is forgotten altogether whether the downward adjustment of the rupee's exchange rate amounts to a devaluation or a depreciation or what have you. The day after the second dose of devaluation the finance minister announces that "India's foreign exchange crisis is over for the present" and thanks foreign governments. The next day, in his inaugural address to a seminar on the 'national economic crisis', he makes a forceful defence of the devaluation and the trade policy reforms announced by the commerce minister and takes the opportunity once again to thank international agencies and foreign governments for the supporting role they have supposedly played in the resolution of the crisis. Somewhere, in a corner of the newspapers the same day is the report of a large team of IMF officials having reached New Delhi for discussions with the government.

The sequence of events is significant. When the rupee was administered the first dose of devaluation, it was perhaps thought that the forceful denial that it amounted to a devaluation at all, a denial strongly defended by several academics, would send the necessary signal abroad without the government having to face domestic criticism for resorting to devaluation when the case for such a step was by no means clear. After all, despite the rupee's depreciation by over 10 per cent in the past six months there had been a sharp deceleration in the growth of exports. The commerce minister's subsequent statement on trade policy reform clearly brought this out. But evidently the signal sent by the first dose of devaluation was not found sufficiently impressive by the concerned international agencies/governments. So something more needed to be done and that too immediately. Hence there had to follow not only the second dose of devaluation, with the pretence that it was only an exchange rate adjustment being discarded, but also the trade policy reform package along with a public commitment to further measures.

Does not the sequence of events tell clearly who really is in the driver's seat? All the bold talk that the government will not accept any conditionality that goes against the national interest is so much hot air. The fact is that we are being given no option and are being made to sign on the dotted line. And all because we have chosen to follow the easy, though suicidal path of borrowing more and more—this time under the IMF umbrella—in order to meet our debt servicing obligations. The IMF path is easy once one develops a thick skin and becomes insensitive to being ordered about regarding what national

does not have to take hard decisions about restructuring trade or the budget—the type of restructuring that would certainly be very different from the one the IMF would have us adopt

DELHI UNIVERSITY

Low Politics

A Correspondent writes

FOR the last few months politics among the Delhi University teachers seems to be following in the tracks of their students. Opportunistic alliances among political groups, factional quarrels, 'dharnas', boycotts and, finally, physical assaults, have come to mark the operations of the Delhi University Teachers' Association (DUTA)

During the anti Mandal agitation, the Congress(I) had joined hands with the BJP to oust the left from the leadership of DUTA. Ever since then this cabal had been running the show of the teachers' organisation and disrupting the functioning of the university. At the end of May this year, they physically removed the then head of the education department, Krishna Kumar, alleging irregularities in appointments in the Maulana Azad Centre for Elementary and Social Education. Their main grouse was over the appointment of A. K. Jalaluddin, former director of NCERT (National Council of Educational Research and Training) who they feared would become the next head. Since their own candidate did not possess the necessary qualifications to compete with Jalaluddin's, they felt that the best way to block the latter's entry into the department was by a demonstration of their physical might. They succeeded in their game. The university's executive council, at a recent meeting, endorsed the professorship of the candidate set up by this group. As for Jalaluddin, he is reported to have been advised by the vice-chancellor to "lie low for sometime". He is believed to be reluctant to move into the quarters allotted to him in the campus—the allotment again having been made into another issue by the Congress(I) BJP coterie—because of fear of insecurity.

The vice-chancellor's role in the entire incident has come in for criticism by the university's teaching community in general. In spite of repeated requests for setting up an inquiry into the incident involving the assault on Krishna Kumar, he sat on the matter for more than a month. Only recently an investigation team has been set up, with the university's proctor as one of its members. Meanwhile, even those among the teachers who were alleged to have been a part of the group which for-

fice were allowed to appear for interview before the selection committee which recently met to appoint professors. Teachers feel that by permitting this, the vice-chancellor is "rewarding coercion" and succumbing to the bullying tactics of the Congress(I)-BJP combine.

Cracks have, however, appeared in the Congress(I) BJP alliance—not on account of the so-called ideological differences that the national leaders of the two parties are at pains to assert every now and then, but the very opportunist motives that initially made them come together. A tussle has broken out between the Congress(I) and the BJP groups over appointments in the Indra Gandhi Institute of Physical Education, the governing body of which is headed by the BJP leader V. K. Malhotra. The Congress(I) suspects that the institute is being filled with BJP people, while its own candidates are being left out. The Congress(I) president of DUTA gave a call for 'dharma' in front of the vice-chancellor's office recently protesting against the appointments in the institute. The BJP faction of DUTA promptly issued a statement opposing the 'dharma'. It would be interesting to watch how the vice-chancellor deals with this tricky situation. Which of the two groups will get the 'reward' in this competition of coercive politics—the representatives of the ruling party or those from the BJP?

NRI DEPOSITS

Stemming the Outflow

SOURCES in the finance ministry have for quite some time been reported to be extremely concerned over the heavy withdrawal of funds from the special NRI deposit accounts. That was before the rupee was devalued, the first phase of which was initially described by the same sources as only routine adjustment of the rupee's exchange rate. Following the two stroke devaluation, enquiries were reported "to be pouring in from abroad about the re-conversion of rupees in the NRE R accounts to foreign currencies". Could it be that the NRIs had got wind of the forthcoming devaluation? Or were they reacting to the worsening external liquidity position of the country relative to the obligations to be discharged week after week? These questions will have to await clear answers until such time as much more information becomes available.

However, that holders of NRE R accounts have been anxious to convert their external rupee deposits into foreign currencies in the wake of the devaluation is quite understandable. Here were NRIs who had put their foreign earnings in rupee deposits without realising that the

carried did not compensate them for the risk of exchange depreciation. Even though the deposits were in theory repatriable, in actual practice a five-year deposit taken in 1986 would, when encashed with interest in dollars in 1991, have barely managed to retain its original dollar value because in the meanwhile the rupee had depreciated by almost 70 per cent. And if the encashment fell due after the latest devaluation, the dollar out-take would be smaller by 20 per cent. Who in their right senses would go in for an investment like this?

Evidently, many did. Or else how could the NRE R accounts have added up to over Rs 6,000 crore as on April 1, 1990? The only explanation can be that these depositors never expected the rupee to depreciate at the rate it actually did over the past five six years. Certainly they could not have foreseen that on top of the depreciation from time to time, there would also be a sharp one time devaluation as well. In fact, precisely because the calculations of these depositors had gone awry, for the past two years at least there had started a net outflow from the NRI R accounts.

Still, if an amount as large as Rs 6,000 crore was outstanding in these accounts, should not the government have done something to prevent the outflow particularly after the decision to devalue the rupee? On the one hand, we are prepared to go all out in surrendering to the conditionalities of the international agencies. On the other, we just would not do the right things by our own people.

Our government's attitude on the subject is reflected in the finance minister's dismissal of Jyoti Basu's suggestion to tap NRIs with the observation that "NRIs will not send any money to India as long as our reserves remain at the dangerously low level that they are now". Is not the government's most immediate problem to prevent the outflow of several billion dollars worth of NRI deposits it holds already? But because the government's sights are fixed on the IMF loan it has closed its mind to alternatives.

SPORTS AND APARTHEID

Hasty Step

THE International Olympic Committee's decision to readmit South Africa into the olympic fold and allow its participation in the Barcelona Games next year is not only hasty but—as the president of the National Olympic and Sports Congress of South Africa has pointed out, these actions give the impression that they are rewarding the oppressor instead of the people who have been fighting against

apartheid for the past 30 years". The hasty lifting of the ban on South African participation in sporting, cultural and intellectual fields will make the new phase of struggle against apartheid more difficult.

While there can be no doubt that economic sanctions against white South Africa was a major external factor in bringing about the current changes in the apartheid structures, it was the long years of isolation of the country's sporting, cultural and intellectual interests which brought the issue of apartheid into open debate in these circles and created a significant body of opinion which at the minimum saw apartheid as an obstacle to South Africa's integration into the world community. With the lifting of apartheid laws, these sections will play a significant role in the long process of breaking down race prejudices. On the other hand, it is equally true that, with notable exceptions, little has been done to alter the structures of professional sports associations in South Africa so as to allow for greater participation of the black community. If South Africa were to be allowed to participate in international meets, not only would the participation be confined to whites and be unrepresentative, but there would be no real pressure on sporting bodies to incorporate the changes which alone would encourage black involvement in sports.

It may be argued that participation in sports is in any case the privilege of a few in most third world countries where covert social and economic discrimination ensures that access to sports is not available to the large majority. And international sporting bodies have never bothered about this enough to encourage their members to widen the base of sporting activity. However, in the case of South Africa where racial discrimination is not only overt but is state policy, international bodies have a special responsibility which has not been discharged merely with the banning of South Africa in the past. If apartheid is to be discarded, the international sporting, cultural and intellectual communities will have to play a new role now by putting positive pressure on South Africa not only to allow black participation but to introduce positive discrimination to make that objective a reality.

BHOPAL DISASTER Operation Burial

WHATEVER be the pronouncements of the government and whatever the stated intentions of political parties, there is increasing evidence that every effort is being made to bury the Bhopal disaster once and for all. There is, for one thing, the

growing attempt to suppress information—whereas earlier one could at least gain some access to research findings, even if these were very limited, now it would seem the authorities are making no pretence of being open. For instance, a recent request from this weekly for a copy of the annual report of the Bhopal Gas Disaster Research Centre, a unit of the ICMR, has been rejected on the grounds that "the publication of papers on Bhopal prepared by the ICMR, etc, require clearance of the Technical Committee constituted by the ministry of petroleum and chemicals". This means that information on the status of research studies on Bhopal is virtually unavailable. The added absurdity is of course the fact that the annual report of any of these institutions is only a carefully edited review which tells the reader precisely nothing.

What makes this intense secrecy alarming is the persistent rumour that the ICMR has decided to shelve the ongoing studies on MIC. While the project authorities have in interviews with journalists denied the rumours, there is no way to check on this because the ICMR has not made known the conclusions reached after the long overdue major review it undertook recently. It may be pointed out here that the only beneficiary of this move would be the Union Carbide, because there would then be no way of directly establishing the toxicity of the gas which leaked out of its Bhopal plant. It is in this context that the project director's statement that the all medical research papers are being whetted by the department of petroleum and chemicals is intriguing.

In addition to all this are the frequent reports of the State government's various attempts to obliterate the data base by demolition of the hutments in the gas-affected area ostensibly as a part of its slum improvement programme. Only recently over 3,000 hutments have been so demolished and the residents moved to colonies outside the city. In effect this means that there would be no gas-affected population to speak of. More importantly it makes a mockery of the much publicised basis—easy access for the gas-affected population—on which the health infrastructure, such as it is, has been designed. Such moves would also obviously affect the mobilisation of the gas victims and strike at the organisational efforts of groups like the very vocal Gas Peedit Mahila Udyog Sanghatana. With members scattered far and wide, these groups would collapse. If this trend is allowed to persist not only will the already faint collective memory of the disaster fade from people's minds, but all the physical evidence will have either been obliterated or irrecoverably scattered.

TWENTY YEARS AGO

EPW, July 10, 1971

Neither the report of the Committee on Differential Interest Rates nor the Minute of Dissent appended to it really comes to grips with the problem of how the instrument of credit could be used to help the 'weaker sections' of society. The majority report aims really at maintaining the *status quo*. Faced with the finance minister's public commitment, made at one of his meetings with bankers last year, that commercial banks would charge lower interest rates on loans to certain categories of borrowers, the majority report is quite clearly concerned with making this ministerial commitment as meaningless as possible. Its attitude throughout is that of finding problems for every solution...

If one looks beyond the banks and the co-operatives, it will be immediately apparent that there is already a differential interest rate system for credit prevalent in the country. The so-called 'unorganised' market for credit has been the despair of all those who have surveyed the country's monetary system. The extent of the operations of private moneylenders has been the subject of various guestimates and in agriculture, at any rate, it has been officially conceded that at the beginning of the Fourth Plan, after decades of effort to promote co-operative credit, the moneylender still supplied two-thirds of aggregate credit. The interest rates charged by the moneylender vary, but generally they are a multiple of the highest rates charged by the banks or co-operatives.

To strike a blow on behalf of the 'weaker sections', what is necessary is to reduce the interest burden on (i) the small borrower with viable projects who now depends on the moneylender; and (ii) the potential small borrower with viable projects who is deterred by the high rates of the moneylender's extortions to rates, but has no access to the banks or the co-operatives. This can be done (i) by so expanding the supply of credit through the banks in relation to the total demand for credit in the economy that the moneylenders' interest rates are forced down; and (ii) more selectively, by banks lending more to those sections who now depend on the moneylenders. The latter would require banks to increase the flow of funds to those sectors which are relatively more dependent on the moneylender and, further, within these sectors, pick out those categories of borrowers who have so far had little or no access to bank funds.

| Index Numbers of Wholesale Prices (1981-82 = 100) | | | | | | | | | |
|---|--------------------------|--------------------------|----------------------------------|----------------|---------------------|------------|------------|------------|------------|
| Index Numbers of Wholesale Prices (1981-82 = 100) | Weight | Latest Week 15-6-91 | Variation (per cent) | | | | | | |
| | | | Over Last Month | Over Last Year | Over March 31, 1991 | In 90-91** | In 89-90 | In 88-89 | In 87-88 |
| All Commodities | 171.4 | 195.3 | 0.7 | 10.3 | 1.8 | 10.2 | 7.5 | 8.2 | 5.8 |
| Primary Articles | 166.9 | 201.9 | 0.9 | 12.7 | 3.3 | 13.1 | 4.9 | 11.3 | 9.1 |
| Food Articles | 177.3 | 220.2 | 2.0 | 13.1 | 4.5 | 11.9 | 9.9 | 9.0 | 10.2 |
| Non-food Articles | 176.4 | 214.4 | -0.7 | 15.1 | 1.9 | 16.9 | -1.7 | 21.6 | 11.3 |
| Fuel, Power, Light and Lubricants | 164.9 | 189.5 | 0.2 | 14.1 | 0.5 | 11.9 | 5.5 | 3.5 | 6.7 |
| Manufactured Products | 174.7 | 192.6 | 0.7 | 8.2 | 1.2 | 11.9 | 9.4 | 7.2 | 3.7 |
| Cost of Living Index | | | | | | | | | |
| Cost of Living Index | Base | Latest Month | Variation (per cent) | | | | | | |
| | | | Over Last Month | Over Last Year | Over March 1991 | In 1990-91 | In 1989-90 | In 88-89 | In 87-88 |
| Industrial Workers | 1982 = 100 | 202 ⁴ | 0.5 | 12.2 | 0.5 | 11.2 | 6.5 | 9.1 | 9.1 |
| Urban Non-Manual Employees | 1984-85 = 100 | 169 ³ | — | 13.4 | — | 11.0 | 6.9 | 8.2 | 7.9 |
| Agricultural Labourers | July 60 to June 61 = 100 | 843 ¹ | 1.8 | 13.9 | NA | NA | 3.2 | 11.4 | 12.5 |
| Money and Banking | | | | | | | | | |
| Money and Banking | | Latest Week (31.5.91) | Variation (per cent in brackets) | | | | | | |
| | | | Over Last Month | Over Last Year | Over March 23, 1991 | In 90-91 | In 89-90 | In 88-89 | In 87-88 |
| Money Supply (M ₁) | Rs crore | 2,78,449 | 3,970 | 38,953 | 10,405 | 34,300 | 28,571 | 22,027 | 22,295 |
| | | | (1.4) | (16.3) | (3.9) | (14.9) | (18.1) | (15.7) | (18.8) |
| Net Bank Credit to Government Sector | Rs crore | 1,48,565 | 2,391 | 23,423 | 10,566 | 21,778 | 12,715 | 12,811 | 12,776 |
| Bank Credit to Commercial Sector | Rs crore | 1,73,872 | 1,418 | 21,110 | 3,510 | 19,552 | 20,531 | 12,389 | 11,294 |
| Net Foreign Exch Assets of Banking Sector | Rs crore | 7,364 | 485 | 1,140 | -653 | 1,429 | 637 | 682 | 1,314 |
| Deposits of Scheduled Commercial Banks | Rs crore | 1,98,480 | 1,382 | 27,862 | 7,291 | 24,230 | 22,041 | 15,321 | 17,320 |
| | | | (0.7) | (16.3) | (3.8) | (14.5) | (18.7) | (14.9) | (20.3) |
| Foreign Exchange Assets | Rs crore | 2,677 | 252 | -2,667 | -1,321 | 1,710 | -830 | 508 | 604 |
| | | | (10.4) | (-49.9) | (-33.0) | (-30.0) | (-11.6) | (-6.6) | (8.6) |
| Index Numbers of Industrial Production (1980-81 = 100) | | | | | | | | | |
| Index Numbers of Industrial Production (1980-81 = 100) | Weights | Latest Month (Nov 90) | Variation (per cent) | | | | | | |
| | | | Averages for | | | | | | |
| | | | 1991-92 | 1990-91 | In 1990-91 | In 1989-90 | In 1988-89 | In 1987-88 | In 1986-87 |
| General Index | 100.0 | 201.9 | 200.3 | 182.8 | 8.3 | 8.7 | 7.3 | 9.1 | 8.7 |
| Mining and Quarrying | 11.5 | 199.0 | 202.8 | 199.7 | 5.9 | 7.9 | 3.8 | 6.2 | 4.2 |
| Manufacturing | 77.1 | 197.9 | 195.6 | 175.6 | 8.3 | 8.7 | 7.9 | 9.1 | 9.7 |
| Electricity | 11.4 | 232.1 | 230.5 | 214.4 | 10.7 | 9.5 | 7.7 | 10.3 | 8.5 |
| Basic Industries | 39.4 | NA | NA | NA | NA | 9.9 | 9.6 | 9.2 | 6.8 |
| Capital Goods Industries | 16.4 | NA | NA | NA | NA | 7.4 | 15.9 | 18.2 | 10.6 |
| Intermediate Goods Industries | 20.5 | NA | NA | NA | NA | 11.5 | 4.8 | 4.4 | 7.5 |
| Consumer Goods Industries | 23.6 | NA | NA | NA | NA | 6.0 | 6.5 | 7.1 | 12.5 |
| Durable Goods | 2.6 | NA | NA | NA | NA | 22.1 | 7.8 | 18.9 | 18.7 |
| Non-Durable Goods | 21.0 | NA | NA | NA | NA | 2.4 | 6.2 | 4.9 | 11.5 |
| Foreign Trade | | | | | | | | | |
| Foreign Trade | Unit | Latest Month (Mar 91) | Cumulative for* | | | | | | |
| | | | 1991-92 | 1990-91 | 1990-91 | 1989-90 | 1988-89 | 1987-88 | 1986-87 |
| Exports | Rs crore | 3,427 | 32,527 | 27,681 | 27,681 | 20,302 | 15,741 | 12,452 | 10,895 |
| | | | | | (36.3) | (29.0) | (26.2) | (14.3) | (7.2) |
| Imports | Rs crore | 3,625 | 43,171 | 35,416 | 35,412 | 28,194 | 198 | 10,644 | 7,735 |
| | | | | | (+25.6) | (+23.9) | (11.2) | (2.2) | (14.7) |
| Balance of Trade | Rs crore | -198 | -10,644 | -7,735 | 7,731 | -7892 | 6,656 | 7,644 | 8,761 |
| Employment Exchange Statistics | | | | | | | | | |
| Employment Exchange Statistics | Unit | Latest Month Dec 90 | Cumulative for* | | | | | | |
| | | | 1991 | 1990 | 1990 | 1989 | 1988 | 1987 | 1986 |
| Number of Applicants on Live Register as at end of Period | Thousand | 34,632 | 34,632 | 32,776 | 34,632 | 32,776 | 30,050 | 30,247 | 30,131 |
| Number of Registrations | Thousand | 600 | 6,541 | 6,576 | 6,541 | 6,576 | 5,963 | 5,465 | 5,535 |
| Number of Vacancies Notified | Thousand | 46 | 530 | 600 | 530 | 600 | 543 | 621 | 623 |
| Number of Placements | Thousand | 25 | 284 | 289 | 284 | 289 | 329 | 360 | 351 |
| Income | Unit | 1989-90 | 1988-89 | 1987-88 | 1986-87 | 1985-86 | 1984-85 | 1983-84 | 1982-83 |
| Gross Domestic Product (current prices) | Rs crore | 3,92,524 | 3,49,105 | 2,94,408 | 2,60,442 | 2,34,159 | 2,07,869 | 1,85,991 | 1,58,851 |
| Gross Domestic Product (1980-81 prices) | Rs crore | 1,95,237 | 1,85,543 | 1,70,716 | 1,63,924 | 1,57,348 | 1,49,966 | 1,44,310 | 1,33,469 |
| Per Capita Income (1980-81 prices) | Rupees | 2,142 | 2,078 | 1,910 | 1,881 | 1,852 | 1,804 | 1,780 | 1,682 |

* For current year upto latest month for which data are available and for corresponding period of last year
 ** Excluding gold and SDRs + Upto latest month for which data are available NA Not available
 ++ Provisional data @ Quick estimates
 Notes: (1) Superscript numeral denotes month to which figure relates, e.g., superscript¹ indicates that the figure is for January and so on.
 (2) Figures in brackets denote percentage variation over previous period

Demand Constraint to the Fore

Kumaran Pola

BATA INDIA's domestic business during the year ended December 31, 1990 was seriously affected by the disturbed law and order situation in different parts of the country, especially in Punjab, Jammu and Kashmir and the north eastern states. The directors are anxious about the decline in the disposable income of the middle class which forms the backbone of the company's business in the wake of inflation which worked out to be over 12 per cent per annum. The problem was compounded by the sharp increase in the cost of almost all raw materials and in operating expenses. Because of the fear of a further decline in sales volumes, the cost increases were not passed on to the consumers.

In view of the uncertain conditions in the domestic market, the company focused on the development of export business. Export sales amounted Rs 13.29 crore during 1990 compared to Rs 8.11 crore during the preceding year. Most of the

company's exports were to free currency areas such as North America and Europe. Exports of merchandise manufactured by third parties registered an improvement at Rs 5.05 crore in 1990. The combined exports increased to Rs 18.34 crore from Rs 11.94 crore. As against this, the foreign exchange outgo amounted to Rs 5.65 crore during 1990 as compared to Rs 5.95 crore during the preceding year. Of these, the largest amounts of Rs 5.06 crore in 1990 and Rs 5.60 crore in 1989 were spent on importing raw materials, spare parts and components and capital goods. The imported raw materials, spare parts and components represented 5 per cent of the total consumption in both the years. The company spent Rs 1.94 crore on research and development during 1990. This represented 0.55 per cent of its turnover. The areas in which R and D was carried out included process and materials development and leather technology. The company developed cold moulded insoles, moulded rubber unit soles and PVC unit soles with leather insert. The directors claimed the value of production based on in house R and D in 1990 at Rs 22.10 crore worth of shoes numbering 44 lakh pairs and Rs 7.80 crore worth of upper leather totalling 2.26 crore KVT. The company developed the ability to use rubber sole in place of PVC or vice versa depending on economic considerations without adversely affecting the value of products or presentation. R and D efforts resulted in energy conservation too. According to the directors, energy conservation measures resulted in an annual saving of Rs 39 lakh or 7.7 per cent of total cost of energy in 1989. The apparel and garment business improved and accounted for 10 per cent of retail sales.

An amount of Rs 5.59 crore was spent by way of capital expenditure as against Rs 3.40 crore in 1989. The expenses were largely on modernisation of the company's retail outlets and factories. A new highly versatile Simpapak 18 station bicolour injection moulding plant has been installed in the company's premier factory at Bangalore for the production of 'state of the art' injection moulded shoes with synthetic and textile uppers and specially developed PVC compounds as soiling material.

The highlight of the company's financial performance during 1990 was the improvement in its return on investment from 2.77 per cent to 5.35 per cent. The company improved the return on owners'

equity considerably. It was the smart rise in the net profit margin on sales, rather than the assets utilisation ratio (sales/assets) which declined during the year, that helped the rates of return. The company was able to bring down its debt/equity ratio from 1.86:1 in 1989 to 1.48:1 in the latest year and raise its interest coverage ratio from 1.73 times to 1.77 times. The current ratio at 2.15 as against 2.53 in the preceding year reflected pressure on the working capital. There was accumulation of finished goods inventories as also unpaid sundry creditors.

UTI

Many Landmarks

The year ended June 30, 1991 was a year of achievements for the Unit Trust of India (UTI) on several fronts. The UTI set several landmarks during 1990-91. It crossed the target of one crore unit holders. The investible funds crossed the Rs 20,000 crore mark. A single scheme, i.e. Monthly Income Scheme with Growth 90 (II), netted more than Rs 1,000 crore. Similarly, the UCS 2000 brought in more than 10 lakh unit holders. The UTI introduced as many as six new schemes in a single year, three of which were growth oriented schemes. The UTI mobilised over Rs 4,000 crore (excluding sales to corporate sector under Unit Scheme 1964) during 1990-91 as against Rs 2,700 crore mobilised during the preceding year. The sale of units to the corporate sector under US 64 scheme declined from Rs 2,813 crore to Rs 353 crore.

Three new growth schemes were offered by the UTI in 1990-91, namely, Unit Growth Scheme 2000, Master Equity Plan and Mastergain. Also, three fixed-income schemes were offered, namely, Deferred Income Unit Scheme, Monthly Income Unit Scheme with Bonus and Growth 1990 (MISG-90 II) and Monthly Income Unit Scheme with Bonus and Growth 1991 (MISG 91). A special Odd Lot Scheme was introduced as a service to odd lot shareholders and debenture-holders for converting their odd lots into units of UTI schemes.

Dividends under all the ongoing schemes have been raised. Dividend under the Unit Scheme-1964 has been stepped up from 18 to 19.5 per cent improving the yield on the July price this year from 13.4 per cent to 14.2 per cent. In Mastershare, the pioneer equity based scheme floated by UTI, a bonus of 1:2 has been declared in addition to maintaining the dividend at 18 per cent. Dividend rates under other two open-ended schemes, viz. Children's Gift Growth Fund 1986 and Parents' Gift Growth Fund 1987, as also the other

The Week's Companies (Rs in lakh)

| Financial Indicators | Bata India | |
|--|------------------|------------------|
| | 1989 December | 1990 December |
| Income expenses profit | | |
| 1 Net sale, main in com | 31,046 | 33,939 |
| 2 Other income | 51 | 73 |
| 3 Raw material cost | 11,457 | 10,932 |
| 4 Employee cost | 7,191 | 6,856 |
| 5 Depreciation | 717 | 747 |
| 6 Other expenses adjustments | 10,520 | 13,74 |
| 7 Operating profit (1+2)-(3 to 6) | 1,706 | 2,53 |
| 8 Interest | 954 | 1,273 |
| 9 Taxation | 361 | 385 |
| 10 Net profit (7-8-9) | 361 | 795 |
| 11 Dividends | 158 | 105 |
| Capital loans asset | | |
| 12 Share capital | 1,050 | 1,050 |
| 13 Reserves and surplus | 1,956 | 2,647 |
| 14 Current liabilities and provisions | 4,423 | 5,679 |
| 15 Short term borrowings | 4,819 | 4,307 |
| 16 Long term borrowings | 79 | 116 |
| 17 Gross fixed assets | 4,771 | 5,221 |
| 18 Accumulated depreciation | 2,886 | 3,104 |
| 19 Inventories | 8,373 | 9,027 |
| 20 Receivables | 853 | 749 |
| 21 Current asset | 11,190 | 12,205 |
| 22 Investment other assets | 2 | 527 |
| 23 Total assets liabilities (12 to 16) or [(17-18)-(21+22)] | 13,077 | 14,850 |
| Key financial ratios | | |
| 24 Turnover ratio (1-23) | 7.38 | 2.29 |
| 25 Return on sales (10/1) x 100 (%) | 1.16 | 2.34 |
| 26 Return on investment (%) (10-23) x 100 or (24 x 25) % | 2.77 | 5.35 |
| 27 Return on equity (%) (10-23) x 100 or [(21+22) x 26] x 100 or [(21+22+23) x 26] | 12.01 | 21.50 |
| 28 Book value per share (Rs) | 28.63 | 35.21 |
| 29 Current market price (Rs) | 82.00 | 80.50 |
| 30 Price/earnings ratio | 23.85 | 10.63 |

Balance sheet analysis by Manisha Chhetri

close-ended schemes, have been as per the provisions of the schemes. Bonuses of 5 per cent and 1.75 per cent have also been announced under Children's Gift Growth Fund (on completion of five years of operation) and Monthly Income Unit Scheme-9 (on completion of three years) respectively.

In keeping with the objectives of promoting equity cult among the investors and bringing about an orientation in favour of individual investors, three growth oriented equity based schemes, viz, (i) Unit Growth Scheme-2000 (UGS-2000), (ii) Master Equity Plan (MEP) and (iii) Capital Growth Unit Scheme (Mastergain), were introduced this year, besides having two series of the popular Monthly Income Unit Scheme, viz, MISG-90 (II) and MISG-91, as also an innovative scheme, Deferred Income Unit Scheme, that defers income in the initial years and provides higher income in subsequent years. The UTI also started from October 1990 a scheme for unitisation of 'odd lots' of shares and debentures. It is operated from Bombay, Delhi, Calcutta, Madras and Ahmedabad and presently covers 245 shares and debentures.

UTI invested Rs 4,229 crore in equities (19.8 per cent of investible funds) while the total investment in the corporate sector has been Rs 12,775 crore, i.e., 61 per cent of total investible funds. The sanctions increased by 66.7 per cent from Rs 1,487 crore to Rs 2,479 crore while disbursements increased by 42.5 per cent from Rs 1,025 crore to Rs 1,461 crore. In order to reach the goal of one crore unit-holders, the UTI devised a marketing strategy that could bring as many as 3.5 million applications in a single year.

The India Fund with £ 94.2 million (inclusive of rights issue) which the UTI floated in 1986 has been performing consistently well and in fact has appreciated to £ 235 million. The second international fund of the order of \$ 60 million had its NAV at \$ 14.18 on May 31, 1990.

The Mastershare scheme has been very popular. Besides offering a rights issue earlier, issue of bonus shares has been declared this year in the ratio of 1:2. The dividend has been maintained at 18 per cent. Its NAV stood at Rs 37.21 as on June 19, 1991 indicating a growth of 272 per cent over the last four and a half years. The value of total assets held by the fund is to the tune of Rs 843.65 crore. It has also been decided to extend its tenure by 10 more years, i.e., up to October 2003. However, investors will have the option of withdrawal at NAV based repurchase price after expiry of the stipulated period of seven years on October 19, 1993.

ANDHRA BANK All-Round Growth

ANDHRA BANK continued to record good progress among the nationalised banks during the year ended March 31, 1991. The bank improved the owned funds position as also deposits and advances. It also introduced various schemes for providing better service to its clientele.

The total deposits of the bank stood at Rs 3,534 crore at the end of March 1991. The average aggregate deposits increased from Rs 2,560 crore in 1989-90 to Rs 2,890 crore in 1990-91, recording a growth of 12.9 per cent. During the year, the total number of deposit accounts increased to 70.84 lakhs from 65.42 lakhs and the deposit account in size group of up to Rs 5,000 per account constituted about 85 per cent of the total deposit accounts. To mobilise additional resources, the bank introduced two new schemes during 1990-91—'Kisan Mitra' for the benefit of farmers and 'Medi-Claim' with medical insurance benefit to depositors with low premium.

The total advances of the bank rose from Rs 1,683 crore to Rs 1,888 crore, recording a growth rate of 12.2 per cent. The credit/deposit ratio stood at 53.42 per cent at the end of March 1991. The number of borrowal accounts of the bank at the end of March 1991 was about 12.77 lakhs and accounts in the size group of up to Rs 10,000 constituted 81 per cent of the total. With 71 per cent of offices located in rural and semi-urban areas, the bank continued its thrust towards rural development. Total priority sector lendings stood at Rs 724 crore at the end of March 1991. The number of borrowal accounts under the priority sector stood at 7.86 lakhs accounting for 62 per cent of the all borrowal accounts of the bank. Credit assistance to weaker sections was Rs 192 crore at the end of March 1991 with 5.42 lakhs borrowal accounts and

exceeded the target of 25 per cent and 10 per cent of priority sector and net bank credit, respectively. The bank's assistance under the New Twenty Point Programme was Rs 571 crore with 7.31 lakhs beneficiaries at the end of March 1991. Advances outstanding under the DRI scheme stood at Rs 17 crore with 82,000 borrowal accounts constituting 1.01 per cent of the total bank credit of the previous year of which Rs 6.8 crore was extended to SC/ST beneficiaries which worked out to 40 per cent of the total. Under the Integrated Rural Development Programme, the bank has provided financial assistance to the extent of Rs 8.43 crore during the year. The outstanding amount under IRDP at the end of March 1991 stood at Rs 35 crore with 1,41,000 borrowal accounts.

In accordance with the guidelines issued by the government of India, the agriculture and rural debt relief scheme, 1990 has been implemented by all eligible branches, providing debt relief to 1,70,770 beneficiaries with an amount of Rs 48 crore by the end of March 1991.

The bank handled a total foreign exchange business of Rs 3,104 crore, comprising exports, imports, remittances and inter-bank transactions for the year ended March 1991. The outstanding export credit reached a peak level of Rs 91.23 crore and stood at Rs 75.64 crore on March 31, 1991. Non-resident deposits at the end of March 1991 stood at Rs 49 crore. Credit card business during the year 1990-91 crossed Rs 95 crore.

During 1990-91, the bank floated a wholly owned subsidiary called Andhra Bank Financial Services for undertaking activities such as merchant banking, leasing, hire purchase, etc. The bank also floated AB Homes Finance, a housing finance company. The bank joined with Canara Bank in promoting CanBank Factors, a factoring company which is to be launched shortly.

SAMEEKSHA TRUST BOOKS

Selections of Articles from Economic and Political Weekly

General Editor: Ashok Mitra

Poverty and Income Distribution

Edited by

K S Krishnaswamy

While there has been over the years, a perceptible increase in per capita income and expenditure and possibly some decline in the incidence of poverty in India, what still remains is massive and of a kind that is not remedied quickly or smoothly. Even with radical policies, the shifts in income and occupational structures to make a serious dent on it will take more than the rest of this century. In the welter of recent exchanges between the government and the opposition as well as between planners and market advocates on the strategy of growth, these issues, have been largely obfuscated. It is therefore more than ever necessary today to recognise the magnitude of the problem and the inadequacy of the measures adopted so far to deal with it.

pp viii + 420

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Bank of Baroda

(HEAD OFFICE MANDVI BARODA)

BALANCE SHEET AS AT 31ST MARCH, 1991 (ABRIDGED)

| 31.3.1990 | 31.3.1991 | 31.3.1990 | 31.3.1991 |
|--|---------------|---|---------------|
| Rs. in Crores | Rs. in Crores | Rs. in Crores | Rs. in Crores |
| 1 Capital 86.41 | 123.45 | 1 Cash 1649.20 | 1917.73 |
| 2 Reserve Fund & Other Reserves 108.45 | 123.77 | 2 Balances with other Banks 358.77 | 280.98 |
| 3 Deposits & Other Accounts 12840.16 | 14678.22 | 3 Money at call & short notice 357.30 | 288.50 |
| 4 Borrowings from other Banking Companies 304.12 | 1046.70 | 4 Investments 3472.45 | 3923.71 |
| 5 Bills Payable 61.57 | 92.81 | 5 Advances 7981.80 | 8877.04 |
| 6 Bills for collection being Agents etc. 913.37 | 1034.88 | 6 Bills Receivable being Bills for collection as per contra 913.37 | 1034.88 |
| 7 Other Liabilities 434.24 | 284.77 | 7 Constituent liabilities for Acceptances, Endorsements & other obligations per contra 800.56 | 1004.35 |
| 8 Acceptances, Endorsements & other obligations per contra 800.56 | 1094.35 | 8 Amounts remitted as Assigned Capital to our branches in Foreign countries under local Banking Regulations/Laws per contra 23.91 | 27.51 |
| 9 Assigned capital held at our branches in foreign countries under local Banking Regulations/Laws per contra 23.91 | 27.51 | 9 Assets pertaining to closed funds in Pakistan per contra 0.02 | 0.02 |
| 10 Liabilities pertaining to closed funds in Pakistan per contra 0.02 | 0.02 | 10 Premises less Depreciation 17.35 | 24.82 |
| 11 Balance to be transferred to the Central Government 9.25 | 10.00 | 11 Furniture, Fixtures etc. less Depreciation 31.29 | 42.03 |
| TOTAL 16320.06 | 18514.48 | 12 Assets given on lease less Depreciation NIL | 16.04 |
| | | 13 Other Assets 734.04 | 886.86 |
| | | TOTAL 16320.06 | 18514.48 |

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1991 (ABRIDGED)

| 31.3.1990 | 31.3.1991 | 31.3.1990 | 31.3.1991 |
|--|---------------|--|---------------|
| Rs. in Crores | Rs. in Crores | Rs. in Crores | Rs. in Crores |
| 1 Interest paid on Deposits, Borrowings etc. 1112.11 | 1304.28 | 1 Interest & Discount 1342.84 | 1503.28 |
| 2 Salaries, Allowances, Provident fund, Gratuity etc. 225.59 | 254.93 | 2 Commission, Exchange & Brokerage 106.40 | 148.00 |
| 3 Directors & Local Committee members Fees & Allowances 0.01 | 0.07 | 3 Rent 0.97 | 0.83 |
| 4 Rent, Taxes Insurance, Lighting etc. 46.82 | 50.20 | 4 Net Profit on sale of investments, gold & silver, land, premises and other assets 0.88 | 8.86 |
| 5 Law Charges 3.13 | 1.98 | 5 Net Profit on revaluation of investments, gold & silver, land, premises and other assets NIL | NIL |
| 6 Postages Telegrams & stamps 6.48 | 8.15 | 6 Income from Non-banking assets and profit from sale of or dealing with such assets NIL | NIL |
| 7 Auditors fees 1.17 | 1.21 | 7 Other Receipts 15.65 | 48.38 |
| 8 Depreciation on & repairs to Bank's property 11.08 | 10.02 | TOTAL 1466.54 | 1709.25 |
| 9 Stationery Printing, Advertisement etc. 7.86 | 9.44 | | |
| 10 Loss from sale or dealing with non-banking assets 27.46 | NIL | | |
| 11 Other Expenditure 25.00 | 35.05 | | |
| 12 Balance of Profit 1466.54 | 1709.25 | | |
| TOTAL 1466.54 | 1709.25 | | |

Sachdevya91

Calcutta Diary

AM

The sympathy factor has temporarily saved the day for the party of the Nehru-Gandhis. But few expect the Congress(I) to be able to maintain its facade of unity beyond a few months; the season of assessing permutations and combinations of loyalties would then resume. Another referral to the electorate would be unavoidable. Should the premier political party's survival be regarded as of overriding importance for ensuring the survival of the nation, another assassination would evidently be called for.

THESE are liberalising days. Why not a free float for the imagination too? So here goes.

In the just concluded elections, the Congress(I) party has secured a lesser proportion of the total votes cast than it did in 1989. Had Rajiv Gandhi not been killed, the party's share of the vote, it is now obvious, would have fallen further, and it would have won at least 70 less seats in the Lok Sabha than the number it has actually won. Its aggregate tally would then not have exceeded the scraggy figure of 150 or thereabouts. In such circumstances, the Congress(I) might have ceased to be the country's first party. To call upon it to form the government would have been awkward for the president, and he would have been constrained to look toward the direction of either the National Front-Left Front combination or the Bharatiya Janata Party. In that kind of dicey situation, Rajiv Gandhi would have been in trouble. He would have led his party to two successive electoral defeats, the second even more comprehensive than the earlier one. Discontent with the manner he had conducted its affairs would have grown vocal in party circles. He might then have resigned the party presidentship on his own; were he to show some reluctance, he could even have been shown the door. The Nehru-Gandhi primogeniture would thereby have come to a whimpering end. Let us be candid about it, Rajiv Gandhi did not possess even one per cent of the political acumen his mother had; he also lacked the gutsiness she was famous, or notorious, for. The odds against his charging back to the command of the party would thus have been high. He might at most have succeeded to lead a rump of it. The prospects would have appeared so bleak that even the majority of the caucus would have left in search of other pastures. There would be little point in lamenting. An authoritarian outfit, which had dispensed with all democratic procedures, was unlikely to go on for ever. It would

be hardly surprising if it met its nemesis this harsh way. Rajiv Gandhi would have joined the ranks of former prime ministers fast crowding New Delhi's alleyways. This is the flip side of it. Had Indira Gandhi's offspring not been blown up by the assassin's explosive, he would have been instrumental, because of his electoral non-success, for the country's trek back to a democratic milieu, one where nobody is more equal than anybody else.

Whatever will not be will not be. The killing put paid to that possibility. Those extra 70 seats the sympathy factor yielded has ensured the Congress(I) party's continuance as the nation's premier political outfit. The government it has formed does not look very comfortable; but the point is its having been able to form the government at all. All is seemingly well that ends well. The consensus rides once more. The shouting brigade too is re-flexing its muscles. Within 40 hours of his induction, the new prime minister solemnly makes his pilgrimage to the shrine of that great Indian, Sanjay Gandhi. The Nehru-Gandhis, besides, have by now bagged, in a row, three Bharat Ratnas. Thank goodness, the murder came about when it came about. Without it, it would have been touch and go. All the pieces have now fallen into their places; the happy days are here again. Should this tranquillity prevail for some more time, the government, a-wash with gratitude, might decide to award the Bharat Ratna to Sonia Gandhi too; the citation would, predictably, refer to the fortitude and courage she showed in meeting the tribulations recently visiting her. Anything is conceivable in the country's toady-infested milieu.

All this is however only a half-depiction of India tomorrow. These are liberalising days, it would be grossly unfair to terminate the speculation at mid-point. The Congress(I) is back in power, but the country's problems will not go away. That party, someone would sooner or later in-

sist to insert in the records, is in fact the country's major problem. It is responsible for the mess in Kashmir. It has single-handedly ensured Punjab's alienation from the rest of the country. No outsider yet knows the sort of a deal it has struck with the ULFA or Bodo insurgents. Its return to power in both New Delhi and Dispur could nonetheless provide the necessary impetus to the squabbling factions of the Asom Gana Parishad to come together and try a repeat of the Nellie-type adventures. The greed for power and pelf on the part of Congressmen has already made the landscape in Tripura murky beyond description; even grimmer things might follow. The Congress(I) is unlikely to have the slightest clue how to tackle any of these developments. The sympathy wave is in due course going to exhaust itself, but depredations under the cover of the Armed Forces (Special Powers) Act are going to continue, fortifying the resolve of some fiercely dedicated young people in different parts of the country to take to the Kalashnikov. enough is enough.

Meanwhile, the Congress(I) government, its minority status notwithstanding, would have signed on the dotted line accepting all the conditionalities set by the International Monetary Fund. The outcome would be unsavoury, precisely in the manner all official economic decisions taken in the course of the past decade has been unsavoury, *vide* the confession of the new finance minister. Given the Fund's insistence on further import liberalisation and its encouragement of the devaluation of the rupee week after week and fortnight after fortnight, the line of credit it would finally agree to extend would not be of much help. Imports would continue to flow gushing in, the rupee cost of imports would keep climbing, exports would remain sluggish as in the past, the balance of payments problem would become increasingly more intractable. The Fund would also demand an across-the-board increase in administered prices and heavier imposts of indirect levies; none of these would help the restoration of internal price stability. The Fund would ask for a severe reduction in subsidies, the gradual dismantling of the public distribution system, the phasing out as much of social welfare-type of public activities as of various employment-creating rural works programmes, and the earmarking of all household savings for private investors. The new finance minister has already accorded diplomatic recognition to the supposed symbiotic relationship between transnational corporations and updated technology, and condemned the East India Company syndrome native econo-

mists suffer from. Whatever the Fund would demand would be granted to it, even a wage freeze and a new regime of beastly-sounding anti-trade union laws. Double digit inflation would aspire higher and higher, so as to reach the three-digit mark. The consequence is bound to be widespread social discontent; instead of stabilisation, we are likely to experience greater instability across-the-board.

Every day, new trouble spots would be added to the old list. The People's War Group could be further emboldened by the developments, reducing the administration in Andhra Pradesh to a non-functioning entity. Should Jayalalitha preside over the government in Tamil Nadu much in the temperamental manner she has been wont to run her party, that state too would be on the skids. There is little purchase in not being realistic; what is often lazily described as Dravidian nationalism could be more potent in the long run than remorse felt at a ghastly killing taking place on the soil of Tamil Nadu. Sooner or later, some of the trickles from out of the sympathy ducts could then again begin to flow toward the direction of the ethnic Tamils in Sri Lanka, harassed and hounded in Sri Lanka and undergoing the trauma of an equally bitter hostility in India as well. At that juncture, some ancient and not so ancient history might once more assume relevance. The Liberation Tigers of Tamil Eelam had amongst their earliest patrons in this country not just Indira Gandhi, but Jayalalitha's departed master and hero, M G Ramachandran too. That rediscovery could cause a certain embarrassment. The rationality of the human mind nudges itself to support the cause of whoever happen to be at the receiving end of an unfair stick. So it could well be a different kind of tomorrow for Tamil Nadu from what is being currently promised from the Poes Garden balcony.

Once the Fund and the world Bank really get going with their conditionalities, the poor and the middle classes would begin to feel the pinch. Such is the essence of natural justice: the under-privileged always have to account for the profligacy of the comfortably placed. The town cynics are nonetheless not going to be deterred. As the economic difficulties mount, they might even have the temerity to make fun of the claim of supreme sacrifice, in the cause of the nation, filed on behalf of the Nehru-Gandhis. Are not the two assassinations, felling first the mother and, after an interval of seven years, the son, linked to a whole lot of other episodes? Suppose some cheeky individual were to pass the comment that

while he acknowledged the futility of individual terrorism and personalised political murders, he could still not quite not feel like commiserating with people grievously wronged by the policies and practices indulged in by Indira Gandhi and her offspring. It would certainly be a strain to defend the point of view that what the Nehru-Gandhis did in Punjab or Kashmir or the north-east or Sri Lanka had advanced the nation's interests in any manner. Opening the gates of Babri Masjid, blessing the *shilanyas* and Rajiv Gandhi's pitch for Ram Rajya in the November 1989 elections apart, the Ramayana-Mahabharata weekly serials on the Doordarshan were among the Congress(I) party's principal contributions to boost the cause of fundamentalism in the country. The Bharatiya Janata Party can take only a modest credit for its spectacular advance; most of that accolade really belongs to the Congress(I).

The sympathy factor has temporarily saved the day for the party of the Nehru-Gandhis. But its fortune and the nation's are now inversely correlated. True, not much confidence can be reposed in an electorate which votes one way in case there is a freak shower and another way if there is none. Kerala has provided the concretest evidence of the rate of literacy,

for example, having little to do with the level of social awareness. But these are short period contretemps. The law of historical inevitability would still come into its own. Developments in the economy and the polity apart, a minority government has to conform to its own whimsical law of thermodynamics. Few expect the Congress(I) party to be able to maintain its facade of unity beyond a few months; the season of assessing permutations and combinations of loyalties would then resume. Another referral to the electorate would be unavoidable. Should the premier political party's survival be regarded as of overriding importance for ensuring the survival of the nation, another assassination would evidently be called for. Perhaps an insertion placed in the newspapers, inviting suggestions on whom the choice might lie, could help. Once that matter is satisfactorily resolved, some guns could be hired, and history would be cheated again.

Most of the above comments, it will be said, exhibits bad taste. Perhaps the environmental pollution is showing up. How much of civility can you expect in a situation where a street lout is officially enshrined as one of the nation's foremost leaders?

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Restructuring the Economy: Pitfalls and Possibilities

Iran Ghosh

Self-reliance does not mean autarky, nor blind import substitution. It does mean, however, that the country should learn to live within its means, that domestic savings should be raised to the level of domestic investment, that the distribution of income should be less inequalitarian so that the thrust for the development effort comes from the consumption demand of the masses.

In the past few days, the government of India has announced far-reaching changes in India's economic policy. The rupee has been devalued by around 20 per cent. The export-import policy has been completely revamped: cash compensatory support (CCS) to exporters has been abolished; all exporters will be allowed import licences (RUP) worth 30 per cent of the value of exports which would be freely saleable; and JGI imports as well as much of restricted (U) licensing has been abolished. Further policy changes—particularly in respect of industrial licensing policy—are on the anvil, and foreign investment up to 51 per cent may be freely allowed (subject to a short negative list).

This package of reform is stated to be essential for getting a loan from the IMF to bail the country out of the present foreign exchange crisis.

What has been done has been done, even though the drastic action taken has been without consulting either parliament or the opposition parties. In a sense, there is no going back. The issue now is: what are the likely consequences, and what remedial steps are necessary in order that the country does not get caught in an inexorable external debt rap.

First, as per the World Bank's latest figures, the external debt of India today exceeds \$ 70 billion. At present exchange rates, this comes close to Rs 200,000 crore. This is a mixed package, with varying repayment periods and interest rates. Nonetheless, payment of interest and repayment of capital may now be well nigh Rs 15,000 crore per annum or possibly even more. With the GDP at around Rs 400,000 crore, the external debt repayment liability alone may be shaded under 4 per cent of the GDP.

Today we have a current account payments deficit of anything between 2.5 per cent and 3 per cent of the GDP. What we need is a surplus of something like 4 per cent of the GDP (if further aid is not taken into consideration). The IMF is likely to come up with a loan of \$ 2 billion immediately, and a further loan of some \$ 5 to 7 billion on liberalising the economy. The conditions

would be: (a) a sharp cut in the fiscal deficit of the government of India; (b) reduction of import duties and gradual lifting of all quantitative restrictions (QRs) on imports; and (c) privatisation of the economy, together with free inflow of foreign capital. The consortium countries give us a *gross* aid of around \$ 5 billion per annum, but much of it is 'tied' to purchases from the donor countries.

Two points need to be made at this juncture. First, after the recent curbs on imports, India had started (over the past few months) having a small surplus on merchandise trade account, the deficit in the balance of payments arising from (a) imports on government account especially of defence equipment and civilian aircraft, etc; and (b) debt repayment liability. Secondly, the sort of import curbs imposed through the RBI's policy on 'margin requirements' (for imports) are not really sustainable; it would have hurt our exports badly and what we really needed was a selective cut in imports and a boost to exports.

In the above context, the export-import policy recently announced by the commerce minister is really the type of policy that should have been announced, with a *moderate* (and flat) CCS rate. Was devaluation really necessary because: (a) government imports are 'autonomous', and really depend on government policy, including the extent to which we can depend on diplomacy to reduce a competitive arms race, and (b) a sharp devaluation is likely to turn the barter terms of trade against the country, and increase the external debt liability (in rupee terms) which implies that a larger percentage of our GDP would now be required to repay our external debt liability?

Reportedly, the further policy changes contemplated are removing diverse restrictions on the licensing system and allowing foreign firms to invest up to 51 per cent equity (other than for a short negative list). Of late, both our industrial licensing and import licensing systems had become highly complex, and their *simplification* has been a highly desirable objective. But, in regard to the induction of foreign capital, one needs

such capital only where we need technological upgradation, as in capital goods and basic intermediates, or in any area where foreign capital is intended for export production, that is, where there is a substantial net foreign exchange gain (as insisted on by China which has lately been obtaining foreign capital in the region of \$ 8 billion per annum, on the above stipulation, namely, that exports exceed all imports and remittances of profits and interest).

But the basic point that arises today is: what type of fiscal restructuring is in the offing, consequent on a large borrowing from the IMF/World Bank? Are we opening up the Indian economy in the interests of some 100 million affluent Indians? What is to be the policy for the rest of the 750 million? How do we restore productivity of the land in 70 per cent of the cultivated area dependent on dryland farming? How do we provide employment to the currently unemployed and underemployed population? How do we raise the level of education, health, skills, and the income of the hitherto depressed sections of society? Can we have an employment guarantee programme entrusted to the local panchayat bodies, through transfers via the states (for the 43 per cent of the people below the poverty line)? Such employment guarantee would be predicated on the minimum wage being payable for eight hours' physical labour? But the programme cannot be implemented without decentralisation, without massive devolution of both authority and funds from the centre. Such employment guarantee can be easily funded by cutting down diverse overt and covert subsidies calculated to help the more affluent sections of the population. (For example, the students in the IIMs and the IITs are subsidised to the tune of some Rs 1 lakh per student per year. There are lots of similar examples.) Can we reduce such subsidies in favour of a programme which would help to sustain the income of the poor, provide a minimum of education and health facilities, provide maternity and child care, provide for the supply of drinking water and a minimum of energy at affordable prices to all sections of the population? In short, what is the policy package that the finance minister has for reducing the fiscal deficit?

That is the fundamental task of restructuring the economy, namely, raising the productivity of the entire workforce. Inviting

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multinationals is not. We have had 100 per cent foreign investment (until FERA 1974) in tyres and tubes, in Firestone and Good-year—I am not mentioning, Cadbury, Colgate and Coca Cola—but did we get the latest technology in tyres and tubes? One could take hundreds of similar illustrations. Did we get any foreign technology for our nuclear and space programmes where we have made progress? When has our industry encouraged R and D and indigenous design engineering? Has the government done anything to follow up on its 1973 Technology Policy? The multinationals are in the business of making money for themselves and, depending on the tax structure of different countries, resort to 'transfer pricing' with headquarters located in tax havens. After all these years of experience of handling foreign capital, foreign aid, and the pressures of 'profit maximising' predators who want to make money through arbitrage and brokerage, how can our economic policy makers be so naive as to think that the Indian economy—steeped in lack of education, malnutrition and ill health, and labour laws (for organised labour) which parallel those of developed countries with no help or redress to the millions of unorganised workers—will become a haven for foreign capital?

As indicated earlier, what has happened has happened. The simplification of the trade regime and the industrial licensing system are long overdue reforms. They could have been initiated without IMF intervention. One can understand the rationale of a small loan from the IMF to bail us out of the trouble which commenced from around 1985. In fact, the external debt repayment liability of the country was 8 per cent of exports in 1980. It now exceeds 30 per cent. We need to resile from the policies that led to the present bankruptcy in external payments between 1985 and 1989, rather than have more of the same.

What we need today is to renew the faith of the people of this country. That faith can come only from self reliance. By the way, self reliance does not imply autarky, nor blind import substitution. It does mean, however, that the country should learn to live within its means. It means that domestic savings should be raised to the level of domestic investment. It could lead to the need for more of our politicians and businessmen travelling by train, rather than make frequent trips between Delhi and the state capitals by air. It implies that the distribution of income should be more egalitarian so that the thrust for development effort comes from the consumption demand of the masses. Pandering to the demands of the elite 100 million people who control the media is not likely to solve the problems of the country.

Most importantly, the protagonists of a large loan from the IMF should pause and consider how precisely a current account deficit of \$ 3 billion is likely to get converted into an equivalent surplus in about three to four years from today.

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NEW DELHI

Fund-Bank's Grand Design for India

BM

The World Bank-IMF strategy seems to be to create conditions in which India will be forced to default on its foreign payment obligations, albeit for a short period, before the purse-strings are loosened for the grant of credits. That way, it is expected, any residual reluctance to agree to the most damaging conditionalities will be wiped out.

THE Congress(I) minority government headed by P V Narasimha Rao has moved fast, indeed recklessly. All reservations on economic policy have been thrown overboard. It has proclaimed its readiness to abide abjectly by the World Bank-IMF prescription in embarking on the so-called structural adjustment programme.

Inducted into the union cabinet, in a surprise move, Manmohan Singh is showing extraordinary enthusiasm for the structural adjustment programme. This has won him plaudits from some media and academic circles. There is no doubt either that he is trying hard to fit quickly into the political frame in which he has now to operate. This is emphasised by his joining the queue to pay obeisance to Sonia Gandhi.

Manmohan Singh was rather impetuous after assuming charge as finance minister when he rejected the feasibility of the Congress(I) manifesto itself on the ticklish question of prices. He will obviously have to learn the hard way. That he is trying could be seen from the way he handled the devaluation of the rupee in two instalments within three days.

The Congress(I) manifesto had put the rolling back of the prices of essential commodities, in particular of diesel, kerosene, salt, edible oils, cycles and two-wheelers, electric bulbs, cotton sarees and dhoris, stoves, including smokeless chullahs, newsprint, post cards, inland letters and envelopes to the July 1990 level. This was to be the first great achievement within a short period of 100 days. Pranab Mukherjee, when he was still hopeful of taking charge of the finance ministry, had declared that rolling back prices with fiscal and administrative measures would be no problem at all. What he had hinted at was that taxes on the production, sale and purchase of the selected commodities would be withdrawn to bring down their prices for the consumer and penal action would take care of profiteering by the traders. This line on prices is what must have horrified the professional in Manmohan Singh. He could not conceive

of giving away revenue with a huge budget deficit on his hands and at the same time boost the demand for articles of current consumption, especially petroleum products, when there could be no immediate improvement in their supply through imports.

Manmohan Singh's stand on prices made sound economic sense. He had, of course, left it to the Congress(I) leadership to take care of the political-populist implications of his stand. The backlash from vocal party men he has had to endure must have taken him aback. But there are larger dimensions to the problem of prices from which Manmohan Singh has tried to divert attention.

The finance minister has not spelled out the measures he has said he has in mind which would bring down in a three-year period the annual rate of inflation from the double digit level to not more than 3 to 4 per cent. There is no doubt that the so-called 'structural adjustment' of the economy that is proposed to be brought about with the help of a large IMF loan of \$7 billion, which will finance liberal imports of inputs for production and assembly operations, combined with massive inflow of foreign capital will prove deflationary. But the implications of the design of growth and price stability which is being proposed to be adopted can be dangerous. Consumerism for the upper classes and austerity for the people is the formula for the management of prices under the proposed, foreign financed, structural adjustment of the Indian economy.

The situation on the prices front is indeed grim and is likely to worsen with the steep devaluation of the rupee, which is the first specific step taken towards the World Bank-IMF ordained structural adjustment. All factors which might help to maintain relative price stability, especially in the case of wage goods, have ceased to operate in recent years. The adverse impact of reckless deficit financing cannot be absorbed year after year without disturbing price stability. A tight balance

of payments position adds to the problem. Resources in foreign exchange cannot be deployed for liberal imports to augment supplies of consumption goods to hold the price line. The stocks in the hands of the public authorities are not providing an effective cushion against upward pressures on the prices of foodgrains, other farm commodities and wage goods generally. While procurement prices have been increased year after year, procurement this year is still not picking up. The insistent elitist demand on resources, which has been mindlessly encouraged by fiscal and monetary policies, has skewed the consumption, production and income pattern both in urban and rural areas. The deflationary impact of the bumper crops has not, therefore, been as enduring as it could have been in response to sound economic policy and management. The response of the industrial sector to the demand generated by upswing in farm production has not been such as to augment the supplies of wage goods. Industry has concentrated on production of goods of elitist interest which fetch large profits. All this has strengthened inflationary pressures in the economy. The result is that the position of the majority of the population has worsened in spite of the relatively high growth rate of the economy and big business traders, speculators, blackmoney operators and those fattening on corruption in the political and administrative machine have monopolised all the gains of growth. The profit margins not only of the producers but also of the traders have been allowed to swell in the system of free play of market forces within the framework of official economic policy and the philosophy of liberalisation and profit-maximisation.

For restoring price stability in meaningful economic and social terms, the need is to curb the draft on resources made by elitist demands and step up investment to augment essential supplies in the economy. It is necessary to curb wasteful expenditure of all kinds, including on the military build-up in a vain effort to assert regional hegemony and seek international recognition on that basis. The so-called liberalisation policy pursued with gusto in the eighties has pushed India towards internal and external debt traps, even as economic growth has been linked to effective, elitist demand in the market rather than the satisfaction of the essential needs of the mass of the people. The path to price stability based on a socially broad-based and equitable growth process cannot, be by way of a market-oriented liberalisation policy financed by conditionality-linked IMF loans and assuring profit-maximisation

opportunities to foreign investment and Indian business interests associated with this investment. What is needed is mobilisation of domestic resources, human and material, for planned development under a socially meaningful and economically sound order of priorities. The devaluation of the rupee by between 18 and 20 per cent has in these conditions set the course so far as the official economic policy orientation is concerned.

The present devaluation may indeed turn out to be far more ominous than the devaluation under a fixed exchange rate regime a quarter century ago. It was in the mid eighties after careful and calculated preparation, that the World Bank IMI combine, working in tandem with the GATT which was preparing for the launching of the Uruguay round of trade negotiations, had drawn up for India a 10 year programme of structural adjustment in which steep and continuing devaluation of the rupee was given a prominent place. The then government of India was invited to implement this programme and complete it by the mid nineties. Generous financial backing was assured for the purpose. This is what the shrill cry of ushering in the 21st century was all about. The devaluation of the rupee now announced represents a giant step forward in that direction. The ouster of the Congress(I) from power in 1989 had created some problems in the way of the smooth working out of the programme. But on its return to power, though with a much reduced strength in parliament and authority among the people, the Congress(I) leadership appears to be anxious to complete its obligation to the international financial institutions in the remaining three years as originally stipulated by the World Bank IMI combine. The minority government headed by P V Narasimha Rao has found itself under such a squeeze that it has been compelled to take the politically most obnoxious of measures, namely devaluation of the rupee well before the presentation of the budget for 1991-92 embodying the conditionalities attached by the IMI to the loan which is being negotiated in support of the World Bank IMI programme of structural adjustment.

It is really pathetic that both the prime minister and the finance minister have made statements that the IMI had nothing to do with the devaluation of the rupee and that the devaluation had been decided upon by the Reserve Bank of India in the normal course of adjustment of the exchange rate of the rupee. The fact, however, is stark that the scale of the devaluation is much too large for it to be a normal depreciation. The devaluation has come in the wake of the continuous depreciation of the rupee under the floating exchange rate system. The first

two instalments of devaluation should be expected to be followed in the normal course once again by continuing depreciation so that the exchange rate of the rupee is fully market related. The World Bank-IMI side seems to be fully enjoying the spectacle that India is presenting as a supplicant for foreign credits. "There were no instructions to the Indian authorities to adjust the value of the rupee", an IMF spokesman is reported to have said cheekily. Mark the word 'instructions' used by him. A World Bank spokesman has, however, said that "we have sent a detailed programme to New Delhi for immediate action, prior to the passing of the budget. Further help to India would depend on the progress of the reform programme". The World Bank does not ask for a specific rate of devaluation he added generously. What is being attempted is to create conditions where India will be forced to default on foreign payments, albeit for a few days or weeks, before the purse strings for the grant of credits are loosened in advance of the signing of the big IMI structural adjustment loan.

All this evidently, is to ensure that conditionalities attached to the IMI loan arrangements are scrupulously and energetically implemented within the stipulated time frame, unlike in the past when broad guidelines were laid down and the performance of the debtor watched. The tentacles of the conditionalities are spread out far and wide so that not only policy but also administrative and management decisions have to be subject to World Bank IMI surveillance and approval. Witness, for instance, the directions that have been given to restructure the ONGC and the financial institutions.

The immediate upshot will be a sharp increase in the rupee cost of imports as well as servicing of old loans. It will be necessary at the same time to export more in volume terms to fetch the same value in terms of foreign exchange. The pressure on prices in the domestic markets will thus increase. There will be no easing of pressure on exchange reserves either so that dependence on foreign credits to manage payments to foreign suppliers of goods, services and capital will increase. The position is so difficult that the two loans taken from the IMI in February have already been exhausted. At this rate a loan of even \$7 billion will not be an adequate cushion to ease the payments position for more than 15 months, especially under a regime of import liberalisation, except by way of financing of imports by commercial credits from different sources. India's vulnerability on the balance of payments front can therefore, become still more glaring.

India now is faced with only two options. One is the acceptance of the World Bank IMI line which will shift the burden

of the development process on to the poor while sacrificing the economic and political sovereignty of the country and, in the process, completely subvert the ability of the system to find an independent alternative. The other, as a group of left economists have pointed out, is to build on whatever little room for manoeuvre is left and move towards a more egalitarian social order that preserves the economic and political sovereignty of the country. The issues and alternatives have to be squarely faced and must not be allowed to be obfuscated by ignoring the specifics of the current economic situation, including the payments crisis. There is need to blow away the myth of horizontal diffusion of technology imported on a continuing basis when it is closely tied to direct foreign investment and collaboration arrangements with comprador Indian business interests to enhance import-intensity of the production structure. There is hardly any scope under such a dispensation for taking advantage of the international division of labour except in so far as it is based on adverse terms of trade. What is prescribed by international creditors for India is the enlargement of the running tribute to be paid by its deprived masses to maximise returns for foreign investment and satisfy the elitist demand of a small segment of the population under a neo colonial dispensation. It is a pity that in recent years even as there has arisen a strong comprador class of big business which is committed to operate within the neo colonial dependency, a large section of Indian intellectuals and professionals have also chosen to toe this line and embellish it with convoluted reasoning.

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Lok Sabha Elections and Communalisation of Politics

Asghar Ali Engineer

The blatant, and successful, use of communalism by the BJP in the 1991 elections has to be seen against the background of the use of the communal card by the Congress(I) leaders themselves for their survival in power.

THE 1991 Lok Sabha elections were unique in more ways than one. Firstly, they were held within two years of the previous elections held in November 1989. Secondly, they were in fact precipitated not merely by the withdrawal of support for the Chandra Shekhar government by the Congress(I) but in fact, because of the withdrawal of support by the BJP for the V P Singh government on the Ram Janmabhoomi-Babri masjid controversy in October 1990. This needs to be emphasised because a democratically elected government fell not on a major national issue but on a sectarian religious issue and the BJP saw in this unfortunate controversy a unique chance to come to power. The natural corollary of this unfortunate controversy was the unparalleled communalisation of Indian polity in the post independence period. This communalisation nearly shook the very foundation of Indian secularism. Also, the masjid controversy should be seen not only in its immediate context of implementation of Mandal Commission Report in August 1990 but also in the earlier context beginning from the early eighties. As such the danger of communalisation of Indian polity has always been present in Indian society but it assumed more serious proportions when the Congress(I) leaders themselves began to play the communal card for their survival in power. Indira Gandhi's confidence that she would come to power on her own or her party's merit had been shaken after the Emergency. Muslims and dalits, her traditional supporters had been alienated from her leadership. She began to search for support elsewhere and found it in the politically emerging Hindu middle castes. First she used the Meenakshipuram conversions in 1981 and the political storm it raised to win Hindu support. She also cleverly manipulated the Punjab problem and fully exploited the concern generated among the average Hindus by the militancy shown by Bhindranwale. The Blue Star Operation contributed in its own way in further communalising Indian polity. Rajiv Gandhi also opened his regime with the communal holocaust under his very nose in Delhi in which hundreds of Sikhs perished. He also gave in to Muslim fundamentalists by changing the law on Muslim women and also tried to please Hindu fundamentalists by allowing the

'shilanyas' ceremony in Ayodhya.

This background of events is necessary to understand the recent developments leading to the most blatant use of communalism by the BJP in 1991 elections. When the Congress party resorted to the Hindu card to survive in political power, the BJP felt threatened on its own ground. Until then the Congress had depended on the Muslim and dalit support and BJP on some middle caste Hindus like Baniyas in urban areas. While the Congress used to talk about secularism and protection of minorities and dalits the then Jan Sangh and its later incarnation BJP carried on propaganda for the Hindu interests and there was, in a way, a division of votes among these parties. However, this apple cart was upset when Indira Gandhi and later Rajiv Gandhi began to encroach upon the traditional BJP votes. This competition for the Hindu votes resulted in competitive communalism between the two major parties.

Whereas for the Congress(I), traditionally a secular party, there were limits to resorting to the communal card, the BJP as it was professedly a Hindu party did not shy away from using Hindu interests. Thus pitted against the Congress(I) on the same grounds the BJP had to make its propaganda sharper and woo more Hindu castes. Thus it would be no exaggeration to say that it was use of the Hindu card by the Congress(I) that compelled the BJP to resort to more blatant form of communalism and to cast its political net much wider. Also, it tasted more power in 1989 elections by increasing its strength in Lok Sabha from two to 48 with the support of the Janata Dal. This was a tremendous boost for it. But its dream seemed to be shattering with the implementation of Mandal Commission Report in August 1990.

The BJP in response to the challenges posed by the Congress(I), had cast its net wider and tried to bring various castes under its political domain. It had used the Ram Janmabhoomi controversy as a powerful religious symbol to create a sense of unity among the divergent Hindu castes and it had succeeded in this venture to some extent. Many Hindus often complain that whereas minorities like the Muslims, Sikhs and Christians are united the Hindus are not. Hinduism was thus sought to be sanctified. But this was a

frustrating exercise as the caste hierarchy was the most powerful obstacle in the way of unity. The BJP used Ram as a symbol to rally round all the castes under its banner. It used all sorts of devices for this, it drew up a plan to construct Ram mandir where the Babri mosque stands today, then it gave a call for donation of bricks from all five lakh villages of India, then it drew up plans to take out these donated bricks in the form of processions from villages, towns and cities and it also planned, with the help of the Vishwa Hindu Parishad, to mobilise lakhs of 'kar sevaks' on an auspicious day fixed by Dharm Sammelan in Hardwar.

Thus all possible means were employed by the BJP to strengthen and consolidate its Hindu constituency. But all this was suddenly being brought to naught by the implementation of the Mandal Commission report by V P Singh. The BJP's gameplan for further increasing its strength in the Lok Sabha if not capture actual power at the centre was thus foiled. Hence L K Advani's Rath Yatra in the third week of August 1990. The rath, mounted on a Toyota truck carried the BJP party symbol most prominently thus making BJP's political intention unmistakably clear. Other parties strongly objected to such gross exploitation of religion for political purposes but Advani quietly ignored such objections and protestations. He repeatedly claimed that the 'rathayatra' was undertaken to strengthen national unity and that it is wrong to say that it caused communal bloodshed and claimed that not a single riot took place on its route and that he in all his speeches pleaded for caution and moderation. These claims can hardly stand scrutiny. Firstly, no religious figure, however revered, he may be, can be claimed to symbolise national unity, specially in a multi religious nation like India. If a religious symbol of one religious community is used, other religious communities would but resent it.

Secondly, it is far from true that the rathayatra did not cause communal bloodshed. It would only be indulging in technicalities to claim that no riot took place along the route of the yatra. The yatra evoked very militant religious sentiments among the Hindus and there was a show of unprecedented aggressiveness by the cadres of the BJP, VHP, Bharat Dal and the Shiv Sena in different places and communal violence broke out in number of places in Gujarat, Karnataka, Andhra Pradesh, UP and Bihar. And after the arrest of Advani in Bihar on October 23 all hell broke loose in Jaipur, Jodhpur, Ahmedabad, Bhopal, Hyderabad and several other places in which hundreds of innocent people perished and properties worth crores of rupees destroyed or looted. In Jaipur which otherwise had a unique record of communal peace more than 130 persons died in the last week of



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October 1990. When the 'yatra' began from Dwarka in Gujarat, a bowl of blood was offered to Advani, his head smeared with blood and hundreds of trishuls and swords loaded on the rath. Minorities could only hold their breath anxiously.

Though the Congress, the Janata Dal and BJP itself published manifestos raising important issues like poverty, unemployment, price rise, economic development, etc., the Ram Janmabhoomi issue was looming large on India's political horizon. The BJP was bent upon exploiting it for its electoral success. It launched a propaganda blitz on these lines. Even though in the meanwhile the Bombay High Court judgment came unseating the Shiv Sena MLAs for having used religious appeal for soliciting votes, it hardly sobered down BJP and the Shiv Sena. Other strategies were drawn up and posters showing Ram mandir and using slogans for Ram Janmabhoomi were now printed in the name of Vishwa Hindu Parishad claiming that it was a separate and non-political organisation. However, it could hardly deceive anyone. The message was loud and clear. Also, the BJP was flush with funds during this election. Its propaganda blitz left even the Congress far behind. Apart from VHP's contributions, it was far easier for the BJP to mobilise funds this time. The bourgeois as well as the petty bourgeois poured money into the BJP election kitty not only because of devotion to Ram but also because of the perception that the party was bound to emerge much stronger in the election. The BJP leadership was also exuding confidence.

There was one more reason for exploiting Ram Janmabhoomi issue to the hilt during this election. The BJP can hardly compete with other political parties as far as secular issues are concerned. It is too far to the right to appeal to the masses as far as its economic programme is concerned. Moreover, it is always under pressure from traders not to advocate radical economic policies and even if it does as a tactical move, the left parties, the JD and the Congress can do so more convincingly. Also, it can never carry conviction with the Muslims, other minorities and dalits even if it makes a mild attempt to woo them.

Thus the only alternative left for it was to exploit religious sentiments of Hindus. The Ram Janmabhoomi controversy came as a political gift from the Congress. It was this controversy which enabled the BJP to penetrate rural areas. It no longer remained the party of banyas in urban areas.

It is really ironical that the leaders of Jan Sangh and then BJP often used to exhort Muslims for being fanatics and for mixing religion with politics. There was great deal of truth in this specially in pre-independence India when the Muslim League, under the leadership of Jinnah,

used religion with vengeance to win 'homeland for Muslims'. In post-independence India the Muslims as a minority soon realised the value of secularism and gave up, in their own interest, communal forms of politics though there were some exceptions to this rule. They voted, by and large for secular parties, chiefly the Congress. And whenever there was anti-Congress wave in the country, they voted, along with others for other parties like the Janata party in 1977 and Janata Dal in 1989 and again in the 10th Lok Sabha elections. But in the last elections the pattern of Muslim voting was more complex. The Muslim leadership, it must be noted, did great damage to the Muslim cause by exhibiting religious militancy during that phase in as much as it further strengthened Hindu communalism. Also, on the Babri Masjid issue, a section of Muslim leadership manifested rigid position and gave a call for a march to Ayodhya to offer Friday prayer there. The then president of Babri Masjid Action Committee Shahabuddin urged Muslims to boycott government functions on Republic Day. This too was wrong morally, strategically and politically. It was exploited by the BJP leaders. Except in these instances the Muslims have not shown organised religious militancy in post-independence India. Yet they come in for strong criticism for mixing religion with politics and manifesting religious fanaticism. Such propaganda had great political value for the BJP as it could convince Hindus that they have no other way but to retaliate in the same manner.

The BJP apart from Ram Janmabhoomi controversy used two other things to gain political legitimacy among the middle and upper caste Hindus: the non-organised nature of Hinduism and the concept of pseudo secularism. Both these paid rich dividends to the BJP in terms of votes, specially in the urban areas. It is necessary to examine both these concepts. It is maintained not only by the BJP but by many other well-meaning Hindus that semitic religions like Christianity and Islam are not only highly organised religions but are also closed theologically and encourage dogmatism and fanaticism. Hinduism, on the other hand, is neither an organised religion nor does it encourage dogmatism, much less fanaticism.

However, such sweeping statements do not make much social sense. Religion cannot be seen in isolation from society. Fanaticism and liberalism are more of social rather than religious phenomenon. It is social conditions which raise or lower degree of fanaticism and not religion *per se*. A religious community (other communities, cultural, regional or linguistic too) tends to be liberal, progressive and non-dogmatic if materially it is prospering, making economic gains, is confident

of itself and has a sense of security. However, it tends to be intolerant, dogmatic and even fanatic if it is passing through a low ebb, losing its privileges or is threatened with the loss of privileges it is enjoying (though it may be in control of the commanding heights of economy) and develops a sense of insecurity. Such dogmatism and fanaticism is also experienced in a political sense during revolutionary period also.

The fanaticism and militancy among a section of Hindus, especially among upper castes in urban areas on the Ram Janmabhoomi Babri Masjid controversy, can be understood only if seen in the above perspective. Though the upper caste Hindus command economic heights, political power and key government jobs, today they perceive threats to their privileges from dalits and backward castes on one hand and Muslims, Sikhs and other minorities, on the other. These upper caste Hindus, therefore, have begun to feel that their liberalism is proving to be their weakness and Muslims, Sikhs and Christians are highly organised and militant and are hence able to exert pressure on the political system. They therefore feel that they too should become organised, dogmatic and militant. Thus it was not Ram but threats to their own privileges which made them and their Hinduism so militant. It is their militancy which mobilised sadhus and religious leaders of various Hindu sects on such a gigantic scale never seen before in the modern history of Hinduism. In fact in number of constituencies in UP the sadhus who were never involved in politics earlier campaigned for the BJP candidates. We thus witnessed unprecedented use of religion for political purposes by these upper caste Hindus. The Shiv Sena and VHP even distributed trishuls in Bombay and elsewhere during election campaign.

The BJP also very aggressively carried on propaganda about what it called the pseudo secularism of the Congress, Janata Dal and the Communist parties. It maintained that these pseudo secularists were following the policy of appeasement of minorities in order to exploit them as their vote banks. This propaganda too had great appeal for middle class Hindus in urban areas. The media also gave it at publicity to these views. It is unfortunate that in major dailies Advani's interviews and statements talking about pseudo secularism appeared every now and then during the election campaign but no serious articles analysing the hollowness of Advani's pseudo secularism ever did. Advani intended to send strong political signals to Muslims and other minorities that they must live in this country on terms dictated by the Hindus.

According to Advani Nehru's pseudo secularism did not protect the Hindu in

terests. It only took care of minority interests. India could be a genuinely secular country only if it opted to be a Hindu Rashtra and only if Hindus could be genuinely secular, all others were either communal or pseudo-secular. They did not even see the obvious contradiction in terms like 'Hindu secularism', 'Muslim secularism', etc. Secularism must be understood in its own terms. It cannot be hooked to any religion or religious community in order to be genuine. But this is what precisely the BJP leaders did.

Appeasement of minorities, on closer examination, is also found to be hollow. All that Advani is able to cite, to prove 'appeasement' of Muslims, is that Muslims are allowed to practise their personal law under which they can marry four wives. The Hindus, on the other hand, have to be content with one wife alone. In the modern world with women becoming more and more conscious of their rights, even bigamy, let alone polygamy, is becoming more and more problematic to practise. A number of surveys have also established that it is much less prevalent among Muslims than among Hindus, though among Hindus it is done illegally. Muslim personal law has been permitted not so much for the appeasement of Muslims as to respect their religious sensibility and sense of security. The world over minorities are allowed certain measures—though they may be socially outdated—in order to give them a sense of security and religious identity. Many changes are overdue but they must be brought about in a persuasive rather than coercive way. The former course can be politically less problematic for a democratic society. Social changes can be hardly imposed from above.

As for Muslims being vote banks for a party, each political party tries to create its own vote banks. If the Congress or lately the Janata Dal tried to treat Muslims as a vote bank, the BJP tried hard to create, among upper caste Hindus, its own vote bank. This is a sort of political tactics each party has to follow in order to win. Some parties may have treated Muslims as vote banks or Muslim leadership may also have traded with this or that party to sell Muslim votes, but Muslim masses have voted quite intelligently both in keeping with their interests as well as country's interests as a whole. If they voted for Congress others were also voting for the Congress in the country. If others voted for the Janata party or Janata Dal during anti Congress waves, Muslims also voted for the Janata party and the Janata Dal respectively in 1977 and 1989 when anti Congress waves prevailed. Some Muslim leaders like the Shahi Imam do try to sell Muslim votes to this or that party which must be strongly condemned. Even the BJP leader Atal

Behari Vajpayee tried to woo the Shahi Imam in 1977 to campaign for the Janata party. But it should be borne in mind that Muslim masses vote according to their own perception of the situation and not because the Shahi Imam tells them to vote for a particular party.

In the 1991 elections the Imam had appealed to the Muslims to vote for Janata Dal. This appeal was quite superfluous as the Muslims were already determined to vote for Janata Dal in general. But this determination was also qualified. Their main intention was to defeat the BJP even if they had to vote for the Congress or any other secular party. The election results do not bear out that they blindly voted for the Janata Dal. In certain constituencies like the Rampur in UP the BJP won because Muslim votes were divided among the Janata Dal, BJP and the Congress(I). In Rampur, Muslim voters were 47 per cent and yet because of this division among three parties the BJP candidate could win. In Domariaganj constituency in UP Mohsina Kidwai, a senior Congress(I) leader, and Seema Mustafa, a BJP candidate were contesting. In this constituency though the Muslims were 35 per cent of the electorate, their votes got divided and the BJP won. In Bahampur too the BJP won because the Muslim votes though considerable, were divided among the BJP, Congress and the Janata Dal.

In Assam, Muslims are 26 per cent of the electorate and they wield considerable political clout. In the last assembly elections they had voted mostly for the Muslim front and it had won 30 seats. However, this time they nearly ignored the Muslim front and voted for the Congress(I) which could win a large number of seats and gained majority. The front got very few seats. In West Bengal the Muslims voted by and large for the left front. Even in those constituencies where the left front was pitted against the Congress(I) Muslim candidates, the Muslims ignored Congress and voted the left front.

In Bihar of course, the Muslims massively voted for the Janata Dal and its allies as a result of which the Congress(I) had to face ignominious defeat. In this state even political greenhorns who contested on the JD ticket won against the senior Congress(I) leaders. In Darbhanga Ali Ashraf Latif, a political novice defeated Nagendra Nath, a senior Congressman with a margin of 1,47,000 votes. In Kishanganj, Syed Shahabuddin won with 80,000 votes defeating M J Akbar, sitting MP of the Congress(I).

All this shows that it is wrong to say that Muslims are a vote bank for a particular party as alleged by the BJP in its election propaganda and this also shows that Muslims do not vote on orders from leaders like the Shahi Imam who trade in

their votes. Also, the massive victory of the BJP in UP shows that the ruling party should not completely identify itself with any minority or any other religious community. The militant advocacy of 'secularism' by Mulayam Singh Yadav only did harm to the cause of secularism and the cause of minorities. It produced strong reaction in the Hindu minds. Of course there are other factors which are no less important for the defeat of the BJP and the Congress(I) but militant advocacy of secularism and using secularism, not as a political philosophy but for partisan ends can become counter productive. Both the BJP and the Congress(I) which supported the Mulayam Singh Yadav government were wiped out in the Lok Sabha elections and got only a limited number of seats in the assembly elections.

Another important lesson to be drawn from this election is that it is extremely dangerous for the unity and integrity of the country to play communal politics as the BJP did. The BJP in this election not only threw caution to the winds, it deliberately, with an intention to capture power, weakened religious tolerance and raised to white heat the communal temperature in the country.

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Modern History and Unmodern Minds

G P Deshpande

In Maharashtra today you cannot be critical of Phule or Shahu Maharaj or Ambedkar without being subjected to mob fury. If this continues, it will not be long before we are back to Peshwai consciousness—and we will be doing so not in the name of Brahmin orthodoxy but in the names of the best minds that the non-Brahmin movement has produced in Maharashtra

IN western India there are two beautiful railway stations apart, of course, from the Victoria Terminus of Bombay. One of them is the Pune railway station. One should perhaps say 'was' because the Central Railway has done two rather obscene things to it. All Marathi instructions and boards have been removed and Hindi ones imposed on the unsuspecting people of Pune. The other obscene thing which is even more offensive to the eye is the colour scheme employed in painting the station building. The earlier look of the station was far more satisfying. But fortunately the north Indian dominated Central Railway could do precious little to damage the building itself. The other beautiful little station is that of Kolhapur. The Miraj-Kolhapur railway completed its hundred years this year. The first train from Miraj to Kolhapur left on April 20, 1891. The then governor of Bombay Lord Harris showed the green flag to the train and also travelled on it. Quite contrary to the practice of our democratic republic, the invitation to a special function in Kolhapur three years earlier (to be precise on May 3, 1888) to launch the construction of the railway had specifically stated that all speeches would be in Marathi. Our non-Brahmin bureaucrats (of the Central and the South Central Railway) and, of course, the Hindu nationalists (these days it is not easy to tell the difference, if we go by the exodus of retired civil servants to the BJP) have little use for Indian languages. For them English and Hindi alone matter. Anyway, the reason of this special emphasis on Marathi speeches must have been the doing of Kolhapur's then Raja, a young man in his teens, Shahu Maharaj who, unlike our present rulers, did understand the importance of people's languages. The British understood it no less. In fact at the Miraj railway station you can still see a huge board on which instructions in Marathi were inscribed and the South Central Railway has painted Hindi instructions on top of them! Shahu Maharaj would certainly have protested against this if the

1888 notice is any guide.

This detour via the railways was made essentially to talk about Shahu Maharaj who understood that the railways are an essential pre-requisite of modernity. Hence he launched the Kolhapur State Railway in 1888 and the first train left Miraj on April 20, 1891. This centenary is also related in a way, to Phule's death centenary (1990) and, of course, Ambedkar's birth centenary. Shahu Maharaj like the other two, was a modern man who believed that the Kunbis (peasant castes now generally described as Marathas) should be introduced to 'modernism' if they had to survive the competition with the Brahmins. The role of Shahu Maharaj in the modernising process of the Maharashtrian mind cannot be denied.

There are any number of scholars who recognise the modernism of Shahu Maharaj. There has been valuable work on his contribution to the modernisation of Maharashtra in the late 19th and the early 20th century. Most of it is in Marathi. The present writer does not know if a critical and biographical survey of Shahu Maharaj exists in English. But he would not be surprised if there were none. As usual one may have to wait for some American or English historian's work to generate some interest in the man as far as our modern historical scholarship in this country is concerned.

But that is not the only problem about Shahu Maharaj. In the last couple of decades Maharashtra's modern history has been subjected to increasing deification. Ambedkar has been made into a Bodhisattva. Gandhi was called a Mahatma but both during his lifetime and after he could be and was attacked mercilessly. There are hardly any political activists and intellectuals in Maharashtra today who would be unanointed Gandhians or Tilakites or Ranadeites. A recent book (in Marathi) on Ranade described him as *vrat jant* (the scholar extraordinary) but did not in any way deify him. But that must be one of the last few efforts which

do not turn their subjects into some kind of divinities. Some thing similar is happening to Shahu Maharaj. When personalities are turned into divinities no critique is possible, no critical assessment is possible. It is not recognised that great people have their limitations. But to talk of limitations is blasphemy! To borrow Hanna Arendt's words, said in a different context, the stage when "we are prepared to meet" the personalities "head on, without any preconceived system" has not been reached in our country. We do not seem to notice that there is a difference between being great and being infallible. Because our idolatry does not let us do it, may be.

Anyway, that is what has happened to Shahu Maharaj as the editorial board of the *Maharashtra State Gazetteers* was ruefully to discover. It was the Kolhapur Corporation elections which did it. There is a historical reason for going back to this issue. Bal Thackeray's father was a social reformer, editor of a journal called *Prabodhan* (Enlightenment) and one of the latter day luminaries of the anti-Brahmin movement in Maharashtra. Shahu Maharaj was one of the early leaders of the same. Bal Thackeray's present would make his past quite incredible. But it is not exactly his past. He has merely erected his father's statue near the Portuguese Church in Dadar in Bombay. He obviously has very little to do with his antiquity and ancestry. But Shahu Maharaj was a leader of the anti-Brahmin movement in southern Maharashtra. It is useful to remember that.

Sharad Pawar's government has launched a scheme under which revised versions of the *District Gazetteers* are being published in Marathi. Under that scheme a competent editorial committee made up of leading scholars and academics was appointed to supervise the publication of these volumes. This editorial committee consisted, among others, of the following people: Y. M. Pathan (retired professor of Marathi in Marathwada University and former president of the Marathi Sahitya Sammelan), D. B. Karnik (retired editor of the *Maharashtra Times*), A. P. Zamkhedkar (director of the Maharashtra State Department of Archaeology) and B. L. Bhole (teacher of political science, Nagpur University). K. K. Chowdhary, himself a historian, bureaucrat and secretary to the department, prepared the volume which was referred to the committee mentioned above. R. C. Anvyar was its chairman. This volume runs into 750 pages of which 88 pages (pp. 33 to 121) are devoted to the history of Kolhapur district.

The first edition of the *Kolhapur State Gazetteer* was published in 1886. The second edition, Kolhapur had become a district by now, was published in 1960.

Three decades later the state government decided to publish the third edition. The editor and the committee made every effort to incorporate the new material which has been available since 1960. The author of the *Gazetteer* K K Chowdhary, says in his introduction:

It is sixty-six years since Shahu Maharaj died. Now it is possible to see his contributions to history as also his limitations. This essay is not a biography of Shahu Maharaj. It is an essay in non-partisan history. History by definition involves objectivity, impartiality and a critical view. In our assessment of Shahu we have used three volumes of his correspondence published by the Shahu Maharaj Research Centre of the Kolhapur University, his speeches, the memories of Shahu collected by Prabodhankar Thackeray [Bal Thackeray's father mentioned above] and other recent work. (Translated from Marathi by the present author. Translation tentative.)

It is easy to see that K K Chowdhary has gone about his job quite professionally. There is not a single statement in that account which is not documented. Nor is there any part of the 88 pages which can be accused of not observing the basic rules of historiography. In any case, to attribute any prejudice to K K Chowdhary or the editorial committee is simply ignorance at best or casteism at worst.

Out of the 88 pages devoted to the history of Kolhapur district about half relate to the modern period. Out of that the material on Shahu Maharaj comprises no more than 20 pages. The book dwells at some length on and refutes the charge that Shahu Maharaj was a Brahmin-baiter. There is a rather generous account of what he did for the downtrodden and the backward castes. In fact the account opens with the following words (p 77):

The modern period in the history of Kolhapur begins with the reign of Shahu Maharaj. There can be no doubt about that. Nobody can deny that Shahu Maharaj was one of those great people who were harbingers of the modern age in Maharashtra under the British rule. As Maharsi Shinde pointed out, "Shahu Maharaj constituted one of those natural waves which contact with the west inevitably produced in (the otherwise placid waters of) Maharashtra". He was one of those rare kings who had a passionate concern for the upliftment of the poor and the downtrodden. He was a king and at the same time a fighter in the vanguard of social reform (aimed at the lower castes). (Translation from Marathi by the present author. Translation tentative.)

Why did such an account create a storm then as it indeed did towards the end of the last year? Now that the dust has settled it has become important to take a fresh look at the controversy.

The historical account pays all the tributes to Shahu Maharaj and then goes on to add that Shahu Maharaj was pro-British and that he collaborated with the British in supplying information to the

governor of Bombay about the activities of the extremist-nationalists. The author has cited all the relevant data on the subject, including the correspondence between Shahu Maharaj and the then governor of Bombay. No statement in this book has been made without adequate documentation and neither is this statement. Shahu Maharaj did play a collaborationist role. The book cites this as the limitation of the man and even says that it was inevitable in view of the supremacy of the British power. Shahu would not have remained maharaj (king) of Kolhapur had he refused to play that role.

All hell broke loose in Kolhapur when a couple of Marathi dailies from Kolhapur saw, conveniently on the eve of the corporation elections, in this account a wilful maligning of the revered maharaj. This led to a 'bandh' in the city. The culture minister, Arun Gujarathi, who probably had neither seen nor read the volume, announced the scrapping of the editorial board in the state legislative council and the withdrawal of all copies of the book from circulation. Chief minister Pawar was caught in an impossible situation. Evidently Gujarathi's announcement came as a surprise even to him. He therefore went on to defend his minister and the government in the most unconvincing manner. He even claimed, without any basis of course, that the editorial committee had been given a chance to defend itself. As if this was not enough, the hysterical members of the legislative council wanted a privilege motion moved against B L Bhole who had issued a public statement questioning the propriety of the legislative council and Gujarathi deciding that the editorial committee be scrapped. Fortunately the chairman of the legislative council disallowed that.

The embarrassed chief minister tried to retrace his steps by announcing in the *Maharashtra Times* (the Marathi daily of the *Times of India* group) that "the disputed" paragraph in the historical account of Kolhapur district would be omitted in the re-issue. He further reassured his readers that the editorial committee had not been scrapped. This should in his view close the controversy. It did not quite do that. In a letter to the editor of the same daily, B L Bhole raised the issue that a statement made in the council cannot be gone back on with impunity. It would amount to breach of privilege. Bhole's suggestion clearly amounted to saying that either the chief minister or Gujarathi himself would have to retract the latter's statement in the council. Only then would the controversy be treated as closed.

The Kolhapur railway station which launched the eventful and progressive career of a people's maharaja reminded us of the unseemly controversy. Nobody

wants to correct the initial error of the government. The only fault that can be found with the writing on Shahu Maharaj is one of interpretation. The editors have decided to 'explain' away Shahu Maharaj's collaboration with the British as his limitation. One is not so certain about that. Shahu believed in the 'progressive' role of the British empire. It should be possible now to take a more generous view of his collaboration. Recently Phule had also been attacked for a 'pro-imperialist' stance. The real issue therefore is to define and articulate the attitude towards the empire that some of the social reformers displayed. After all, Shahu did not collaborate with the British to give himself time and leisure to go hunting as many chiefs of princely states were doing during those days. Shahu Maharaj (like Phule perhaps), unaware of the patterns of dominance and exploitation inherent in imperialism, decided, and did so quite consciously, to use it to carve out a place in the sun for the lower castes. In other words, it was a conscious decision. This 'collaboration' was different from that of the princes of Rajputana. The editorial committee fails to make the point. It should have done it.

But to say that is, and would have been, legitimate inasmuch as it would have started an academic debate. Nobody was interested in that. Hence no such questions have been raised about the writing of history in the *Kolhapur Gazetteer*. Not only that nobody has done it, but what is worse is that the entire debate has been conducted in hysterical terms. The chief minister should have made it plain that there was no maligning of Shahu in the writing of the history section of the *Gazetteer*. Such charges amount to approaching modern history with unmodern minds.

This is not an issue on which 'bandhs' are in order. The chief minister cannot and should not treat academic-historians with such contempt. As one Marathi paper put it, populist pen-pushers might well be hired for writing history rather than academics. There is also a bigger issue involved. Is modern history now out of bounds in the land of the Marathas? Tilak was critical of Gokhale all his life but did not lose his sense of history in the process. When Gokhale died, easily the best contemporary assessment of the man was written by *Kesari*, i.e., by Lokamanya Tilak.

There is an erosion of the values of academic integrity in Maharashtra today. Its partially because any number of subjects are being subjected to mob fury. You cannot be critical of Phule or of Shahu Maharaj or of Ambedkar. This is a dangerous situation. We are systematically destroying the 'modern' elements in our life and culture. The controversy, largely

silly and hysterical, on the history of Kolhapur is one example of that. Sharad Pawar, playing his political cards well, has done what almost any chief minister would have done. In that sense it is *not* a question of how the state interferes with the process of writing history. It is a question of the overall climate that we have built in this country in general and in Maharashtra in particular.

The land of Phule and Shahu Maharaj is falling back to medieval times. It is going to require a bigger and wider movement to fight the unmodernity of it all.

One can only hope that some people in Sharad Pawar's conclave are able to see that the project of modernity is jeopardised, almost threatened. If they don't, it would not be very long before we are back to Peshwai (the Peshwa period of Maratha history) consciousness, except that we would do so not in the name of Brahmin orthodoxy but in the names of the best minds that the non-Brahmin movement produced in Maharashtra. In short, we shall be reading our modern history with unmodern minds. The state must intervene to stop that.

ruption present at every stage in the Calcutta Corporation. As per the admission of the West Bengal government (in the assembly) some 5,000 illegal constructions have come up in the last 10 years in Calcutta.

Over 50 per cent. of the residents of Calcutta dwell in the 'bastis'. The housing problem of the middle class and the lower middle class is also worsening by the day. For their survival people are compelled to invest money in illegal constructions. Through its demolition programme the corporation is making tenant slum dwellers homeless. People who have used up the savings of two/three generations to construct a place to live in are becoming penniless because of the programme of demolition of the corporation. When asked by the journalists of some leading newspapers as to why they were going in for illegally constructed houses despite being fully aware of the legal status of those flats they said that it was impossible for them to afford a legally constructed dwelling. Moreover, they believed that these illegal constructions would be legalised in future as a result of political pressure, because at one time the slums were also illegal and had become legal due to political pressure. In the meantime, the corporation has identified some of the 'illegal' structures, but the owners of these houses continue to pay taxes to the corporation. According to the 'basti' dwellers, the houses which are built under the supervision of the owners for their own housing accommodation are illegal but are not dangerous. That is why, they say, the government should not demolish any house without assessing its quality first. Sometimes for safety's sake, if a house is to be demolished then the government should arrange for an alternative and legal arrangement—no one should be made homeless. Implicitly and explicitly, the government was responsible for extensive illegal constructions in the bastis. That is why without arranging for alternative establishment or compensation no house should be demolished. Also the promoters, municipal staff, police, owners should be equally penalised for construction of dangerous houses. When asked why they were not willing to move to other parts of the city specially when they were investing so much money they said that it was the problem peculiar to the minority communities and the people of these communities were always reluctant to become isolated from their own kind.

Some important proposals regarding slum development were discussed during a meeting organised by the voluntary organisation Unnayan following the Collins Lane house collapse on March 7, 1991. The meeting proposed that

CALCUTTA

House Collapses and Police-Builders Nexus

Krishna Roy

Several newly-constructed houses have collapsed in Calcutta recently drawing attention to the nexus among the corporation officials, builders and the police

THREE newly constructed houses have collapsed in the span of two years in Calcutta. Two of these were constructed on 'basti' land and so the victims were largely 'basti' dwellers. It is now quite clear that these incidents are not unrelated nor isolated. Just as people are killed or become invalid after consuming adulterated medicines or adulterated oil, people are buried alive under 'adulterated' houses. And if they escape this fate they are killed or maimed and rendered homeless by the corporation's periodic self-conscious demolitions accompanied by police firings, as happened at Rajabazar.

Needless to say this situation is the outcome of the greed and frenzied profiteering of a particular class of vested interests. Unfortunately the officials of the Calcutta Municipal Corporation who have been delegated the responsibility of keeping a vigil on the activities of this greedy profiteering class have not only completely failed in their duties but are actually explicitly collaborating and colluding in this type of ghastly incident.

The house on Collins Lane which collapsed in February is situated only a stone's throw away from the local corporation office. According to local people the ground floor of the house covered an area of 1 katha (i.e., 720 sq ft). As the other floors went up, the covered area increased. This expansion took place only on one side. Further, the house did not have a proper foundation. The structure of the house had been kept like that of a 'basti' hut and pillars had been constructed on four sides. According to experts, the pillars were also defective and no soil

testing had been done. Out of fear of the local hoodlums and promoters the people had to remain silent—though knowing that the house was on the verge of collapse. While some 15 people were receiving treatment for injuries from the Chandni Welfare Society's relief clinic they had no shelter and nowhere to go when the relief camp closed. How the injured would earn their bread was also a matter of serious concern. The government gave no assurance of compensation, no camp, even of a temporary nature, was organised on behalf of the government for those who were rendered homeless.

The people of the 'basti' said that the government has, out of its political motives, been permitting illegal constructions. The 'basti' land is owned by the government and without its special permission any type of *pukka* construction on the land is illegal. Because of the 1981 amendment of the Thika Tenancy Act 1949, the government became the owner of the land on which the 'bastis' stand and the government and the slum dwellers became the owners of the structure of the 'bastis'. So the Thika tenants were granted the right of changing the structure or developing the 'bastis' but only with the permission of the government. This has given rise to illegal constructions because firstly, it is nearly impossible to make an isolated 'plan' in such a small area of the slum, secondly the long drawn-out, delayed process for obtaining sanction for the plan is exasperating, and thirdly, people always try to find an easy solution and it is easier to take recourse to illegal processes than to clear the hurdles of cor-

(1) 'basti' panchayats be formed of people's representatives for the development of the 'bastis' through which the government will have to work (2) The land price is excessively high in the areas where the bastis are situated. If government rules and regulations in respect of house construction are removed or relaxed in these areas then the promoters will find a 'kingdom' here. Poor people cannot be blamed for being caught in their trap. The building plans in these 'bastis' should be thoroughly studied. An isolated or partial solution would be insufficient. What was needed, the meeting concluded, was a complete and fully organised plan.

The meeting also drew attention to some issues which needed to be resolved. If the large number of illegal houses are demolished then a substantial amount of social resources would be wasted and many unpleasant incidents of death would occur. Administrative lapses and corruption are responsible for this waste of social wealth and human lives and the government alone is responsible for this. The meeting was of the opinion that cases should be filed against the government wherever necessary. The meeting felt when in 1981 the Thika Tenancy Act was amended the government should have taken over the right that the Thika tenants enjoy on the structure, and should have taken over the direct responsibility for formulating a complete and synchronised plan.

RAJABAZAR POLICE FIRING

A fact finding mission on the police firing that took place following a demolition of a house in Gas Street in Rajabazar found the respondents, reluctant to talk and reveal their names. The number of persons killed here was more than was reported by the police. Among the persons killed was an eight year old child who after hearing the sound of the firing went outside to see what was happening. A butcher's son who was carrying coins in a paper bag was suspected of carrying bombs by the police and was killed. Two persons were killed inside a saloon and a cobbler who went to a corporation tap to drink water had his thirst quenched forever. Two mentally deranged persons were injured in the police firing. The relatives of the persons killed were not given the dead bodies which were buried directly under the supervision of the police.

Not only did the police fire indiscriminately, they also carried out in discriminate arrests irrespective of age. Some eyewitnesses said that while arresting they mercilessly beat up people who were helping the injured and later severely tortured them in police custody.

After 14 days the arrested were granted bail on the condition that they would come to the police station whenever required—the beginning of the Ramzan fast being the reason for 'magnanimity' of the police. The owner and the contractor of the illegal house have not yet been traced.

What was the motivation behind this merciless killing by the police? According to reports, after supervising the demolition work, while the police force was going back, some people threw stones or bombs at them. A stone actually struck the assistant commissioner Ayub Khan's car. He instantly ordered the firing and within minutes the police started to fire indiscriminately.

I asked the local people whether they were going to protest against this police firing, specially when the police was persisting in their repressions and have even taken away people's right to protest. They said that they felt the necessity to protest but at the same time were unsure of how to protest. "We used to depend a lot on the 'Red Party' but they have also betrayed us. The so called 'dadas' of the political parties organised processions with the dead bodies of our people only to grab votes. We are ready to fight but who will give leadership?"

Why not try to organise a peace committee or a citizen's forum and peacefully protest? "Yes, we must do something. Promoters will construct illegal houses. 'Mas-

taans' will throw stones or bombs at the police and small children and innocent people will be killed. Who has given the police the right to kill an innocent child or a mental patient? Our hearts are burning. The citizens of Calcutta are getting an impression that Rajabazar has become a den of the criminals and the police have killed the criminals. You go and ask the police whether any of the persons killed have any past record of criminal activities. The incident took place in Gas Street but the murder took place near Science College. This gives an idea about how indiscriminately the police fired."

Local people and some political and human rights organisations have raised some demands: (1) There should be a judicial enquiry regarding the Collins Lane house collapse and the police firing in Rajabazar. (2) Adequate compensations be given to the relatives of the people killed and injured in the incidents. (3) Those officials of the corporation and the police who have taken bribes for the construction of illegal and endangered houses should be traced and severely punished. (4) The residents of the illegal houses should be given prior notice before demolition and those who would become homeless should be adequately rehabilitated. While the Calcutta of the babus is celebrating its tercentenary with garish illumination, band and pipes, poetry and showmanship, the Calcutta of the 'bastis' continues to be forced to dig graves for living people.

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Open Skies over Heathrow

K G Kumar

While the Gulf war may have dealt a body blow to some international airlines, the industry worldwide is now on the upswing, with more flights, fare cuts, better and flashier service and all-round unabashed wooing of passengers in the offing, especially across the Atlantic.

FOR the airline industry worldwide, the Gulf war was a cash-crunching nightmare. That scary period is now past and in Europe and the US air travel shows signs of picking up. But for trans-Atlantic air travel in general and British aviation in particular, the immediate post-war months seem to have blown up gusty winds of change. These have made some airlines gleeful, while one big name, British Airways (BA), is none too happy.

The scene of all this change is London's Heathrow, billed these days as the world's busiest airport for international travel (a far cry from 1983 when the British Guild of Travel Writers voted it the world's worst airport). On March 5, 1991, in logical pursuit of the Tory government's 'open skies' policy of deregulation and liberalisation, the UK department of transport lifted the ban on new 'slots' (landing and take-off times) at Heathrow. Until then only airlines which had been operating at Heathrow before 1977 were allowed to use the airport. This restriction was designed to ease congestion at Heathrow and divert traffic to Gatwick, London's second airport which the British Airport Authority has been promoting vigorously to international airlines and travellers. But that aim was never attained. No airline wished to avoid Heathrow, not just because it is closer to central London but because of its huge passenger volume (over 40 million in 1990) and the greater share of transit traffic.

It was the existence of these unparalleled attractions that prompted two US carriers, United Airlines and American Airlines, to manoeuvre and bargain through the whole of last year to buy up the Heathrow landing rights of their financially-maimed brethren, Pan Am and TWA. That deal finally came through on March 11 when US and UK negotiators agreed to allow United and American to replace Pan Am and TWA in serving Heathrow. The figures themselves speak for the value attached to Heathrow slots: United bought Pan Am's routes for US \$ 290 million, while American coughed up \$ 445 million to grab TWA's Heathrow routes.

To be sure, this deal has brought some gains to British Airlines too. The US will now let a second British carrier—Virgin

Atlantic—fly from Heathrow to North America. British airlines will now also be able to fly to the-US via Europe and then on to Mexico, the Caribbean, South America and the Pacific. They can tie up with domestic US carriers in computer reservation systems. Soon after the deal, Malcolm Rifkind, the UK government's transport secretary, told the British Parliament that British airlines "will get an unprecedented wide range of new opportunities to compete in US markets".

All this will certainly benefit British Airways too, but the UK national carrier is far from happy. Heathrow has always been BA's strong home base and an evidently perturbed management declared that opening up Heathrow would 'materially' affect the corporation's future profitability.

For BA, these developments have come at a particularly bad time. The airline has been struggling to prise itself free from the pincer-grip of the economic recession and the shrinkage of international air travel in the wake of the Gulf war. To fight free, BA's marketing strategies have reinforced the superlative approach: The hard-sell slogan remains "the world's favourite airline", notwithstanding a recent deflating survey by the popular consumer magazine *Holiday Which?* which ranked BA only 22nd in a poll of 48 airlines drawn up by the Consumers' Association. (Incidentally, our own pride, Air India, was outstanding at the very bottom of the list, behind such luminaries like Balkan Bulgarian, Aeroflot and Egyptair.) In a bash-on-regardless spirit, a BA spokesperson was quoted as reacting thus: "We take note of all surveys, but passengers, vote with their feet. Our 'world's favourite airline' claim is based on the fact that we still fly more international passengers than any other airline." Continuing this spiel of superlatives, BA breathlessly launched its 'world's biggest offer' of 50,000 free tickets to London on April 23.

The only one who is truly smiling heartily now is Richard Branson, the flamboyant UK showbiz entrepreneur and founder of Virgin Atlantic Airline. Virgin apes the low-fare tradition of past heroes of budget travellers, viz, Laker Airways and People Express. Already, in anticipation of landing rights at Heathrow, Virgin

Atlantic has announced a cut in its US-London fare by 15 per cent. And soon after BA splashed its freebie offer, Branson took out a cheeky full-page ad in British newspapers. It said: "It has always been Virgin Atlantic's policy to offer you the lowest fares across the Atlantic. Therefore, in accordance with this policy we strongly urge you to fly with BA on April 23. As for the other 364 days of the year you will still find the best fares and the best service on Virgin Atlantic".

Whatever shapes these corporate combats assume, for trans-Atlantic air travellers the opening up of Heathrow can only mean happier days. British department of transport officials are already talking with their American counterparts to win further concessions for British Airlines. Travellers can therefore expect more flights, fare cuts, classier service and all-round unabashed wooing, especially of frequent business fliers.

Eddie Rickenbacker, founding CEO of Eastern Airlines once memorably described the airline industry as "a business of putting bums on seats". In these days of depressed traffic no industry bigwig would dare echo Rickenbacker's brash witticism. Passengers can no longer be treated as captive fools, but for trans-Atlantic travel in the wake of the opening up of Heathrow, there will clearly be more bums chasing cheaper seats.

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SPEECH DELIVERED BY A. BASU, CHAIRMAN, VST INDUSTRIES LIMITED, AT THE 60TH ANNUAL GENERAL MEETING HELD ON JULY 5TH, 1991 AT HYDERABAD.



It is the first time we are meeting after the Diamond Jubilee of your Company on November 10, 1990, — a milestone in its history. It would therefore be appropriate for me to review the history of your Company before we commence our deliberations on the formal Agenda.

VST — PAST AND PRESENT

It was in 1921 that Janab Mohammed Vazir of Vazir Sultan & Sons, supplicated the seventh Nizam, Mir Osman Ali Khan to use the Charminar as a trade-mark of a new brand of cigarettes he wished to manufacture. This was graciously sanctioned and a 'firman' promulgated to this effect. Several years later, in 1930, a public limited company, The Vazir Sultan Tobacco Co. Ltd. was formed in association with the British American Tobacco Co. Ltd. of the United Kingdom (BAT) with the latter taking up almost two-thirds the share capital. Through a process of dilution and disinvestment over a period of years, the foreign shareholding was reduced to 32% by 1976, and VST emerged as a professionally-managed Indian public limited Company with the benefit of the BAT foreign association in respect of worldwide access to operational know-how, including the fruits of extensive Research & Development activities.

The present factory was inaugurated in 1933 and over the years, investments have been made to expand capacity. However, as a result of a conscious decision, quantum changes in technology have been made in recent years, and today your Company has the largest and most modern factory in India, capable of producing cigarettes of international quality. Its Primary Manufacturing Department is the first to be equipped with Programmable Logic Control. Its Secondary Department, which is in the process of being fully modernised, will soon take into line the latest generation Loga Cigarette Making machine.

Through plantation, landscaping and continued attention to buildings and layout, a conducive environment for work is maintained. A unique odour pollution control system was recently installed and represents another first in the industry in India.

Your Company is in the forefront in respect of its Research and Development activities. A modern, well-equipped laboratory, inaugurated this year and staffed by qualified scientists, keeps a close watch on the quality of the product and assists in the development of new processes and products. Indeed, an application has been filed recently for patenting the indigenous design of certain critical tobacco processing equipment, which has evoked interest overseas.

This consistent thrust towards technology and modernisation has not, however, diluted your Company's care and concern for people, who are central to its business. In our case they consist of 2,472 employees, about 30,000 tobacco farmers and over 500 main dealers, 50,000 wholesalers and 5 lakh retailers who are our customers.

Almost three decades of strike-free industrial relations is the result of your Company's concern for its employees. But behind that has been a history of consultation and participation, including a succession of twelve long-term agreements, commencing from 1952 to the latest one signed in March this year. The Vazir Sultan Tobacco Company Workers Union, Registered No. 1 of 1946, was the first Union to be registered in the erstwhile Hyderabad State, and was formally recognised in 1947 as the employees' sole bargaining agent. The provident fund established in the thirties, the gratuity scheme introduced in the fifties, and a pension from 1982 were Company initiatives — all introduced before they became mandatory by law. Bonus, a source of perennial strife in the Indian industrial scene, has never been one in your Company; instead, a simple and effective productivity bonus scheme which has stood the test of time, has been operative since 1961.

I believe that a culture of adaptability and willingness has now been established, open to new technology, be it machines or computers, be it on the shop floor or in the offices or indeed the rural areas, where tobacco is grown. Your managers are professionals, enjoying an environment where innovation and achievement are recognised, and they provide the leadership to the dedicated workforce today, of whom you can be legitimately proud.

Your Company's association with the tobacco farmers of Telangana commenced in 1952, with the launching of the Tobacco Development Programme. Concepts of scientific farming, linked with bank finance schemes and crop insurance, have helped the farmers in securing a livelihood, in good seasons and bad. Together, we have developed commercially viable varieties of Oriental, Kentucky fire-cured, light soil Burley, a monsoon crop of Sun-cured Natu and other non-traditional tobacco crops for which domestic and export markets are being steadily developed. A major thrust is being made through the 'Trees for Life' programme for providing a balanced diet for the farmers' families, while simultaneously improving the ecology. I believe that another dimension will be added to this relationship

with your Company's contemplated entry into a new agri-business.

It was in 1973 that your Company commenced the distribution and marketing of its products and developed a chain of main dealers, wholesalers and retailers, giving it greater presence outside its traditional base of Andhra Pradesh, and keener insight into the dynamics of the variegated markets in different locations of our vast country. Here again, a symbiotic relationship has been developed with the trade, the value of whose services cannot be underestimated in reaching your Company's products to the consumer, ensuring availability and freshness of stocks.

These sound foundations of a modern plant, trained and motivated workforce, consistent source of raw materials and a sound distribution system, have provided the base for your Company in the market-place, the ultimate arbiter for the progress and prosperity of your Company. The outstanding success has been 'CHARMINAR Special', popularly known as Charminar, first introduced in 1938 and which, through careful nurturing, has preserved its unique place in the world of tobacco. In 1975, sales crossed the one billion mark and it was the leading brand for a number of years. It provided the bulk of your Company's turnover and profits, although there were a number of other brands, such as Gulbarga, Qila, Shah-I-Ikkan, Chandbibi, Kohinoor which provided supportive roles in some selected markets. With the advent of filter cigarettes, your Company entered the market with Charminar Special Filters, Charminar Gold, Vazir and more recently, GOLD Fine Cut.

No historical survey would be complete without reference to one of the most successful consumer product launches in recent years — CHARMS Filter Kings — in the denim pack, evoking the 'Spirit of Freedom', which is indeed the spirit of our times! This market niche determined by careful research, combined with the innovative design, packaging and advertising theme, made it into a bestseller almost overnight, when introduced in 1983. Alas, it fell victim to a change in the Excise duty structure in 1985, but not before it had spawned CHARMS Virginia Filter and CHARMS Mini Kings cigarettes, which today are a significant presence in the growing filter market, their combined volumes exceeding the highest ever achieved by CHARMS. In the export market, CHARMS continues to be the largest selling Indian brand, besides enjoying the distinction of having been totally developed in India.

The 'Spirit of Freedom' lives on, in the prestigious concerts, which are promoted by your Company under that banner. These together with the Charminar Challenge sports sponsorship, enable your Company to fulfil, in some measure, its obligations to society.

It is the resolve of your Directors to continue to build on the foundations laid by their predecessors and I will conclude this retrospective view of your Company, VST

Industries Ltd., as it was renamed in 1984, by reading out the Company credo:

THE CREDO OF VST

"While the Company has consciously initiated a process of modernisation to position VST in the forefront of technology, we have not forgotten our abiding values. The commitment to provide better value to the consumer. The commitment to our shareholders' interests. The commitment to professionalism. The commitment to business ethics. The commitment to create a better future for our employees and the commitment to fulfil our obligations to society. This is the soul of VST, and the Company is committed to preserving these values above all."

A REVIEW OF THE YEAR

Since we met last, the scene in India has been one of gloom and despondency, with the succession of disturbances on the Mandal Commission and Ram Janmabhoomi issues, two changes of Government at the Centre, fresh general elections leading to more violence, culminating in the tragic assassination of Mr. Rajiv Gandhi. The law and order situation in the border states, as indeed in some other areas, has deteriorated even further. The macro economic scene is little better, with revenue expenditure of Government far exceeding its income and the balance of payments, precarious for some years, further aggravated by the unfortunate Gulf War. All of these have had their impact on the operations of your Company as I will detail later on, while reviewing the year's performance.

The process of disinvestment of your Company's holding of 15 lakh shares in Bhadrachalam Paperboards Ltd. was completed leading to a net inflow of Rs. 15.12 crores and capital gains of Rs. 13.62 crores. The proceeds have been invested in Capital Gains Units of Unit Trust of India, assuring that no liability towards capital gains tax arises out of the disinvestment. Excluding these capital gains the operations of your Company have resulted in Profit before Tax of Rs. 18.95 crores and Profit after Tax of Rs. 9.76 crores — the highest ever in its history — and which represent a growth of more than 60% and 65% over the corresponding figures of the previous year.

Several of the measures taken in the past have started bearing fruit. There is an eight-fold increase in exports from Rs. 1.25 crores to Rs. 10.09 crores this year, with all three legs of exports namely cigarettes, tobacco and agri-products showing record growth, and a wider spread of markets. Of

particular significance is the interest shown by overseas buyers in non-traditional varieties of tobaccos developed by your Company. Cigarette exports to the Gulf have revived. I am pleased to inform you that The Federation of Andhra Pradesh Chambers of Commerce & Industry has awarded your Company the Surana Udyog Silver Rolling Trophy for the best export effort in the State for the year and we expect to be recognised as an Export House shortly.

The modernisation of the plant continues with vigour. The latest generation Loga Cigarette Making machine has arrived and will shortly be installed, tried and taken into production. In the market-place, your Company has entered the premium segment with Kingston Dual Filter and the product has been well received.

The financial strength of your Company has been vindicated by the highest possible ratings, FAAA for its Fixed Deposit Schemes and P1+ for Commercial Paper, from CRISIL — the prestigious, independent credit rating agency. The rapid growth of the market value of investment in your Company also reflects its financial soundness and investor confidence.

Taking all these factors into account, your Directors have recommended, subject to your approval, a record dividend of 45% for the year, inclusive of the Jubilee Dividend of 10% and the Interim Dividend of 15% declared earlier, together was a proposal to capitalise free reserves by the issue of bonus shares in the ratio of three new shares for every five shares held. This bonus issue has come after a lapse of only two years since the last such issue. Nevertheless, on the basis of the planned performance this year, it is anticipated that the dividend on the enlarged capital base will be at least 28% barring unforeseen circumstances.

How have such results been achieved in the face of the adversities mentioned earlier? First and foremost, from the dedicated effort of all employees. Secondly, through the consistent practice of participative planning and review about which I had spoken to you last year, and which now has been extended and sophisticated through the implementation of Risk Management. This involves the identification of the key risks that the business faces, a systematic assessment of the probability of each risk occurring and its resultant impact on operations. Every businessman does this exercise in one way or another, but in your Company, Risk Management has been developed through the rigorous application of scientific methods and expanded to cover every department of the factory, leaf operations and marketing.

The value of such a pre-emptive approach is apparent when times are troubled. It enables management to take action to minimise the impact of an event which cannot be prevented. This is all the more important in our business where millions of consumers throughout the length and breadth of the country have to be serviced on a daily basis. For example, Risk Management has enabled your Company to identify intermediate warehousing points and alternative transport routes, generate contingency plans for production during periods of tension and civil disturbances, improve its communication system and to secure against breakdown of infrastructural services.

Nevertheless, it could have been an even happier year for your Company. The conjunction of the Quartercentenary of the city of Hyderabad and the Diamond Jubilee of your Company was a happy augury. A new Company logo was developed, incorporating the Charminar — an eternal symbol of beauty, harmony, strength and stability! As our homage to the symbol which has meant so much to all of us and as an offering to the citizens of Hyderabad on the occasion of the Quartercentenary, your Company has installed sophisticated equipment for flood-lighting the monument. Alas, its inauguration, and several other proposals for civic improvements, discussions on which were initiated with Government, have had to be postponed time and again, bedevilled by disturbances on an unprecedented scale.

The Gulf War had a direct impact on prices of petroleum products and transport, along with the consequent increase in taxation by Government. Curfew affected the factory directly for 6 days during the year, resulting in loss of production, mitigated by the loyalty and commitment of many employees, who volunteered at great personal inconvenience and risk, to keep production going, albeit on a partial basis. While export commitments were honoured in time, the loss of output, together with breakdown of transport facilities, led to occasional stockouts in the market-place, resulting in inconvenience to consumers and loss in excise revenues to Government.

THE ROAD AHEAD

We can but hope that the worst for the country is behind us and that the new Central and State Governments will pursue pragmatic policies to which we can respond with enthusiasm, and thereby use to the full the natural advantages with which our country has been so abundantly blessed. It is not merely a question of deregulating the economy. There is the need for peace and stability, a reinforcement of the basic infrastructure of power and communication, so that we can get on with the job. Work must be encouraged and rewarded, and condonation of non-work eschewed. Policies must be pursued where money has to be earned and not frittered away to fulfil discredited dogma and populist promises.

Your Company is well poised for another satisfactory year, which should see the beginnings of our entry into new lines of business. We have identified certain concrete proposals and, in this connection, discussions with proposed collaborators have taken place. The focus will be on Agri-business, where your Company has already acquired considerable experience, along with exploring other profitable lines of business consistent with national priorities and business needs.

Your Company should be in a position to finalise a specific project by the end of the year.

This does not purport to be a report of the proceedings of the 60th Annual General Meeting



VST INDUSTRIES LTD.

Intellectual Property Rights and Agricultural Development

I sha Menon

The negotiations on Trade Related Intellectual Property Rights, by making it obligatory on the part of member nations to extend the scope of monopoly rights to plants, is forcing agricultural development to take place in a particular direction which will be in the interest of the multinational corporations.

IN the context of the negotiations on Trade Related Intellectual Property Rights (TRIPS) during the Uruguay Round of negotiations of GATT (General Agreement on Tariffs and Trade) and the placing of India in the priority list of Special 301 by USA, the implications of changing the intellectual property regime in India has assumed vital significance. It is often assumed that the impact will be felt mainly on the pharmaceutical sector. But this is not true because there are other sectors such as agriculture where the nature of the intellectual property regime would have very serious consequences.

Studies have shown that it is the sectors where the technology is comparatively easily accessible and where other means of erecting barriers against competition through economies of scale, lead time, learning effect and sales network, etc, do not exist, that the barrier raised through intellectual property rights become important. Pharmaceutical industry forms an excellent example of such a sector where intellectual property rights play a crucial role in determining the performance of the firms.¹ But there are other sectors such as agriculture with significant potential for the application of biotechnology, where similar concerns are valid. Therefore, it is extremely important to take cognisance of the implications of introducing a new IPR regime for agricultural development in India.

Tucked away in the technical language of Article 30 of the draft of the agreement on TRIPS (Trade Related Intellectual Property Rights), a decision is to be taken which would have serious long term impact on agriculture especially in an underdeveloped country like India. This is the decision on extending intellectual property rights to plants. Before we discuss this it will be useful to consider briefly the background to the discussions as well as the nature of intellectual property rights.

GATT is essentially an agreement to regulate the trade in goods. It enjoins the members to grant other members the most favoured nation (MFN) status which in fact means that they will not be discriminated against and that the privileges accorded to one member will be also available to all the

other members. GATT is strictly speaking not the forum for discussing questions of intellectual property for which there are separate forums such as WIPO (World Intellectual Property Organisation). The reason why the US was nevertheless interested in bringing intellectual property into GATT is because by linking it with trade, it gives the US the possibility of taking retaliatory actions, which would not have been possible in other fora.

To begin with, India rightly refused to negotiate on intellectual property in GATT and wanted to discuss only on the issues of pirating and counterfeiting which could be linked to trade. Unfortunately the leadership which India was giving to third world resistance collapsed in 1989. In April that year, the government of Rajiv Gandhi agreed to negotiate on the questions of intellectual property in the TRIPS negotiations of GATT.

INTELLECTUAL PROPERTY

Given the fact that intellectual property is a public good² *par excellence*, it is very difficult to justify the institution of intellectual property rights (IPR) which prevents others from using the information for the duration of the right. Dominant economic theory has always been hard put to justify the inefficiencies which would emerge due to the monopoly rights granted under the IPR regime. Most studies have also been inconclusive about the balance between the costs and benefits to society from the patent system.³

The position of most economists on patents is reflected in the words of Jewkes, Sawers and Stillerman, authors of the classic study on inventions that "it is almost impossible to conceive of any existing social institution so faulty in so many ways. It survives only because there seems to be nothing better. The most wide ranging study on the economic effects of patents conducted under the leadership of Machlup for the US Senate [I Machlup, 1958] concluded that there existed no economic justification for a patent system that it would be wrong to implement such a system if it did not already exist, but that since it did exist it would be equally dif-

ficult to find sufficient data to warrant its abandonment. Apparently the dictum that it is up to those who call for monopolies to justify their position has not been followed in the case of patents.

We have argued elsewhere⁴ [Abrol and Menon, 1990] that the developments in our understanding of the process of technological development have added further arguments against the institution of intellectual property rights. Unfortunately there have been very few studies which have looked at other forms of incentives for investment in innovations or at the option of producing these public goods publicly.

In spite of the absence of any conclusive evidence about the benefits of granting monopoly rights, because of the strength of vested interests, patenting has become common. Patenting, the most familiar form of IPR, until very recently only applied to inventions which were applicable in industry. Earlier even in the western countries, society had prevented this kind of monopolisation of knowledge from extending to important areas such as treatment of diseases and agriculture. But slowly the idea of intellectual property has started being extended to plants also.

IPR ON ILL

If it was absurd to apply the concept of property rights to inventions in industry, it was sheer lunacy to apply the concept to biological materials which are self-reproducing. This emerges from the fundamental characteristics of the systems of intellectual property at least as it formed the basis of patent system.

One of the main objectives of the patent system of granting monopoly rights was to encourage inventors to disclose their inventions and not to maintain them as trade secrets. In the case of IPR for plants, society is being made to pay for something which is anyway available to it since it is self-replicable. Further there is no 'teaching of the technical act' in the case of plants since a person who grows a new variety of plant is not imitating the activity of the breeder. Besides when a person grows the new variety after having paid for it, he or she is carrying out the legitimate activities related to its normal commercial use for which even in industrial patents no permission of the owner of the patent is required. Thus, for example, when you buy an ice cream making machine and use it to make ice cream you are not expected to pay any royalty or take permission and have to get permission only if you produce a machine similar to the one you bought. This principle of 'exhaustion of rights' when the invention has been sold makes the application of patents to plants problematic.

Apart from these legal problems, there were also technical problems which arose



PAYING THE PRICE FOR BEING EFFICIENT

**HOW AN INDUSTRY WITH A PERFORMANCE
THAT MATCHES THE WORLD'S BEST IS CONSIDERED
INEFFICIENT AND FACES A DEATH TRAP.**

From 53% in 1980-81 to 85% (97% excluding sick plants) in 1988-89 for Nitrogenous fertilisers, and 65% to 87% for phosphatic fertilisers. That's the rise in capacity utilisation achieved by the fertiliser industry.

And yet, they call us inefficient.

Now, consider another parameter of efficiency—average energy use per tonne. It's down from 14.6 million Kcal to 11.6 million Kcal (11.3 million Kcal, excluding the two coal-based plants). For gas-based plants, it's only 9 million Kcal while new units along the HBJ pipeline use just 8 million Kcal.

And yet, they call us inefficient.

Simply because the fertiliser subsidy has increased over the years.

But why has the subsidy increased?

Subsidy is related to the level and cost of

production and has increased because production went up three fold. Also because the administered prices of inputs like naphtha, gas, fuel, oil, coal, power and railway freight went up manifold.

And because the farmer still pays the same price for fertilisers that he was paying in 1981, despite substantial increase in cost of production.

Unfortunately, since everything else is beyond its control, the only way the industry can help reduce subsidy is by producing less, which cannot obviously be anybody's intention.

Subsidy has a positive aspect too—increased self-reliance.

It has helped increase

(i) Fertiliser production from 1.8 million tonnes in 1975-76 (before subsidy) to 9 million tonnes now

(ii) Consumption from 2.9 to 12.5 million tonnes.

(iii) Food grain production from 121 to 177 million tonnes

So, to reduce subsidy the industry was made to pay the price in other ways.

Like tightening of norms for depreciation and capacity utilisation. Delays in release of subsidy claims. Inadequate adjustment for escalation claims. Under-recoveries for various expenses incurred. Inequitable adjustment for changes in tax rates.

The result—reduced profitability, threat to viability of new plants, resource difficulties for projects under implementation and bleak prospects for future investment.

In short, a death trap for the industry. With hardly any effect on the overall subsidy bill which rises unabated.

Fertiliser Security. A pre-requisite to food security.

This is the first in a series of three advertisements issued in Public Interest by the Fertiliser Association of India

Mudra D. FAI-0857

from the nature of plant breeding it was considered to be difficult to reproduce plants exactly and it was also difficult to describe them adequately so as to fulfil the requirements of disclosure. Further the question of a new variety being the result of an invention (something which is not obvious to someone skilled in the art) was also not to be met.

Because of the opposition from farmers, etc. and because of the various legal and technical difficulties in applying industrial patents to plants, a special type of property rights adapted for plants was created which was also a milder form of monopoly rights known as Plant Breeders' Rights (PBR).⁵ Unlike in the case of industrial patents, this system allowed farmers to save their seeds for next year's sowing (farmers' exemption) and allowed other breeders to use the protected varieties as starting material for developing new varieties (breeders' exemption).

With the takeover of the seed companies by the multinational corporations and the coming of biotechnology, there is now a demand for a stronger form of monopoly rights in plants, namely, the extension of industrial patents to plants. With the application of patents to plants, the farmers will be not only prevented from saving the seed but breeders will also be prevented from using the variety to develop new varieties for the 20 years for which the right might be granted. Since patents give the possibility of making unlimited number of claims it gives the multinationals the opportunity to claim not only individual varieties but also characteristics and even species and genera. Already patents have been given for plants in the US and Europe in 1985 in the US and 1989 in Europe.

The big multinationals, including those from the pharmaceutical sector such as Sandoz, Ciba Geigy and Pfizer who have taken over the seed companies, want the very strong form of monopoly rights represented by patents. The home countries of these multinationals have been taking stands supporting the MNCs. But they have to also take into consideration the opposition from the other interest groups. In the TRIPS negotiations as well as in WIPO the US has been arguing for the stronger form of monopolies represented by patents to be made applicable to plants and animals. In the European Community the introduction of patents for plant and animal varieties is made difficult by their specific exclusion in the European Patent Convention and by the resistance of farmers' organisations and independent seed companies. Although the European patent office has already granted a patent for a plant it has been challenged in the court. Patents for an animal has not yet been granted. Therefore in the TRIPS negotiations EC cannot be expected to push for the globalisation of patent rights for plants but only for the application of some form of intellectual property which in effect means plant breeders' rights. The current threat

from the US under Special 301 is also an element which adds extra pressure to the TRIPS negotiations and to the globalisation of IPR in plants.

Faced by the demand for increasing the monopoly rights by introducing the system of industrial patents, the plant breeders have responded by increasing the monopoly rights under the system of plant breeders' rights also. These rights were codified in the Convention of UPOV (the International Union for the Protection of New Varieties of Plants) signed in 1961 and to which 20 countries are signatories today. The monopoly rights are to be increased by revising the UPOV Convention. According to the draft proposal submitted for the Diplomatic Conference for the Revision of the UPOV Convention [UPOV, 1990] the two exemptions for farmers and breeders, which distinguished plant breeders' rights from patents and thereby mitigated some of the negative consequences of intellectual property rights in plants are to be effectively removed. Further, the rights of the breeder are being extended from the right to exclude others from propagating, selling and offering for sale the new variety, to the right to exclude others from conditioning for propagation, importing and exporting also.

But the form of plant breeders' rights which existed with the farmers' exemption and breeders' exemption have been replaced with a new form after the latest revision of the UPOV Convention which lays down the

minimum protection to be given to the breeders. Farmers are no more allowed to sell their seeds to other farmers or get them cleaned by outside agencies. The permission of the breeder is required not only for the propagation, sale conditioning for propagation import and export of the breeder's variety but also of any variety which would be termed as being essentially derived from that variety [For more details of the evolution of IPR in plants see Menon, 1991].⁶

INDIAN OPTIONS ON AGRICULTURE

India has so far not recognised any form of intellectual property in plants, and as far as India is concerned, the consequences of the introduction of both these forms of intellectual property are disastrous. At the TRIPS negotiations in Geneva, the developing countries are being faced with the option of continuing with the system which they have today or choosing one of the two systems of intellectual property rights [for more details of these options see Menon, 1990].

Pressure is being put on the Indian government to accept some form of IPR, and former commerce minister Subramaniam Swamy is said to be favouring India accepting some form of intellectual property rights for plants. This means that India will have to accept plant breeders' rights (PBR). There are many others in this country who argue that India should give in on the question of intellectual property so that the coun-

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IMPORT MORE PRODUCE LESS!

HOW THE SPECTRE OF FERTILISER SHORTAGES AND BEGGING FOR FOOD WILL HAUNT US ONCE AGAIN.

Remember the sixties and seventies. When we had to go around with a begging bowl for food. We may have to do the same in the nineties, if the fertiliser industry continues to be victimised. Because of a view that imports are cheaper.

A view that is rather myopic.

Are imports really cheaper?

Import prices are determined by two bulk buyers—India and China.

Five years back, India and China produced more fertilisers and imported less. The result—large global surpluses and lower market prices. In fact, the price of Urea in 1986 was only \$87 per tonne f.o.b. which did not even cover the cost of feedstock in exporting countries.

This perhaps, led some to believe that imports are cheap. But the low prices were not related to cost or production efficiency. They were simply determined by the demand-supply balance.

A balance that is no longer in India's favour because of high imports by China and reduced supply from Eastern Europe and Middle East.

The cost of imported urea to the farmer is over Rs.5,000 per tonne. In comparison, the cost of indigenous urea from newly commissioned units along the HBJ pipeline is about Rs 4100/- per tonne despite high gas prices.

Clearly a case for producing rather than importing more. A case further strengthened by a look at the future

The future is even bleaker

By 1994-95, India's domestic production will trail projected demand by 20% for nitrogenous and 38% for phosphatic fertilisers. The result increasing dependence on imports, when global availability will be scarce and prices beyond our reach. Moreover, where will the foreign exchange come from?

Fortunately, there's a silver lining. We have the natural resources, particularly gas, and ability to produce more.

Unfortunately, not many see it that way. And are in favour of imports. An attitude which may finally result in fertiliser shortages

And send us begging for food all over again.

Fertiliser Security. A pre-requisite to food security.

This is the second in a series of three advertisements issued in Public Interest by The Fertiliser Association of India.

Mudra D. FAI 0857-2

try might get some advantages on the question of export of textiles. But the question is, is the future of Indian agriculture so unimportant that it can be compromised for getting 'some' advantages in textile exports?

If the government gives in to the pressure from the multinational corporations and the developed countries and accepts the plant breeders' rights system, the consequences would be very negative for agriculture.

Before we consider the impact on agriculture, it is useful to see who needs intellectual property rights in plants and why they need it. The main proponents of the introduction of intellectual property rights in India have been multinationals like Hindustan Lever [Sinha, P M 1990]. Since 1984, after the addition of seeds to Appendix I industries, FERA companies (companies having 40 per cent or more foreign equity) have been moving into the seed sector.

These multinationals would like to have complete control over the seed production so that they can gain even more from this lucrative business. Multinationals usually do not operate in a sector in which there is competition and they tend not to compete with each other. They operate in markets with at least some degree of monopoly so that they can gain super profits. The extent of domination which can be achieved is much more in the case of industries where segmentation of the market is easier. In such situations although it might appear that there are many producers and considerable amount of competition, the reality would be quite different. Thus, for example, in the case of the pharmaceutical sector where the products are disease specific it has been observed that multinationals dominate these individual markets [Satwinder Singh 1985 pp 71-94]. Given a similar product specificity, in the case of seeds also similar possibilities of domination and extraction of super profits exist. This is illustrated by the understanding reached between the European seed company Van der Have and the US firm Pioneer Hybrid in the market for maize seed. Since 1976 there has been a division of labour between these two companies among others in the French market. In the European market Pioneer has been concentrating on grain maize while Van der Have has been focusing on fodder maize [Groosman and Meerendonk, 1983, p 53]. In this struggle to gain super profits, plant breeders' rights are important in two ways.

To begin with, it helps the seed companies who have succeeded in developing a new and important variety to create an artificial monopoly since it will take a much longer time, say about 10 years, before a competitor can come up with an alternate variety with similar qualities. This artificial monopoly will help them to get higher prices than would be possible with free competition.

Secondly, it also helps them in their strategy of non price competition. The seed companies spend a considerable amount of money on advertisements, usually many

times that spent on research. According to the new system of PBR, no one else can produce varieties which are essentially derived from the new variety. A variety is considered to be predominantly derived from another variety when the method used conserves the essential characteristics of the genotype of the initial variety, such as in the case of the selection of a natural or induced mutant or of a somaclonal variant, backcrossings or transformation by genetic engineering [UPOV, 1990, Article 14 (2)]. In this manner the breeders' exemption has been severely curtailed and much stronger monopoly powers granted under the PBR regime. Therefore the seed company will be able to go on advertising these derived varieties as 'new and improved varieties' and keep asking for higher prices which cannot be challenged by anyone else. In this manner, the companies will be able to extend the life of the variety when it earns super profits.

In other words, in combination with the marketing strategy plant breeders' rights become another instrument for increasing super profits. The system of PBR is a powerful tool in the hands of the multinationals to increase their incomes and profits. The TRIPS negotiations are aimed at perfecting this tool.

We shall consider the impact of PBR on the supply of seeds in the country and its impact on the incomes of farmers. The impact on the absorption of technology would have grave consequences for the long term prospects of agriculture. We also look at the implications for agriculture since it has been used as one of the main arguments for bringing in these measures.

SUPPLY OF SEEDS

One of the major problems which we face in our country today is the inadequate supply of good quality seeds. Due to the weakness of the delivery system, many of the new and useful varieties which have been developed are not available to the farmers. The public agencies for production and distribution of seeds have not been able to fulfil the need. Although many small seed companies have come up, they are plagued by unscientific methods of production etc.

What is required is the presence of large numbers of seed producers who have to get adequate scientific state support to multiply the seeds required by the farmers. The producers can be seed companies, farmers co-operatives and individual farmers. These can be complemented by seed production in large organisations.

With adequate knowledge and demand by the farmers, such an alternate system of seed production can be set up which can make available to the farmers many new varieties of seeds which are developed in our national laboratories.

Today the public sector in India develops new varieties just as it did in the US and other Western countries till some time ago. Under the present system, the small seed companies are able to multiply these seeds.

They are also free to multiply the seed developed by any other private company. The farmers who buy the seed are also able to multiply the seed and also sell it to their neighbours. Therefore, the potential for a thriving seed industry exists.

But instead of using this potential for setting up a healthy and widespread seed industry, the development is now in danger of going in a totally different direction. Multinational corporations are moving in to the empty space left in the seed supply.

It has been observed elsewhere that when these big companies move into seed production and start their own breeding, public sector breeding is made to support the breeding activities of these seed companies.⁷ The public sector is made to do basic research which is then exploited by these companies. Ultimately, the small companies are left at the mercy of the big companies to whom they have to pay royalties whether they multiply the seed or only clear and process it.⁸ The same will be also applicable to the farmers who undertake seed production. In such a situation many of the smaller seed companies usually go broke. The destruction of these companies will have a big impact on the supply of seeds.

The increase in monopoly due to the introduction of a system of PBR will have very negative consequences for the income of farmers. The monopoly control of the multinational companies will function in different ways as we have already mentioned. Apart from what we have already stated the new form of plant breeders' right which is being introduced will add another way of increasing monopoly.

Under the earlier system of PBR a seed company could only prevent others from multiplying the same variety as what it has developed, but it could not prevent the other companies from developing new varieties based on the original variety. In case selections could be made from the marketed variety, then it was possible to come on the market with a comparable variety quite quickly. This reduced the extent of monopoly the first company had. But under the new system of PBR, it will not be possible for other seed producers to develop varieties similar to the monopoly varieties. Therefore the seed company will be able to charge very high prices for the new variety and the farmer will have no choice but to pay it.

For example, let us assume that there is an epidemic of blast disease and some company succeeds in transferring the gene for blast resistance to rice. Under the new system, no other company will be able to produce any modification of that rice. Producing a new variety with resistance by crossing with other varieties will take time and effectively this means total monopoly for the first breeder, a monopoly much higher than what has existed so far even in the US.

This in effect means that because of the legal monopoly of plant breeders' rights, the farmers will be paying a higher price than what would have been otherwise the case.

An illustration at the top of the page shows a heavy metal chain. One end of the chain is attached to a large, dark, spherical bomb with a visible fuse. The other end of the chain is broken and falling away from the bomb. The bomb is positioned on the right side of the page, and the broken chain links are scattered in the air around the main title.

UNTIE OR ELSE

HOW THE WEIGHT OF DISTORTED PERCEPTIONS ABOUT SUBSIDY COULD JEOPARDISE A RS.10,000 CRORE INDUSTRY AND FOOD SECURITY.

The results could be catastrophic. Shortage of fertilisers. No foreign exchange for imports. And ultimately shortage of food.

Unfortunately not many seem to realise it. And clamour for reduction in subsidy per se.

To set the record straight, the fertiliser industry too has no vested interest in the continuation of subsidy. But for the industry to survive and grow in the face of subsidy reduction, certain measures must be taken.

Recognise the ground realities

The present pricing system has helped the industry grow and become more efficient. And the increase in subsidy is on account of factors like high input costs, low consumer price and unnecessary taxes and duties—all controlled by the Government.

Did the authors of the system envisage this scenario? No. In the face of low consumer price some subsidy was unavoidable to attract

investment. However, it was never intended that selling price will remain unchanged in spite of Government itself raising the prices of inputs and levying various taxes and duties. But precisely this has happened.

So the fault is not with the system. But with the way the producer and consumer prices have fallen apart. Hence to reduce subsidy, the gap between these two should be narrowed. Input prices should be frozen. Unnecessary taxes and duties removed. And consumer price should be raised.

Alternatively the answer could be a gradual move towards de-control.

The key word being gradual, as otherwise the market price will immediately rise to a level which farmers can't afford. Moreover, it will not be adequate to cover reasonable cost of production of a number of units.

So the consumer price can be raised gradually,

over a period of 5 years. Incidentally, a 10% increase in fertiliser prices will cost Rs 600 crores in subsidy and increase cost of food grains by 10 to 15 paise per kg.

Small and marginal farmers will have to be protected through separate package. Consequently, when de-control is introduced at the end of 5 years, the farmer will be prepared to pay the price at which the industry also has a fair chance of surviving.

But for this to succeed, input prices which are already high, should be frozen at existing levels, no further increase in taxes and duties and finally various controls on fertilisers should go.

The time to take stock is now. Or else it may be too late.

Fertiliser Security A pre-requisite to food security.

This is the last in a series of three advertisements issued in Public Interest by The Fertiliser Association of India.

M. G. L. FAL 0957

In other words this policy means that there will be a transfer of income from the farmers to the big seed companies. The farmers are forced to pay this subsidy because they have no choice. Further, this subsidy of the seed companies by the farmers is actually a subsidy of the rich by the poor.

It is not only the immediate interest of the farmers that are affected by plant breeders' rights, but also the long-term goal of the nation of obtaining the fruits of modern technology, particularly the fruits of biotechnology. It is not only the high costs of the technology which is at stake but the very availability of the technology itself.

A technology does not become available, just because some company imports a seed containing the technology or even if it multiplies the seeds in the country. We can say that the technology is available only when the technology can be suitably modified to suit Indian conditions. The conditions under which the technology is being introduced, namely, under the control of multinational corporations will prevent this work from being done. For the multinational corporations, even a comparatively big market like India is actually only a test market and the global research strategy of these corporations is determined by the markets in the developed countries. They would be satisfied with markets that can be obtained by catering to the needs of the comparatively better endowed areas and farmers and neglect the rest of the country. They are not likely to undertake the arduous task of modifying it for further adoption. Since the new variety is also the property of the multinational, no one else can also take up adaptive work.

This in fact means that the 'modern technology' would not be available to the majority of the farmers. This impediment to the absorption of technology would be made even more difficult since there will be a lot of pressure on the government not to take up the development of finished varieties and concentrate on basic research.

This is a fact which distinguishes the current agricultural developments from the one which took place during the green revolution. During the green revolution the key technological input, namely, the new fertiliser responsive dwarf varieties of seeds were in the public domain. The dwarf varieties which initiated the green revolution were developed in the international agricultural institutions and belonged to all the people. Whatever might be the distortions introduced through the green revolution this was a positive aspect of the green revolution. In contrast, in the current application of biotechnology, the breakthrough is not likely to be the property of public institutions but of the multinationals. Therefore, in the new regime, the extent of absorption would be that much reduced.

The legitimisation of intellectual property rights through the GATT would thus further buttress the position of these multinational corporations, and make the absorption of technology that much more difficult.

EXPORT OF AGRICULTURAL PRODUCTS

One of the main arguments for allowing the introduction of plant breeders' rights is the prospect of agricultural exports. This point was concretely raised in the context of the new seed import policy⁹ when the import of seeds and the introduction of intellectual property rights were argued as necessary for gaining export markets. All the same we would argue that the introduction of plant breeders' rights will actually reduce our prospects of gaining from the export market. This is linked to the nature of the system set up to undertake exports.

Multinationals require plant breeders' rights because of the kind of exports they undertake. They use the developing countries to multiply the seeds which they have developed. These raw seeds are then often exported to their base countries and then re-exported to other countries. Therefore, quite a lot of the value addition takes place in the developed countries and the developing country is merely used for its cheap labour and advantageous climatic conditions.

This is shown quite clearly by the pioneering study about the Dutch seed industry by Groosman and van den Meerendonk [1983]. In 1980 the price per kilo of the imported seeds varied between 24 per cent to 76 per cent of the value of the (re)exported seeds [Groosman and van der Meerendonk 1983: 34]. The international division of labour followed in the production of bean seed by the second biggest Dutch horticultural seed company, Royal Sluis, is quite instructive.

The breeder seeds are produced in the Netherlands. The first multiplication of these seeds take place at the daughter company in Idaho, USA. Later, the seeds are again multiplied in Tanzania. Since labour is cheaper in Tanzania the harvesting can be done more manually thus avoiding damage of the seeds [op cit 88-89]. Although the acreage under bean seed in the Netherlands has been steadily declining from 1,110 hectares in 1970 to 660 hectares in 1980, the exports of bean seed has been steadily going up from 5,899 tonnes in 1970 to 9,411 tonnes in 1980, and then to 11,485 tonnes in 1982. In 1980, 12,201 tonnes of bean seed was imported to the Netherlands with almost three-fourths of it being from Tanzania [op cit 28-29 and 107]. The same year, as we have just seen, 9,411 tonnes of bean seed was exported from the Netherlands. The price per kilo of the imported seed was only 49 per cent of the re-exported seed [op cit 34]. Here we see clearly the operation of a system in which Tanzania, the producing country, receives only a minimal share of the gains from exports due to the domination of the foreign company.

In such a system of exports, it is important for the MNC that it can claim monopoly rights by the legal system of PBR. Otherwise the farmers who are multiplying the seeds will be in a position to export the seeds directly.

In the earlier system of PBR, a breeder could not prevent the imports of the protected variety from another country where



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It might get multiplied. After the new revision the permission of the breeder is necessary not only for multiplication and sale but also for exports and imports. Because of the changes in the system it will not be possible either to export seeds of the modified version of the variety. Thus with the current revision the possibilities in the earlier system of IPR by which sub-contractors could turn into competitors have been removed. Thus the legal system has been also modified so that multinationals can continue to maintain their control over their global network of production.

The question is whether this kind of exports based on subcontracting is what needs to be developed. It might appear to be an easy way to earn foreign exchange in the short run. But this type of subcontracting limits the gains which can be made by the export of seeds. It is a different question if it is used as a stepping stone for independent seed exports.

Some people are afraid that if India does not accept some form of intellectual property it will not be possible to obtain the new varieties developed in the developed countries. The fact is that many firms have been able to obtain new varieties without having PBR. Further a healthy export trade in seed should not and cannot be based on subcontracting to MNCs. It can only be based on a system of integrated seed production which includes breeding, multiplication and processing. Such an export industry should be based on technological capabilities and agro climatic conditions rather than on legally enforced monopolies. In fact rather than developing a rational system of international trade, these legal monopolies will only distort the international trade apart from reducing our gains from agriculture.

The negotiations on Trade Related Intellectual Property Rights by making it obligatory on the part of member nations to extend the scope of monopoly rights to plants, is forcing agricultural development to take place in a particular direction which will be in the interest of the multinational corporations. At the same time the imposition of property rights in plants even if it is only PBR will affect negatively the growth in the supply of seeds, the income of farmers, the absorption of technology and the prospects for export incomes.

Notes

- 1 A recent survey of 18 most R and D intensive US industries by Levin and his colleagues [1984] indicates that product patents were regarded as more effective than other means of appropriation only in the drug industry. The survey results indicate that in general patents were viewed by R and D executives as an effective instrument for protecting the competitive advantages of new technology in most chemical industries including the drug industry, but patents were judged to be relatively ineffective in most other industries.
- 2 A public good has the attribute that each individual's consumption of such a good

leads to no subtraction from any other individual's consumption of that good" [Samuelson 1954, quoted in Besen, Stanley M 1987]

- 3 See Scherer, F M [1980], for a good review of the studies.
- 4 We have argued that many of the more recent studies are forced to recognise the interlinked nature of innovation thereby undermining the arguments for patent monopolies. Spill-over effect, that is, the fraction of the R and D of a firm used by another is shown to have a positive effect on technological performance undermining the arguments for monopolies. By preventing standardisation and the growth of complementary products, intellectual property rights are shown to inhibit the utilisation of network externalities.
- 5 This is also true of the US Plant Patent Act of 1930, which in spite of its name resembles PBR more than ordinary industrial patents.
- 6 According to the latest information available the Convention for revision held in Geneva between March 4-19, 1991 has agreed to severely restrict farmers exemption and that the adopted text differs from the draft text only marginally. See UPOV Revises Convention [1991].
- 7 The United States government announced in 1982 that it would end a century of varietal release work and confine the work to basic research. Similar developments have taken place in other countries such as the Netherlands, West Germany, Sweden etc. [Information Notes 1983].
- 8 Berlan and Lewontin discuss about the impact the plant breeders' rights and the consequent payment of royalties have had on the small (non breeder) seed industries in Britain and France. See Berlan and Lewontin [1986] p 786.
- 9 For more details of the New Seed Import Policy see Menon and Sadananda [1989].

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Rites and Beliefs in Modern India

Gabriella Eichinger Ferro-Luzzi (ed)

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PEOPLE-THE DECISIVE DIFFERENCE

**SPEECH OF THE CHAIRMAN, SHRI K L CHUGH
AT THE FIFTEENTH ANNUAL GENERAL MEETING
OF THE COMPANY ON 3rd JULY, 1991, AT HYDERABAD**

Changes in the policy framework would encourage the industry to become a capable world player and a significant foreign exchange earner and as I have often said a major employer in the Rural Sector

I am pleased to welcome 2 667 new Shareholders who have become Members of the Company during the last year raising the total number of Shareholders to 14 724

Last year's results are a continuing tribute to the unrelenting efforts of your Company Employees and I take this opportunity to express on your behalf and on behalf of the Board of Directors our appreciation of their efforts. Despite adversities in terms of floods and some temporary personnel issues profit after tax increased by 91% to Rs. 15 47 crores with earnings per share improving to Rs. 14 64 from Rs. 7 67. Capacity utilisation during the normal working period, at 138% was an all-time high. Considering the good performance of your Company your Board has recommended an increased dividend of 37 5% compared to 32 5% in the previous year. Investors confidence in your Company is reflected in the high price of your Company's share which has for the first time crossed the price level of Rs. 150/

Coupled with the above facts is the reality that your Company has brought progress opportunities and new light and life to a backward area. These ventures must give you cause for satisfaction as owners. It makes you investors in progress and enriches the quality of the returns which you earn on your investment.

You will recall that last year I had shared with you that your Company was embarking on a market expansion strategy to ensure profit growth and survival. This meant that whilst we would retain our position in traditional strongholds we would be entering the high-value premium segment of the market. I am pleased to communicate that in furtherance of its competitive strategy your Company has successfully developed through Research and Development high value products both for the domestic and the international markets. You are aware that your Company has been pro-active and has made timely investments in the last few years the benefits of which we are now reaping. To further fortify our position in the industry, we will continue to make substantial investments in modernisation, quality upgradation, balancing equipment, and capacity expansion. All this would require substantial liquidity. In this perspective your Board has transferred Rs. 11 51 crores to General Reserve this year raising the total General Reserve to Rs. 36 crores.

Amongst the most important sources of competitive advantage is superior energy management. The commissioning of the Atmospheric Fluidised Bed Combustion Boiler with a turbo-generator of matching capacity completes the total energy project which shields your Corporation from the vagaries of external power supply and arms the Organisation with further competitive edge.

To enable the industry play its role, both in the national and international perspective Government Policy must encourage investments not only for modernisation of existing capacities but also for establishing fresh capacities. Towards this, the import of critical capital equipment will need to be encouraged at rates of import duty much lower than the prevailing 65%.

Sharing the national concern on the Balance of Payments position YOUR COMPANY THROUGH AN AGGRESSIVE AND VIGOROUS EXPORT EFFORT HAS EMERGED AS THE LARGEST EXPORTER OF PAPER IN INDIA. Our export earnings have increased by 80% compared to the previous year, to over US \$ 3 5 million. The success of our export effort is a corollary of the fact that the Indian Paper Industry is capable of capturing market niches in the full face of international competition. The present prognosis is that the industry has to gear itself to satisfy a demand of 52 lakh tons by the year 2000. However in the perspective of the success of our international efforts we may indeed have set our sights too low. Changes in the policy framework would encourage the industry to become a capable world player and a significant foreign exchange earner and as I have often said a major employer in the Rural Sector.

We cannot of course predicate the industry growth at the cost of the environment or pulp-wood supply from the natural forests. Pulp-wood has to be grown in Captive Plantations and Economy of Scale in mill sizes will have to be built in with technology that is contemporary to become competitive and give the consumer quality products at prices that are internationally competitive. Presently the industry is dependent on large imports of raw materials, both pulp and waste paper consequent to the ban on supply of pulp wood from natural forests. As a measure of conservation the Government had placed import of raw materials under open general licence and had also exempted it fully from customs duty. It is unfortunate that customs duty of 40% on waste paper and 10% on pulp has since been imposed making domestic production very expensive. This is likely to become counter productive and would stifle the domestic industry. The eventual outflow of foreign exchange to import the finished product to bridge the supply/demand mismatch will be higher than the outflow of foreign exchange to import raw materials for use by the industry in India.



Paper Industry has always been capital intensive. The last few years have however witnessed the capital intensity escalate very rapidly from Rs. 10 000 per annual installed ton in 1979 when your Company's mill was established to approximately Rs. 40 000 per annual installed ton today. At this cost the setting up of a mill of Bhadrachalam's size

Perhaps the single greatest upheaval in the traditional paradigms of business is in the area of Information Systems and Organisation Design. Since Information Systems have increased the span of managerial jobs it tends to flatten the organisation structure and releases whole layers of people from routine communication coordination and control jobs. The conventional pyramidal organisation is gradually transforming into an organisation of clusters and networks of people who form dissolve and re-form to resolve issues in a turbulent and dynamic environment.

would involve an outlay of over Rs. 300 crores. To enable the industry play its role both in the national and international perspective Government Policy must encourage investments not only for modernisation of existing capacities but also for establishing fresh capacities. Towards this the import of critical capital equipment will need to be encouraged at rates of import duty much lower than the prevailing 65%.

In the National Policy Framework therefore, if the Government -

- (1) facilitated the industry's investments in scientifically managed plantations,
- (2) allowed the import of critical capital equipment at rates of import duty that are much lower than prevalent today enabling the Indian Engineering Industry to add further value and
- (3) in the short term reduced the customs duty on the import of pulp and waste paper the industry would be able to make meaningful strides towards progress and become a source of strength and prosperity to the national economy. Attention of Government, therefore, must focus on these issues which are, in fact, opportunities for Government and Business to affirm their partnership in the Nation's development.

The fundamental task of your Management is to ensure the prosperity of your Company in perpetuity. Continued environmental scanning reveals opportunities in the Financial Services Industry. These opportunities are matched by complementary skills within your Organisation. Diversification into this industry would create new income-streams which will further strengthen your Company. It is considered advisable therefore to enter this business on a long term basis through a wholly owned subsidiary. The investment in this company to start with will not exceed a sum of Rs. 5 crores with your Company having the controlling interest. To infuse strength into this diversification proposal it is necessary to integrate certain intangible assets which rightly belong to your organisation. As members you are aware that Bhadrachalam Paperboards Limited was promoted by ITC Limited. In its embryonic years ITC Limited nurtured Bhadrachalam through its trials and tribulations. Since Bhadrachalam Paperboards Limited is an integral part of the ITC Group it is proposed to change the name of your Company to ITC Bhadrachalam Paperboards Limited. The intangible assets of two strong and vibrant names ITC and Bhadrachalam will not only further strengthen of your Company but will also infuse a competitive strength to our new proposed Financial Services Organisation. I look forward to your support for these proposals.

PEOPLE-THE DECISIVE DIFFERENCE

I now come to today's theme which is dedicated to the people who make things happen. THEY MAKE THE DECISIVE DIFFERENCE. Human Resource is the prime mover of advancement and development. The strides that companies and indeed countries make is founded on the ability of leadership to tap the productive genius of a people. However to develop people appropriately it is necessary to comprehend the emerging scenario and the environment in which they will have to perform.

THE CHANGING BUSINESS ENVIRONMENT

Ours is a protected economy and this has impeded accelerated accretion to national wealth. Undue protectionism has created a high-cost low quality economy. Resultantly

in a globalising world our competitiveness is poor. The reality is reflected in our Balance of Payments and Internal Debt position which has reached crisis proportions.

Whilst we ponder over our own realities, a new world economic order is rapidly taking shape. Philosophies and dogmas which held sway for over a century have been dismantled in less than one year. Throughout Eastern Europe the cry is to shift from a command to a market economy. The business-geography of the world is changing with the emergence of economic communities ushering in a new kind of citizenship and creating new compulsions, opportunities and challenges for countries and companies throughout the world. These developments will inevitably affect the way Nations and Corporations strategise to ensure their growth and survival and prove their good corporate citizenship.

The work-force and personnel of the future will contain numerous specialisms which need to interact synergistically. Business leaders must encourage and create the circumstance for team building and productive collaboration between Specialist and General Managers to achieve business results.

To meet the challenge posed by these rapid changes, it may be necessary to question the fundamental precepts of the model followed by us till now, which places capital at the centre of the developmental process. I believe that Capital should now be replaced by People who should occupy the centre stage. Of the seven basic resources of the manager (Men, Machines, Materials, Money, Time, Land and Ideas), it is the human resource that creates value and achieves the productivity necessary for success. What then must be the framework for human resource strategies? What will equip the People of Tomorrow to manage the market products and technologies in the emerging world economic order? Answers to these questions is a Top Management responsibility. Today's Top Management must prepare its people to face the challenges ahead and thus perpetuate the Organisations they govern.

CREATING AN INTERNATIONAL PERSPECTIVE

To create the market-driven companies of the future, we will have to develop an international perspective in our employees to facilitate the required change. Traditionally, our people have confined their perspectives to within National boundaries. The changing demands make this perspective obsolete.

In the sphere of Marketing, as the future unfolds, perceptions of the customer are changing from a Mass Market in the 50s and 60s to a Segmented Market in the late 70s and 80s, and now into a matrix of niches with a very demanding product and service satisfaction criteria. To succeed in a stochastic marketing scenario, we will have to underscore the basic maxim of marketing: that the customer must come first. We must affirm that marketing expenditures are in fact investments in creating competitively superior products and services. Marketing processes must not be limited to the marketing function but should include the entire organisation and strategy must integrate the various structures and functions of an organisation to deliver satisfaction to the customer on an on-going basis. Cross-cultural and international marketing will require the induction of skills and the infusion of marketing knowledge through training programmes within the Company.

Technology ingestion will have a significant impact on almost every aspect of business. The technologies of yesteryears which were based on conventional electrical, mechanical and chemical engineering, are now being overtaken by new knowledge in microelectronics, semiconductor, genetic engineering and robotics. Strategic alliances will have to be forged to facilitate skills and knowledge transfers to create globally competitive concerns. These new alliances, knowledge and technologies create opportunities for learning and training a new breed of people. The ingestion of this new learning will create new opportunities for human resources development in a multinational context.

Perhaps the single greatest upheaval in the traditional paradigms of business is in the area of Information Systems and Organisation Design. Powerful new software in On Line Expert and Executive Information Systems have been developed. These in tandem with hardware breakthroughs in Cellular Radio Technology, Optical Storage Media and Neural Networks have made Information Technology increasingly people friendly. The most significant area of the effects of this Technology on the modern organisation is in the sphere of Organisation Design. Since Information Systems have increased the span of managerial jobs, it tends to flatten the organisation structure and releases whole layers of people from routine communication, coordination and control jobs. These resources can be retrained and redeployed.

Leadership must encourage risk-taking and innovations to face the changing challenges that organisations have to deal with in the emerging world economic order. Leaders must allow for occasional failure as a process of learning.

The conventional pyramidal organisation is gradually transforming into an organisation of clusters and networks of people who form, dissolve and re-form to resolve issues in a turbulent and dynamic environment. In the flattened organisation structure of future companies, compensation packages will not necessarily follow the logic of level in a pyramid. Infusing knowledge into and empowering the work force will create the commitment necessary for competitive success and will prevent undesirable absenteeism and turnover.

In no other area has the future arrived faster in our global village than in Financial Management. In this area, information is directly linked to competitiveness in the trade of financial instruments. These developments in Financial Management will facilitate increased investment opportunities and the emergence of tailor-made products for specifically defined customer segments. Expertise in currency management and funds deployment will have to be created. The role of the controller will now progress from Financial Accounting and Management Accounting to a new form of Strategic Business Accounting.

A BLUEPRINT FOR THE HUMAN RESOURCE

Traditionally, the accounting treatment of people classifies them as costs rather than investments. How often have we heard that People are our greatest asset? The tragedy

is that this is becoming a cliché. Actions have belied words, and the wrong kind of compromises have been made which have affected the credibility of leadership. In India, over protection and lack of competition in the economy has created a situation leading to a continuous outflow of human talent which aspires for meaning in their work as well as improved monetary rewards. It has given us the luxury of accepting mediocrity. Managerial practice has often used talent but rewarded mediocrity for their own comfort. This style of management is a complete anathema to the internationally competitive organisation we want to create and establish.

In formulating our blueprint, we must begin with the creation of an Organisational Philosophy. This Philosophy must have the active commitment of people. It must not be so esoteric that it is difficult to comprehend throughout the company. Most importantly, it must be seen to be practised. In fact, it is better not to have an organisational philosophy at all, rather than to have one which is denied every day in our work practices. This affects morale adversely and breeds cynicism in the Organisation. In Bhadrachalam, we knew that our people could share a common vision only if that sharing was rooted in a common culture. Over the years, our organisation's philosophy based on knowledge, candour, understanding, commitment, hard work and mutual respect has created a vibrant culture which has enabled your Organisation to achieve pinnacles of productivity. To paraphrase a verse in the Rig Veda: there is union amongst us because of the common wishes of our hearts.

Based on our philosophy and culture, people policies and practices in Bhadrachalam have been formulated. We have tried to foment a sense of fraternity, togetherness and belonging. We have emphasised the pre-eminence of the team and have underscored the reality that the output of hard working teams is greater than the sum of the individual inputs of the persons who comprise the team. We have given competitive monetary rewards, have ensured hygienic work and living space and have created the availability of the basic amenities for health and education. In short, we have designed and delivered an anxiety-free environment conducive to learning, performance, productivity and progress. These actions have been fundamental to the success of your Company which was facing the challenge of creating a successful enterprise and a new culture in a backward area and in a very competitive industry. As a measure of our commitment to learning, your Company is establishing a Research Centre which will pursue research and harness actionable knowledge relevant to business management practices in India.

As we take ourselves forward to grow and carve a niche in international markets, we can take sustenance from our past investments. If learning has become an organisational habit, we can face the future of discontinuous change with confidence.

To make work productive and people achieving, we have to effect the transition from the managing of personnel to the leadership of people. To achieve this successfully, leaders must:

First, shift their role from the directing to the development of the human resource. In the rapidly changing markets and customer requirements of the future, with far-flung operations, it is impractical to direct the work force in the traditional sense. The development of people and infusing them with new knowledge and learning is the sure formula for future success.

To effect the transition from national performance to international entrepreneurship strategies will have to be formulated around the development of the human resource.

Secondly, leaders must provide parameters for employees to become increasingly self-managed. The employees of the future will desire a degree of autonomy and psychological ownership of the jobs which they perform. This will give them a sense of achievement and will enhance considerably the productivity of their efforts.

Thirdly, the work force and personnel of the future will contain numerous specialisms which need to interact synergistically. Business leaders must encourage and create the circumstance for team building and productive collaboration between Specialist and General Managers to achieve business results.

Fourthly, speed has become the watchword. The one common denominator in all dimensions of business in the future will be managing the increasing rate of change. Business leaders must adopt practices which stimulate speedy responses from the organisation. To achieve this, decision making must be decentralised to the lowest level possible and people must feel empowered to act rather than to keep seeking permission. To improve the quality of decision making, business leaders must ensure that employees have access to the necessary information which is required for the making of their decisions.

Finally, leadership must encourage risk-taking and innovations to face the changing challenges that organisations have to deal with in the emerging world economic order. Leaders must allow for occasional failure as a process of learning.

In developing our blueprint for the management of the human resource, it must be underscored that what we need is not meetings, seminars and proclamations, but action.

But no meaningful human resource strategy can ignore our senior citizens. The retired human resource is still an employee on pension and a elders and ambassadors of the Corporation, their interests and well-being must continue to command our due attention. Organisations that value people must prepare them to lead lives of fulfilment and achievement even after they have finished their years of productive service in the Organisation.

CONCLUSION

In conclusion, the performance of your company during the last year and indeed over the past eleven years, gives us cause for satisfaction and sanguinity. The efforts of your employees have made your Organisation a leading entrepreneur on the national scene in the paper industry. But there are developments in the environment which will engulf us and compel us to make changes that enable us to succeed in the emerging international economic order. To effect the transition from national performance to international entrepreneurship, strategies will have to be formulated around the development of the human resource. To implement these strategies will not be an easy and painless task. But there is no alternative and no escape from this challenge. Let us therefore commit ourselves and move ahead with determination and confidence.

The management of people is the key to success in the 21st Century.

Plain Tales of This Raj

Nasir Tyabji

The Child and the State in India: Child Labour and Education Policy in Comparative Perspective by Myron Weiner; Princeton University Press, Princeton, 1991, pp xvi + 213, price not stated

COLOUR supplement stories by cub reporters and earnest Master of Social-Work theses have succeeded in consigning the topic of child labour to the very softest and most boring end of the social sciences research spectrum. Child labour is perhaps the most visible manifestation of the prevailing conditions in our rural areas. But exposure through repeated voyeuristic features has led to the utter deadening of interest in it amongst people who might, for instance, rightly be agitated about the ecological effects of economic growth, nuclear power, big dams and so on. Myron Weiner's book, by relating the question of child labour to our compromising policies on compulsory education, both raises the level of the problem's analytical importance and poses the issue as pre-eminently political and not salvationist.

Weiner looks at the prevailing explanation for the supply of child labour: that poverty forces poor parents to send their children to work, that these parents do not believe that schooling would benefit their children, that the children learn skills through work. On the demand side, employers, who prefer children because they are pliable, accept lower wages, are not unionised and who ensure the industry's viability, form a powerful opposition to curbs on child labour. While Weiner does not disagree with this analysis, he is convinced that the Indian case is not unique. First World societies in the past, he argues, had substantially reduced the incidence of child labour, through policies of compulsory primary education. These measures were enforced, in many cases, long before household incomes had risen to a level where the children's contribution was marginal to the household's survival. Many Third World countries also have a substantially better record than ours.

The point, of course, is not that child labour was abolished in these countries without prolonged political struggle. In Massachusetts, for instance, legislation was passed as early as 1647 requiring all parents to ensure that their children could read. However, only in 1873 were truant officers appointed to enforce school attendance. The initial impetus in Massachusetts came from active proponents of Protestantism. However the important point that Weiner makes is that there have been a variety of impulses leading to compulsory primary education in all countries where the incidence of child labour is low.

In India, in spite of constitutional provisions for primary education (and against child labour), neither has been successfully

implemented. Myron Weiner argues that the reason for this is that these two issues are analytically interconnected, and that for the failure of both, there are deep seated beliefs, amongst civil servants and policy makers, that the resolution of these problems must wait until some basic changes occur in the structure of employment opportunities, and in the standards of primary school education.

What Weiner does not mention is that this set of beliefs forms the ideological counter part to the actually prevailing agrarian situation, that the ruling political circles are interested neither in thoroughgoing agricultural reforms, nor in the introduction of the kind of technological base requiring mass literacy. Not surprisingly then, the book ends on a note of deep pessimism.

One is left then with the pessimistic conclusion that barring a conceptual change in the thinking of those who make and implement policy and a new direction in policy by the Indian government, the number of children in the labour force will not significantly decline, conditions for working children will not significantly improve, school retention rates will not significantly increase and the literacy rate will continue to grow at a slow pace and will leave a large part of the Indian population illiterate well into the middle of the twenty first century.

If this is so, then what is unusual in Weiner's thesis? One element is his observation that child labour in India is largely a preindustrial pre capitalist component of the labour force. Another significant observation is that child labour in India represents the traditional role of the child as worker and is not the product of industrialism and capitalism. However Weiner treats these observations almost as incidentals, and does not develop their implications for his own proposals.

There is in fact a very interesting discussion of the historical changes in the way children are perceived—in the change of the view of them as valuable wage earners to that of economically useless but emotionally priceless objects which accompanied the very development of the concepts of childhood and later of adolescence. Initially of course the ruling circles, while making this distinction about their own children, denied it of the children of the working people. Weiner believes that this expression of double standards of course dominant in India is reinforced by the caste system. Given the apologetic reaction to the Mandal Commission, the depth of this feeling can hardly be missed but whether it is

especially the product of the Hindu social ethos is debatable. After all, South Asia as a whole, as Myron Weiner shows, is a black spot as far as child labour and primary education is concerned. Though Weiner does not say so, what we also share in common is a largely unmodified agrarian structure, a legacy of colonialism. Significantly in this context, Myron Weiner's Third World examples (where child labour is substantially reduced) are, firstly, China, Taiwan, South Korea, and our own Kerala. The nature of agrarian transformations undertaken by both revolutionary and post-war occupation regimes in these cases is well known. In Sri Lanka, the final case, the impetus for compulsory education came from a unique set of circumstances. This lay in a post-colonial assertion of Sinhala chauvinism, which sought correction of Tamil-Sinhala disparities in education.

The historical case studies do certainly show that the struggle to abolish child labour and introduce primary education was substantially distinct from the purely political struggles in various countries. In England, the predominant compulsion was for the appropriate socialisation of working class children, in Austria, the clergy, wishing to protect children from the revolutionary bourgeois ideals of the French revolution, was the primary force for early schooling through most of the 19th century, in the United States, puritan conceptions of the innate depravity of children and the need to overcome it through schooling provided the impetus. In Prussia, militaristic nationalists were concerned that early factory work for children reduced the labour supply for army recruitment. Measures for compulsory primary education, which prevented child labour, were thus introduced. Finally in Japan, as in England, primary education was seen as a socialisation measure after the rapid expansion of schools under the Meiji leadership.

Whatever the reasons for the diffusion of compulsory primary education in specific historical contexts, there are few signs of any forces directly political or not—pressing for it in India. It is true (although Weiner has not examined this), that after the 1985 Education Policy effectively diluted the Constitutional conception of this goal, AITUCIO did have a vigorous round of mobilisation on this issue. Education policies never have been the subject of public debate in India. Even during the independence movement when a large number of the essential components of Indian development were first formulated, debates on education played a minor role. Further, as in so many other cases, Gandhi's ideas on 'basic education' (craft or productive work as the nucleus of education) were transformed after independence. Whatever may be the views on the long term value of basic education, the pre independence proposal was at least non discriminatory, as it was expected to encom-

present-day advocates of non-formal education, work-itself-as-education, and so on, see it only as an answer to the problem of poor families in the precarious occupations.

An important point made by Weiner, though perhaps not as explicitly as is necessary, is in connection with the often-heard argument made by civil servants that there is unfortunately no political support for policy initiative in areas like education. He refers to the unexpected interest shown by the Rajiv Gandhi administration, where the new government announced its intention to review policy as early as January 1985. Although it quickly became clear that the review had no intention of addressing the real issues affecting education, the entire exercise showed that there is overwhelming political support for policy initiatives which meet political exigencies, even in areas like education, conventionally conceived as a soft area.

It is a depressing indication of the blinkered concerns stemming from such exigencies that Myron Weiner was so easily able to trip up an official of the education ministry, who showed unawareness of the distinction between legislation enabling compulsory education rules to be enforced by local authorities, and compulsory primary education as we all know it. Weiner was evidently more determined an advocate of education than all the MPs present in parliament when the New Education Policy was introduced. The official claimed that the entire matter had been 'researched' in response to a parliamentary question, so presumably the distinction between enabling and more substantive legislation was missed by the MP in question. And who knows, had the matter been pressed, could it not have plausibly been argued that education was on the concurrent list anyway?

An important issue is the relationship between the 1985 Education Policy and the Child Labour Act, finally approved in January 1987. Weiner identifies the government of India's official paper titled 'Working Paper on Child Labour in India—Implications for Educational Planning' presented to an ILO Workshop in late 1986 as providing a connecting analysis of the two policies (p 99 fn). It would have been useful if this linkage had been further developed in the book.

Given that the bulk of India's traditional exports still originate in the handicrafts sector, and the critical importance to the economy of whatever exportable commodities anyone will buy, there is now a firm vested interest in the continued use of child labour and the continued neglect of primary education. Of course, it is true that in the bulk of child-labour employing industries, export earnings are not a factor; it is equally true that to the traditional votaries of what Weiner refers to as the 'Politics of Doing Nothing' are added the high profile 'increase exports' town criers. It is significant in this context that an official of the Handloom and Handicrafts Exports Corporation,

which runs 200 training centres for children, many well below 14, felt that banning child labour in the carpet industry would be suicidal for exports. In fact, it would not be suicidal even for the carpet manufacturers. The argument, even of some well-meaning people, that 'apprenticeship' from an early age is necessary to learn the skills in occupations such as carpet weaving is also bogus. The large bulk of the children work in occupations where they learn no skill. What they do learn is to accept monotonous, repetitive, work as the norm for the rest of their lives, if they are lucky enough to continue to be employed at all when they reach an age of effective potential defiance.

The official Indian view now makes a distinction between children's labour in productive household activities and wage labour by children in non-household enterprises (which is termed exploitative.) Underlying this distinction is the assumption that the elders of a household have more positive attitudes towards the well-being of the children than does an external employer. As the concern about the implications of declining sex ratios, female infanticide and other indications of the pressures of poverty and the lust for accumulation show, it is not at all clear that collectively the household elders would have a more sympathetic attitude, at least to girl children in their care, than would employers. To that extent Myron Weiner is absolutely correct in emphasising that agencies of the state have to intervene and protect children from pressures exerted on them by their elders. The only caveat would be that the state should have a complementary

set of policies that ensure that it does not defeat its own objective in so intervening. In Indian conditions the state should then ensure an adequate livelihood (the right to work) and adequate housing (in rural areas even a house site may be the critical factor in increasing the household's ability to resist forced labour).

Child labour and illiteracy are, singly or collectively, disgraceful features of Indian society but it is not a convincing argument to say that they continue to exist because of a series of false constructs in the policy-makers' minds. It is surely not a counter-intuitive proposition that households in collectivities respond both to pressures by the state, and to opportunities for themselves. In a footnote reference on page 110, Weiner refers to studies in the changes in attitudes to children in Europe and notes that as much as five centuries separated the first signs of the notion of 'childhood' in the 13th century and the concept of 'adolescence' in the 18th. Obviously very fundamental changes took place in the economy and society over this period, and in the requirements of the ruling circles.

In India, even the concept of childhood is denied to the large mass of children. The struggle for acceptance of childhood and adolescence for all is surely tied to the struggle for a decent life for all. We must be grateful to Myron Weiner for helping to push primary education into the arena as an area of mobilisation obviously critical for this goal.

[Meena Radhakrishna has commented extensively on an earlier draft.]

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Price Factor in India's Trade

Malati Anagol

India's Balance of Payments by G C da Costa; Himalaya Publishing House Bombay, 1990; pp 126. Rs 125.

G C DA COSTA's book on India's balance of payments could not have been at a more timely juncture than this when India is facing one of the worst balance of payments scenarios. The Seventh Plan has ended with an average trade deficit more than twice as large as that reached in the Sixth Plan. The commencement of the Eighth Plan is unmistakably facing an ominous prospect of increasingly unviable balance of payments brought on by simultaneous worsening of domestic and international environment – rising international prices of oil, shortages of essential commodities such as sugar and edible oil at home necessitating large imports, mounting debt service charges, deteriorating credit rating of the country, drying up of NRI inward remittances and deposits, less than optimistic outlook for exports with slowdown in growth in industrial countries and rising inflation at home.

da Costa analyses and unravels the factors that determined the course of India's balance of payments during the period 1970-71 to 1986-87 and makes observations, draws conclusions and recommends policy prescriptions based on his statistical analysis to tackle India's deepening balance of payments problem. It is interesting to note that the period covered by the study encompasses the decades of 1970s and 1980s – two decades as far as India's balance of payments experience is concerned. India enjoyed during the 1970s a comfortable balance of payments position when deficits in balance of payments were moderate and were financed by external assistance and country accumulated huge foreign exchange reserves which in some years were as large as ten months of financing of imports. During the 1980s, on the other hand with the slowing down of export markets abroad and liberalisation import policy, trade balances deteriorated rapidly. The reliance on commercial borrowings and NRI deposits to meet mounting deficits in balance of payments and low levels of foreign exchange reserves created concern, if not alarm, about India's balance of payments viability.

Though India enjoyed a comfortable payments position in the 1970s and difficult one in the 1980s, over the period as a whole two aspects of balance of payments of India stand out, first, the parallelism of the trade, current and overall balance, and second, the dominance of especially in the late 1970s and 1980s of trade balance in the balance of payments of the country.

The exclusive focus of da Costa's analysis is on identifying the factors in India's external and internal economic environment which have created, abated and ultimately increased trade balances over the period under study. The immediate or approximate determinants of trade balances are obviously the volume of exports, volume of imports and the net barter terms of trade which ex-

press the relative prices of imports and exports. These proximate determinants are ultimately influenced by external and internal developments, namely, movements in real incomes in industrial countries, inflation rates in those countries, trends in India's real income, movements in the real effective exchange rate of India and liberalisation of import policy.

India's volume of exports during the period under study showed two distinct phases – one covering the decade of 1970s during which the volume of exports grew at an annual average rate of 6.8 per cent per annum, and the other during the 1980s when the average rate came down sharply to 2.7 per cent per annum. These disparate movements in the volume of exports were basically related to the disparate movements, first, in the rates of growth of real incomes in industrial countries, and second, the real effective rate of exchange, which measures international competitiveness of India's exports. The first had positive and second negative influence on export performance of India during these two phases. The industrial economies which are the major trading partners of India grew at an annual rate of 3.5 per cent in 1970s as compared to an annual growth of 2.0 per cent per annum during the 1980s. As a result the Indian exports experienced a buoyancy during the 1970s while they lagged poorly in the 1980s. The real effective exchange rate fell sharply throughout the 1970s and had a positive effect on exports. However, the real effective exchange rate remained at a higher level during the 1980s, thus discouraging exports. da Costa's study clearly brings out the role played by competitiveness of exports in export performance during the period. He comments, "It does appear that the high growth in the volume of exports in the first phase is also in part attributable to the increasing competitiveness of India's export as reflected in the sizeable downward movement in the real effective exchange rate. The converse seems to be true for the second phase."

Volume of imports too underwent two distinct phases. However, unlike exports, the imports were almost unchanged and increased at an annual average rate of 3 per cent per annum only during the first phase but rose rapidly at an annual average rate of 10.3 per cent per annum during the second phase. The growth in imports was found to be directly associated with growth in real income in India and with the trend in relative prices of imports (measured by the ratio of unit value of imports and wholesale prices in India). Here again da Costa's study emphasises the role of prices in India's trade, thus, "it seems that low imports in the early years, conversely, the high imports in the later years were not only due to the relatively higher growth in the Indian economy, but

inter alia, due also to the relative lower prices of imports". The third development which influenced imports was import policy. Whereas the restrictive import policy of the first phase repressed the volume of imports, the import liberalisation policy of the 1980s increased the volume of imports by increasing the import dependence of the Indian economy. The average import-GNP ratio was 4.9 per cent for the first phase, this average shot up to 6.6 per cent during the second phase.

The third determinant of India's trade balance, namely, the net barter terms of trade rose sharply in the initial years of the 1970s and then declined sharply in the immediate post-oil crisis years. But again moved briskly up after 1980-81. India's terms of trade were basically influenced by three forces, namely, real growth in the economy of the industrial country, which had a positive effect on them, second, inflation rates in these countries which affected it in negative way, and third, India's exchange rate, the depreciation of which lowered the terms of trade and vice versa.

Thus, India's trade balance which has been dominant factor in the country's balance of payments over the period of under study was influenced by several factors in particular, real growth and inflation rates in the industrial countries, trends in India's real income, and movements in the effective exchange rates of the country and import liberalisation.

The study arrives at interesting conclusions. First, the comfortable trade balance in the 1970s and unsatisfactory trade balance in the 1980s were basically a result of the movements in the volume of exports and the volume of imports rather than the movements in terms of trade. Secondly, the real effective exchange rate has emerged as an important determinant of the movements in exports and of trade balance over the period under study. Third, for major years, dominant forces at work on India's terms of trade have been external in origin, namely, real growth and inflation rates in industrial countries. Thus, the depressed state of India's terms of trade over the period imposed a massive welfare loss from trade on the country.

G C da Costa rightly points out that since terms of trade are determined by external factors and should be taken as given, the policy focus should be on influencing the volume of exports and imports through domestic factors, namely, India's real income, India's inflation rate related to industrial countries and our import policy. In short, da Costa visualises the solution to India's persistent trade deficit through reorientation of our development strategy towards less import intensive path and financing of development by non-inflationary resources of finance which contain inflation and enhances international competitiveness of Indian exports. da Costa's book is an important contribution to the study of India's balance of payments as it highlights in unmistakable terms the role of 'price factor' in India's exports and imports.

Declining Incidence of Poverty in the 1980s

Evidence versus Artefacts

B S Minhas
L R Jain
S D Tendulkar

By constructing appropriate cost of living indices, which allow for the observed variations in consumption patterns and prices across states, the state-specific rural and urban poverty norms as well as the corresponding estimates of the incidence of poverty in 20 states and all-India in 1987-88 are presented. A set of criteria for ranking of states according to poverty alleviation performance is suggested. However, the reported numerical exercise in ranking is taken to reflect only a descriptive monitoring of the observed performance of different states between 1970-71 and 1987-88, without any pretensions to the analysis of the underlying causes of inter state differences in performance on the poverty front.

The paper also shows that the massive reduction in the incidence of poverty in 1987-88, as reported by the Planning Commission in 1990, is once again largely a consequence of the peculiar statistical artefacts used by the Commission. Just as it did with the 1983 NSS data, the Planning Commission has continued to indulge in mindless tinkering with the observed NSS size distribution of consumer expenditure for 1987-88 also. Appropriately computed incidence of poverty in 1987-88 (affecting appropriate price adjustment at the state level for the relevant poor population) comes to about 48.7 and 37.8 per cent, respectively, in rural and urban India, rather than the artificially low estimates of 32.7 and 19.4 per cent reported to parliament by the Planning Commission in 1990.

I

Introduction

IN two earlier studies [Minhas and Jain (1990) and Minhas et al (1989)] we presented state specific and all India estimates of the incidence of poverty, separately for the rural and urban population at five distinct intervals of time corresponding to five National Sample Survey (NSS) periods between 1970-71 and 1983. Recently [Minhas et al (1991)], the state specific cost of living indices for the entire rural and urban populations of twenty states for four consecutive agricultural (July-June) years from 1984-85 to 1987-88, based on two alternative weighting diagrams relating to the base years of 1970-71 and 1983, were introduced. Using the retail price data base of this latter (1991) study, this paper constructs (a) the rural and urban cost of living indices at the state and all India level for the middle fractiles considered relevant for updating the exogenously specified all India rural and urban poverty norms, (b) then estimates the incidence of rural and urban poverty in 1987-88 in twenty different states and India as a whole, and (c) undertakes a critical examination of the veracity of the Planning Commission's claim of a big fall in the incidence of poverty in 1987-88.

The layout of the paper is as follows. In Section II, we take up the construction of state specific cost of living indices for the middle-range of rural and urban populations for 1987-88 with 1970-71 as the base year. Here we also undertake updating of the inter-state price differentials separately for

the middle range of rural and urban populations from 1970-71 to 1987-88 and work out the state specific rural and urban poverty lines in 1987-88. The estimates of the incidence of rural and urban poverty in each state and all India in 1987-88 along with those for 1970-71 and 1983 are presented in Section III. This section also examines and analyses the comparative movements in state specific poverty incidence and numbers of the poor over the two successive time periods (1970-71 to 1983 and from 1983 to 1987-88) and also across the rural and urban sector of each state during each one of these two time periods. In Section IV, we compare our estimate of rural and urban poverty at the all India level for the 1980s with those provided by the Planning Commission. The paper closes with concluding remarks which comprise Section V.

II

State-Specific Rural and Urban Cost of Living Indices for Middle Population and Poverty Norms, 1970-71, 1983, 1987-88

To adjust the exogenously specified poverty norm for price changes at the state level one requires state specific cost of living index relating to the relevant section of the population. This relevant section of the population referred to as the middle range of the population, is taken to comprised persons falling within a range of monthly per capita total expenditure (MPCTE) which encloses the state specific poverty norm in the base year. Such state specific cost of

living indices for the middle range of population were obtained earlier for rural areas by Minhas and Jain (1990) and for urban areas by Minhas et al (1988) for National Sample Survey (NSS) years 1972-73, 1973-74, 1977-78 and 1983 with 1970-71 as the base year and using 1970-71 NSS consumer expenditure part in of the rural or urban middle population as the relevant weighting diagram. The price data used were the adjusted price relatives of the consumer price index series for agricultural labourers (CPIAL) for rural areas and the combined price relatives data of the consumer price index series for industrial workers (CPIIW) and for non manual employees (CPINM) for urban areas.

In this study we make use of the same 1970-71 weighting diagrams for the middle range of the rural and urban populations and the price relatives data of the same three series for the agricultural year 1987-88 as used in Minhas et al (1991) to construct statewise and all India cost of living indices (CPIR and CPIU), relating to the rural and urban middle populations, for 1987-88 with 1970-71 as the base year. These are presented in Table I. We also present in Table I the state specific cost of living indices (CPIR and CPIU) for the total rural and urban populations for 1987-88 with 1970-71 = 100 [which are carried over from Minhas et al (1991)] and the state specific price indices relative to all India (SVIR and SVIU) separately for the rural and urban middle population for the years 1970-71 and 1983. These are taken from our earlier studies [Minhas and Jain (1990)] for rural

and [Minhas et al (1989)] for the urban population. For a given state, applying CPIMR (CPIMU) for 1987-88 (1970-71 = 100) to SVIR (SVIU) in 1970-71, we obtain SVIR (SVIU) in 1987-88 and present them in Table 1 with a view to facilitating a comparison of the inter-state price differential (relative to all-India) over time from 1970-71 to 1987-88.

In 1987-88, the cost of living index for the middle population (CPIM), compared to that for the total population (CPIT), is found to be on the lower side for all states except Bihar, Orissa and West Bengal in the rural sector and five states of Gujarat, Himachal Pradesh, Jammu and Kashmir, Maharashtra and UP in the urban sector. This shows that the use of CPIT, instead of the appropriate CPIM, at the state level will cause the poverty norm and the poverty incidence to be over-stated in most of the states, both in the rural and urban areas.

Inter-state differential in the price index (relative to all-India) for the middle population (SVI) in 1970-71, 1983 and 1987-88 are found to be different from year to year in the rural as well as urban areas [see Table 1, Columns (7) to (12)]. SVI—in percentage terms—had the minimum value for (a) Andhra Pradesh in all the three years, i.e., 91.3, 86.2 and 86.0 per cent in the respective years 1970-71, 1983 and 1987-88 in the rural areas, and (b) Jammu and Kashmir (78.5 and 81.6 per cent) in 1970-71 and 1983 and Himachal Pradesh (82.2 per cent) in 1987-88 in the urban areas.

Maximum value for SVI in the rural sector was experienced by West Bengal (124.8) in 1970-71 and Kerala (118.3 and 126.3) in 1983 and 1987-88; and by Delhi (118.8), Orissa (116.8) and Delhi (115.3) in the same three respective years in the urban sector.

There was no discernible pattern in the movement of SVI over time from 1970-71 to 1987-88 for the various states. Both in the rural as well as the urban sector, there were states experiencing rise (decline) during period I from 1970-71 to 1983, followed by rise (decline) over the next period II from 1983 to 1987-88. On the other hand, there were other states which experienced rise (decline) during period I, followed by decline (rise) in period II.

We have taken the all-India rural and urban poverty lines as exogenously specified by the Planning Commission, i.e., monthly per capita total expenditure (MPCTE) of Rs 49.09 (rural) and Rs 56.64 (urban) at all-India level, both at 1973-74 prices.² These poverty norms need to be converted to prices prevailing in the survey years 1970-71, 1983 and 1987-88 for estimating the incidence of poverty in these years. For this purpose, we have used the appropriate cost of living indices for the relevant middle-range of population as described above. For the years 1970-71 and 1983 (with 1973-74 = 100), these indices are taken from earlier studies [Minhas and Jain (1990) for rural middle-range population and Minhas et al (1989) for the corresponding urban population]. For the year 1987-88, we have made use of the

indices presented in Table 1. These all-India poverty norms for 1970-71, 1983 and 1987-88 are converted to the state-specific prices by using the SVI for the respective years given in Table 1. The state-specific poverty norms, thus obtained, are presented in Table 2. Given the foregoing procedure, there is an obvious one-to-one relationship between the state-specific poverty norms and the state-specific SVI.

It may be noted from the results reported in Table 2 that, compared to all-India, the state-specific poverty norm in all the three years turned out to be on the lower side for four states in the rural and ten states in the urban sector; and, on the higher side, for twelve states in the rural and eight states in the urban sector. The states whose poverty norms fluctuated around the all-India poverty norm over the three years were Gujarat, Jammu and Kashmir, Rajasthan and Tamil Nadu in the rural areas and Karnataka and Tamil Nadu in the urban areas. Among all the states, in all the three years, the lowest poverty norm³ was noticed for AP in the rural and Jammu and Kashmir (except that it was the second lowest in 1987-88) in the urban areas. Kerala had the highest poverty norm in the rural areas (except that it was second to West Bengal in 1970-71), whereas in the urban areas the poverty norm of Delhi was the highest except in 1983 when urban Orissa had the highest poverty norm.

Line 22 in Table 2 presents the range in poverty norms across states as per cent of all-India poverty norm which provides an idea of the relative variability in poverty norms across states. This relative range can be seen to have declined over time in the three selected years for the urban population. For the rural

population, it increased in the drought year 1987-88 compared to the earlier two years. The inter-state relative variability fluctuated between 33.4 and 40 per cent, both in the rural and urban sectors, over the three years falling in the time period from 1970-71 to 1987-88.

III

Estimates of Rural and Urban Poverty Incidence

At the state and all-India level, we use the poverty line estimates obtained in Section II, along with the size distributions³ of per capita total expenditure (PCTE) available from the NSS, to calculate the headcount ratio measure of poverty incidence, separately for the rural and urban areas in each of the years 1970-71, 1983 and 1987-88. For this purpose, we have followed the procedures of simple linear interpolation between log x and P where x denotes monthly PCTE and P the proportion of state-specific population (rural or urban) with monthly PCTE less than or equal to x. Other non-linear interpolation procedures between x and P, which are more sophisticated but computationally more cumbersome than ours, have been noted to yield virtually the same estimate of the headcount ratio. We have therefore preferred the computationally simpler procedure. A comparison of alternative all-India estimates of headcount ratio and numbers of the poor are presented in Tables 3 and 4. The estimated rural and urban headcount ratios for each of the 20 states (as also all-India) are presented in Table 5. We also provide in Table 5 the estimate of headcount ratio at the entire state level which is obtained as a weighted average of rural and urban estimates, with the state-

TABLE 1: STATEWISE CONSUMER PRICE INDICES FOR MIDDLE (CPIM) AND TOTAL (CPIT) POPULATION FOR 1987-88 (1970-71 = 100) AND STATE SPECIFIC PRICE INDICES (RELATIVE TO ALL INDIA) FOR MIDDLE POPULATION FOR 1970-71, 1983 AND 1987-88: RURAL AND URBAN AREAS

| Sl No | State | 1987-88 (1970-71 = 100) | | | | State Price Index (All-India = 100) | | | | | |
|-------|-------------------|-------------------------|-------|-------|-------|-------------------------------------|-------|-------|-------|-------|-------|
| | | Rural | | Urban | | Rural | | Urban | | | |
| (1) | (2) | CPIM | CPIT | CPIM | CPIT | 70-71 | 1983 | 87-88 | 70-71 | 1983 | 87-88 |
| (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | | |
| 1 | Andhra Pradesh | 349.7 | 357.7 | 391.0 | 398.3 | 91.3 | 86.2 | 86.0 | 99.1 | 94.1 | 95.6 |
| 2 | Assam | 364.0 | 368.1 | 338.6 | 365.1 | 116.7 | 111.1 | 114.4 | 98.8 | 86.5 | 82.5 |
| 3 | Bihar | 368.5 | 366.9 | 381.9 | 393.2 | 112.3 | 113.1 | 111.4 | 107.8 | 105.0 | 101.5 |
| 4 | Gujarat | 387.5 | 394.7 | 421.5 | 418.8 | 101.9 | 99.4 | 106.3 | 106.5 | 108.3 | 110.7 |
| 5 | Haryana | 371.4 | 377.9 | 381.7 | 390.9 | 108.4 | 102.3 | 108.3 | 96.2 | 93.0 | 90.6 |
| 6 | Himachal Pradesh | 378.9 | 387.1 | 373.0 | 359.7 | 108.4 | 103.6 | 110.5 | 89.4 | 83.5 | 82.2 |
| 7 | Jammu and Kashmir | 427.3 | 429.5 | 436.3 | 430.1 | 93.4 | 102.4 | 107.4 | 78.5 | 81.6 | 84.5 |
| 8 | Karnataka | 366.9 | 374.0 | 412.0 | 417.5 | 95.8 | 93.8 | 94.6 | 101.1 | 99.2 | 102.7 |
| 9 | Kerala | 400.9 | 404.8 | 409.1 | 413.1 | 117.0 | 118.3 | 126.3 | 107.9 | 113.0 | 108.9 |
| 10 | Madhya Pradesh | 370.5 | 379.9 | 407.5 | 412.0 | 96.5 | 94.3 | 96.3 | 110.7 | 109.0 | 111.2 |
| 11 | Maharashtra | 375.6 | 378.3 | 426.7 | 420.9 | 105.9 | 104.6 | 107.1 | 106.4 | 113.3 | 112.0 |
| 12 | Manipur | 366.4 | 367.6 | 338.6 | 365.1 | 116.7 | 112.1 | 115.1 | 98.8 | 86.5 | 82.5 |
| 13 | Orissa | 384.0 | 381.9 | 379.9 | 386.0 | 103.4 | 111.1 | 106.9 | 114.9 | 116.8 | 107.6 |
| 14 | Punjab | 383.4 | 387.5 | 363.4 | 368.1 | 108.4 | 103.9 | 111.8 | 96.8 | 88.2 | 86.7 |
| 15 | Rajasthan | 430.1 | 436.7 | 409.8 | 412.9 | 95.6 | 97.1 | 110.6 | 102.7 | 101.5 | 103.8 |
| 16 | Tamil Nadu | 395.4 | 399.1 | 449.5 | 449.7 | 96.1 | 107.1 | 102.3 | 95.0 | 105.4 | 105.3 |
| 17 | Tripura | 356.3 | 366.6 | 338.6 | 365.1 | 116.7 | 109.7 | 111.9 | 98.8 | 86.5 | 82.5 |
| 18 | Uttar Pradesh | 402.1 | 410.3 | 396.6 | 394.2 | 91.4 | 93.9 | 98.9 | 97.9 | 96.0 | 95.8 |
| 19 | West Bengal | 341.6 | 341.0 | 364.1 | 381.2 | 124.8 | 117.7 | 114.7 | 99.8 | 90.0 | 89.6 |
| 20 | Delhi | 382.6 | 389.0 | 393.6 | 400.1 | 108.4 | 103.5 | 111.6 | 118.8 | 109.8 | 115.3 |
| 21 | All-India | 371.5 | 384.9 | 405.5 | 408.2 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

specific rural and urban populations as weights. For the statewide rural and urban populations, we have used the 1971 census estimates for the year 1970-71, the estimates given in *Sarvekshana*, Vol XI, No 4, Issue No 35, April 1988 (p S-222) for 1983 and the estimates given in *Sarvekshana*, September 1990, Special Number, Statement 1, (p 16) for 1987-88

OVERVIEW OF ALL-INDIA ESTIMATES

At the all-India level, two alternative estimates of headcount ratio can be derived (i) an estimate based on the all-India poverty line and the all India size distribution of PCTE, and (ii) the population weighted average of state-specific headcount ratios using state-specific poverty lines and state specific size distributions of PCTE. The estimate (i) can be shown to be equivalent to the population weighted average of state specific headcount ratios using a uniform all India poverty line for each of the states and state-specific size distributions of PCTE. Consequently, the difference between estimates (i) and (ii) boils down to the use of a uniform poverty line across states in (i) and state specific price adjustment factors in (ii). As a short hand description, we call estimate (i) as the direct all India estimate and estimate (ii) as the estimate aggregated over 20 states or the weighted average estimate. These two estimates are presented in columns (4) and (6) respectively in Table 3 for three time points of 1970-71, 1983 and 1987-88 and for the rural urban and combined (rural plus urban) populations, separately. Between these two estimates, the aggregated headcount ratio for 20 states (i.e. aggregated all India estimate or the weighted average estimate) is conceptually superior as a representative all India estimate. This is so because it allows for state specific variations in prices relevant to the poor population in each state.

Applying this weighted average headcount ratio to the all India population, we obtain the all India estimate (which we call the alternative estimate) of the number of the poor, which is presented in column (8) of Table 3. Two other estimates of the number of the poor are also given in Table 3. One of these, which appears in column (5) is derived by applying the direct all India estimate of the headcount ratio (in column 4) to the all India estimates of population. The other estimate, which is given in column (7), is an aggregate of the numbers of the poor in 20 states considered in this study. We prefer the estimate given in column (8) to those in columns (5) and (7) because of the more comprehensive coverage in terms of population as well as due to the fact that state-specific price variations are taken into account in its estimation.

Based on the aggregated results for 20 states given in Tables 3 and 4, the following findings may be noted. Both at the rural and the urban sector level, the headcount ratio estimate aggregated for 20 states (column 6) is higher than the direct estimate (column

4). The same holds for the alternative (column 8) and the direct (column 5) estimates of the numbers of the poor. Obviously, the differences in the two estimates are attributable to the different state-specific poverty lines used in deriving the aggregated headcount ratios in column (6). It is worth noting that substantial under-statement is involved—about 4 percentage points—in the direct estimate of headcount ratio in 1987-88 compared to the aggregated estimate for all India rural. This amounts to under-estimating the numbers of the rural poor by about 22 million in 1987-88 in comparison with the

use of the conceptually better, aggregated estimate of headcount ratio.

A continuous decline in the headcount ratio in the three selected years, both in the rural and the urban areas, is indeed apparent. Over twelve and a half years (period I) between 1970-71 and 1983, rural headcount ratio declined by 8 percentage points (from 58.8 per cent to 50.8 per cent) and the urban ratio declined by 6.5 percentage points (from 46.2 to 39.7 per cent). In the next four and a half years (period II) between 1983 and 1987-88 the headcount ratio declined further by 2 percentage points for both the

TABLE 2 STATEWISE POVERTY LINES FOR 1970-71, 1983 AND 1987-88: RURAL AND URBAN POPULATION
(Rs per Month and per Person)

| Sl No | State | Rural | | | Urban | | |
|-------|---|-------|--------|--------|-------|--------|--------|
| | | 70-71 | 1983 | 87-88 | 70-71 | 1983 | 87-88 |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1 | Andhra Pradesh (AP) | 30.15 | 80.31 | 105.43 | 38.69 | 104.69 | 151.28 |
| 2 | Assam (ASM) | 38.53 | 103.50 | 140.23 | 38.57 | 96.23 | 130.61 |
| 3 | Bihar (BHK) | 37.06 | 105.33 | 136.56 | 42.09 | 116.81 | 160.73 |
| 4 | Gujarat (GJT) | 33.64 | 92.64 | 130.34 | 41.58 | 120.48 | 175.25 |
| 5 | Haryana (HRY) | 35.77 | 95.27 | 132.85 | 37.56 | 103.46 | 143.36 |
| 6 | Himachal Pradesh (HP) | 35.77 | 96.49 | 135.53 | 34.90 | 92.89 | 130.19 |
| 7 | Jammu and Kashmir (J&K) | 30.83 | 95.37 | 131.73 | 30.65 | 90.78 | 133.71 |
| 8 | Karnataka (KRS) | 31.63 | 87.37 | 116.04 | 39.47 | 110.36 | 162.62 |
| 9 | Kerala (KER) | 38.62 | 110.23 | 154.83 | 42.12 | 125.71 | 172.33 |
| 10 | Madhya Pradesh (MP) | 31.86 | 87.86 | 118.06 | 43.22 | 121.26 | 176.11 |
| 11 | Maharashtra (MHR) | 34.96 | 97.45 | 131.31 | 41.54 | 126.05 | 177.25 |
| 12 | Manipur (MNP) | 35.53 | 104.45 | 141.16 | 38.57 | 96.23 | 130.61 |
| 13 | Odisha (ORS) | 34.13 | 103.53 | 131.04 | 44.86 | 129.94 | 170.41 |
| 14 | Punjab (PNB) | 35 | 96.77 | 131.14 | 37.79 | 98.17 | 137.33 |
| 15 | Rajasthan (RIN) | 31.55 | 90.50 | 135.68 | 40.09 | 112.92 | 164.31 |
| 16 | Tamil Nadu (TN) | 31.74 | 99.7 | 125.49 | 37.09 | 117.26 | 166.71 |
| 17 | Tripura (TRP) | 35.53 | 105.18 | 137.27 | 38.57 | 96.23 | 130.61 |
| 18 | Uttar Pradesh (UP) | 30.17 | 87.48 | 121.30 | 38.22 | 106.80 | 151.58 |
| 19 | West Bengal (WB) | 41.19 | 109.69 | 140.0 | 38.96 | 100.12 | 141.86 |
| 20 | Delhi (DEL) | 35.7 | 96.45 | 136.85 | 46.38 | 132.15 | 182.55 |
| 21 | All India (AI) | 33.01 | 93.16 | 127.63 | 39.04 | 111.75 | 158.31 |
| 22 | Relative range in poverty line (per cent) | 33.44 | 37.12 | 40.78 | 41.29 | 35.20 | 33.07 |

Note: Relative range in poverty line (per cent) across states given in line 22 is given by $100 \frac{(Max PI - Min PI)}{AIPI}$ where Max PI and Min PI denotes state specific maximum and minimum poverty lines respectively and AIPI the all India poverty line.

TABLE 3 HEADCOUNT RATIO AND NUMBER OF POOR: A COMPARISON OF DIRECT ALL INDIA ESTIMATES WITH THAT AGGREGATED FOR 20 STATES

| Sl No | Sector and Population | Year | Direct All India Estimate | | Estimate Aggregated for 20 States | | Alternative All India Estimate of Number of Poor (Million) |
|-------|-----------------------|---------|----------------------------|--------------------------|-----------------------------------|--------------------------|--|
| | | | Headcount Ratio (Per Cent) | Number of Poor (Million) | Headcount Ratio (Per Cent) | Number of Poor (Million) | |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1 | Rural | 1970-71 | 57.33 | 251.691 | 58.75 | 255.971 | 257.940 |
| 2 | Urban | 1970-71 | 45.89 | 50.068 | 46.17 | 49.933 | 50.377 |
| 3 | Rural and Urban | 1970-71 | 55.05 | 301.759 | 56.25 | 305.904 | 308.317 |
| 4 | Rural | 1983 | 49.02 | 76.310 | 50.77 | 274.805 | 276.833 |
| 5 | Urban | 1983 | 35.33 | 65.962 | 37.74 | 68.391 | 69.177 |
| 6 | Rural and Urban | 1983 | 46.46 | 133.272 | 48.11 | 343.196 | 346.010 |
| 7 | Rural | 1987-88 | 44.88 | 261.455 | 46.69 | 281.261 | 283.664 |
| 8 | Urban | 1987-88 | 36.52 | 74.962 | 37.76 | 76.569 | 77.496 |
| 9 | Rural and Urban | 1987-88 | 42.70 | 336.417 | 45.85 | 357.830 | 361.160 |

Note: These are based on the Planning Commission poverty lines of monthly PCTE of Rs 49.09 and Rs 56.64 for all India rural and urban population respectively at 1973-74 prices.

Source: Table 1.

rural and the urban populations. The combined (rural plus urban) headcount ratio registered a continuous decline from 56.3 (1970-71) to 48.1 per cent (1983) and further to 45.9 per cent in 1987-88. The compound annual rate of decline in the headcount ratio in period II (0.9 and 1.1 per cent for all-India rural and urban) was slightly lower than that in period I (1.2 per cent both for all-India rural and urban), with no significant differences across the rural-urban dimension.

An interesting aspect of the movements in headcount ratio is the decline between 1983 and 1987-88. This is particularly striking because 1987-88 was widely publicised as being severely affected by the so-called 'worst drought', and in previous experience, the headcount ratio had always tended to rise in years of bad agricultural harvests. It would therefore be useful to comment on the possible reasons for this decline in 1978-88, even though detailed analysis is not possible within the scope of the present paper. First, the year 1987-88 was not marked by a substantial production loss. The foodgrains production in physical terms was reported to have declined from 143.42 million tonnes in 1986-87 to 140.35 million tonnes in 1987-88 or a little over 2 per cent decline over the year previous to 1987-88. The index of foodgrains output (base triennium ending 1969-70 = 100) showed a slightly higher decline of 2.7 per cent over the previous year. The index of production for non-foodgrains actually registered a rise of a little over 3.5 per cent. Consequently, income losses due to drought might not have been very serious. Secondly, efforts were made to offset the possible income losses due to drought by stepping up special wage-employment programmes. On the top of this, the stability in food prices was maintained through large releases of foodgrains in the public distribution system.⁴ This explanation is also supported by the findings of the employment/unemployment survey of the NSS conducted in 1987-88, which showed a decline in the person-day rate of rural unemployment in 1987-88 compared to 1983.⁵

In contrast to the movement in the headcount ratio, the absolute numbers of the poor increased continuously in both the rural and the urban sectors. The increase, based on column (8) of Table 3, was of the order of nearly 19 million in period I for both the rural and the urban population. In period II, the increase of over 8 million in the numbers of the urban poor was about 1.5 million higher than the increase in the numbers of the rural poor. While the rate of population increase could not be offset by the rate of decline in the headcount ratio, the impact of population growth was considerably sharper for the urban population. The compound annual rate of growth of the rural poor varied between 0.5 and 0.6 per cent, whereas for the urban poor it was as high as 2.5 to 2.6 per cent during both the periods. For the combined (rural plus urban) poor population, the rate of growth

was of the order of 0.9 per cent per annum in the two periods under consideration. This may be compared with the compound annual rate of growth of total population of around 2.2 per cent over the same period.

STATE LEVEL RESULTS

State-specific headcount ratios for 20 states are presented in Table 5 for the rural, urban and combined (rural plus urban) population. A casual examination of this table suggests a fair amount of inter-state variability every year and for different segments of the population. In analysing the patterns emerging from this table, we do not consider the rural and the urban segments of Manipur, Tripura and Delhi and confine our discussion in this section to the remaining seventeen major states.⁶ The very small size of the population of Manipur, Tripura and Delhi (rural) compared to the remaining major states introduces an element of dis-

continuity in terms of size which may distort the inferences about inter-state variability. Delhi (urban) has a large population but its metropolitan city character makes it non-comparable to the urban populations of the other major states where metropolitan cities form only a part of the urban population and that too only in a few states. It would be more appropriate to compare Delhi (urban) with other metropolitan cities, such as Bombay, Calcutta and Madras. This comparison, however, is not possible in the absence of separate data for other individual metropolitan cities.

In analysing the statewide results, we consider the following three aspects. First, we present a summary picture in terms of the aggregated headcount ratios for 17 major states, and certain summary indicators of disparity in the headcount ratios across 17 states. Next we consider the categories of the 17 states with reference to their poverty

TABLE 4 CHANGE IN THE NUMBER OF POOR BETWEEN PERIODS 1970-71 TO 1983 AND 1983 TO 1987-88—ALTERNATIVE ALL INDIA ESTIMATES

| (Millions) | | | | | | | |
|------------|-----------------------|---------------------------|-------|-----------------------------------|--------|--------------------------------|-----------------|
| Sl No | Segment of Population | Direct All India Estimate | | Estimate Aggregated for 20 States | | Alternative All-India Estimate | |
| | | I | II | I | II | I | II |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1 | Rural | 15 619 | 5 855 | 18.837 | 6.455 | 18.893 (0.6) | 6.831 (0.5) |
| 2 | Urban | 15 894 | 9 000 | 18 470 | 8.177 | 18.800 (2.6) | 8.319 (2.5) |
| 3 | Rural and urban | 31 512 | 3 145 | 37.307 | 14.632 | 37.693 (0.9) | 15.150 (0.9) |

Notes: (1) I and II refer to the periods 1970-71 to 1983 and 1983 to 1987-88, respectively.

(2) Figures within brackets refer to annual rate of increase in the number of poor over the periods I and II, respectively

Source: Table 3 columns (5), (7) and (8)

TABLE 5 STATEWISE HEADCOUNT RATIOS IN 1970-71, 1983 AND 1987-88—RURAL, URBAN AND ENTIRE STATE POPULATION

| (Per cent) | | | | | | | | | | |
|------------|-------------------|-------|-------|-------|-------|-------|-------|--------------|-------|-------|
| Sl No | State | Rural | | | Urban | | | Entire State | | |
| | | 70-71 | 1983 | 87-88 | 70-71 | 1983 | 87-88 | 70-71 | 1983 | 87-88 |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| 1 | Andhra Pradesh | 51.57 | 34.92 | 31.56 | 46.15 | 35.48 | 34.06 | 50.52 | 35.06 | 33.80 |
| 2 | Assam | 50.36 | 49.24 | 53.08 | 19.00 | 21.02 | 11.37 | 47.59 | 46.23 | 48.34 |
| 3 | Bihar | 68.79 | 70.44 | 66.26 | 54.25 | 51.29 | 56.70 | 67.34 | 67.93 | 64.87 |
| 4 | Gujarat | 57.76 | 36.32 | 41.57 | 50.33 | 37.34 | 38.80 | 55.67 | 36.65 | 40.65 |
| 5 | Haryana | 40.02 | 24.01 | 23.17 | 34.55 | 21.30 | 18.25 | 39.05 | 23.38 | 21.90 |
| 6 | Himachal Pradesh | 28.73 | 22.96 | 24.75 | 18.73 | 7.05 | 3.29 | 28.03 | 21.72 | 23.02 |
| 7 | Jammu and Kashmir | 27.67 | 29.25 | 33.11 | 26.71 | 11.76 | 10.96 | 27.49 | 25.46 | 28.04 |
| 8 | Karnataka | 52.82 | 40.26 | 42.29 | 47.01 | 37.65 | 45.03 | 51.41 | 39.47 | 43.18 |
| 9 | Kerala | 69.03 | 47.20 | 44.02 | 62.42 | 47.78 | 44.47 | 67.96 | 47.32 | 44.12 |
| 10 | Madhya Pradesh | 62.40 | 54.05 | 49.83 | 58.37 | 51.95 | 46.03 | 61.74 | 53.60 | 48.94 |
| 11 | Maharashtra | 55.75 | 54.04 | 54.17 | 40.08 | 40.35 | 35.64 | 50.87 | 49.11 | 47.15 |
| 12 | Manipur | 72.87 | 30.24 | 20.24 | 37.02 | 13.38 | 8.64 | 68.15 | 25.62 | 16.86 |
| 13 | Orissa | 74.61 | 65.05 | 65.64 | 52.23 | 52.54 | 44.49 | 72.73 | 63.49 | 62.50 |
| 14 | Punjab | 28.65 | 18.45 | 21.02 | 24.64 | 21.58 | 11.18 | 27.70 | 19.33 | 17.97 |
| 15 | Rajasthan | 54.74 | 42.00 | 41.89 | 46.00 | 37.22 | 41.50 | 53.20 | 40.95 | 41.80 |
| 16 | Tamil Nadu | 66.45 | 56.84 | 51.30 | 56.16 | 45.14 | 39.19 | 63.33 | 52.91 | 47.08 |
| 17 | Tripura | 54.54 | 44.29 | 24.22 | 21.35 | 19.25 | 12.65 | 51.08 | 41.51 | 22.90 |
| 18 | Uttar Pradesh | 51.36 | 49.78 | 47.70 | 53.81 | 48.14 | 41.87 | 51.70 | 49.47 | 46.45 |
| 19 | West Bengal | 76.67 | 65.87 | 57.19 | 33.07 | 28.84 | 30.63 | 65.88 | 55.92 | 49.81 |
| 20 | Delhi | 13.79 | 7.31 | 6.14 | 30.14 | 27.45 | 15.09 | 28.46 | 26.11 | 14.60 |
| 21 | All India | 57.33 | 49.02 | 44.88 | 45.89 | 38.33 | 36.52 | 55.05 | 46.46 | 42.70 |
| 22 | 20 States | 58.75 | 50.77 | 48.69 | 46.17 | 39.74 | 37.76 | 56.25 | 48.11 | 45.85 |

alleviation performance as judged by the level of the state specific headcount ratio in relation to that at the all-India level in each of the three years. Thirdly, we attempt an exercise of ranking different states on the basis of their poverty alleviation performance in terms of their annualised rates of change in the headcount ratio and the number of the poor over the two periods 1970-71 to 1983 and 1983 to 1987-88. In this connection, we propose certain plausible criteria for ranking and indicate the rank order position of each state for the rural and the urban population separately.

Summary Picture of State-Specific Poverty Incidence (Headcount Ratio)

Based on data relating to 17 major states for three different years in the 1970s and 1980s for each segment of the population, Table 6 provides the following summary information:

- (i) weighted average headcount ratio for 17 states taken together,
- (ii) minimum and maximum values of the headcount ratio among the 17 states and
- (iii) weighted coefficient of variation across 17 states.

The following regularities can be perceived from Table 6. First, for the rural population, Punjab has the lowest headcount ratio and Bihar the highest in all the three years (with the exception of 1970-71 when West Bengal featured in that position). Given the large weight of the rural population, Punjab and Bihar occupy the same extreme but opposite positions for the combined (rural plus urban) population. While the lowest headcount ratio in the urban areas is experienced by Himachal Pradesh in all the three years, no single state consistently appears at the worst slot. Similar to the situation noted above for 20 states, the weighted average headcount ratio for 17 major states also shows a decline over the time periods considered in this study. Inter-state relative disparity in the headcount ratio, as measured by the weighted coefficient of variation, shows a slight tendency to rise for the urban population over the three time points. For the rural as well as the total (rural plus urban) populations, the inter-state relative disparity shoots up in 1983 as compared to 1970-71 before registering a decline in 1987-88. Notice that the weighted average rural or urban headcount ratio for 17 states (given in column 6 of Table 6) declined at the rate of 1.15 per cent per annum (pcpa) between 1970-71 and 1983 and 0.88 pcpa between 1983 and 1987-88 (Tables 8 R and 8 U, last line and columns 4 and 5). Given this movement in the weighted average headcount ratio, an increase in the weighted coefficient of variation simply reflects the fact that the decline in headcount ratio was not evenly shared by all the states, especially for the urban population. For the rural population, relative inter-state disparities

remained virtually unchanged when we compare the two end points of 1970-71 and 1987-88.

We may also note some other broad regularities emerging from Table 5 which have been subsumed in the summary picture presented in Table 6. First, Assam (rural) and Bihar (urban) had the unique but dubious distinction of registering a higher headcount ratio in 1987-88 in comparison with both 1970-71 and 1983. Similarly, the rural populations of five states (Assam, Gujarat, Himachal Pradesh, Jammu and Kashmir and Punjab) and the urban populations of six other states (Andhra Pradesh, Bihar, Karnataka, Madhya Pradesh, Rajasthan and West Bengal) did not experience a decline in the incidence of poverty (headcount ratio) between 1983 and 1987-88.

Categories of States on Basis of Level of Headcount Ratio

On the basis of the level of state specific headcount ratios in each of the three years, we distinguish three categories of states, namely:

Category A: those states having headcount ratio above all India level in all the three years.

Category B: those states having headcount ratio below all India level in all the three years.

Category F: the states excluding those in category A or B, i.e. states having fluctuations from year to year in the position of their headcount ratio in comparison with the all India level.

Table 7 provides the listing of states in categories A, B and F for the rural and urban populations. For each of these cate-

gories and for each year, we also provide additional information on:

- (i) the weighted average headcount ratio for the category,
- (ii) the numbers of the poor in the category, and
- (iii) the percentage share of the category in the numbers of the poor in 17 states together.

It may be noted that category A turns out to be numerically the largest, with its share ranging between 46 and 48 per cent for the rural poor and between 49 and 51 per cent for the urban poor population over the period from 1970-71 and 1987-88. The rural poor population in the three eastern states of Bihar, Orissa and West Bengal along with Madhya Pradesh and Tamil Nadu belong to this category. The weighted average headcount ratio in these five states is 10 to 12 percentage points above that for the 17 states together. In the urban areas, six states (Bihar and Orissa in the east, Kerala and Tamil Nadu in the south along with Uttar Pradesh and Madhya Pradesh) belong to category A, with its weighted average headcount ratio exceeding that for the 17 states together by six to 10 percentage points. The absolute numbers of the poor in category A increased over the three time points for the urban population, whereas in the rural sector it increased between 1970-71 and 1983 before registering a slight decline between 1983 and 1987-88.

Category B was numerically the smallest, as one should expect. In the rural segment, it included the north and north-western states of Jammu and Kashmir, Punjab, Haryana, Himachal Pradesh and Rajasthan along with Andhra Pradesh and Karnataka.

TABLE 6. WEIGHTED AVERAGE, MINIMUM AND MAXIMUM HEADCOUNT RATIO AND INTER-STATE COEFFICIENT OF VARIATION FOR 1970-71, 1983 AND 1987-88—RURAL, URBAN AND COMBINED POPULATION

| (Per cent) | | | | | | |
|-------------|---------------------------|----------|-------------|------------------------|------------------------|----------|
| Sl. No. (1) | Segment of Population (2) | Year (3) | Average (4) | Minimum (5) | Maximum (6) | C.V. (7) |
| 1 | Rural | 1970-71 | 58.78 | 27.7(J&K) 28.7(PNB) | 76.7(WB) | 18.66 |
| 2 | Rural | 1983 | 50.86 | 18.5(PNB) | 70.4(BHR) | 25.26 |
| 3 | Rural | 1987-88 | 46.88 | 21.0(PNB) | 66.3(BHR) | 19.20 |
| 4 | Urban | 1970-71 | 46.78 | 18.7(HP) 19.0(ASM) | 62.4(KER) | 21.01 |
| 5 | Urban | 1983 | 40.31 | 7.1(HP) | 52.5(ORS) 52.0(MP) | 22.14 |
| 6 | Urban | 1987-88 | 38.78 | 3.3(HP) | 56.7(BHR) | 24.15 |
| 7 | Combined | 1970-71 | 56.44 | 27.5(J&K) 27.7(PNB) | 68.0(KER) 67.3(BHR) | 17.29 |
| 8 | Combined | 1983 | 48.39 | 19.4(PNB) | 67.9(BHR) | 23.48 |
| 9 | Combined | 1987-88 | 46.32 | 18.0(PNB) | 64.9(BHR) | 21.89 |

Notes: (1) Column (4) provides a weighted average headcount ratio for 17 major states excluding Manipur, Tripura and Delhi. Weights are state specific populations.

(2) Along with the state experiencing minimum or maximum headcount ratio, we also provide the next state in rank whenever it is within one percentage point range of the minimum or maximum.

(3) C.V. refers to weighted coefficient of variation across 17 major states. Weights are the state specific populations.

(4) For explanation of the abbreviations used for state names, see Table 2.

in the south. Their group's headcount ratio was 10 to 16 percentage points below the average headcount ratio for 17 states. In the urban areas, this category included Jammu and Kashmir, Punjab, Haryana and Himachal Pradesh along with Assam and, interestingly, the eastern state of West Bengal which happens to be in category A for the rural sector. The urban headcount ratio for this category B was 16 percentage points below the average headcount ratio for 17 states.

The residual category F covered over one-third of the rural and two-fifths of the urban poor population. Among others, it included Uttar Pradesh and Maharashtra in the rural segment and Andhra Pradesh, Karnataka and Maharashtra in the urban segment.

The group headcount ratio showed a decline in all the categories over the three time-periods.

Exercise in Ranking of States according to Poverty Alleviation Performance

In this section, we attempt to rank different states with reference to performance in poverty alleviation in terms of the compound annual rates of change in the headcount ratio (*h*) and/or in the numbers of poor (*n*) between 1970-71 and 1983 (period I) and 1983 and 1987-88 (period II). We would like to caution the reader on two counts. First, *h* or *n* should *not* be mistaken for *trend* rates of change. This is because the incidence of poverty has been known to fluctuate from year to year depending on the state of agricultural harvest and these year-specific effects are confounded with 'trend' effects in the observed indicators of poverty incidence. Secondly, the 'performance' of each state, as measured by the observed rate of change, *h* or *n*, is also affected by factors beyond the control of each state as much as by those which it can control. This distinction is necessary if the ranking is to be used for policy purposes, such as allocation of central funds for poverty alleviation. However, it is not possible to implement this distinction in practice and to decompose *h* or *n* into those factors which are beyond and those which are within the control of each state. Our exercise may therefore be taken to reflect only a descriptive monitoring of the observed performance of different states without any pretension of analysing the underlying causes.

As regards the criteria for ranking, there is a wide set to choose from, and different combinations would not necessarily yield the same ranking. The ranking criteria that we have adopted are based on the principle of plausibility and simplicity in interpretation and consist of a sequence of steps with a criterion specified at each stage.

Step 1: Since we have two periods I and II, we first classify the states into three broad categories, namely, (A) those states which managed to reduce the headcount ratio in both the periods

(B) those states which experienced a rise in headcount ratio in period I followed by a decline in period II or vice versa.

(C) those states which experienced a rise in the headcount ratio in both the periods.

Clearly, category (A) is preferred to (B) and category (B) preferred to (C).

Step 2: Within category (A), we may distinguish two groups in order of preference, namely,

A(i): those states which managed to reduce the absolute numbers of the poor in both the periods.

A(ii): those states which did not manage to reduce the absolute numbers of the poor in both the periods.

Similarly category (B) may be sub-divided into two groups in order of preference, namely,

B(i): those states where increase in headcount ratio in period I is followed by a decline in period II,

B(ii): those states where the decline in the headcount ratio in period I is followed by an increase in period II.

Step 3: Within A(i) and A(ii) we adopt the following criteria for further sub-grouping, again in order of preference:

I₁: rate of decline in the headcount ratio in period II is *higher* than in period I,

I₂: rate of decline in the headcount ratio is *higher* in period I than in period II.

Step 4: Within each of the sub-groups formed by following the three steps outlined above, we rank the states in ascending order of the rate of growth of numbers of the poor in period II. This criterion gives the entire weight in ranking to the performance in poverty alleviation in the latest period. It takes into account not only the movement in the headcount ratio but also the impact of the state-specific population growth on the numbers of the poor over period II.

The foregoing sequence of four steps, using a plausible criterion at each step, provides us with the unique ranking of the states with reference to the observed performance in terms of the *rate* of poverty alleviation over the two periods. We admit that it may be possible to devise alternative criteria for ranking. However, we have made explicit our own basis of evaluation and ranked the states accordingly. Seventeen states, so ranked, are listed in Table 8.R, for the rural population, and in Table 8.U, for the urban population.

In the rural sector, two reasonably big states of Andhra Pradesh and Kerala managed to reduce both the headcount ratio and the number of poor in *both* the periods. Consequently, their share in the poor population for 17 states together declined from nearly 12 per cent in 1970-71 to about 8.5 per cent in 1987-88. Six states—West Bengal, Tamil Nadu, Madhya Pradesh, Uttar Pradesh, Haryana and Rajasthan, in that order—accounting for nearly half the rural poor population for 17 states together in the three years, experienced a decline in the headcount ratio in *both* the periods but the decline was not sufficient in relation to

population growth, therefore they did not manage to reduce the numbers of the poor in both the periods. Noteworthy within this group are West Bengal, Tamil Nadu and Madhya Pradesh, where the absolute numbers of the poor got reduced in the second period. At the worst end is the state of Jammu and Kashmir, where the headcount ratio increased in *both* the periods. Next to Jammu and Kashmir are Gujarat and the agriculturally prosperous Punjab, where the decline in the headcount ratio in period I was followed by an increase in the headcount ratio in period II, as a result of which the absolute numbers of the poor increased in period II at the compound annual rate of 4.5 per cent (Gujarat) and 4 per cent (Punjab).⁷ Fortunately, these three states accounted for less than five per cent of the total poor population for 17 states together in 1983 and 1987-88.

In the urban segment, only the small state of Himachal Pradesh experienced a decline in *both* the headcount ratio and the numbers of the poor. Numerically, the most dominant group consisted of seven states (including Uttar Pradesh, Madhya Pradesh and Kerala) where there was a decline in the headcount ratio in *both* the periods. Their combined share in the total number of urban poor for 17 states together declined from nearly 44 per cent in 1970-71 to 39 per cent in 1987-88. The second largest category of six states experienced a decline in the headcount ratio in period I, followed by a steep rise in period II. Combined with population growth, this led to very high compound annual rates of growth of the urban poor in period II, varying between 8.1 per cent in Karnataka (at the worst end) to 3.8 per cent in Gujarat. Apart from these two extreme cases, other states in this category included West Bengal, Andhra Pradesh, Bihar and Rajasthan. The share of this category in the urban poor for 17 states together increased from about 41 per cent (1970-71) and 39 per cent (1983) to nearly 45 per cent in 1987-88. The highly urbanised state of Maharashtra was in the middle (rank 10) of the ranking of the states.

Looking at both the rural and the urban segments simultaneously, we observe that Madhya Pradesh has the same rank (number 5 from the top) in both the rankings. Tamil Nadu and Uttar Pradesh have also done well in both the segments with reference to the rate of poverty alleviation. Maharashtra and Orissa are in the middle. No state is consistently at the worst-end in terms of the rate of poverty alleviation. Karnataka and Gujarat are in the bottom half, the former occupying the lowest rank in the urban sector and the latter state being second from the bottom in the rural segment.

IV

Official Estimates of Poverty Incidence in 1980s: A Comparison

Official estimates of the headcount ratio are periodically released by the Planning

Commission. For the year 1987-88, official estimates were released recently in reply to a question in parliament. Table 9 presents a comparison of the appropriately computed estimates of the headcount ratio at the all India level with those reported by the Planning Commission, as well as those computed by us using the Planning Commission procedures for 1983 and 1987-88. [Notice that our estimates are based on the uniform poverty line (as those of the Planning Commission) but using the conceptually more appropriate price-adjustment as discussed in Section II.] The Planning Commission's estimates use (a) the implicit deflator of private final consumer expenditure (PFCE) for adjusting the poverty line for price changes between the price-base of the poverty line and the current year, and (b) the *pro rata* adjustment factor to adjust for the differences between the National Account Statistics (NAS)-based PFCE and the NSS-based aggregate household consumer expenditure (AHCE). Relative size distribution of per capita total expenditure (PCTE) from NSS is used along with adjustments (a) and (b) to derive the official estimates of the headcount ratio.

A comparison of lines 1(a) and 2(a) in Table 9 indicates that our estimates of headcount ratio are nine to 10 percentage points higher than those of the Planning Commission for the year 1983. The differences are much wider for 1987-88, namely, 12 percentage points for the rural population and as high as 17 percentage points for the urban population. These differences can be traced to the two adjustments (a) and (b) mentioned in the last paragraph. The implicit

deflator of PFCE used in (a) ignores rural-urban price differentials as well as rates of price changes faced by the rural and the urban population. It has also been shown that the implicit deflator of PFCE tends to understate⁴ the actual price rise, which, on the other hand, is better captured in our conceptually appropriate consumer price index for the middle-range of the population. The Planning Commission procedure leads to an understatement of the poverty line and hence of the headcount ratio. However, a quantitatively much more significant source of difference lies in the use of *pro rata* adjustment by the Planning Commission and this adjustment factor for 1987-88 comes to about 1.275 (see Appendix). In other words, for 1987-88, the PCTE of each fractile group is increased by 27.5 per cent before applying the underestimated poverty line to the observed size distribution of NSS. It should be obvious that this would bring about a massive (but artificial) reduction in the headcount ratio.

We tried to verify, for the year 1987-88 the estimates reported by the Planning Commission, using the Planning Commission's procedure and the latest available data sources. We present the details of these estimates in the Appendix. Our replication of the Planning Commission's procedure yielded the estimates of headcount ratios which turned out to be lower than those officially reported [compare lines 2(b) and 3(b)]. We are unable to trace the sources of these differences on the basis of available information. However, our calculations bring out clearly the massive difference made by the *pro rata* adjustment factor. A

comparison of lines 3(b) and 4(b) show that, in the absence of *pro rata* adjustment factor, the headcount ratio would have been as high as 51 per cent instead of 29 per cent for the rural population and 33.5 per cent instead of 17.5 per cent for the urban population in 1987-88.

This procedure, and especially the *pro rata* adjustment factor, has been critically discussed in a number of recent papers. As early as 1987, a scrutiny of this procedure pointed to the questionable nature of the *pro rata* adjustment in the light of wide differential distributional aspects of consumer behaviour on the composition of the consumer basket [Minhas et al (1987), p. 46]. A later paper [Minhas (1988)] undertook detailed cross validation exercise for critically assessing the different sources of discrepancies between NSS and NAS estimates of consumer expenditure at a detailed disaggregated level for 1972-73 and 1977-78. This exercise was extended to 1983 in yet another paper [Minhas and Kansal (1989)]. These papers have been in the public domain for some years and clearly indicate not only the questionable nature of *pro rata* adjustment of the observed size distribution of consumer expenditure by the Planning Commission but also favour the headcount ratio estimates based on the NSS data without any adjustment. Even when adjustment might be warranted for achieving consistency between NSS and NAS estimates of consumer expenditure, a case could be made for item group specific adjustments (rather than the *pro rata*) which could take into account the results of the aforementioned exercises. However, the Planning Commission has not bothered to learn from them and has been merely using the same old, analytically and empirically questionable methods leading to generation of misinformation about country's progress on the poverty alleviation front. The massive reduction in the incidence of poverty between 1983 and 1987-88, as reported by the Planning Commission is a consequence of the peculiar statistical artefacts used by it. As against the Planning Commission's estimate which would have us believe that the incidence of rural (urban) poverty in 1987-88 has fallen to 32.7 per cent (19.4 per cent), the estimate with appropriate price adjustment at all India level would be around 44.9 per cent for rural and 36.5 per cent for urban India.

Concluding Remarks

After constructing appropriate cost of living indices (for the middle range of population) which allow for the observed variation in consumption patterns and prices of various goods and services across different states, the state specific rural and urban poverty norms as well as estimates of the incidence of poverty in the rural and urban segments of 20 states/union territories in 1987-88 have been presented in this paper. The following results which emerge from the

TABLE 7. POVERTY ALLEVIATION PERFORMANCE: CATEGORIES OF STATES BASED ON THE LEVEL OF STATE SPECIFIC HEADCOUNT RATIO (Rural and Urban Population)

| Sl. No. | Category | State | Headcount Ratio (Per Cent) | | | Number of Poor (Million) | | |
|-------------------------|----------|---------------------------------|----------------------------|-------|---------|--------------------------|--------------------|--------------------|
| | | | 1970-71 | 1983 | 1987-88 | 1970-71 | 1983 | 1987-88 |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Rural Population | | | | | | | | |
| 1 | A | BHR, MP, ORS, TN, WB | 69.36 | 63.24 | 58.53 | 116.304 (45.7) | 130.765 (47.8) | 129.114 (46.0) |
| 2 | B | AP, HRY, HP, J&K, KRN, PNB, RJN | 47.72 | 34.52 | 34.26 | 49.666 (19.5) | 44.963 (16.4) | 47.672 (17.0) |
| 3 | F | ASM, GJT, KER, MHR, UP | 54.94 | 48.72 | 41.34 | 86.505 (34.8) | 97.856 (35.8) | 103.688 (37.0) |
| 4 | | 17 States together | 58.78 | 50.86 | 48.88 | 254.475 (100.0) | 273.584 (100.0) | 280.474 (100.0) |
| Urban Population | | | | | | | | |
| 5 | A | BHR, KER, MP, ORS, TN, UP | 55.91 | 48.68 | 44.47 | 23.810 (48.8) | 33.639 (50.6) | 36.686 (48.7) |
| 6 | B | ASM, HRY, HP, J&K, PNB, WB | 31.34 | 24.89 | 22.51 | 5.551 (11.4) | 6.846 (10.3) | 7.164 (9.5) |
| 7 | F | AP, GJT, KRN, MHR, RJN | 44.80 | 38.05 | 39.39 | 19.386 (39.8) | 21.052 (39.2) | 31.475 (41.8) |
| 8 | | 17 States together | 46.78 | 40.31 | 38.78 | 48.74 (100.0) | 66.537 (100.0) | 75.325 (100.0) |

Notes: (1) Figures within brackets refer to category specific percentage share in total poor population of 17 states together in a given year.

(2) For explanation of the abbreviations used for state names, see Table 2.

(3) For explanation of categories A, B and F, see text in Section III.

(4) Headcount ratios in columns (4), (5) and (6) are obtained as weighted average of those of the states belonging to the category with state specific populations as the weights.

comparative analysis of all-India and state-specific poverty incidence and the numbers of the poor in 1970-71, 1983 and 1987-88, are worth noting:

(1) In comparison with the conceptually better estimate obtained through aggregation over the states, the so-called direct estimate of the headcount ratio for rural India in 1987-88 turned out to be an underestimate by about four percentage points, implying an underestimation of the numbers of the rural poor by about 22 million. Changes in the numbers of the poor (CNP) over period (1970-71 to 1983), based on the direct all-India estimates, were underestimated by about three million in each of the two sectors (rural and urban) in comparison with the corresponding aggregated estimates. Over the next period (1983 to 1987-88), the direct estimates of CNP were lower by about 12.5 million in the

rural sector, but higher by about one million in the urban sector than those obtained from the aggregated estimates.

(2) Based on the aggregated estimates, which are preferable, the incidence of poverty in rural India declined from 58.8 per cent in 1970-71 to 50.8 per cent in 1983 and 48.7 per cent in 1987-88. In the urban sector, the corresponding decline in poverty incidence was from 46.2 per cent (1970-71) to 39.7 per cent (1983) and to 37.8 per cent (1987-88). For rural and urban India taken together, the incidence of poverty declined from 56.3 per cent in 1970-71 to 48.1 per cent in 1983 and further to 45.9 per cent in 1987-88. To put it differently, the annualised rate of decline in rural poverty incidence in India as a whole was steeper between 1970-71 and 1983 (1.2 per cent) than in the later period from 1983 to 1987-88 (0.9 per cent). In

the urban sector, the corresponding rate of decline was about 1.1 to 1.2 per cent per annum during both the periods.

(3) The absolute numbers of the rural poor (in million), on the other hand, rose from 257.9 (1970-71) to 276.8 (1983) and further to 283.7 million (1987-88). In urban India, the numbers of the poor rose from 50.4 (1970-71) to 69.2 (1983) and 77.5 million (1987-88).

(4) For the Indian union as a whole, the population in poverty grew from 308.1 million in 1970-71 to 346.0 million in 1983 and to 361.2 million in 1987-88. Incidentally, the total population of India was about 361 million in 1951, whereas the population of the poor alone was exactly of the same magnitude in 1987-88. The annualised rate of growth of the rural population afflicted with poverty was around 0.5 to 0.6 per cent between 1970-71 and 1983 as well as between 1983 and 1987-88. In sharp contrast, the corresponding rate of growth of urban population in poverty was about 2.5 to 2.6 per cent between 1970-71 and 1987-88. For India as a whole, the population of the poor grew at an annual rate of about 0.9 per cent between 1970-71 and 1987-88, which may be compared with the overall growth rate of the general population of around 2.2 per cent since 1971.

(5) In view of the very small size of the population of Manipur, Tripura and Delhi (rural), our discussion of state-specific results is better confined to the remaining 17 major states. Among these 17 states, the incidence of rural poverty in Punjab was consistently the lowest in the three years, being 28.7 per cent (1970-71), 18.5 per cent (1983) and 21.0 per cent (1987-88), whereas rural Bihar occupied the opposite pole in 1983 (70.4 per cent) and 1987-88 (66.3 per cent) and West Bengal in 1970-71 (76.7 per cent). One nevertheless must note that rural Punjab ranked very low in terms of its performance in poverty alleviation, as both the headcount ratio as well as the numbers of the rural poor rose between 1983 and 1987-88. In the urban sector, the lowest headcount ratio was observed for Himachal Pradesh in all the three years and no single state, on the other hand, occupied the worst position (highest incidence of poverty) consistently in all the three years. Since the weight of the rural sector in each of the major states is very large, Punjab and Bihar occupied the same extreme but opposite positions in regard to poverty incidence at the entire state level in all the three years, 1970-71, 1983 and 1987-88.

(6) Rural sector of Assam and the urban sector of Bihar had the unique but dubious distinction of registering increase in poverty incidence in 1987-88 in relation to their level of poverty incidence experienced in 1970-71 as well as 1983.

TABLE 8.R: RANKING OF STATES IN TERMS OF POVERTY ALLEVIATION PERFORMANCE, ANNUAL RATES OF GROWTH OF HEADCOUNT RATIO (h) AND NUMBERS OF THE POOR (n) DURING PERIODS I AND II—RURAL POPULATION

| Category (1) | Rank (2) | State (3) | h(Per Cent) | | n(Per Cent) | | Numbers of Poor (million) | | |
|--------------------|-------------|--------------|-------------|-----------|-------------|-----------|---------------------------|--------------------|--------------------|
| | | | I (4) | II (5) | I (6) | II (7) | 1970-71 (8) | 1983 (9) | 1987-88 (10) |
| A(i) | 1 | AP | -3.1 | -2.2 | -1.6 | -1.0 | 18.101 (7.11) | 14.783 (5.40) | 14.115 (5.03) |
| A(i) | 2 | KER | -3.0 | -1.5 | -1.6 | -0.2 | 12.343 (4.85) | 10.097 (3.69) | 9.991 (3.56) |
| A(ii) | 3 | WB | -1.2 | -3.1 | 0.6 | -1.5 | 25.566 (10.1) | 27.513 (10.1) | 25.688 (9.16) |
| A(ii) | 4 | TN | -1.2 | -2.3 | 0.0 | -1.1 | 19.093 (7.50) | 18.988 (6.94) | 18.028 (6.43) |
| A(ii) | 5 | MP | -1.1 | -1.8 | 0.6 | -0.4 | 21.757 (8.55) | 23.339 (8.53) | 22.970 (8.19) |
| A(ii) | 6 | UP | -0.3 | -0.9 | 1.5 | 0.5 | 39.010 (15.3) | 46.875 (17.1) | 47.845 (17.1) |
| A(ii) | 7 | HRY | -4.0 | -0.8 | -2.1 | 0.9 | 3.307 (1.30) | 2.543 (0.93) | 2.649 (0.95) |
| A(ii) | 8 | RJN | -2.1 | -0.1 | -0.2 | 2.0 | 11.617 (4.57) | 11.956 (4.37) | 13.098 (4.67) |
| B(i) | 9 | BHR | 0.2 | -1.3 | 2.0 | 0.4 | 34.891 (13.7) | 44.944 (16.4) | 45.790 (16.3) |
| B(ii) | 10 | ORS | -1.1 | 0.2 | 0.5 | 0.9 | 14.997 (5.89) | 15.981 (5.84) | 16.638 (5.93) |
| B(ii) | 11 | MHR | -0.2 | 0.1 | 1.3 | 1.3 | 19.347 (7.60) | 22.805 (8.34) | 24.128 (8.60) |
| B(ii) | 12 | KRN | -2.2 | 1.1 | -0.5 | 2.3 | 11.715 (4.60) | 10.981 (4.01) | 12.179 (4.34) |
| B(ii) | 13 | HP | -1.8 | 1.7 | 0.2 | 3.4 | 0.925 (0.36) | 0.947 (0.35) | 1.103 (0.40) |
| B(ii) | 14 | ASM | -0.2 | 1.7 | 2.6 | 3.9 | 6.716 (2.64) | 9.237 (3.38) | 10.953 (3.91) |
| B(ii) | 15 | PNB | -3.5 | 2.9 | -2.0 | 4.0 | 2.961 (1.16) | 2.311 (0.84) | 2.752 (0.98) |
| B(ii) | 16 | GJT | -3.6 | 3.0 | -1.8 | 4.5 | 11.089 (4.36) | 8.842 (3.23) | 10.771 (3.82) |
| C | 17 | J&K | 0.4 | 2.8 | 2.7 | 4.7 | 1.040 (0.42) | 1.442 (0.53) | 1.776 (0.64) |
| 17 States together | | | -1.2 | -0.9 | 0.6 | 0.6 | 254.475 (100.0) | 273.584 (100.0) | 280.474 (100.0) |

Notes: (1) I and II refer to periods 1970-71 to 1983 and 1983 to 1987-88.

(2) Figures within brackets refer to percentage share of a state in the total poor population of 17 states together in a given year.

(3) For explanation of the abbreviations used for state names, see Table 2.

(4) Column (1) refer to the state-specific category assigned while ranking the 17 states

Source: Table 5.

(7) Among the 17 states, Tamil Nadu, Madhya Pradesh and Uttar Pradesh experienced higher annualised rates of

decline in poverty incidence in period II (1983 to 1987-88) than in period I (1970-71 to 1983) both in the rural as well as

urban sector

(8) In the rural sector, the highest annualised rate of decline in poverty incidence was registered by Haryana (4.0 per cent) over period I and by West Bengal (3.1 per cent) over period II. In the urban sector, the highest rate of decline was experienced by Himachal Pradesh both in period I (7.5 per cent) and period II (15.6 per cent). In the second period, Punjab also registered an equally steep decline (13.6 per cent) in urban poverty. At the entire state level (rural plus urban), Haryana (4.0 per cent) recorded the highest annual rate of decline in poverty incidence during period I, whereas in period II, Tamil Nadu (2.6 per cent) and West Bengal (2.5 per cent) registered the highest rates of decline among the 17 states.

(9) Returning to the ranking of 17 states in terms of poverty alleviation performance, Andhra Pradesh and Kerala were the only two states which managed to reduce both the headcount ratio as well as the numbers of the poor consistently in both the periods in the rural sector, and thus secured the first and second ranks respectively. In the urban sector, it was only the state of Himachal Pradesh where both the headcount ratio and the numbers of the poor declined in both periods.

Finally, we must note that there is no basis, either in theory or known facts, to carry out a *pro rata* adjustment in the observed size distribution of consumer expenditure in a particular NSS round by multiplying it with a scalar derived from the ratio between the National Accounts estimate of aggregate consumption for the nearest financial year and the total NSS consumer expenditure available from the particular round of household budget survey. In spite of the weight of a substantial amount of scientific research to the contrary, the Planning Commission has continued to indulge in mindless tinkering with the NSS size distribution of consumer expenditure for 1987-88 also just as it did for 1983. The massive reduction in the incidence of poverty between 1983 and 1987-88, as reported by the Planning Commission in 1990, is largely a consequence of the peculiar statistical artefacts used by it and the extent of real reduction in poverty incidence is indeed rather small. Appropriately computed incidence of poverty in 1987-88 (affecting appropriate price adjustment only at the all-India level) comes to about 44.8 and 36.5 per cent, respectively in rural and urban India, rather than 32.7 and 19.4 per cent reported by the Planning Commission. However, according to our preferred aggregated all-India estimates (which allow for state-specific variation in prices relevant to the poor population in each state), the incidence of poverty in 1987-88 comes to about 48.7 and 37.8 per cent for all-India rural and urban, respectively.

TABLE 8U RANKING OF STATES IN TERMS OF POVERTY ALLEVIATION PERFORMANCE, ANNUAL RATES OF GROWTH OF HEADCOUNT RATIO (h) AND NUMBERS OF THE POOR (n) DURING PERIODS I AND II—URBAN POPULATION

| Category (1) | Rank (2) | State (3) | h(Per Cent) | | n(Per Cent) | | Numbers of Poor (Million) | | |
|--------------------|-------------|--------------|-------------|-----------|-------------|-----------|---------------------------|-------------------|-------------------|
| | | | I (4) | II (5) | I (6) | II (7) | 1970-71 (8) | 1983 (9) | 1987-88 (10) |
| A(i) | 1 | HP | 7.5 | 15.6 | 4.8 | 13.3 | 0.045 (0.09) | 0.024 (0.04) | 0.013 (0.02) |
| A(ii) | 2 | PNB | 1.1 | 13.6 | 2.6 | 10.6 | 0.792 (1.62) | 1.090 (1.64) | 0.638 (0.87) |
| A(ii) | 3 | TN | 1.7 | 3.1 | 0.7 | 0.8 | 7.001 (14.4) | 7.629 (11.5) | 7.369 (9.78) |
| A(ii) | 4 | UP | -0.9 | 3.1 | 3.8 | 1.6 | 6.665 (13.7) | 10.669 (16.0) | 11.479 (15.2) |
| A(ii) | 5 | MP | 0.9 | 2.7 | 3.5 | 1.7 | 3.960 (8.12) | 6.088 (9.15) | 6.560 (8.71) |
| A(ii) | 6 | HRV | 3.8 | 3.4 | 0.8 | 1.4 | 0.613 (1.26) | 0.676 (1.02) | 0.720 (0.96) |
| A(ii) | 7 | KER | 2.1 | 1.6 | 1.1 | 1.7 | 2.164 (4.44) | 2.461 (3.70) | 2.649 (3.52) |
| A(ii) | 8 | J&K | 6.4 | 1.6 | 2.8 | 1.9 | 0.229 (0.47) | 0.160 (0.24) | 0.175 (0.23) |
| B(i) | 9 | ASM | 0.8 | 12.8 | 5.4 | 9.4 | 0.245 (0.50) | 0.470 (0.71) | 0.301 (0.40) |
| B(i) | 10 | MHR | 0.1 | 2.7 | 3.4 | 0.1 | 6.297 (12.9) | 9.572 (14.4) | 9.680 (12.9) |
| B(i) | 11 | ORS | 0.0 | 1.6 | 5.3 | 1.4 | 0.964 (1.98) | 1.843 (2.77) | 1.966 (2.61) |
| B(ii) | 12 | GJ | 2.4 | 0.9 | 1.0 | 3.8 | 3.773 (7.74) | 4.249 (6.39) | 5.029 (6.68) |
| B(ii) | 13 | WB | 1.1 | 1.3 | 1.6 | 4.1 | 3.627 (7.44) | 4.426 (6.65) | 5.297 (7.03) |
| B(ii) | 14 | AP | 2.1 | 2.7 | 1.8 | 6.5 | 3.878 (7.96) | 4.830 (7.26) | 6.416 (8.52) |
| B(ii) | 15 | BHR | 0.4 | 2.3 | 3.9 | 6.8 | 3.056 (6.27) | 4.949 (7.44) | 6.663 (8.84) |
| B(ii) | 16 | RJN | 1.7 | 2.4 | 2.9 | 7.2 | 2.090 (4.29) | 2.980 (4.48) | 4.073 (5.41) |
| B(ii) | 17 | KRN | 1.8 | 4.1 | 2.2 | 8.1 | 3.348 (6.87) | 4.421 (6.64) | 6.277 (8.33) |
| 17 States together | | | 1.2 | 0.9 | 2.5 | 2.8 | 48.747 (100.0) | 66.537 (100.0) | 75.325 (100.0) |

Notes and sources: Same as that of Table 8R.

TABLE 9 ALL INDIA ESTIMATES OF POVERTY INCIDENCE (HCR) OUR ESTIMATES VERSUS THE PLANNING COMMISSION

| Sl No | Description of Headcount Ratio Estimation Procedure | Year | Rural | Urban | Combined Rural and Urban |
|-------|---|-------------|-------|-------|--------------------------|
| (1) | (2) | (3) | (4) | (5) | (6) |
| 1 | HCR based on appropriate price adjustment | (a) 1983 | 49.07 | 38.33 | 46.46 |
| | | (b) 1987-88 | 44.88 | 36.52 | 42.70 |
| 2 | HCR as officially reported | (a) 1983-84 | 40.40 | 28.10 | 37.40 |
| | | (b) 1987-88 | 32.70 | 19.40 | 29.20 |
| 3 | HCR using official price adjustment and <i>pro rata</i> adjustment factor | (a) 1983 | 40.50 | 26.70 | 37.10 |
| | | (b) 1987-88 | 29.33 | 17.57 | 26.27 |
| 4 | HCR using official price adjustment but without <i>pro rata</i> adjustment factor | (a) 1983 | 56.50 | 42.30 | 53.00 |
| | | (b) 1987-88 | 51.00 | 33.47 | 46.43 |

Sources: 1 For lines 1(a) and 1(b), Table 3 in this paper.

2 For lines 2(a) and 2(b), Table 54 in *Selected Socio-Economic Indicators for India (1990)*, Central Statistical Organisation, New Delhi.

3 For lines 3(a) and 4(a), Table 9 in Minhas et al (1987).

4 For lines 3(b) and 4(b), Appendix in this paper.

Appendix

ESTIMATES OF HEADCOUNT RATIOS AT THE ALL-INDIA LEVEL USING THE PLANNING COMMISSION PROCEDURE

Planning Commission procedure for the estimation of the headcount ratio involves

(a) price-adjustment to the poverty line (originally estimated at 1973-74 prices) based on the implicit deflator for Aggregate Private Final Consumer Expenditure (PFCE) in the domestic market, and

(b) *pro rata* adjustment in the size distribution of PCFE for the difference between the National Accounts-based estimate of PCFE and the NSS-based estimate of Aggregate Household Consumer Expenditure (AHCE)

As regards (a), we have the following estimates of PFCE (Rs crore) at current and constant (1980-81) prices from the National Accounts Statistics (NAS)

| Year | PFCE at Current Prices | PFCE at Constant Prices |
|---------|------------------------|-------------------------|
| 1973-74 | 46618 | 75654 |
| 1987-88 | 223629 | 135320 |

The estimates for 1987-88 are the latest revised ones made available by CSO. Using the above information, the price-adjustment factor for 1987-88 (with 1973-74 = 100) works out to be 268.06

As regards (b), we have the following information for 1987-88. Average PCFE for all-India rural and urban population is Rs 158.10 and 249.93 per month respectively (Source: *NSS Draft Report No 372*, p. 17). Population weights derived from *Sarvekshana* (September 1990) p. 16 are 0.7395 (rural) and 0.2605 (urban) for 1987-88 with approximately 788 million of aggregate population. Since the NSS estimate is for 30 days, we use the factor of 12.167 (= 365/30) for deriving the annual estimate of AHCE. Using the foregoing information, NSS-based estimate of AHCE works out to

be Rs 174509 crore. The required *pro rata* adjustment factor for 1987-88, therefore, will be (PFCE based on NAS)/(AHCE based on NSS) = $223629/174509 = 1.275$

The alternative headcount ratios (in per cent) for 1987-88, based on the foregoing information of (a) and (b) and NSS based size-distribution (given in *NSS Draft Report No 372*), are as follows

| Sl. No. | HCR Estimation Procedure | Rural | Urban |
|---------|--|-------|-------|
| 1 | Using the price adjustment factor (a) and <i>pro rata</i> adjustment factor (b) | 29.33 | 17.57 |
| 2 | Using only the price adjustment factor (a) but not <i>pro rata</i> adjustment factor (b) | 51.00 | 33.47 |

Notes

1. The rationale for the choice of middle fractions of population as the relevant group, whose cost of living should be used in updating the poverty norms, is discussed in Minhas et al (1987)
2. For details, see Planning Commission (1979)
3. At the state and all India levels, the size distributions of PCFE in the years 1970-71, 1983 and 1987-88 are taken from the respective sources: *NSS Report No 231*, *Sarvekshana*, Vol IX, No 4, April 1986, and *NSS Draft Report No 372*, June (1990). Notice that the results relating to the year 1987-88 and reported in the *NSS Draft Report No 372* are based on the half sample. Nevertheless, the survey made large enough coverage in this half sample, with about 41.6 and 22.7 thousand households spread over about 4,184 sample villages and 2,298 sample blocks in the rural and urban areas respectively.
4. Also see, Minhas, B S, *Agricultural Progress and Rural Poverty in India*, Sir Chhotu Ram Memorial Lecture IV, February 2, 1991, Haryana Agricultural University, Hissar
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Communists and Democracy in the Philippines

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In 1986, the 'national democratic movement' which constituted the main force of the revolutionary Left in Philippines calling for a boycott of the historic elections ordered by Marcos ran into a blind alley. Other cause oriented groups rallied behind Cory Aquino and in February, Marcos had to flee the country unable to face the upsurge of people's protests. The 'national democratic movement' seemed almost irrelevant and it had soon to admit that its boycott decision had been at least a 'major tactical blunder'.

While it is important to inquire why the boycott decision was taken and why the Left lost its initiative, this article explores why the radical Left failed to carry out materialist analyses towards a more fruitful and convincing understanding of political transformation in general, and in this case the growing importance of struggle for political democracy in particular within the framework of their basic theses.

[This article appears in two parts. This is the first part.]

I

Introduction

"GOD, WE MISSED OUT AGAIN!"¹

FOR many decades one of the most important political theses in the third world prescribed communist-guided political struggles in order to implement bourgeois revolutionary changes similar to the historical ones in Europe. Independent nation states should be created and foster agrarian reforms as well as industrial development. However, at least from the mid-sixties and onwards, this thesis was losing ground in Asia. The Indonesian communists were massacred. The Vietnamese won, but most of the other similar movements were forced to retreat. During the late-seventies and early-eighties the Philippines was actually one of the few countries in Asia where the revolutionary Left still expanded.

The so-called 'national democratic movement' ('democratic' in the sense of being anti-feudal) constituted the main force. It was led by a similarly labelled clandestine front, a new Maoist oriented Communist Party, and the rural based New People's Army.² The immediate target was the authoritarian and increasingly despotic regime of president Marcos, whose base was identified as imperialism and semi-feudalism. In 1983 the economic and political crisis of Marcos' state-led development was accentuated with the assassination of liberal ex-senator Benigno Aquino, the chief political opponent among the 'middle forces'. Many analysts spoke of an emerging revolutionary situation.

Were these expanding 'national democrats' about to show that the defeats for similar aspirations elsewhere in Asia were not caused by basic inadequacies in politically mainstream Marxism but were related to 'revisionism' and clumsy implementation, since it seemed to be possible to solve the problems by learning instead from Mao and insurrections in Latin America? Or was the Philippines an exception proving the rule?

Drawing on studies of the problems of the Left in Indonesia, and initial comparisons with India, I was at this time personally inclined to think that the Philippines I was told

about had only fallen behind—and that the radical opposition was already about to miss the train by boycotting the 1984 election, which was then on the agenda.³

The train did not depart in 1984. But as we know, a little more than one-and-a-half year: later, when president Marcos had to call for snap elections to verify his position, the strong and still expanding 'national democratic movement' ran into a blind alley by calling for another boycott of what was bound to be another sham-election, after which people were expected to realise that outright revolutionary struggle was the only real alternative.⁴

Most people and cause-oriented groups rallied instead behind Aquino in a massive attempt to win the elections. And when Marcos' manipulations and weakness became all too obvious in February 1986, the combined effect of vacillating US-support for the regime, defections within the military leadership, interventions of Cardinal Sin to create a miracle, and huge popular manifestations made at least Manila almost ungovernable. Marcos had to flee the country—while the 'national democratic movement' seemed almost irrelevant, and other sections of the radical Left were unable to step into his shoes.

A few months later even the 'national democratic' hard-liners had to admit that their boycott decision had been at least a 'major tactical blunder',⁵ while many others within the radical Left claimed that it was only the tip of an iceberg indicating more fundamental problems in predominant communist interpretations of Marxism.

A full explanation of why the Left lost the initiative in 1986 is of course beyond the scope of this essay. What I might be able to contribute is instead a study—based on my previous comparative studies of problems in applying Marxism in Indonesia and India, and on communication with some of those employing Marxism in the Philippines—of why it was difficult both to foresee, with the use of radical Left analyses, the rise of new essential contradictions, and to give priority to the issues related to political democracy which became so essential in early 1986.⁶

The answer to this question may be self-evident for those who maintain that com-

munist stand rooted to their analyses of socio-economic structures, programmatically neglect the issue of democracy, and cannot be expected to pay any interest in, or say anything enlightening about, state, government, and concrete politics. However, the Philippine 'national democrats' did not abstain from political studies. They were often sleight of hand with regard to concrete analyses of the political arena, tactics, manipulation, the possibilities of forming alliances etc and of adapting to the specificities of different localities.

The question may also seem unfair, since few if any of the well known actors involved fared much better in terms of actually predicting the growing importance of struggle for democracy in general and the 'EDSA revolution'⁷ in particular. But at the same time one should not forget, for instance, that the decisive boycott decision in the Communist Executive Committee was taken with only one vote's margin.⁸ And there were rather influential sections within the radical Left, including among the 'national democrats', who for many years had produced alternative perspectives.

It should, therefore, be fruitful to explore why it was difficult for various sections of the radical Left, including those who were critical of the very boycott decision, to carry out materialist analyses towards a more fruitful and convincing understanding of political transformation in general and, in this case, the growing importance of struggle for political democracy in particular, within the framework of their basic theses. It is of course also interesting to see if they have been able to do better since then.

FEATURES OF DEMOCRACY

We start by briefly defining democracy. It should thereafter be possible to discuss if and how its vital characteristics were paid attention to within the framework of radical Left analyses and strategies.

Maximum democracy may be conceptualised in terms of the actual capacity of the adult citizens to exercise in various forms equal and effective rule over resources which they hold in common without thereby undermining the absolutely necessary prerequisites for this rule.

The features which are especially important in a discussion about Communists and democracy in the Philippines include, firstly, their positions on what is meant by 'the actual capacity' of the citizens, or the minimum prerequisites for democratic rule. These include the usual basic rights to organise and express opinion, etc, but also such a degree of autonomy that the citizens are genuinely capable of, for instance, casting their vote in accordance with their opinion without having to adjust to the wishes of, for instance, their employer or landlord, totally dominant propaganda from certain candidates, or even an intervening national or foreign government and army.

The notion of 'citizen' indicates that we address the ruling of a country, and the idea of a Philippine nation state is so far no problem for the radical Left. But it is, secondly, worthwhile paying some interest to different views on the importance of government at various levels, including the very local tiers.

Thirdly, the ways in which the radical Left approached questions related to the 'exercise' of democratic rule 'in various forms' should also be observed. How were, for instance, peoples' participation, including co-operative efforts, in addition to representation, and the electoral and party system perceived?

Fourthly, 'equal effective rule' naturally has to do with the principle of one man one vote, which as such does not seem to have been a problem for the radical Left, even though the role of enlightened leaders was. Various views on efficiency problems, the capacity to implement what is decided, may also be identified.

A fifth and most important aspect is to what extent the "resources which they (the citizens) hold in common" are focused by the radical Left. This has to do with the extension of democracy. My definition of maximum democracy implies that democratic rule may be extended to the resources which are held in common within, for instance, trade and production.⁹ Radicals are usually eager to stress that under so-called bourgeois democracy many of the resources are excluded and governed by private owners, and that one can only, at best, talk about equal rule of some few and not too weighty political institutions. What were and are the positions of the radical Left. And to what extent did and do they pay attention to the many resources which are already formally publicly controlled and regulated but often non-democratically governed because of various forms of monopolistic practices?

Radical Left views on the what democracy is used for should, sixthly, also be considered. The phrase "without thereby undermining the absolutely necessary prerequisites for this rule" indicates, for instance, that the contents of a decision to limit certain citizens' right to vote would be undemocratic, but not necessarily a decision to hold down people's wages.

In addition to this, the more or less democratic character of various movements'

policies must be examined. My basic materialist assumption is that the best way to demonstrate if, for instance, demands for certain democratic rights are genuine or 'purely tactical' is to study the extent to which the movements apply them to achieve far reaching tangible aims as agrarian reforms or radical measures to create more jobs and better living conditions for the labourers. In other words, many actors may maintain that democracy is important as such, but their reliability may be doubted as long as it cannot be substantiated that basic democratic aims and means are instrumental for their basic goals.

How, then, were these six aspects of democracy approached within the important over-all analyses and strategies of the radical Left, and how credible were various claims for democratisation?

II

Mainstream 'National Democrats'

BACKGROUND AND BASIC THESES

Most of the movements in Asia with a 'national democratic' orientation grew out of the anti-colonial struggle, as for instance in China, Vietnam, and Indonesia. The movement in the Philippines, however, is mainly a product of student activists who turned against a 'revisionist' old party during a period of revolutionary optimism in the late-sixties and early-seventies, and managed to enclose some remnants of the old peasant based national-liberation army.

Thus, even though the third largest Communist Party in the world, the PKI in Indonesia, had just failed miserably and was almost eliminated, and the old Philippine Communist Party was on the retreat, students in Manila had instead become increasingly radical. It is illustrative that Jose Maria 'Joma' Sison, the Philippine Communist with responsibility for the contacts with Jakarta and one of the most important student leaders back home, had communicated mainly with those of the Indonesian leaders who had tried to introduce Maoist ideas.¹⁰

Moreover, as the Vietnamese revolution advanced and the Great Chinese Cultural Revolution was at its peak, Sison did very much the same as Jusuf Adjitorop, a member of the former Indonesian politburo and later on head of a delegation to China. They both employed old radical Maoist writings as blueprints when interpreting the historical development of their countries, reviewing previous communist policies, and outlining new political strategies.¹¹

From this point of view, the old PKP had betrayed the national and democratic revolution, especially through its downgrading of the struggle against so-called semi-feudalism in the rural areas. This had paved the way both for compromises with the regime, and attempts to grab power which were not based on the mobilisation of the majority of the population, the peasants.¹²

While most communists maintained that the Philippines was not yet fully independent and liberated from imperialism, a main difference was that Sison et al. were most eager to uphold the thesis that the power of the imperialists, the so-called compradors, and the bureaucrat-capitalists rested with the landlords.¹³

Neither the so-called national bourgeois forces, nor the small working class was strong enough to tackle those enemies.¹⁴ Any consistent attempt to promote real social change must instead be built on the contradiction between the landlords and the most numerous subordinated class in the country, the peasantry.

Those with good reasons to oppose imperialism, semi-feudalism, etc, could and would then rally behind a broad national democratic front. They could stage almost all forms of struggle, be it legal or illegal—as long as they served the interest of the 'national democratic' cause.¹⁵ But since a prerequisite for the most basic exploitation—the semi-feudal relationship—was private monopoly of land and the use of extra-economic force against poor peasants, the peasants had to resist this repression and enforce land reforms by way of armed struggle. A properly led peasant-based guerrilla movement would be able to initiate a prolonged people's war, liberate various areas, and, finally, encircle the comprador and bureaucrat-capitalist puppets in the cities.^{16 17}

Moreover, those who rallied behind the broad front were assumed to be interested in anti-imperialism and anti-feudalism, but their positions, as well as that of the peasants, were often vulnerable, making them potentially sensitive to compromises. It was therefore necessary that the project as a whole be led by a party with a programme that was based on the working class, since the working class interests could only be firmly approached after a consistent national democratic revolution.¹⁸

Accordingly, Joma Sison led a handful of activists set out to form the new Communist Party of the Philippines in early 1969.

Thereafter the young urban activists had to found or find a guerrilla army to lead. However, they themselves were approached by an equally young commander with the name of Bernabe 'Dante' Buscayno, an unusually well-educated son of a poor revolutionary tenant in Tarlac, Central Luzon. Dante was virtually born into the old Huk guerrilla movement, which fought feudal oppressors, the Japanese occupying force, and US-created puppet governments. He had become commander, responsible for education, and finally divorced the increasingly corrupt Huk-leadership. Dante and his group were thus not only experienced armed peasants, but also politically conscious revolutionaries with firm roots in the struggle for national liberation. They did not look for enlightened leaders but for alliances with workers, students and progressive liberals such as Benigno Aquino.¹⁹

Dante's group was transformed into the New Peoples Army in late March 1969. Dante also became a member of the highest organs of the new party. But during the following six year period he worked mainly in the mountain ranges, educating and organising guerrilla fronts all over the country—while Joma Sison was charged with the central ideological leadership on the basis of the theses outlined above. In 1976 Dante was arrested, followed, in 1977, by Sison. But the movements that they had created were solid enough to not only survive, but also expand swiftly and considerably during the increasingly despotic Marcos regime.

It is not difficult to understand that differences in the background, experiences, and perspectives of these two leaders created some personal and political friction, or that the 'intellectual leader' was in favour of a 'limited boycott' in 1986 and still holds on to Mao's ideas of an anti-feudal peasant uprising, while the 'armed peasant leader' propagated 'critical participation' and for sometime has made use of the new 'democratic space' to organise peasants and a most successful co-operative against the onslaught of capitalism.^{20 21 22}

DEMOCRACY OF MINOR IMPORTANCE

I shall now argue that while this background and these basic theses, which were still being applied in the mid eighties, did not prevent the 'national democrats' from applauding the increasingly widespread opposition to Marcos, it was quite natural for them to reject its preoccupation with peaceful democratic means, rights and rule, and to instead suggest boycott.²³

To begin with, democratic methods of changing the society were untenable according to the 'national democratic theses', since not even the minimum prerequisites for a democratic process were present. Most basic rights to organise and express opinion were lacking. Elections would not be clean and the propaganda resources were extremely unevenly distributed. Feudal remnants in particular prevented the majority of the citizens from casting their vote according to their real opinion. Washington would in any case never accept that progressive forces made substantial gains in the Philippines. All these preconditions for democracy must be fought for by confronting the ruling classes before democratic means could be relied upon. There was thus no need even to talk about such issues as the overwhelming problems that any progressive government would have in implementing its policies.

In a way Sison has summarised all this by saying that "we could invite the others for elections in our liberated areas and then see who would win."²⁴

At the same time, however, he did of course open up for questions as to whether there would be minimum democratic prerequisites also for "the others" in these areas. And even if the 'national democrats' were

eager to demand, for instance, basic civil and political rights, and presumably appreciated them as such, the actual implementation of these rights in order to reach long-term goals were, as we know, not instrumental within the framework of their strategy of armed struggle.

Moreover, the explicit theses about the need for enlightened leadership based on the 'national democratic' programme implied that democratic rights and rule often did not make sense for the movement itself. The limits of internal democracy is a history in itself. There has not even been a second congress of the party.²⁵ But also most attempts at building various frontal organisations and coalitions have failed because it was basic for the 'national democrats' to 'lead them'.²⁶

Finally, in addition to what we have already said about the 'national democrats' being reluctant to employ democratic means against the Marcos regime, it also followed from their theses that it was either unfruitful or simply not especially important to emphasise struggle for democratic rule. There were two main reasons for this.

First, if one wants to get rid of an authoritarian regime one must hit at its ultimate basis. The 'national democrats' conceptualised the existence of, for instance, undemocratic control of extensive public resources and means to regulate the economy, in terms of 'bureaucratic capitalists'. However these, and many others within the organs, of the state, did not, according to the 'national democrats', have a basis of their own which could be hit at by democratisation. The 'bureaucrat capitalists' relied instead on the more powerful imperialists, compradors, and landlords who controlled most of the resources in the society privately. And it was thus the latter's private control of especially land, and their backing in Washington, which had to be hit at by means of, of course, anti imperialism and anti-feudalism since they, the big private owners, would not be especially threatened by political democracy.

This first argument in particular was no exclusive property of the Philippine 'national democrats'. It played a similarly decisive role for instance within the Left in Indonesia and India.

Secondly, if one wants to introduce a democratic system which is not exclusively useful for the traditional elite, the basic preconditions which we have already discussed must exist from the beginning. According to the 'national democrats', most of the essential prerequisites cannot simply be proclaimed and democratisation of public regulation and resources would not help much since most of the resources in the society are privately controlled. What is instead required is the uprooting of landlordism, etc. Otherwise democracy would not mean much for the people.

What happened in the early 1986 was thus almost impossible, according to the mainstream 'national democratic' theses.

Despite the lack of solid prerequisites for a democratic process, huge masses of people had been able to use and create some democratic rights and peaceful means which proved powerful. Demands for democratic control of public regulation and resources actually became the main issue which engaged huge masses of the people and undermined the regime. Large sections of the bourgeois forces were obviously not so retarded by, or linked up with, imperialism and 'semi-feudalism' that they could not actively contribute to democratic changes. Even Washington finally supported the changes.

III Challenges

The 'national democratic' theses were, of course, questioned from within the movement itself as well as by left-dissidents, even if it was an uphill task politically to challenge perspectives which, at least until early 1986, had seemed to be quite rewarding. My argument is, however, that while many critics emphasised the lack of democracy within the 'national democratic' movement, and some of them suggested alternative tactics which would include, for instance, participation in elections, no primary, long-term interest in the issues of democracy followed from any of the contending approaches.

RADICAL NATIONALISM

To begin with, many scholars and leaders related to the old Communist Party had self critically examined previous negative attitudes towards participation in the electoral processes. Extensive rigging of elections during the forties, and measures to prevent those radical leaders who nevertheless were elected from taking their seats, had contributed to a Communist boycott decision in the early fifties. The state of partial civil war at the time of the 1951 elections made it impossible for the party to participate openly.²⁷ But according to former general secretary Jesus Lava, it would have been possible to support the best of the other candidates. He also claims that it was wrong to assume people to be uninterested in elections only because they were against fraud. There were successful attempts, supported by Washington, to hold fair elections, but the radical Left distanced itself and lost out, almost like in 1984 and 1986. Lava concludes, however, by asserting that one shall, of course, be ready to boycott elections when people are prepared to take up revolutionary work.²⁸

Further, as I have already indicated in the former section it is also true that many scholars and leaders with some relation to the old party had long since questioned the 'national democratic' thesis of 'semi-feudal' oppression and exploitation as the main basis of imperialism in the Philippines. Had not, for instance, even the Americans been eager to introduce land reforms?²⁹ On the one

band this implied that armed anti-feudal struggles against extra-economic oppression was not as primary and mandatory as for the 'national democrats'. But on the other hand, the main enemy was then imperialism itself. The Philippines was simply not yet fully independent. Nothing serious took place in the country without the direct or indirect involvement of Washington, the Monetary Fund and so on. All patriots, democrats or not, must therefore fight against imperialism with all possible means. Struggle in democratic forms for democratic rights and rule would have to wait since one of the most basic preconditions—true national independence—was (and is) not yet attained.³⁰

Politics of Mode of Production

The questioning of the 'national democratic' thesis on the primary need to fight 'semi-feudalism' continued during the late-seventies and early-eighties within the framework of a Philippine version of an international discourse in vogue on modes of production.³¹ While this was often most abstract and formalistic, the political implications were less convoluted.

Lava et al, had arrived at a radical nationalist position. Those inspired by the neo-Marxist Latin American and African dependency school emphasised later on the spread of an underdeveloping capitalism.³² The peasants were present, but sharecropping and similar forms of tenancy relations were on the retreat. Rural and urban labour as well as other subordinated groups became increasingly important. 'Semi-feudalism' was no longer there. The bourgeois forces acted instead within the framework of 'dependent capitalism'. This called for broad popular struggles with socialist perspectives. The only alternative development path was authoritarian state-led economic growth. But Marcos was about to fail in his attempt.³³

Many of the scholars and activists attracted by these perspectives had hard personal experiences from authoritarian practices related to the old as well as new Communist Party. Other sympathisers had a background among social democratic and often Christian groups. It was thus natural to demand democratic rights and rule within and among the radical movements themselves. Still others were engaged in voluntary action and development groups which they claimed were indispensable to a democratic system that was not only for the elite, and which should also include people's participation in addition to their representation.³⁴ Moreover, such groups would not be able to exist without rather extensive civil liberties. Given the background of many of those attracted by neo-Marxist perspectives and the special character of the cause-oriented groups, it was, finally, natural to consider the possibilities of employing efficient non-violent forms of struggle.³⁵

The neo-Marxists were initially preoccupied with validating the expansion of

capitalism and underdevelopment. Much of the general democratic orientation and preferences among many neo-Marxists thus lacked a powerful theoretical and analytical foundation.

Later on, as the increasing importance of the state in third world development became more and more obvious, neo-Marxists in most countries tried to go beyond previous mechanical and economic perspectives. In Philippine seminar rooms scholars began to talk about "the relative autonomy of the state".³⁶ All political structures and transformations were not directly determined by the basic class forces. There was some room for political manoeuvring without first having to take over state power.

To the extent that such insights had some political importance³⁷ they did, of course, allow for more careful analyses. But it is important to remember that the thesis about a special degree of 'relative autonomy' in the third world was mainly substantiated by a common inability of any of the dominating classes to develop as the ruling force, and by extensive formerly colonial state institutions.³⁸ From this point of view it was the balance of class forces that was vital, rather than questions related to the monopolisation of public regulation and resources. American colonial rule had moreover been quite different from, for instance, Dutch or British. Inherited state apparatuses were thus less important than in Indonesia or India.³⁹

Issues related to demands for democratic rule of the state and its resources were therefore not on top of the agenda, which was instead dominated by discussions on how to supplement basic struggles against the dominating classes by also fighting for positions in the arena and within institutions that were 'relatively autonomous'. Decisions among the neo-Marxists to first boycott the elections in 1984 but then to go for critical participation in 1986 seem to have been based mainly on analyses of the political conjuncture, including the possibility of uniting as many people as possible against the regime—in addition to studies of to what extent reasonable preconditions for a democratic process were available or at least could be fought for. Struggle with democratic means for democratic ends was not considered a reliable alternative. Military interventions was expected to be unavoidable.⁴⁰

Within the mainstream 'national democrats' the predominant reaction to the challenges may very well have been that the grassroots downgraded the importance of their over-all theses and adapted their concrete tactics to complicated and highly different contradictions in various regions and sectors. But in addition to this, some leading "national-democratic" scholars took upon themselves to defend and further develop the old perspective in face of those rejecting the notion of 'semi-feudalism', etc.

These 'national democratic' scholars apply an extremely narrow definition of capitalism, and thereafter invite all the new

transformations which thus, are not pure capitalist, to take shelter under the old umbrella of "semi-feudalism", thereby helping to confirm the orthodoxy.

According to Ricardo Ferrer the essence of capitalism is that "the mechanism of reproducing property rights over means of production is the intervention at the level of economy via accumulation and/or innovation."⁴¹ Markets are present in the Philippines, generalised commodity production is, and capital-wage labour relations are there. But the capitalists are not productive. Moreover, a lot of extra-economic force is made use of, and various rents are extracted. Ferrer even maintains that feudal laws of motion are decisive within the framework of western monopoly-capitalism.⁴²

The main political implication is, of course, that the basic thesis of the 'national democrats' is still valid. But does not Ferrer's emphasis on extra-economic forces, monopolised control of regulation and essential conditions of production, the extraction of rents, etc, make struggle for political democracy especially important?

Basically his answer is negative. The main reason for these factors is the predominance of feudal laws of motion, which must still be fought against by the oppressed, through broad alliances with so-called progressive capitalists and farmers (who are, unfortunately, difficult to separate from the bad guys).⁴³

When challenged by my alternative conclusion that "feudal remnants" have proved decisive for the rapid expansion of capitalism in, for instance, Indonesia—implying a strategy of anti-monopolism through democratisation, rather than anti-feudalism in favour of capitalism⁴⁴—Ferrer doubts that it is capitalist laws of motion which are at work. He also adds that in any case those who monopolise public regulation and resources have no base of their own which can be fruitfully undermined by democratisation. As usual one must instead hit at their "real" foundation among the powerful landlords and private capitalists.⁴⁵

'NATIONAL DEMOCRATIC' DISSIDENTS

Serious disagreements were also present within the mainstream 'national democratic' movement. As the popular opposition against Marcos increased in the mid-seventies, many young and often intellectual leading members of the Manila-Rizal party committee suggested that they should not have to wait for the rural revolution to unfold before they themselves staged urban offensives.⁴⁶

The extent to which this perspective was inspired by neo-Marxist arguments about capitalist expansion is an open question. The committee members were of course more eager to situate themselves within the framework of the mainstream movement even referring to recommendations from Sison for decentralised operations in accordance with the local situation. Viewed thus,

the best thing to do in the central urban area was to stimulate and influence the broad opposition movement against Marcos' dictatorship

It was instead the way in which the Manila-Rizal cadres went about doing this that brought them into sharp conflicts with the highest party organs. The Manila-Rizal leaders gave priority to broad 'anti-fascist' struggle for democratisation against Marcos' dictatorship. They claimed that the democratic rights and means which were present or could be developed, including the electoral process, should be used as long as possible, despite the fact that many decisive preconditions for a democratic polity were lacking. As elections were due in 1978, the Manila-Rizal activists thus entered into agreements with other leftists and liberals, including the Aquinos, proposed critical participation in the electoral processes, and even spoke about the possibility of thereby getting rid of Marcos.

The orthodox central leaders, including Sison, maintained, of course, that the Manila Rizal committee settled for 'right opportunist' policies, helped legitimise Marcos rule, and created illusions about how one could change the society.⁴⁷ The accent on broad urban 'anti fascist' struggles departed from the necessary emphasis on rural based armed struggles against feudalism and imperialism.

A last minute straightforward order from the party leaders to instead boycott the elections was finally neglected by the Manila dissidents. The extent to which this dispute contributed to the miserable results is impossible to say. The elections were in any case efficiently rigged. The progressive front did not make any gains. Some thousands of Manilans protested but no huge masses of angry people took to the streets in order to form their own parliaments, and mainstream 'national democrats' who claimed that they had been vindicated set out to purge their opponents.

While it was thus obvious that struggle for democratisation by peaceful and democratic means made sense for the Manila-Rizal leaders in a short term perspective, these considerations were hardly based on alternative conceptualisations making the issue of democracy instrumental to reaching long term aims. The Manila Rizal committee emphasised 'anti fascism' but did not really negate the basic importance of struggle against 'feudalism' and imperialism. Their argument was rather that the best way for the 'national democrats' to reach out to wide sections of the population with such revolutionary propaganda was to participate in joint mass campaigns. As people gained their own bitter experiences they would be prepared to listen to the 'national democrats'. There was also an opportunity to divide the ruling elite by keeping the channels open to those against Marcos. And it should be possible to mobilise moral and material support for the rural armed forces through contacts with dissatisfied ad-

ministrators, politicians, and businessmen. In addition to this it is interesting to note that in an internal trial against the Manila-Rizal activists after 1978 the party-leadership employed the writings of Mao, while the dissidents made frequent use of what Lenin and Stalin had said about the need to apply efficient tactics and make use of all means in order to mobilise and organise people before the time was right for a revolution.

From discussions with scholars with good knowledge about these debates, as well as with Sison, my own conclusion is that much of the alliances and policies suggested by the Manila-Rizal committee would have been quite all-right if 'only' the party had been in a guiding position and the 'national democratic' perspective had been imposed as a framework.⁴⁸ In the face of the 1984 elections the party leadership entered for instance, into alliances with similarly moderate forces—with conditions enabling 'national democratic' cadres and sympathisers to enforce a boycott decision.⁴⁹ And only when the leaders later on failed in doing the same within the framework of the previously managed coalition called 'Bayan', was it natural to take a principled stand in 1986.

The party leadership was able to limit the direct effects of the controversies in the late-seventies to Greater Manila and to purge those directly involved. But the critical perspectives survived and developed in two directions: one emphasising insurrectionist perspectives, another stressing so-called popular democracy.

In the late-seventies and early eighties the 'national democrats' and their New People's Army expanded drastically in the south, in Mindanao.⁵⁰ Reckless penetration of capitalism within fishing, timber, shipping, and agri-business had generated drastic socio-economic changes. Many people in rural areas had been uprooted and now spent parts of their lives as migrant labourers or trying to find jobs in the urban areas. The guerrilla units followed suit and their armed actions spread to the cities. Leaders of the National Democratic Front were also able to stimulate and influence many of the various cause oriented groups, not least during the boycott of the 1981 elections and in the rapidly growing city of Davao with its huge slum areas.⁵¹

This movement gained further momentum by hanging on to the broad popular protests after the assassination of Ninoy Aquino in August 1983. The leaders saw a revolutionary situation emerging, in which it should be possible to combine rural and urban struggles with the eruption taking place in the cities. This thus ran counter to much of the orthodox 'national democratic' theses inspired by Maoism. Some inspiration came instead from the successful Left in Nicaragua and the experiences in El Salvador. In late 1983 and early 1984 the Mindanao leaders suggested in vain that the "national democratic" movement as a whole should consider a fast track to power by applying an insurrectionist perspective.⁵² Back

in Mindanao they were however able to develop successful so-called people strikes, *weigang bayan*.

The concept of 'peoples' strikes' was an attempt to go beyond the traditional workers' strikes with roots in industrialised societies. The many people in third world countries who work within administration and education as well as within more of less 'informal' transportation, service, trading etc, could add their form of work stoppages such as blocking roads and participating in demonstrations and rallies etc, and to paralyse the government.

To some extent 'peoples' strikes' were successfully adopted also by other party organisations in the country. The 'insurrectionist' perspective had become one of the major oppositional tendencies within the 'national democratic' movement. However, in Mindanao in general and Davao in particular the tense situation, especially in urban slum-areas, eventually got out of hand as attempts to supplement the co-ordinated protests and work stoppages with armed actions developed into uncontrolled killings. This slowly came to an end in 1985 when a new and highly professional Marine Colonel was able to stabilise the situation by mixing the selective enforcement of law and order with the addressing of certain problems that people had revolted against.⁵³

Meanwhile the 'national democrats' had to concentrate on what was happening in Manila, including Marcos' snap elections. To what extent then did democracy make sense for the 'insurrectionist' tendency?

Obviously the 'insurrectionists' suggested 'critical participation' in the elections. A precondition for the expansion of the revolutionary forces in Mindanao had been their ability to associate with the broad popular opposition against Marcos. But the main criterion in deciding what methods to use was clearly the extent to which they would contribute to a successful insurgency. This could generate a dual sharing of power between the moderate progressives and the revolutionary forces. The latter would finally win since they should be able to paralyse the ruling of the country, reminiscent of events in Russia. Struggle for democratic rights—by making use of whatever freedoms that were already there, or could be created—did thus make sense in a short-term perspective in order to pave the way for more drastic methods to grab state power. From the insurrectional point of view, the central party leadership took its devastating boycott decision because its preoccupation with a Maoist protracted people's war prevented it from foreseeing the ripening of an urban revolutionary situation. Accordingly, the 'EDSA revolution' was a lost insurrectionists opportunity.⁵⁴

However, one should also discuss the extent to which the concept of 'peoples' strike' was based on ideas of local popular rule and co-operative efforts in, for instance, neighbourhoods. Within the Latin American discourse about radical transformation such

efforts have at least gained some importance.⁵¹ In the Philippines on the other hand, this was hardly touched upon by a leading ideologue like Villalobos, despite frequent references to Latin American experiences. Neither does it seem to have been solidly practised in, for instance, the Davao slum areas where the killings took serious proportions and people rapidly changed loyalties. The foremost 'national democratic' stronghold of Agalao even became a hotbed of anti-communist vigilantes in 1986.⁵² And the abortive attempts at introducing 'peoples' strikes' in Manila by drawing on small groups of activists hardly indicate a special interest in introducing popular rule and co-operative efforts in various districts and sectors.

On the contrary, the 'insurrectionists' simply developed the art of political manoeuvring and the grabbing of state power in a given revolutionary situation, without relying too much on social theories and analyses of fundamental driving forces—perspectives which in turn would have made it possible and relevant to discuss if aims like democratic rights and rule made sense, or at least to consider when and how revolutionary situations could emerge (and disappear).

As I have already hinted at the Maoist inspired communist theses adopted in the Philippines prescribed an anti imperialist anti-feudal revolution which would be led by The Party but be based on common interests among the workers, the peasants and the so-called national, as well as petty bourgeoisie. When the new Communist Party and the New People's Army had been consolidated in the mid seventies it was thus time to initiate a multi class National Democratic Front (NDF) under Communist hegemony.⁵³

For obvious reasons these classes did not automatically appear and the various organisations which more or less represented their aspirations were not particularly eager to enrol themselves under Communist rule, unless they were not already domesticated or initiated by the Communists.

In the late seventies the united front programme was therefore more attractively designed. It was, for instance, stated that nationalistic private businessmen would have nothing to fear and that all patriots would be granted democratic rights under a national democratic coalition government. As we know, the dissident Manila Rizal party committee even managed to initiate close co-operation with progressive centrist forces in face of the 1978 elections. But as we also know, this project was effectively blocked by the orthodox party leadership.

Actually, it was only in 1980 that a party authorised dynamic attempt was made to develop efficient united front work. The propelling force with excellent contacts was Horacio 'Boy' Morales, a celebrated former executive secretary under Marcos and head of his prestigious Development Academy, who had defected when he was to be award

ed as one of the 'ten outstanding young men' in late 1977. Another, though in exile after five years of detention, was Father Ed de la Torre, who was inspired by Latin American 'liberation theology', had initiated the militant "Christians for National Liberation" and had participated in the first attempts to build the NDF.

On the one hand, NDF was solidly anchored by Morales et al within the 'national democratic' movement. Its decisive leaders were included in a co-ordinating committee. The New People's Army was relieved from much of its political work and the NDF took responsibility for local organisation and action by synchronising the activities of various so called sectoral organisations of the workers, peasants, women, etc. Morales suggested moreover that the 1981 presidential elections should be boycotted.

On the other hand the new NDF leadership also tried to open up the Front for others, despite the fact that party leaders still demanded that those joining must accept all the basic national democratic theses. This proved difficult and priority was given to extensive contacts and joint actions with independent organisations and most influential opponents of Marcos' authoritarian regime—leftists as well as liberals or simply nationalists. This paved the way for broad political alliances and successful campaigns influenced by the NDF against the Marcos regime and its attempts to gain some legitimacy.

But Morales was arrested in 1982 (as was de la Torre upon his return from exile) and the promising start slowly came to an end. The NDF was subordinated to orthodox party leaders. When huge masses of people staged frequent angry demonstrations and formed more and more oppositional cause oriented groups after the assassination of Ninoy Aquino the national democrats definitely tried to hang along. And flexible writings came from the detained Sison. But generally speaking the national democrats were once again eager to force their perspective upon others.

Inside prison Morales and de la Torre were able to exchange views with certain other prominent radicals including the dissident revolutionary Nemesio Prudente and the leading socialist Marianito Canonigo. Morales' and Torres' previous attempts at trying to develop a framework for broad coalitions thus continued while a new and extended perspective was labelled 'popular democracy'. Their prison study circle produced a series of *Plaridel Papers* and the ideas gained some influence among the various contenting oppositional forces including the Aquinos.⁵⁴

An important first step was to set aside some of the differences between for instance armed national democrats' socialists and liberals which were simply imagined or only important in a long term strategical perspective—and to identify instead what conflicts between the political groups that prevented efficient united action

under the present concrete circumstances, against Marcos' authoritarian regime, and for a trustworthy government.

A major argument was that the basic actual conflict had to do with the sort of democracy that should replace the dictatorship. Restoration of the previous 'elite democracy' with more or less 'peaceful alternation of various factions of the elite in holding government power' stood against varying attempts to give people a real choice between many parties and projects, or popular democracy.⁵⁵

Despite the fact that the 'popular democrats' emphasised 'anti fascism', their concept of 'popular democracy' was intended to be different from the Communist led so called popular fronts 'from below' in Europe during the thirties and forties.⁵⁶ Nor was it identical with the notion of 'people's democracy', which indicated the dominant rule of many classes (rather than, for instance proletarian or bourgeois hegemony).⁵⁷ Popular democracy implied something more the importance of autonomous organisations in addition to parties state and government and participation in addition to representation making pluralism essential.⁵⁸

According to the popular democrats three different political lines were contending for influence over the protest movement in the mid eighties: those emphasising pressure politics through enhanced protests; those suggesting that there was also a need for elections; and those saying that in addition to pressure and elections there was a decisive need for armed uprisings. The vital question was thus: how could these efforts converge and effectively get rid of Marcos' authoritarianism while at the same time the attempts to build popular democracy were enhanced?⁵⁹

Firstly already the united front work must be characterised by popular democratic principles. There should for instance be parties and leaders representing different class interests as well as groups or councils with people who themselves participated in the transformation of the society. These actors should be autonomous, treat each other with mutual respect and gain influence according to the balance of forces both in terms of organisational capacity and in terms of being able to mobilise broad popular support. The attempt to form a broad coalition of centrist and left oriented forces against Marcos with the name of 'Bayan' was a month before the devastating formal founding congress seen as a step in the right direction.⁶⁰

Secondly—and this was stated in early 1985—elections must be turned into the tactical focus. This was compatible with all the three political lines with no one having to give up. Those, for instance in favour of pressure politics could simply add elections, while the armed national democrats could, for a certain period of time, stress one of the minor components of their comprehensive strategy: elections.⁶¹ Moreover, those

who wanted to go beyond the restoration of elite democracy could thereby (a) prevent attempts to isolate the radical Left (by first provoking a boycott-decision and then invest in reasonably clean elections)⁶⁸, (b) strengthen the alliance between the 'middle and the left', (c) enhance the bargaining power of the radicals vis-à-vis the traditional elite, and (c) allow people themselves, including those who supported the traditional opposition, to learn from their own political experiences and later on favour more radical policies.⁶⁹

It is thus obvious that many decisive features of democracy made sense for at least one 'national democratic' tendency before the 'EDSA revolution'.⁷⁰ Many minimum prerequisites for democracy did not exist and in some cases elections had to be boycotted, but there were also ample opportunities to use existing liberties to fight for more democratic rights.

Similar statements had been made by the 1978 Manila-Rizal dissidents. But the 'popular democrats' had more to say in a slightly different political situation: autonomous organisations and people's participation in addition to representation were most important, there should be a multi-party system, and pluralism should characterise relations within the Left as well. On the other hand, the 'popular democrats' paid little interest to the potential importance of struggle for democratising the ruling of public resources. This may be related to the lack of analyses of how resources in general were controlled. They had consciously abstained from tackling long term perspectives and basic analyses of driving social forces, since this might have blurred the more urgent 'anti fascist' unity.

Moreover, various democratic rights and certain forms of rule were definitely instrumental in developing appropriate frameworks for popular coalitions: co-operation, participation, checks and balances, etc. But aside from identifying movements that might give tactical emphasis to elections, the 'popular democratic' analyses were not comprehensive and deep enough to say much, if anything, about what social forces that could be genuinely interested in enforcing the attractive democratic framework in a longer perspective.

(To be Concluded)

Notes

- 1 The leader of the Christians for National Liberation, Father Edicio de la Torre, upon his release from detention after the coming to presidential power of Aquino in February 1986, quoted from Alex Magno 'CPP: Rethinking the Revolutionary Process' in *Diliman Review*, Vol 34, No 4, p 18.
- 2 The Communist Party of the Philippines (CPP) was formed by members of the old Philippine Communist Party (PKP) which had compromised with Marcos, and student activists, and was founded in early 1969 (officially, however, on Mao's birthday, December 28, 1968), as was the New

Peoples Army (NPA) which initially was based on members of the Huk guerrilla movement who divorced an increasingly corrupt commander. The National Democratic Front (NDF) was initiated in 1973 and formally established in 1980.

- 3 Having disputed this with the Nemenzus in Canberra late in the evening of May 1 1984, they not only held on to their hospitality but also suggested that I should try to study the issue more carefully by including the Philippines in my comparative project. Therefore, whatever merits this essay may have initially rest with them—as well as with all the others, both within and outside of the Philippines, who have been kind enough to share their analyses with me. However, I remain of course solely responsible for all the shortcomings. The research has been funded by Uppsala University, the Bank of Sweden Tercentenary Foundation, and Swedish Council for Research in the Humanities and Social Sciences.
- 4 See the editorial statement of *Ang Bayan* (official publication of the Communist Party of the Philippines) January 15, 1986 and *Liberation* (Published by the National Democratic Front), Vol XIV, No 1, 1986.
- 5 *Ang Bayan* Vol XVIII, No 3 May 1986, pp 13.
- 6 I am thus, relying primarily on interviews with scholars in the field and some of the concerned analysts and ideologues who from their respective points of view have also been asked to suggest sources and literature on key issues which I have then tried to supplement. Comparative points of departure are found in my *Dilemmas of Third World Communism: The Destruction of the PKI in Indonesia* (London: Zed Books, 1984), *What's Wrong with Marxism: On Capitalists and State in India and Indonesia* (New Delhi: Manohar Publications 1989), *What's Wrong with Marxism: Volume 2: On Peasants and Workers in India and Indonesia* (New Delhi: Manohar Publications 1990), and *Communists and Democracy: Two Indian Cases and One Debate* in *Bulletin of Concerned Asian Scholars* Vol 23 1, 1991 (forthcoming).
- 7 The Metro Manila circular road which is usually called EDSA has given name to the gigantic popular manifestation which in February 22 1986 brought Cora on Aquino to the presidency. On February 22 several thousands, and between February 23 and 25 more than one and some say close to two million people, blocked the avenue first at Camp Aguinaldo (the defence ministry headquarters) and then Camp Crame (the national police headquarters) preventing Marcos from using his troops against dissident military leaders.
- 8 Alex Magno 'CPP: Rethinking' op cit p 11 and Gregg R Jones *Red Revolution: Inside the Philippine Guerrilla Movement* (Westview Press 1989) p 157.
- 9 Allow me to state in order to avoid possible misunderstandings that the fact that maximum democracy in the sense that it is extended to all resources which the citizen hold in common may be economically devastating is quite something else: democracy does not solve all problems.
- 10 Interview with the former general secretary of the PKP Jesus Lava March 14 1990 and with Jomari Sison May 5 1990.
- 11 See for instance: Amando Guerrero (Jose Mari Sison) *Philippine Society and Revolution* (Hongkong: La Kung Pan 1971) and *Build the PKI along the Marxist-Leninist Line to Lead the People's*

Democratic Revolution in Indonesia (The delegation of the CCPKI, 1971) (The Indonesian attempts in this direction ran aground in 1968.) I am also thankful for discussions with among others, Ricardo Dick Malay (the former vice chairman of the CPP delegation to China, March 16, 1990). When nothing else is stated below, I am drawing on *The Philippine Society and Revolution*.

- 12 See for instance *Report to the Central Committee on Lavoite Propaganda for Revisionism and Fascism* (Pulang Tala, 1971). I am also drawing on Jesus Lava's own version, supplemented by that of the former PKP and Huk leader Casto Alejandro interviews, January 19 and March 14, 1990.
- 13 I hesitate to refer to the definitions, which, in any case follow the Maoist formula. See especially Guerrero *The Philippine Society* op cit pp 204-24 on bureaucrat capitalism, and ch 3 section 2 on 'Classes in the Philippine Society'. Allow me however, to stress, as in my previously mentioned analyses of the problems in Indonesia and India, that the 'bureaucrat capitalists' were not assumed to constitute a class or even a faction with a basis of its own, but mainly indicate those capitalists or landlords—but also bureaucrats, officers, and politicians drawing on the class basis of, for instance, capitalists—who utilised the state in order to promote themselves as capitalists. As we shall see later I believe this was one of the major factors which paved the way for the lack of interest in democracy among the national democrats.
- 14 The Philippine analysts were no more successful in specifying this problematic concept than those within the Indonesian or Indian Left. Guerrero (Sison) made his best out of what Mao had stated, see Guerrero *Philippine Society* op cit p 241ff. As usual the attempts at applying economic distinctions related to 'nationalist industrialisation' or capitalist relations of production in the country' (p 241) are insufficient and still lead—in the final analysis and when one presses political economists such as Ricardo 'Dick' Guerrero related to the national democrats—to classifications based on various capitalist views on the political lines of different organisations. Interview March 21 1990.
- 15 The limits were, of course, difficult to identify. This opened up for skilful political manoeuvring. Sison himself was (and is) dogmatic with regard to the basic theses.

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but very open to most actions by different actors and movements as long as they do not challenge the leading role and ideology of the 'national democrats', and during the early and mid eighties he criticised so-called sectarian positions among the 'national democrats'. Discussions and interviews with Sison (February and October 1987 and May 1990) as well as with dissidents who opposed the boycott decision (May 1990), cf. also what Sison had to say as late as in January 1986, *Midweek*, January 15-22, 1986

- 16 These ideas of initiating a popular uprising presume that a lot of people would follow suit when the oppressive forces in a village or an area had been undermined or 'eliminated'. Interestingly enough however, the discussions about the possibilities of igniting the spark seems to have been rare and the existence of at least potential revolutionary situations taken almost for granted. One of the scholars in the field, Armando 'Buddy' Malay Jr, even suggests certain similarities with the Latin American 'foco strategy' of generating mass support by armed actions (Interview March 19, 1990) (Cf also his 'Some random reflections on Marxism and Maoism in the Philippines' in *Marxism in the Philippines—Marx Centennial Lectures*, (Quezon City Third World Studies Centre, University of the Philippines, 1984). When pressed on this point ("How do you know that there is a revolutionary situation?") Sison could only offer rough indicators such as an inability of the government to rule the country, grave oppression of the people etc. (Interview May 3, 1990). This is reminiscent of the problems experienced by the so called Naxalites in India, see the second volume of my *What's Wrong with Marxism?*, ch 3 (At least at present, the guerrilla leader Dante takes quite another stand to which I shall return below)
- 17 When later on the liberation of Saigon took place it seems to have been a good illustration of what the 'national democrats' would like to think could happen also in the Philippines
- 18 See e.g. Guerrero, *The Philippine Society*, op cit, pp 276-86
- 19 I draw on William Chapman, *Inside the Philippine Revolution* (London: I B Tauris

- and Co, 1988, pp 64-67 and 78f, Jones, *Red Revolution*, op cit, p 26ff, and Francisco Nemenzo 'An Irrepressible Revolution: The Decline and Resurgence of the Philippine Communist Movement' (Manuscript, no date—mid-eighties), p 54ff, as well as on interviews with Dante, January 1 and May 25-26, 1990 (With regard to Dante and the Aquinos: While Dante led impoverished peasants who in protest against appalling conditions put fire to the adjacent sugarcane fields at the hacienda Luisita, young lady Corazon grew up in the saloons of the mansion among landlords and businessmen, including one who was to become a real favourite of Marcos. But Cory married a son at the hacienda in Concepcion, not far away. He was Benigno 'Ninoy' Aquino and grew up to be a radical liberal politician who saw Marcos as the main enemy, and who developed close relations with popular leaders in Tarlac such as Dante. I shall return to later parts of this story)
- 20 Two illustrations only, to avoid further gossiping. "Dante is good at minor tactics, not strategical" (Interview May 5, 1990) and "Sison was a good interpreter and compiler of books from whom I never got anything practical and who was a bit of an adventurer" (Interviews May 25 26 1990)
 - 21 Interviews, May 5 and 6, 1990
 - 22 I shall return below to Dante's present project
 - 23 I am thankful for comments on preliminary versions of the following interpretations from Armando 'Buddy' Malay Jr, March 19, 1990 and Sison, May 5 1990
 - 24 Interview with Sison, May 5, 1990
 - 25 When I think about the fact that the devastating boycott decision was not even taken by the politburo but in a 3:2 vote by the executive committee, or contemplate a plausible and serious decision in 1971 which may not have been taken by any organ at all I cannot but remember the way in which some of the leading members of the PKI in Indonesia seemed, in a similar fashion, to have handled the more or less provocative information that coup attempts were on their way in October 1965. See Olle Tornquist, *Dilemmas* op cit, Ch 18
 - 26 Cf. P N Abinales, 'The Left and Other

Forces: The Nature and Dynamics of pre-1986 Coalition Politics', in *Marxism in the Philippines. Second Series*, (Quezon City Third World Studies Centre, University of the Philippines, 1988). This caused, for instance, the attempts in the early-eighties, by Horacio 'Boy' Morales, et al, to broaden the National Democratic Front to run aground. (I shall return to this later on when discussing the so-called popular democrats), and turned *Bayan*, a legal coalition of radical cause oriented groups, into an almost exclusive 'nat dem', set-up already at its founding congress, not to talk about the state of affairs when the boycott decision had been enforced (Interview with Karina Constantino David of one of the groups who departed at the congress, March 28, 1990, *Documents of the Second National Congress of the Bagong Alyansang Makabayan* (Bayan, 1986), and interview with Etta Rosales, leading member of *Bayan*, March 23, 1990). And it was almost tragic-comical to hear in 1990 a leading member of this and similar organisations saying that contemporary attempts at more open attitudes had been approved 'from below', which has nothing to do with the grassroots but signals the underground top leaders (Interview Quezon City, March 1990)

- 27 Armed revolutionary forces had actually advanced to what is now the campus of the University of the Philippines in Diliman, Quezon City, Greater Manila
- 28 Interviews January 19 and March 14, 1990. It is unfortunate—and interesting—that a recent critical assessment with no PKP connections, of US policies in these matters, which goes back to the forties, does not discuss similarities between the dilemmas of the Left in, on the one hand, the late forties and early fifties and, on the other hand, the mid eighties. See Walden Bello, *US sponsored low intensity conflict in the Philippines*, Food First Development Report No 2 (San Francisco: The Institute for Food and Development Policy 1987)
- 29 For recent scholarly contributions, see for instance Rene E Orleneo, *Capitalism in Philippine Agriculture* (Quezon City: Foundation for Nationalist Studies, 1980) and by the same author *Deregulation and the Agrarian Crisis*, (Quezon City: Institute of Industrial Relations, 1987)

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- 30 Interview with Lava, March 14, 1990. Cf also the extensive writings of Renato Constantino, though I am not aware of any straight-forward political conclusions in them. For a brief interesting prediction with some relation to the issues of democracy, see his *The Philippines after Marcos* (Cebu: Tug Ani Student Publication of UP College, 1985).
- 31 For a brief interesting review of the Philippine debate, see Virgilio Rojas, *The Mode of Production Controversy in the Philippines. Anatomy of a Lingering Theoretical Stalemate: a Comparative Analysis and Evaluation*, (Stockholm University, Department of Economic History, 1989).
- 32 Meanwhile, the scholars and activists insisting on the classical Marxist analysis of the international expansion of capitalism, concentrated on validating the importance of a so called new international division of labour. In addition to anti imperialism, the direct political consequences which followed from analyses of industrialisation were naturally related to the role of the working class, including its struggle for basic rights, and not primarily to the issue of political democracy even if, of course, the role of the state was mentioned. (See for instance the writings of Rene Ofreneo, and cf Peter Limqueco, Bruce McFarlane, and Jan Odhnoff, *Labour and Industry in ASEAN* (Manila: Journal of Contemporary Asia Publishers 1989).)
- 33 For this and the following two paragraphs I am thankful for discussions with Randolph David, head of the Third World Studies Centre University of the Philippines (January 18 and March 20, 1990) others with this tendency and with Ed Tadem (especially March 12 and 14, 1990) and Francisco Dodong Nemenzo (March 23, 1990), though their political background is partly different. For relevant research related to the dependency perspective see, for instance *Political Economy of Philippine Commodities* (Quezon City: UP Third World Studies Centre 1983) most of the Research and Working Papers published by the same centre, and its journal *Kasarinlan* which also include discussions on political implications.
- 34 See for instance Karina Constantino David 'Community Organisation and People's Participation' paper for the Dag Hammarskjöld Foundation Uppsala, 1984 and by the same author *The New Politics: Lessons from the Democratic Struggle in the Philippines* (Quezon City: no date-1985?).
- 35 Cf Randolph David 'The Theory and Practice of Unarmed Popular Resistance' paper to seminar on people's responses to political and economic changes (October 12-16, 1984 Salani Muntlan Central Java Indonesia).
- 36 For instance, Alex Magno wrote his MA thesis on 'Relative Autonomy and the Philippine Authoritarian State' (University of the Philippines Department of Political Science 1982).
- 37 Alex Magno, with personal political experiences has serious doubts about this himself. Interview March 12, 1990.
- 38 For a more elaborated critical discussion on this and other attempts to approach the state see the first volume of my *What's Wrong*, op cit, Ch 5.
- 39 For interesting perspectives on this see Ben Anderson's 'Cacique Democracy in the Philippines: Origins and Dreams' in *New Left Review*, No 169, 1988, esp p 111.
- 40 Cf, Randolph David, 'No Participation in Elections Under a Dictatorship', speech delivered at the kongreso ng Mamamayang Pilipino (KOMPLIF) Congress, January 7, 1984, and Francisco Nemenzo, 'The Left and the Traditional Opposition' in *The Philippines after Marcos*, (eds), R J May and Francisco Nemenzo (Sydney: Croom Helm, 1985). I am also thankful for interviews with Randy David (March 20, 1990) and Dodong Nemenzo (May 1, 1984).
- 41 Ricardo D Ferrer, 'When Capitalism is Not' in *Conjuncture*, Vol 1, No 11/12, December 1988. Cf 'Theoretic and Programmatic Framework for the Development of Underdeveloped Countries' in *New Progressive Review*, Vol 3, No 2, 1987, and 'The Political Economy of the Aquino Regime: From Liberalism to Bureaucratic Authoritarianism' in *Diliman Review*, Vol 35, Nos 5 and 6, 1987.
- 42 For Ferrer's earlier writings, see for instance his articles in *New Philippine Review*, Vol 1 No 1, and Vol 1 No 2, Vol 1, No 3, 1984 and 'On the Mode of Production in the Philippines: Some Old Fashioned Questions on Marxism in Marxism in the Philippines: Marx Centennial'.
- 43 Interview, March 21, 1990.
- 44 See my *Dilemmas*, op cit, and the two volumes of *What's Wrong*, op cit.
- 45 Ibid.
- 46 When nothing else is stated I draw mainly on Arnando Malay Jr, *The Dialectics of Kaluwagan: Echoes of a 1978 Debate*, P N Abinales, *The Left and Other Forces: The Nature and Dynamics of Pre 1986 Coalition Politics* and Alex Magno 'The Filipino Left and the Crossroads: Current Debates on Strategy and Revolution' in *Marxism in the Philippines: Second Series*, op cit, Gregg R Jones, *Red Revolution*, op cit, p 110ff and Ch 10, and interviews with Arnando Malay (March 19, 1990), and Alex Magno (March 12, and 12, 1990).
- 47 Sison was captured in late 1977 but participated in the early debate. Cf, his statement in Jose Maria Sison and Rainer Weiming *The Philippine Revolution: The Leader View* (New York: Crane Russak 1989) pp 103f.
- 48 Interview May 3, 1990.
- 49 Gregg R Jones *Red Revolution*, op cit, p 148ff. (Cf also *Liberation*, Vol XII Nos 1 and 2, 1984 and the Evaluations in Vol XII Nos 4 and 5, 1984.) It should also be noted that while the opposition against Marcos won almost nothing in terms of seats in 1978 the gains were substantial in 1984.
- 50 When nothing else is stated I draw mainly on Gregg R Jones *Red Revolution*, op cit Ch 12. William Chapman *Inside the Philippine*, op cit pp 229-31, and the two duplicated discussion papers from 1986 by Marty Villalobos 'Where the Party Failed' and 'On the Insurrectional Strategy in Parallelism: The Philippines now and El Salvador in 1979-80' in *Praktika* (A theoretical journal published by the CPP National Liberty Commission which appeared with two issues) Vol 1 No 2, 1987 and 'Counter Insurgency and the Peoples War in El Salvador' in *Kasarinlan* Vol 3 No 1, 1987 supplemented by interviews with Alex Magno March 1, 1990. I also his *The Filipino Left*, op cit p 83ff) and with Ed Tadem March 12 and 14, 1990.
- 51 Including a young intellectual activist who was sent from Manila later on became a major ideologue among the insurrectionists and in some writings used the name of Marty Villalobos.
- 52 Sison as well as Dante were detained but it is still interesting to note that both regarded the 'insurrectionist' line as 'adventurous' (Sison) and 'romantic' (Dante) Sison and Werning, *The Philippine Revolution*, op cit, p 129f, and interview with Dante, March 26, 1990.
- 53 With the name of Rudolfo Biazon.
- 54 See the mentioned discussion papers by Villalobos, especially *Where the Party*, pp 7 and 10-13.
- 55 I am drawing on discussions with and the writings of Bosco Parra, see eg, his 'Labour and Democracy in Chile', in *Strategies and Practices: Workers in Third World Industrialisation*, ed Inga Brandell (Macmillan, forthcoming).
- 56 Cf Gregg R Jones *Red Revolution*, op cit, pp 268-275.
- 57 When nothing else is stated on the united front policy, see P N Abinales, 'The Left and other forces: The nature and dynamics of pre 1986 coalition politics', in *Marxism in the Philippines: Second Series*, op cit, William Chapman *Inside the Philippine Revolution*, 214-229, and Gregg R Jones *Red Revolution*, op cit, Ch 13.
- 58 Named after an old political leader, Marcelo H del Pilar, 'Who Struggled Peacefully for Reforms but Remained Open to the Revolutionary Option' (Quoted from the cover of the second *Plaridel Paper* see next note).
- 59 For this and the following, I am mainly drawing on interviews with Horacio Morales, March 27, 1990 and Ed de la Torre May 3, 1990—supplemented by interviews with Isagani R Serrano, leading 'popular democrat' and Clark Soriano, director of the Institute for Popular Democracy, March 20, 1990—and the *Plaridel Paper's*, No 2, August 1984, and No 3, April 1985.
- 60 See especially *Plaridel Papers*, No 2, the quotation is from p 2.
- 61 I shall, however return to how it was possible for 'national democrats' to analyse the 'popular democrats' in such terms.
- 62 Which was associated with the concept of 'national democracy'.
- 63 One of the ways in which Sison accommodates the 'popular democrats' is, however, to say that they "Suggest a Better form of Bourgeois Democracy", and that "Initially Ours is Bourgeois Revolution" Interview May 3, 1990.
- 64 Cf also Ed de la Torre, *The Politics of Popular Democracy* (Institute for Popular Democracy Quezon City, 1986).
- 65 See especially *Plaridel Papers*, No 3.
- 66 Ibid, especially p 34ff.
- 67 The 'popular democrats' were of course right in saying that the 'national democrats' were not by definition against elections but simply claimed that one should only participate when and in such a way that, the strategic means and aims were not undermined but instead supported. Discussions about critical participation in elections scheduled for 1987 were actually under way (Cf *Plaridel Papers* No 3, p 32ff).
- 68 Interestingly enough, the 'popular democrats' had previously recalled the ways in which Washington had managed to out manoeuvre the Left as far back as the early fifties, by employing similar tactics. See *Plaridel Papers*, No 2 p 6ff.
- 69 See especially *Plaridel Papers*, No 3, p 30ff.
- 70 I should also be mentioned that, among others, Dante, the founder of the New People's Army, who was isolated in detention, tried to reach out with similar propositions. I shall return to Dante and his ideas.

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NOTICE

It is hereby notified for the information of the Public that Essar Gujarat Limited proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969, for approval to the establishment of a new undertaking/unit/division. Brief particulars of the proposal are as under

1 Name & address of the applicant ESSAR GUJARAT LIMITED, Regd Office Post Hazira, Pin 394 270, Dist Surat Corporate Office 13th floor, Maker Chambers IV, Nariman Point, Bombay 400 021 (2) Capital structure of the applicant (as at 1.6.91) (a) AUTHORIZED (i) 19,00,00,000 Equity Shares of Rs 10/ each - Rs 190,00,00,000 (ii) 50,000 11% Preference Shares of Rs 100/ each - Rs 50,00,00,000, (iii) 10,00,000 - 14% Redeemable Cumulative Preference Shares of Rs 100/ each - Rs 10,00,00,000, Total Rs 200,50,00,000 (b) ISSUED & SUBSCRIBED (i) 7,22,16,767 Equity Shares of Rs 10/ each - Rs 72,21,67,670 (ii) 140 Preference Shares of Rs 100/ each Rs 14,000, Total Rs 72,21,81,670 (3) Management structure of the applicant organisation indicating the names of the Directors including Managing or wholetime Directors, if any. The company is managed by the Managing Director, subject to the control, direction and supervision of the Board of Directors of the Company. The names of the Directors of the Company are as follows (i) Shri S N Ruia (Chairman) (ii) Shri R N Ruia (Managing Director), (iii) Shri I C Jain, (iv) Shri D D Udeshi, (v) Shri K R Ramamani, (vi) Shri K C Ponnappa (Nominee GIC) (vii) Shri V Kapoor (Nominee IDBI), (viii) Shri C S Pani (Nominee UTI) (ix) Smt Lalita D Gupte (Nominee ICICI), (x) Shri M K Chanrai, (xi) Dr E R C Sekhar, (xii) Shri Sanjeev Shriya (xiii) Shri Prashant S Ruia (4) Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division. Yes - New Undertaking (5) Location of the new undertaking/unit/division. A new Public Ltd Co. in the Joint Sector with KSIIDC to be incorporated in Karnataka. The manufacturing unit is proposed to be located at Toranagallu Bellary, Hospet area in the state of Karnataka (6) Capital Structure of the proposed undertaking. Authorized Capital (Rs in Crores) Equity Shares - 650, Subscribed & Paid up Capital (Rs in Crores) (a) Foreign holding - Nil, (b) NRI holding on repatriable basis - 60, (c) Indian holding Public & Promoters - 555, Total 615 (7) In case the proposal relates to the production, storage, supply, distribution, marketing or control of any goods/articles, indicate

(i) Name of goods Low carbon, medium carbon, low alloy, high alloy, flat products in the form of slabs/strips/sheets, coils, rods, bars and structurals granulated slags and by products from coke oven (ii) Proposed licensed capacity 30,00,000 tonnes per annum (iii) Estimated annual turnover Rs 3012 crores on full production (8) In case the proposal relates to the provision of any service, state the volume of activity in terms of usual measures such as value, income, turnover etc. Not applicable (9) Cost of project Rs 3875 crores (10) Scheme of finance, indicating the amounts to be raised from each (Rs in crores) (i) Equity Capital/Retained Earnings/Convertible Debentures 968.75, (ii) Non Convertible Debentures 300.00, (iii) Rupee Loans from Financial Institutions 1911.14, (iv) Foreign Exchange Loans 695.11, Total 3875.00

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein

For ESSAR GUJARAT LIMITED

K M VENKATESWARAN
COMPANY SECRETARY

Dated July 5, 1991

External Liberalisation and Import-Dependence

A Note

Sunil Mani

This note examines whether the import-dependence of the industrial sector has increased in the post-liberalisation phase compared to the earlier period. The first section of the note considers the methodology of computing the import-dependence of the industrial sector, while the second section presents and interprets the empirical results.

INTRODUCTION

AN important facet of the economic policy shift in the 1980s has been the reduction in the discretionary role of government in industrial planning. Relaxation of government controls or doing away with controls altogether has been an important and integral part of this strategy which came to be epitomised as economic liberalisation. A rationale of this policy shift was the desire to enhance the export competitiveness of large sections of Indian industry. There are two components to this liberalisation—internal and external. The main component of internal liberalisation is reducing the domestic barriers to entry while external liberalisation encompasses a number of facets like liberalisation of the import regime for exporters, extension of fiscal and monetary concessions to place Indian exporters on par with their foreign competitors and finally rationalisation and simplification of export-import procedures. The belief was that such liberalisation of controls over imports would make available the much needed capital goods and raw materials to the exporter who would in turn produce quality goods for exports. While exports may have responded to some extent to these policy changes, the trade gap still averages around Rs 6,000 crore, especially since the mid-1980s. This failure of exports to catch up with the imports has resulted in the so-called 'foreign exchange crunch' which is bothering policy makers so much these days.

The manufacturing sector has registered an impressive growth rate of over 8 per cent during the 1980s.¹ A view has also been expressed that much of this growth has been import-propelled² and the maintenance of this high growth in the years to come is likely to be difficult if import curbs are to be imposed in response to the foreign exchange crunch. If that be the case, the high growth rate registered in the 1980s is hardly sustainable and the entire liberalisation process would prove to have had the effect of making the economy import dependent.

Against this brief background, the purpose of this note³ is to examine whether the import-dependence of the industrial sector has increased in the post-liberalisation phase compared to the earlier period. The note is in two sections. In the first section we consider the methodology of computing the import-dependence of the industrial sector

while the second section presents and interprets the empirical results.

I

We employ a series of indices to measure the import dependence of the Indian industrial sector. By the industrial sector we mean both private and public sector enterprises. We have restricted our exercise to non-financial enterprises in both sectors and, in the case of public sector, we include only the non-financial, non-departmental enterprises. In short, the exercise is restricted to manufacturing enterprises in the two sectors. The data on private sector enterprises are from the 'Finances of Large Public Limited Companies' brought out by the RBI⁴ and for the public sector they are culled from the *Public Enterprises Survey* released by the Bureau of Public Enterprises.

At the outset it is necessary to discuss the periodisation of the liberalisation measures. This is not exactly an easy task because there are different policy measures which are subsumed under the general label of 'external liberalisation' and these measures have been introduced at various points of time. However, one of the most important components of external liberalisation refers to the relaxation of controls on the import of capital goods. This can be seen from Table 1 which presents the trends in the number of capital goods placed on the Open General Licence (OGL) and the relative share of capital goods imports in total imports. The table suggests that external liberalisation reached its peak around 1985-86: the relative share of capital goods imports and the number of capital goods placed on the OGL have increased significantly after 1985-86. The average relative share of capital goods imports increased by nearly 10 percentage points from about 18 per cent during 1970-71 through 1985-86 to about 28 per cent during 1986-87 through 1988-89.⁵ Similarly, there was a 26 per cent increase in the number of capital goods placed on the OGL in 1985-86—the largest such increase in the decade. From this it can reasonably be concluded that 1985-86 was the year when major changes in external liberalisation were effected. So, for the purpose of our limited exercise of attempting to measure the import dependence of the industrial sector, we consider the period 1986-87 through 1988-89 as the post-liberalisation phase.

Turning to measures of import-dependence, we consider three such measures below.

(1) *Net Foreign Exchange Inflow Rate (NFIR)* This is basically the ratio of net exports to total exports of a specific industry. It should be mentioned that here we are concerned only with exports of commodities. The weighted average of these for the various industries during a year will provide us with the NFIR for the industrial sector as a whole during a year. In symbols

$$NFIR_i = \frac{X_i - I_i}{X_i}$$

where NFIR = net foreign exchange inflow rate for the i^{th} industry

X_i = exports of the i^{th} industry

I_i = imports of the i^{th} industry

TABLE 1. NUMBER OF CAPITAL GOODS ITEMS ON OGL AND VALUE OF CAPITAL GOODS IMPORTS

| Year | Value of Capital Goods Imports | Number of Capital Goods Items Placed on OGL |
|---------|--------------------------------|---|
| 1 | 2 | 3 |
| 1970-71 | 395 (24.17) | |
| 1974-75 | 696 (15.40) | Nil |
| 1975-76 | 935 (17.76) | 79 |
| 1976-77 | 1048 (20.65) | 167 |
| 1977-78 | 1110 (18.42) | 252 |
| 1978-79 | 1228 (18.02) | |
| 1979-80 | 1368 (15.36) | 386 |
| 1980-81 | 1821 (14.51) | 443 |
| 1981-82 | 1981 (14.49) | 553 |
| 1982-83 | 2231 (15.54) | 672 |
| 1983-84 | 3174 (20.05) | 754 |
| 1984-85 | 3027 (17.67) | 950 |
| 1985-86 | 4084 (20.78) | 985 |
| 1986-87 | 6279 (31.24) | NA |
| 1987-88 | 6135 (27.39) | NA |
| 1988-89 | 6713 (24.24) | NA |

Note: Figures in brackets indicate capital goods imports as per cent of total imports.

Sources: Column 2—RBI Reports on Currency and Finance, Volume II, various issues.

Column 3—World Bank, *India: An Industrializing Economy in Transition*, Report No 6633-IN, 1987, p 100.

(2) *The Import-Intensity Rate (IIR)*: This is measured as the ratio of imports to net value added expressed as a percentage. In symbols:

$$IIR_i = \frac{I_i}{NVA_i} \times 100$$

where IIR_i = import-intensity rate of the i^{th} industry

I_i = total imports of the i^{th} industry

NVA_i = net value added of the i^{th} industry

These two measures are quite comprehensive as they bring out the relative share of total imports of goods to exports and net value added respectively. Apart from the liberalisation of goods (viz, capital goods, raw material and stores and spares) the government had also liberalised disembodied technology imports not only through the mode of licensing agreements between Indian and foreign collaborators, but also having a more open attitude towards acquiring technology via the medium of direct foreign investment (DFI). This policy shift has been discernible since 1978. However, we measure the direct economic cost of such disembodied technology imports during the post liberalisation phase (i.e, 1986-87 through 1988-89) and compare it with the costs incurred during the pre-liberalisation phase. It should be added that, strictly speaking, one should be comparing the costs during pre- and post-1978 phases. But for consistency we adopt the same periodisation (i.e, pre- and post-1985-86). We define the third measure dealing with disembodied technology imports-related payments as follows:

(3) *Direct Cost of Technology Imports Rate (DCTR)*: This is defined as the ratio of the sum of royalty, technical fees and dividends to net value added and expressed as a percentage. In symbols:

$$DCTR_i = \frac{R_i + T_i + D_i}{NVA_i} \times 100$$

where, $DCTR_i$ = direct cost of technology import of the i^{th} industry

R_i = royalty payments of the i^{th} industry

T_i = technical fees payments of the i^{th} industry

D_i = dividend payments of the i^{th} industry

NVA_i = net value added of the i^{th} industry

II

The behaviour of NFIR during pre- and post-liberalisation phases is presented in Table 2.

Before we draw any inferences from the data, it is essential to make the following comments. The data pertain to over 600 large public limited companies in the private corporate sector (having a paid up capital of Rs 1 crore and above). The number of firms in both the periods is about 600 and

TABLE 2: NET FOREIGN EXCHANGE INFLOW RATE (PRIVATE CORPORATE SECTOR)—PRE- AND POST-LIBERALISATION

| Industry | Pre-Liberalisation | | | | Post-Liberalisation | | | |
|--|--------------------|------------------|-----------------|------------------|---------------------|------------------|-------------|------------------|
| | 1982-83 | 1983-84 | 1984-85 | Average | 1986-87 | 1987-88 | 1988-89 | Average |
| 1 Tea | 0.96 | 0.96 | 0.82 | 0.91 | 0.91 | 0.92 | 0.89 | 0.91 |
| 2 Sugar | 1.00 | 0.88 | 0.92 | 0.93 | -4.33 | 0.00 | 0.79 | -1.18 |
| 3 Tobacco | 0.99 | 0.98 | 0.97 | 0.98 | 0.77 | 0.81 | 0.71 | 0.76 |
| 4 Cotton and blended textiles | -1.59 | -1.27 | -0.26 | 1.04 | -2.15 | -0.03 | -0.41 | -0.86 |
| 5 Silk and rayon textiles | -257.00 | -215.40 | -23.65 | -165.35 | -64.00 | -4.27 | -1.25 | -23.17 |
| 6 Aluminium | 0.29 | 0.25 | 0.37 | 0.30 | -0.37 | -4.38 | 0.12 | -1.54 |
| 7 Transport equipment | -0.60 | -1.21 | 0.73 | 0.84 | -3.00 | -3.18 | -2.47 | -2.88 |
| 8 Electrical machinery | -0.56 | 0.65 | 1.03 | -0.75 | -1.31 | -1.61 | -0.92 | -1.28 |
| 9 Non-electrical machinery | -1.50 | -1.48 | -1.09 | -1.36 | -1.89 | -0.64 | -0.31 | -0.62 |
| 10 Foundries and engineering workshops | -8.54 | -8.11 | 5.16 | -7.27 | -6.20 | -6.29 | -3.18 | -5.22 |
| 11 Ferrous/non-ferrous metal products | -3.69 | -3.49 | -3.67 | -3.62 | -3.34 | -1.88 | -6.85 | -4.02 |
| 12 Basic industrial chemicals* | -2.98 | -3.27 | -4.24 | -3.50 | -6.73 | -3.95 | -4.41 | -5.03 |
| 13 Pharmaceuticals | -0.71 | -0.94 | -0.84 | -0.83 | -0.33 | -0.55 | -0.57 | -0.48 |
| 14 Cement | 0.08 | 0.27 | 0.47 | 0.27 | 0.25 | -0.02 | -0.63 | -0.13 |
| 15 Rubber goods | -4.76 | -3.28 | -2.56 | 3.51 | -0.86 | -0.58 | -0.67 | -0.70 |
| 16 Paper and paper products | -1.37 | -10.25 | -75.92 | -29.18 | -54.48 | -39.62 | -21.22 | -38.44 |
| Weighted average | -1.07 (-0.90) | -1.11 (-0.37) | 0.95 (-0.64) | -1.04 (-0.64) | -1.65 (-0.36) | -1.13 (-1.35) | -1.08 NA | -1.28 (-0.89) |

* This is net of chemical fertilisers.

Note: Figures in brackets indicate the equivalent NFIRs for central public sector enterprises.

Sources: (1) *RBI Bulletin*, May 1987 and May 1990

(2) Bureau of Public Enterprises, *Public Enterprises Survey*, Volume 1, various issues.

TABLE 3: IMPORT INTENSITY RATE (PRIVATE CORPORATE SECTOR)—PRE AND POST LIBERALISATION

| Industry | Pre-Liberalisation | | | | Post Liberalisation | | | |
|--|--------------------|---------|---------|---------|---------------------|---------|---------|---------|
| | 1982-83 | 1983-84 | 1984-85 | Average | 1986-87 | 1987-88 | 1988-89 | Average |
| 1 Tea | 4.60 | 3.50 | 3.47 | 3.85 | 2.73 | 2.55 | 3.45 | 2.91 |
| 2 Sugar | 0.72 | 3.17 | 0.73 | 1.54 | 2.10 | 10.28 | 1.13 | 4.50 |
| 3 Tobacco | 8.24 | 21.83 | 6.01 | 12.03 | 7.51 | 6.18 | 5.31 | 6.33 |
| 4 Cotton and blended textiles | 29.31 | 16.33 | 19.49 | 21.71 | 46.29 | 31.53 | 42.47 | 40.10 |
| 5 Silk and rayon textiles | 46.04 | 26.06 | 13.68 | 28.59 | 25.57 | 19.42 | 13.67 | 19.55 |
| 6 Aluminium | 23.26 | 48.28 | 22.32 | 31.29 | 34.76 | 102.19 | 24.35 | 53.77 |
| 7 Transport equipment | 36.75 | 29.07 | 30.21 | 32.01 | 35.30 | 43.71 | 39.33 | 39.45 |
| 8 Electrical machinery | 38.95 | 37.38 | 41.20 | 39.18 | 41.86 | 42.80 | 45.12 | 43.26 |
| 9 Non electrical machinery | 41.81 | 40.89 | 36.16 | 39.62 | 43.62 | 37.33 | 38.55 | 39.83 |
| 10 Foundries and engineering workshops | 67.55 | 73.49 | 51.17 | 64.87 | 86.00 | 79.64 | 81.45 | 82.36 |
| 11 Ferrous/non-ferrous metal products | 57.75 | 51.08 | 35.12 | 47.98 | 26.88 | 24.89 | 43.10 | 31.68 |
| 12 Basic industrial chemicals* | 43.92 | 46.83 | 38.14 | 42.96 | 76.57 | 62.55 | 70.63 | 69.91 |
| 13 Pharmaceuticals | 26.24 | 26.83 | 28.37 | 27.15 | 30.37 | 27.98 | 35.50 | 31.28 |
| 14 Cement | 7.77 | 10.91 | 13.72 | 11.80 | 5.76 | 8.41 | 14.88 | 9.68 |
| 15 Rubber goods | 48.13 | 42.91 | 47.86 | 46.30 | 39.68 | 38.77 | 48.05 | 42.17 |
| 16 Paper and paper products | 25.21 | 41.68 | 65.82 | 44.24 | 74.56 | 87.58 | 89.09 | 84.05 |
| Weighted average | 34.00 | 30.12 | 28.64 | 30.92 | 40.07 | 37.66 | 41.60 | 39.77 |

* This is net of chemical fertilisers.

Source: Reserve Bank of India Bulletin, May 1987 and May 1990.

**TABLE 4: DIRECT COST OF TECHNOLOGY IMPORT-INTENSITY RATE (PRIVATE CORPORATE SECTOR)
PRE- AND POST-LIBERALISATION**

| Industry | Pre-Liberalisation | | | | Post-Liberalisation | | | |
|--|--------------------|---------|---------|---------|---------------------|---------|---------|---------|
| | 1982-83 | 1983-84 | 1984-85 | Average | 1986-87 | 1987-88 | 1988-89 | Average |
| 1 Tea | 0.92 | 1.09 | 0.77 | 0.92 | 2.46 | 2.19 | 2.63 | 2.42 |
| 2 Sugar | Nil | Nil | Nil | Nil | 0.26 | Nil | 0.13 | 0.13 |
| 3 Tobacco | 4.76 | 15.88 | 2.21 | 7.62 | 2.80 | 2.92 | 2.14 | 2.62 |
| 4 Cotton and blended textiles | 0.78 | 0.25 | 0.32 | 0.45 | 3.01 | 3.25 | 5.24 | 3.84 |
| 5 Silk and rayon textiles | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| 6 Aluminium | 5.53 | 10.33 | 2.33 | 6.06 | 4.94 | 3.16 | 2.59 | 3.56 |
| 7 Transport equipment | 1.48 | 1.40 | 1.76 | 1.54 | 1.29 | 1.49 | 1.61 | 1.46 |
| 8 Electrical machinery | 2.24 | 1.96 | 2.21 | 2.14 | 2.58 | 1.33 | 1.55 | 1.82 |
| 9 Non-electrical machinery | 2.56 | 2.31 | 2.09 | 2.32 | 3.14 | 2.92 | 2.48 | 2.85 |
| 10 Foundries and engineering workshops | 0.78 | 0.85 | 1.95 | 1.19 | 2.26 | 0.99 | 0.60 | 1.28 |
| 11 Ferrous non-ferrous metal products | 1.33 | 0.69 | 0.81 | 0.94 | 1.61 | 1.80 | 1.21 | 1.54 |
| 12 Basic industrial chemicals | 1.86 | 1.86 | 1.69 | 1.80 | 2.14 | 2.55 | 3.49 | 2.73 |
| 13 Pharmaceuticals | 2.36 | 1.76 | 1.77 | 1.96 | 2.36 | 1.74 | 2.17 | 2.89 |
| 14 Cement | 0.04 | 0.05 | 0.28 | 0.12 | 0.16 | 0.20 | 0.20 | 0.19 |
| 15 Rubber goods | 2.39 | 3.32 | 2.99 | 2.90 | 2.49 | 3.65 | 2.44 | 2.86 |
| 16 Paper and paper products | 0.68 | 1.29 | 0.45 | 0.81 | 0.76 | 0.97 | 0.83 | 0.85 |
| Weighted average | 1.59 | 1.56 | 1.36 | 1.58 | 2.05 | 2.04 | 2.33 | 2.14 |

Source: Reserve Bank of India Bulletin, May 1987 and May 1990

approximately 70 per cent of the companies covered in the pre-liberalisation phase are repeated in the post-liberalisation phase. In other words, the computations are by and large based on the same set of firms. With this caveat, the following points emerge from Table 2:

- (i) the NFIR has increased by about 23 per cent in the post-liberalisation phase,⁶ implying that the import-dependence of the sector has increased;
- (ii) though in terms of magnitude the NFIR of the private sector is much higher than the public sector, the rate of growth of the latter is higher;
- (iii) within the private sector, the NFIR of more than two-thirds of the industry groups has registered an increase during the post-liberalisation phase; and
- (iv) among the industry groups the one which has registered the highest growth rate in NFIR is the transport equipment industry—its NFIR has risen by 243 per cent, this is understandable as most of the external liberalisation policies were directed at the capital goods sector in general and the transport equipment industry in particular.

All the above inferences refer to the relative levels of NFIR during pre- and post-liberalisation periods. But if one were to analyse the *direction of movement* of the NFIR within the post-liberalisation phase, after showing an initial increase in 1986-87 in response to the policy shock, the NFIR for the next two years has been declining in the aggregate. But within the various industry groups, excepting for two (viz, silk

and rayon textiles) for a majority of the industries it has been fluctuating. So, based on the direction of movement of the NFIR, it is difficult to deduce that import-dependence have gone up in the phase, while based on the average level of the NFIR one can say that it has indeed risen to a higher level. One should of course bear in mind the short period under consideration while drawing these inferences.

Finally, a major problem with the above data base is that they do not include import-intensive industries like electronics and telecommunications.⁷ Had we included them, perhaps the NFIR for the post-liberalisation phase (i.e., the direction of movement) would have shown consistently an increase.⁸

We now turn to the other measure of import-dependence, viz, the share of imports in net value added (Table 3). The table confirms that the rate of import-dependence has increased and in fact has done so by as much as 29 per cent in the post-liberalisation period. The IIR of most of the industry groups has increased. The three industrial

groups, cotton and blended textiles, aluminium and basic industrial chemicals, have registered high growth rates of over 50 per cent. In the case of cotton and blended textiles much of the imports may have been for modernisation of the mills. As a matter of fact, the NFIR for this sector, though negative in the post-liberalisation period, had registered a fall of nearly 17 per cent. The increases in the IIR for aluminium can be attributed to the large-scale imports by the giant public sector unit, National Aluminium Corporation (NALCO). The NFIR for aluminium had shown a massive increase and same is the case with basic industrial chemicals.

Finally, we analyse the rate of direct cost of technology import during the two phases (Table 4). The DCTR, like the previous two measures, shows an increase. Among the three measures of import-dependence, DCTR has shown the highest increase of nearly 35 per cent.

Thus the three measures used in this note would suggest that the level of import dependence, variously defined, has shown an increase in the post-liberalisation phase. In fact, the rise in import-dependence would be seen to have been much higher had we included industries like electronics, telecommunications, etc., where the import-intensities are known to be very high. A much more disaggregated data base would also give us more insights into this aspect.

Notes

[Thanks are due to K K Subrahmanian, D Narayana, Anand Raj and B G Kumar for helpful comments on an earlier draft, to J Sreekumar for computational assistance and to D Girja for word processing. All remaining errors are my responsibility.]

- 1 See for instance R Nagaraj: 'Industrial Growth, Further Evidence and towards an Explanation and Issues' in *Economic and Political Weekly*, October 13, 1990, pp 2313-32.
- 2 Number of commentators on the growth experience of the Indian economy have expressed this opinion. But there are not any studies providing empirical substantiation to this statement.
- 3 The impetus for writing this note came from two articles by N Chandra Mohan in *The Economic Times* (March 3 and April 1, 1991). Chandra Mohan himself was prompted to write these articles by a paper (supposedly based on official statistics) that "has been

TABLE A. CAPITAL GOODS IMPORT APPROVALS

| Industry | Value (Rs Crore) | | |
|-------------------------------------|------------------|---------|---------|
| | 1986-87 | 1987-88 | 1988-89 |
| 1 Man-made fibres | 155.68 | 40.97 | 154.42 |
| 2 Chemicals and petroleum | 223.91 | 298.34 | 275.67 |
| 3 Iron ore and iron and steel | 135.76 | 78.63 | 52.96 |
| 4 Cement, ceramics and refractories | 82.45 | 54.49 | 110.74 |
| 5 Electronics | 135.83 | 83.55 | 51.84 |
| Total (including others) | 1110.92 | 980.25 | 1084.20 |

Source: Annual Report, Department of Industrial Development, various issues.

lately circulating in the policy-making levels of the government" which showed a decline or at best stability in import-intensity in India's industrial production. We have essentially used the data base employed by Chandra Mohan (especially in his second article), expecting that he has taken into account only the post liberalisation phase. Second, the measures of import-dependence that we have employed are more comprehensive than the ones used by him.

4 See *Reserve Bank of India Bulletin*, May 1987, pp 362-70, and May 1990, pp 319-30. These companies together account for nearly 50 per cent of the paid up capital of the entire private corporate sector.

5 It will be quite instructive to find out which sector is accounting for the largest share of these increases in capital goods imports. Though the RBI data base relied on by us does give industry wise data on actual capital goods imports, the classification therein is too aggregative to assess the above meaningfully. However capital goods imports of more than Rs 1 crore have to be cleared by

the Capital Goods Committee. Data on such import approvals, industry-wise, for the years 1986-87, 1987-88 and 1988-89 are presented in Table A.

6 We have seen that one reason for liberalising imports was to promote exports. In this context it will be meaningful to analyse the behaviour of net exports in response to a unit of imports. It is possible to empirically measure this by defining a new index to measure the amount of net exports I_1 during a period to a unit of imports. Making the counterfactual assumption that there is zero lag between imports and exports it can be shown that

$$\begin{aligned} X_1 - I_1 &= \text{NEIR}_1 \\ \frac{X_1 - I_1}{I_1} &= \frac{\text{NEIR}_1}{I_1} \\ \text{Proof: } \text{NEIR}_1 &= X_1 - I_1 \\ \frac{X_1 - I_1}{I_1} &= \frac{\text{NEIR}_1}{I_1} \end{aligned}$$

$$\frac{X_1 - I_1}{I_1} = \frac{X_1}{I_1} - 1 = \frac{1}{1 - \text{NFIR}_1} - 1 = \frac{\text{NFIR}_1}{1 - \text{NFIR}_1}$$

Using the data in Table 2 it is seen that the negative net exports to a unit of imports have increased by as much as 10 per cent in the post-liberalisation phase. (I am grateful to D Narayana for the suggestion).

7 This is based on Bureau of Industrial Costs and Prices (BICP), *Report on Electronics, Studies on the Structure of the Industrial Economy 6*, Ministry of Industry, New Delhi, 1987.

8 But data on imports of electronic items into the country are not available. The department of electronics in its annual report publishes only data on production and exports. For a comment on the estimation of imports of electronic items, see K J Joseph 'Growth Performance of Indian Electronics under Liberalisation' in *Economic and Political Weekly*, August 19, 1989, p 1919.

MAHARASHTRA'S NEW LOTTERY

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MAHARASHTRA STATE LOTTERY

D.G.I.P.R.

Appropriating Ambedkar

Gopal Guru

IT is not surprising to receive reactions to my report 'Hinduisation of Ambedkar in Maharashtra' [EPW, February 16] from S H Deshpande [EPW, April 27] and Dhammachari Lokmitra [EPW, May 18] representing two different religious forces. Both of them have tried to argue that Ambedkar still fits into their scheme of Hinduisation and spiritualisation respectively. But careful and unbiased reading of Ambedkar provides a lot of scope to counter-argue that it is difficult for either Deshpande or Lokmitra to appropriate Ambedkar. Because the fragile logic of their rejoinder does not seem to support their motive of co-opting Ambedkar.

Deshpande raises two major points in his reply. According to him I did not take into consideration the difference between 'Hinduism' and 'Hindutva'. Secondly, he still holds the view that there is a possibility of comparison between Savarkar and Ambedkar but for such comparison Deshpande shifts the responsibility on somebody else who cannot be said to have either adequate or unbiased understanding of both Savarkar and Ambedkar.

Deshpande, taking clue from Savarkar argues that "The term Hinduism means the Hindu, religion or more properly, the Vedic or Sanatan Dharma. Hindutva on the other hand means the quality or property of being a Hindu i.e., one who belongs to any of the several theological or philosophical sects born in India. Thus, Hindutva embraces, Buddhist, Jains, Sikhs and members of all other indigenous school of thought"[1]. Deshpande argues that Savarkar did not want to protect Hinduism, but Hindutva, the Hindu people.

The distinction between Hinduism as a narrow category and Hindutva as a broader category worked out by Savarkar and now defended by Deshpande has problems at two levels. Does Savarkar really consider Hinduism as a narrow, secondary and less important component of his scheme of Hindutva? The second problem is related to the soundness and viability of his definition of Hindutva. In fact, a careful reading of Savarkar's core position on Hinduism and Hindutva shows that an appeal in the name of Hindu religion and even caste becomes a major programme for Savarkar who feared the mass conversion of Mahars to Islam or Christianity.

For example, in 1930 Savarkar argued that should conversion take place among the Mahars, 90 per cent of them would resist this conversion because they would be polluting their caste and caste panchayat which they were proud of[2]. Savarkar further argued that those Mahars who underwent conversion would be ostracised by their caste

fellows and would consequently lose their caste identity[2]. In a desperate bid to keep the Mahars within the fold of Hindu religion Savarkar advised the Mahars that the real progress of Mahars could be achieved only by remaining in the same Mahar castes[2]. Moreover the need to protect his so-called 'Hindutva' from Islam or Christianity also renders Savarkar's distinction between Hinduism and Hindutva invalid because he is found using Hindu religion and Hindutva quite interchangeably[2]. Thus, it is much to Deshpande's surprise that Savarkar is not able to resolve the contradiction in which he is found supporting the caste structure and Hindu religion on the one hand and trying to project Hindutva devoid of any sub-caste and religious dimension on the other.

Savarkar's strategy of dissolving more than 3,000 castes into one pan-Hindu identity involves pan Hindu temples, pan Hindu dinners, inter caste marriages, anti untouchability programmes and the removal of injunctions on caste-ridden vocations and sea voyage[2]. Thus, Savarkar seems to have admonished Hindus to break off the seven shackles that according to him hindered the progress of the Hindu society. Did this programme really denounce Hinduism? The answer to this question has to be in the negative because the anti-caste programme particularly relating to injunctions against inter caste marriage and advocating Vedic rights for the shudras and all shudras given by Savarkar did not have vigour and genuine thrust to attack the Hindu shastras and the caste system. Savarkar's contention regarding inter caste marriages looked to be so casual that he offered only a qualified support to such marriages, thus replacing the need for creating any conscious motivation necessary for the radical mobilisation of the people towards reaching the desired end[2]. Similarly, Savarkar's attempt to grant the study of Vedas and Vedic rituals to non Brahmins though apparently liberal may effectively lead to the Brahminisation of those non Brahmin castes thus according legitimacy to Hindu shastras[2].

On the contrary, Ambedkar considers inter caste marriages as the effective means for abolishing caste system[3]. But Ambedkar is also aware that inter caste dining or even inter caste marriages are not enough to eliminate casteism. He was of the opinion that for realising the desired goal of casteless society through inter caste marriages it is necessary to destroy the belief in the sanctity of Hindu shastras[3]. And for destroying this belief Ambedkar suggests that people should not only discard the shastras, but they should deny their authority as Buddha and Nanak did[3]. Thus it can be argued here that socially radical

Ambedkar was very unlikely to be attracted by Savarkar whose proposal, according to one of the sincere Savarkarites, contained reformatory zeal aimed at revival of Hinduism rather than its denunciation[4].

Finally, it is interesting to know how the cultural component of Savarkar's Hindutva defies not only its broader definition but it also renders the comparison between Savarkar and Ambedkar once again untenable. As seen in the beginning Savarkar and his present day followers consider Buddhism, Sikhism and Jainism as the part of Hindutva. But the followers of Savarkar miss the point that Savarkar refuses to accord importance to these religions, particularly to Buddhism, in his framework of Hindutva. For example, Savarkar seems to be despising early Buddhism on the ground that it diluted the strength of the Hindus by its belief in non-violence which rendered people weak and incapable of protecting Hindustan from Muslims and the British[5]. Savarkar's perception of Hindus as weak and victimised accounts for his emphasis on struggle and violence. But in contrast to Savarkar's militant Hindutva, Ambedkar's Buddhism preaches the principle of peace and non violence. Thus any attempt to bring Ambedkar and Savarkar together is an absurd exercise which some of the Savarkarites seem to be engaged in[6].

According to Deshpande, Savarkar's Hindutva does not refer just to religious identity but is supposed to refer to the socio-cultural identity of Hindus. But socio-cultural identity does not make sense unless it is a part of the self consciousness of the concerned community or it is a voluntarily accepted identity by the community in question. Otherwise it will not be a real identity but a fake imposed identity. Hindutva as understood by both Savarkar and Deshpande is not the part of the self-consciousness of Buddhists, Jains, Sikhs and so on and hence Hindutva is an imposed, artificial identity for them.

Deshpande's argument is fallacious because he treats the cultural concept 'Hindutva' as a kind of empirical concept which can be applied to persons irrespective of their self identification. Even the so-called Hindus within Vedic fold rarely identify themselves as Hindus, though they voluntarily identify themselves in terms of their castes. Even Ambedkar in the very first of his riddles in Hinduism points out the difficulty of knowing why one is Hindu. The essence of his argument is that a man who does not belong to a recognised Hindu caste cannot be a Hindu[3]. The question before 'Hindus' as defined by Deshpande is not how to preserve their 'Hindutva' which is a form without content, but rather how to become a true Indian and a true human being by sympathising with different cultural identities living in this country. In fact this is a question before people belonging to all religions.

Dhammabuchi Lokmitra's rejoinder raises one minor and four major issues[7]. While the minor issue is related to my unilateral imposition of 'dalit' identity on Buddhists in Maharashtra, the other four are serious in nature because they tend to question the quality of data on which I have based my argument, and my perception of Ambedkar's Buddhism and politics.

Before we take up the serious issues raised by Lokmitra, let us quickly tackle the minor one. Taking objection to my use of the word 'dalit', Lokmitra argues that according to his experience Buddhists in Maharashtra do not like to be addressed as 'dalit'. True, there is an urbanised microcosmic class of so-called Buddhists which despises the term 'dalit'. It is generally observed that the Buddhists living in the villages and the slums do not object when Ambedkar is called 'Dalitancha Kaiwari' (The messiah of 'dalit' masses). Some research studies have also highlighted that Buddhists are moving towards much broader terms like 'dalit' without dissolving their Buddhist identity[8]. Thus, in the social and political life of the 'dalit' in Maharashtra the term Buddhist and 'dalit' co-exist rather than contradict. In this regard, therefore, the experience of Lokmitra seems to be absolutely localised.

Now let us take up the serious issues that Lokmitra raised in his rejoinder. The first problem that Lokmitra raised regarding my report is that according to him I am ill-informed about the activities of Trailokya Buddha Mahasangha Sahayaka Gana (TBMSG) and that my analysis of TBMSG is based on Vinay Kamble's articles in *Dhammalipi* which according to Lokmitra are poorly researched. It is true that I have quoted from *Dhammalipi* but Lokmitra does not prove its flimsiness either. However, without relying on *Dhammalipi* it is still possible to prove how TBMSG is stripping off the political content of Ambedkar's ideology and making 'dalits' insensitive to their fundamental problems.

I have been conducting constant dialogue with TBMSG followers and have also written about its activities well before Vinay Kamble whose articles appeared in *Dhammalipi* only from 1989 January[9]. However, I must accept that I somehow missed the not so easily accessible TBMSG issue of *Golden Drum* which carried out almost an impartial reportage on Ambedkar's *Riddles of Hinduism*. It is not clear from Lokmitra's rejoinder whether TBMSG took up the issue of *Riddles*... and protested against the Maharashtra government's partisan attitudes on *Riddles* in its 'Dhyan Sadhana' class room. Neither is it clear from Lokmitra's reply whether TBMSG followers physically participated in the protest march popularly known as 'Bhim March' in 1987. Suppose the TBMSG followers participated in pro-Riddle 'Bhim March', thus giving the benefit of doubt to Lokmitra, but this participation as an extra parliamentary activity involving direct confrontation with the government, in fact, runs contrary to TBMSG's 'Dhyan

Sadhana Shibir' which seek to defuse social tension through meditation rather than confrontation with the party in question, thus the spiritual situation dominating every aspect of Buddhist teaching either in 'dharma' classes or formal meditation class naturally limits the effectiveness of the protest, if at all it is registered by TBMSG in its meditation classes.

On the contrary the Buddhist 'dalit' followers of Ambedkar and other progressive elements in Maharashtra fought for the retention of *Riddles* written by Ambedkar at every level of protest ranging from writing protest letters and articles in newspapers to physically participating in the 'Bhim March'. Even the Buddhist monks did not lag behind in condemning governments' anti-dalit attitudes on the *Riddles* issue, in the most militant language, and physically

participating in the 'Bhim March' at Bombay[10]. Consequent upon this total protest the state government had to retain the riddle section of Ambedkar's writings.

It is in this context that I reassert that TBMSG's activities lead to the killing of political initiative of 'dalits' who are trying to confront the state and other communal forces not through the meditation but on the street, well outside the four walls of Dhyan Sadhana class room. In view of the growing threat of aggressive communalism of Hindu fundamentalist forces in the country, the guarantee of at least physical existence of 'dalits' becomes a core issue, and the anti-superstition programmer welfare programmes taken up by TBMSG are pushed to the periphery by Ambedkar's common followers who do not seem to be keen on joining TBMSG.

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that Lokmitra in defence of the meditation of TBMSG argues that it does not teach transcendental meditation of Mahesh Yogi's kind. But does it not teach 'meditation' concerned with the so-called transcendental reality, the so-called higher, super-human states? This apprehension gets further strengthened when Sangraksht, the chief of TBMSG, talks about a movement from self-consciousness to transcendental consciousness without explaining what it is all about[11]. Suppose the TBMSG concept of meditation does not belong to Yogi's system, but does this spiritualism belongs to Ambedkar's system of thought? Lokmitra while answering this question in the affirmative argues that Ambedkar also emphasised the need for meditation for elevating the mind from its diseased state (hatred, anger and greed) to the higher level of sound mind leading to 'maitri' and 'bhavana' or universal loving kindness. Lokmitra, in his defence further, quotes Ambedkar saying that "the greatest thing the Buddha has done is to tell the world that it can only be reformed by the reformation of mind of man and the mind of the world" is the precondition for social change"[7]. Let us see whether Ambedkar really thinks so! It is clear from Ambedkar's speeches that he considers change in the material condition rather than spiritual condition necessary for bringing about total social change[7]. It is really surprising how Lokmitra missed this while quoting from the speech that Ambedkar delivered on the eve of Buddhist conversion at Nagpur in 1956.

Lokmitra is quite persuasive in establishing the dichotomy between Buddhism and politics which even a superficial reading of Ambedkar will show was not followed by Ambedkar throughout his intellectual and practical life. Ambedkar who was both a political thinker as well as practitioner wrote and worked out strategies of emancipation with the political dimension uppermost in his mind. It is true that he did not look at the conversion movement from the point of view of formal parliamentary politics. On the contrary it may also be true that he did not explicitly delineate the political aspects of Buddhist teaching. But it cannot be said that Ambedkar's Buddhist teaching or conversion was devoid of any politics. In fact, a careful study of Ambedkar shows that his Buddhism and conversion movement involved underlying political currents with the potential of leading to the long-term emancipatory politics of the 'dalit' masses.

Ambedkar considered the *Gita* a political book aimed at upholding the teaching of the vedas and raising brahminism to a supreme position[13]. Applying the same logic of Ambedkar should we not look at Ambedkar's book *Buddha and his Dhamma* as a political book in as much as it negates brahminical domination. Similarly, as Raosaheb Kasbe has rightly interpreted Ambedkar's Buddhist dhamma is the basis of any political system based on liberty, equality, fraternity and justice. According to

Kasbe, Ambedkar believed that a political system which is not based on dhamma would degenerate into an anarchy[14]. Moreover, Ambedkar's Buddhist conversion was not a religious conversion but was a strategy for creating negative consciousness among the 'dalits' against the hegemony of the dominant castes/class[14]. In fact Ambedkar has categorically made it clear that Buddhism is one of the essential elements in the process of bringing about political revolution leading to the overthrow of such domination[3].

When the TBMSG has obscured the political aspect of Ambedkar's Buddhism spiritualising Buddha and his 'sangha'[15] and the Bharatiya Bouddha Maha Sabha is concerned about ritual (mundane) part of Buddhism it is really necessary to restore the political content of Buddhism. The separation of Buddhist 'trisanan' from 'panchshil' is an attempt at not only the restoration of this political content but it also ensures the capability of reaching out to the larger masses with this political content. This separation does not mean an elimination of 'panchshil' which has meaning only when the necessary conditions for its observance are created in the first instance. These necessary conditions can be created only by waging common struggle and not by spiritualisation. Only Buddhist 'trisanan' can offer a common programme for mobilisation.

Thus, as it is clear from the above passage, I am adding a political dimension to Buddhism, but it is Ambedkar who tried to enthuse it in Buddhist teaching and practice to help the 'dalit' masses understand that the solution to their problems lies in their radical politicisation and not in spiritualisation. Therefore, Lokmitra and his TBMSG are free to sell their package of spiritual Buddhism and synthesise it with anything but not with Ambedkar's Buddhism. Because it does not allow such synthesis.

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INDIAN SHAREOWNERS—A SURVEY

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| Previous Year As at March 31 1990 Rs P | CAPITAL AND LIABILITIES | Rs P | Rs P | Rs P | PROPERTY AND ASSETS | Rs P | Rs P | Rs P |
|---|--|------|------|----------------|--|------|---|-------------------|
| 150 000 000 00 | 1 Capital Face value of securities deposited with RBI under Sec 4 on 11.2.1990 of Banking Regulation Act 1919 (see note 2) | | | 240 000 000 00 | 1 Cash In India and with Reserve Bank of India and State Bank of India (including foreign currency notes) | | | 1 851 192 200 43 |
| 155 940 000 00 | 2 Reserve Fund and Other Reserves i) Properties Investment Reserve (Opening Balance 240 940 000 00) Add Additions during the year 21 500 000 00 | | | | 2 Balances with Other Banks (in Current Accounts) i) In India 2 416 500 000 00 ii) Outside India 158 230 000 00 | | 2 574 730 000 00 | |
| 230 940 000 00 | Less Transferred to (to bank) cards reserve 129 000 000 00 | | | | 3 On Deposit Accounts i) In India Nil ii) Outside India Nil | | | |
| 240 940 000 00 | iii) Furniture Equipment Reserve | | | | 4 Money at Call and Short Notice | | | |
| 15 722 290 00 | iv) Reserves under Sec. 11(2)(B) (ii) of the Banking Regulation Act 1919 | | | | 1 Securities of the Central and State Governments and other Finance Securities including Treasury Bills of the Central and State Governments Quoted Investments at Market Value | | | |
| 55 733 048 33 | Opening Balance 120 733 24 64 | | | | 2 Treasury Bills at Book Value | | | |
| 65 060 199 30 | Add Transferred from (to) i) i) i) i) and Loss Account 1 1 1 1 | | | | 3 Shares (at cost) 19 911 301 25 | | 19 911 301 25 | |
| 120 733 24 64 | | | | | 4 Other Investments | | | |
| 467 416 23 64 | | | | | 1) Debentures or Bonds (At Market Value—at cost in the absence of Quotations) 2) Unit Trust of India Initial Contribution 100 000 00 (at cost) Other Units 420 424 072 00 (at book value) 3) Other Investments (see note 6) 4) Gold | | 420 524 072 00 151 018 918 13 Nil | |
| 1 152 799 043 00 | 5 Deposits and Other Accounts | | | | 5 Advances (See annexed Schedule (Other than bad and doubtful debts for which a provision has been made to the satisfaction of the auditors) i) In India 14 668 805 920 57 ii) Outside India Nil | | | 14 668 805 920 57 |
| 1 152 799 043 00 | 1 Fixed Deposits | | | | | | | |
| 668 049 507 46 | 2) From Banks | | | | | | | |
| | 3) From Others | | | | | | | |
| 130 013 324 95 | Savings Bank Deposits | | | | | | | |
| 4 538 191 507 02 | Current Accounts Contingents | | | | | | | |
| 3 697 204 911 97 | Accounts, Etc. | | | | | | | |
| 1 644 297 506 85 | 1) From Banks | | | | | | | |
| | 2) From Others | | | | | | | |
| 4 674 405 083 45 | 6 Borrowings from Other Banking Companies, Agents, etc. | | | | | | | |
| 101 210 492 82 | 1) In India | | | | | | | |
| 3 775 615 576 27 | 2) Outside India | | | | | | | |

| | | | | | | | | | | | | | |
|--|--|-------------------|--|-------------------|--|-------------------|--|-------------------|--|-------------------|--|--|--|
| Particulars | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | Bills Discounted and Purchased (excluding Treasury Bills of the Central and State Governments) | |
| i) Secured | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | i) Payable in India | |
| ii) Unsecured | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | ii) Payable outside India | |
| 5. Bills Payable | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 304,768,663.78 | |
| 6. Bills for Collection being Bills Receivable per Contra | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 16,446,108,149.12 | |
| i) Payable in India | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 97,146,633.08 | |
| ii) Payable Outside India | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 97,146,633.08 | |
| 7. Other Liabilities | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| i) Unexpired Discounts | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| ii) Sundry Accounts | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| iii) H.O. and Branches Balances (Net) (Including Overseas Branches) | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| 8. Acceptances, Endorsements and Other Obligations per Contra | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| 9. Profit and Loss | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| Less Transferred to Properties Investment Reserve (See note 2) | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| Less Amount Relimited to Head Office | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| Add Profit for the Year Brought from Profit & Loss Account Transferred to Properties Investment Reserve (See note 2) | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| 10. Contingent Liabilities | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| i) Outstanding Guarantees (Including Guarantees Given on behalf of Officers Rs. NIL Previous Year Rs. NIL) | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| ii) Outstanding Forward Exchange Contracts | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| iii) Bills of Exchange Rediscouted | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| iv) Collection Documents Released on Bank's Responsibility | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| v) Claims against the Bank Not Acknowledged as Debts | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| vi) On Parly Paid Shares | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| vii) Other Money for which the Bank is Contingently Liable | | NIL | | 4,926,398,931.09 | | NIL | | 495,461,288.88 | | 895,512,322.02 | | 614,842,822.96 | |
| TOTAL | | 28,973,224,949.46 | | 40,319,609,136.96 | | 28,973,224,949.46 | | 40,319,609,136.96 | | 28,973,224,949.46 | | 40,319,609,136.96 | |

Notes to the Accounts annexed

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|------------------------|---|------------------|------------------------|--|------------------|
| 2 168 568 555 27 | 1 Interest paid on Deposits Borrowings etc. | 4 472 927 639 60 | 2 823 355 905 85 | 1 Interest and Discount | 5 046 949 620 05 |
| 144 029 854 49 | 2 Salaries and Allowances Provident Funds Retirement Benefits | 161 524 822 46 | 567 050 700 41 | 2 Commission Exchange and Brokerage | 548 448 101 72 |
| 343 802 57 | 3 Directors and Local Committee Members fees and Allowances | 223 502 26 | NIL | 3 Rent | NIL |
| 407 417 27 05 | 4 Rent Taxes Insurance Lighting etc. | 822 188 387 92 | NIL | 4 Net Profit on sale of Investments Gold and Silver Land Premises and other Assets (not credited to Reserves or any particular Fund or Account) | NIL |
| 1 779 684 95 | 5 Law Charges | 5 054 073 23 | NIL | 5 Net profit on revaluation of Investments Gold and Silver Land Premises and other Assets (not credited to Reserves or any particular Fund or Account) | NIL |
| 41 919 078 60 | 6 Postage Telegrams & Stamps | 65 902 971 94 | NIL | 6 Income from Non Banking Assets and profit from sale of or dealing with such Assets | NIL |
| 550 000 00 | 7 Auditors fees | 625 000 00 | 1 654 964 37 | 7 Other receipts (Net) | 789 458 63 |
| 87 086 421 81 | 8 Depreciation on and Repairs to the Building Companies Property | 100 847 628 54 | NIL | | |
| 38 025 360 87 | 9 Stationery Printing Advertisements etc. | 92 437 571 62 | NIL | | |
| NIL | 10 Loss from sale of or dealing with non Banking assets | 288 375 191 74 | | | |
| 165 119 288 69 | 11 Other Expenditure (including Head Office Administra- tion Expenses) | 586 071 101 19 | | | |
| 325 300 996 53 | 12 Balance of Profit | 5 596 187 180 40 | 3 392 661 570 53 | TOTAL | 5 596 187 180 40 |
| 3 392 661 570 53 | TOTAL | | | | |

| Previous Year Rs. P | Rs. P | Previous Year Rs. P | Rs. P |
|------------------------|----------------|------------------------|--|
| 65 060 199 40 | 117 214 220 24 | 325 300 996 53 | 1 Balance of Profit for the year brought down |
| NIL | 67 500 000 00 | 13 904 685 00 | 2 Excess Provision for Tax for earlier years written back |
| 273 115 482 24 | 415 427 696 95 | | |
| 339 215 681 53 | 600 041 917 19 | 339 215 681 53 | TOTAL |
| | | | 600 041 917 19 |

Particulars of remuneration relating to the Chief Executive Officer annexed

Notes to the Accounts annexed

Per our report attached

For A F FERRELL (SON & CO)

Chartered Accountants

Sd/-

FN PABRI

Partner

PLACE BOMBAY

DATE JUNE 25 1991

Sd/-

S VENKATACHALAM

Vice President

Sd/-

JAYSHREE KAD

Chief Executive Officer—India



(INCORPORATED WITH LIMITED LIABILITY IN THE U.S.A.)

**PARTICULARS OF ADVANCES ANNEXED TO AND FORMING
PART OF THE BALANCE SHEET AS AT CLOSE OF
BUSINESS, MARCH 31, 1991**

**PARTICULARS OF REMUNERATION RELATING TO THE CHIEF
EXECUTIVE OFFICER IN INDIA DURING THE YEAR ENDED
MARCH 31, 1991**

| Precision Year As at March 31 1990 Rs. P | R. P | 1989 90 Rs. P | 1990-91 Rs. P |
|---|-------------------|------------------|------------------|
| 175 193 649 50 | 11 422 404 799 21 | 990 000 00 | 1 250 000 00 |
| 4 238 740 671 25 | 4 256 492 289 04 | NIL | NIL |
| 1 548 010 179 16 | 1 907 507 146 87 | NIL | NIL |
| 9 971 964 194 09 | 16 416 188 145 12 | NIL | NIL |
| 104 840 169 50 | 195 126 566 44 | 225 000 00 | 312 500 00 |
| NIL | NIL | NIL | NIL |
| 104 840 169 50 | 195 126 566 44 | 151 046 00 | 193 665 00 |
| NIL | NIL | 1 276 046 00 | 1 756 165 00 |

**NOTES ANNEXED TO AND FORMING PART OF THE ACCOUNTS OF THE
INDIAN BRANCHES FOR THE YEAR ENDED MARCH 31, 1991**

- STATEMENT OF ACCOUNTING POLICIES**
 - BASIS OF PRESENTATION**
The financial statements have been prepared on the basis of accounting principles and uniform with the statutory requirements prescribed under the Banking Regulation Act 1949.
 - FOREIGN CURRENCY TRANSLATION**
Assets and liabilities in foreign currencies are translated at year end rates of exchange. Revenues and expenses have been translated at rates prevailing on the transaction date. Foreign exchange trading positions including spot and forward contracts are valued monthly at prevailing market rates and the resulting gains and losses are included in foreign exchange revenue.
 - CREDIT LOSSES**
The bank has a consistent internal policy of classifying its commercial and consumer loans and advances and the bank has a credit loss and write-off, if any, have been made on the basis of this classification.
 - PREMISES AND EQUIPMENT**
Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the written down value basis on the estimated useful life of the asset.
 - STAFF BENEFITS**
The bank has fully funded the Provident Fund and Superannuation benefits for its employees.
 - NET PROFITS**
The net income disclosed in the Profit and Loss account is after:
— accounting for credit losses
— valuation adjustments in respect of securities
— provision for income taxes
— other usual or necessary provisions.
- 2** The Bank has retained in the Properties Investment Reserve as at March 31 1991 Rs. 419 340 700 (1990 Rs. 240 944 700) as per the Reserve Bank of India's guidelines representing Deposits for Premises taken on lease and purchase of properties. Of this amount a sum of Rs. 140 000 000 is set aside from the current year's Profits for which the bank intends to obtain the Reserve Bank of India's approval for this purpose.
- 3** Other liabilities include full provision made by the bank on account of gratuity payable to staff as at March 31 1991 amounting to Rs. 21 125 259 (1990 Rs. 26 506 000).
- 4** Surplus Accounts under the head Other liabilities and Other Assets include amounts pending transfer to appropriate accounts.
- 5** Subsequent to the close of business as of March 31 1991 the bank has lodged additional securities with the Reserve Bank of India amounting to Rs. 150 000 000.
- 6** Other investments include Pass Through Certificates amounting to Rs. 151 018 918 14 (1990 NIL).
- 7** Bills received from constituents for collection on their behalf are controlled through memorandum registers and recorded in financial ledgers only when collected. These bills for collection outstanding as on March 31 1991 have, however, been shown in the Balance Sheet under the relevant heads of account.
- 8** Investments Equity shares include partly paid shares amounting to Rs. 300 000 (1990 NIL).
- 9** Prior year figures have been regrouped wherever necessary.
The Indian Branches of the Bank as at March 31 1991 are at Bombay (Fort and Norman Point) Calcutta (Chowringhee and Beshmeyer Road), New Delhi (Gurgaon Branch) and Madras (Anna Salai).



(INCORPORATED WITH LIMITED LIABILITY IN THE U.S.A.)

AUDITORS' REPORT ON THE ACCOUNTS OF THE INDIAN BRANCHES OF CITIBANK, N.A. UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949

We have audited the attached Balance Sheet of the Indian Branches of Citibank N.A. (Incorporated with Limited Liability in the U.S.A.) as at March 31 1991 and the relative Profit and Loss Account of the Indian Branches of the Bank for the year ended on that date signed by us under reference to this report

In accordance with the provisions of Section 29 of the Banking Regulation Act 1949 read with the provisions of sub sections (1) (2) and (5) of Section 211 and sub section (5) of Section 227 of the Companies Act 1956 the Balance Sheet and Profit and Loss Account together with the notes annexed thereto are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act 1956. The accounts are therefore, drawn up in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act 1949

We report that

- 1 We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory
- 2 the transactions during the year which have come to our notice have been in our opinion within the powers of the Indian Branches of the Bank
- 3 in our opinion proper books of account as required by law have been kept by the Indian Branches of the Bank so far as appears from our examination of these books maintained and produced to us
- 4 the abovementioned Balance Sheet and the Profit and Loss Account of the Indian Branches of the Bank dealt with by this report are in agreement with the books of account
- 5 in our opinion and to the best of our information and according to the explanations given to us the Accounts together with the notes thereon give the information required by the Companies Act 1956 in the manner so required for Banking Companies and on such basis give a true and fair view in the case of the Balance Sheet of the state of affairs of the Indian Branches of the Bank as at March 31 1991 and in the case of the Profit and Loss Account of the Profit of the Indian Branches for the year ended on that date

PLACE BOMBAY
DATED JUNE 25 1991

For A F FERGUSON & CO
Chartered Accountants

Sd/-
F N PAVRI
Partner

Do you mouthwash when you toothpaste?

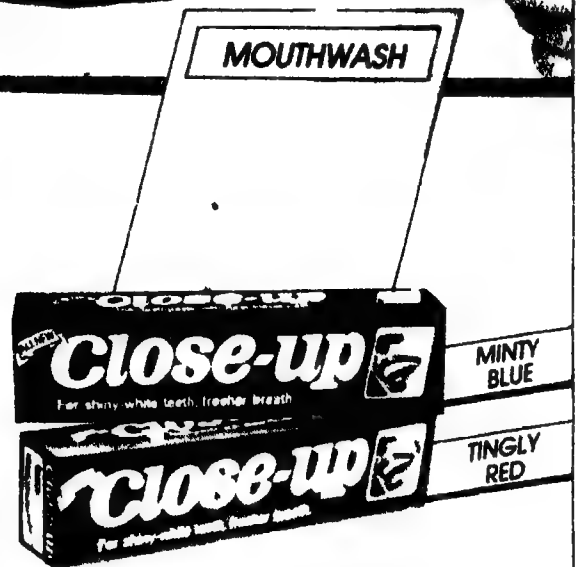


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Close-up

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INDUSTRIAL DEVELOPMENT BANK OF INDIA
IDBI Tower, Cuffe Parade, Bombay 400 005 Tel: 218 9111/21

ECONOMIC AND POLITICAL

WEEKLY

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Vol XXVI No 29

: July 20, 19

■ **PRUNING FISCAL DEFICIT:
SOFT AND HARD OPTIONS**

■ **PERCEPTION AND PRESENTATION:
A TELUGU FILM ON NAXALITES**

■ **FINANCIAL SECTOR REFORM:
ENEMY WITHIN**

■ **MANIPURI'S THWARTED CLAIM
FOR RECOGNITION**

■ **INCOME INEQUALITY AND
ELASTICITY OF PERSONAL
INCOME TAX**

■ **DEPRECIATION RESTRICTION:
REVENUE POTENTIAL AND
IMPACT ON CORPORATE SECTOR**

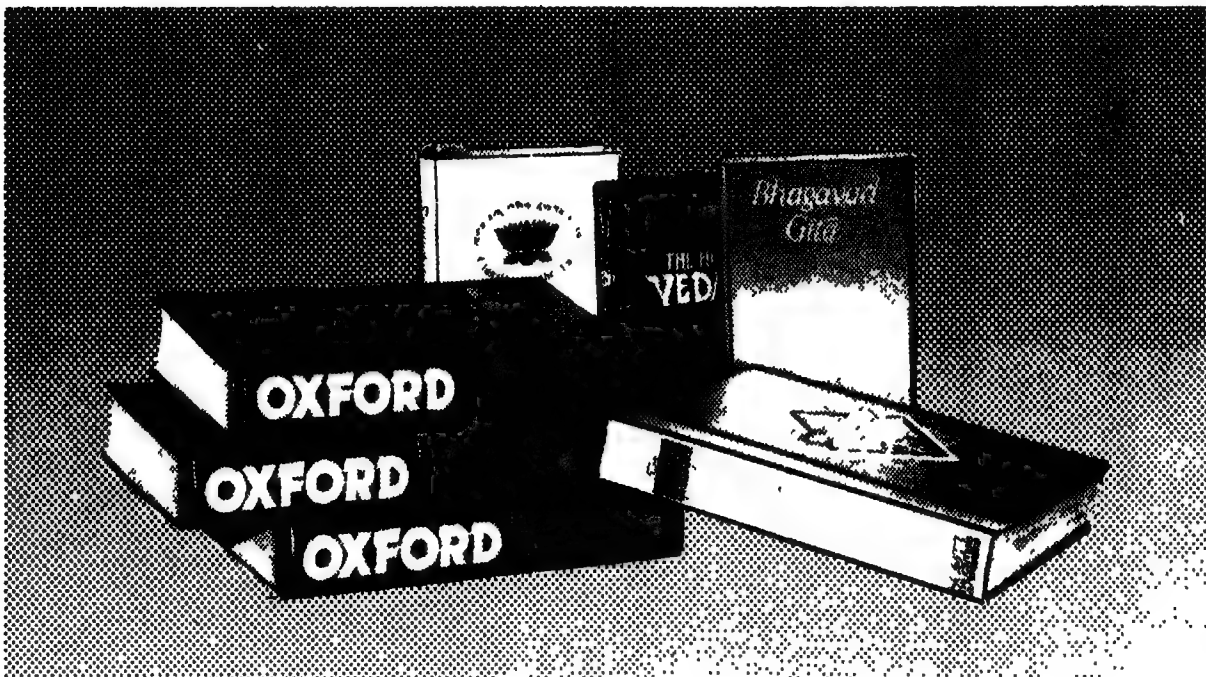
IMF BORROWINGS: SOME MYTHS EXPOSED

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Arthur Hoge Clough

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(A Govt. of India Undertaking)

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ECONOMIC AND POLITICAL WEEKLY

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ECONOMIC AND POLITICAL WEEKLY

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Vol XXVI No 29

July 20, 1991

Odour of Surrender

We have played into the hands of the IMF/World Bank experts whose theology that market forces alone can lead to the optimal development of an economy is based on wrong premises and wrong interpretation of the development programmes of countries like Japan and South Korea. 1713

The terms and conditions prescribed by the IMF and the World Bank suit the private interests of some of our own businessmen and politicians and so it will be difficult to loosen the Fund-Bank grip on the economy. 1736

The devaluation of the rupee at a time when both domestic economic growth and world trade are forecast to decelerate is unlikely to produce the expected salutary impact on exports. 1724

Even as the government is feverishly negotiating a big IMF loan under its structural adjustment facility, the fresh credits from abroad which the finance minister expected to flow in after the rupee devaluation and the changes in foreign trade policies as desired by the IMF-World Bank combine are still being held back. The intention is to expose India's abject helplessness. 1723

Budget Posers

If the objective seriously is to reduce government dissaving and cut deficit financing, then the budget-makers cannot get away by setting their sights only on the fiscal deficit without specifying how the targeted reduction in the deficit is to be achieved. 1721

None of the studies of the income elasticity of personal income taxation in India quantifies the impact of trends in inequality in the distribution of income on the elasticity of the tax. An attempt to fill this gap. 1741

The revenue raising potential of the government's decision, taken in December last year, to put a limit on allowable depreciation by companies was largely frittered away due to the existence of a number of tax offsetting provisions in the corporate tax system. The major leakages and ways to plug them. 1749

Establishment View

What the ruling class thinks of a rebellion, what it wants the rebellious classes and the intermediary classes to think it thinks and what it wants these people themselves to think are three different though closely interrelated things. A study of a Telugu film on Naxalites. 1727

Efficiency Denied

Efficiency or merit is not a fetish of the elite, but an essential ingredient in every walk of life and the policy of reservation for backward classes is a major barrier to achieving efficiency. 1732

Essential Saddam

While Saddam Hussein is no doubt to be shunned now, it is necessary for the US to find a Saddamite clone, preferably another Baathist Sunni dictator, who will mesh with the requirements of US policy. 1734

Financial Reform

Does the financial services sector in India have the confidence and the credibility to implement any kind of reform? 1718

Manipuri's Claim

The long-standing and legitimate demand for the inclusion of the Manipuri language in the eighth schedule of the constitution is beginning to acquire a militant hue. 1725

Communists and Democracy

The different sections of the radical left in Philippines have failed to carry out materialist analyses, within the framework of their basic theses, toward a fruitful and convincing understanding of political transformation in general and the growing importance of the struggle for political democracy in particular. A study of communists and democracy. 1757



Applications are invited for the following positions to be filled in at Bombay and Pune. Prescribed forms are available at the University between 10.30 a.m. to 1.00 p.m. and 1.30 p.m. to 2.30 p.m. on any working day except 2nd and 4th Saturdays and Holidays on payment of Rs. 25/- for teaching post and Rs. 15/- for non teaching post by cash or M.O. Applications on these forms should reach on or before August 11th, 1991. Applications received after due date will not be considered. The (+) Sign indicates additional qualification.

POSITIONS AT BOMBAY

(A) PROFESSORS

Basic Qualifications: Eminent Scholar with Doctoral Degree in relevant subject with published work and research of high quality. 10 years experience of teaching and/or research and experience of guiding research at Doctoral level essential. (Other specific requirements as indicated against each post) **Pay scale:** Rs. 4500/- to 7300/- plus admissible allowance.

PROFESSOR IN: (1) Family Resource Management (Home Science) (2) Pharmaceutical Analysis (Plan Post) (3) Statistics and Economics (Doctoral Degree in Statistics with Economics background essential) (4) Director for Research Centre for Women's Studies (Research Experience in Women's Studies essential) (5) Sociology (6) Political Science (Plan Post)

(B) READERS

Basic Qualifications: Eminent Scholar with Doctoral Degree in relevant subject with published work and research of high quality. 5 years experience of teaching. **Pay scale:** Rs. 3700/- to 5700/- plus admissible allowance.

READERS IN: (1&2) Special Education **TWO POSTS** (One reserved for SC/ST) (3) Extension Education (Home Science) (4) Food Science & Nutrition (Home Science) (5) Textile and Clothing (Plan Post Home Science) (6) Human Development (Home Science) (7) Phytochemistry/Pharmacognosy (Plan Post) + or M.Pharm 1st Class in relevant specialisation with 8 years Teaching experience as Lecturer at Degree level (8) Computer Science (Plan Post) Doctoral Degree in Maths/Stats/Physics/Applied Physics/Electronics/Instrumentation of First Class Master's Degree in Engineering/Technology and 5 years experience in Teaching Industry/Research in field of Computer Science applications (9) Pharmaceutics (10) Economics (Plan Post) + Knowledge of Quantitative Techniques preferred (11) Psychology (Clinical Psychology preferred) (12) Education (Educational Technology and/or guidance and counselling preferred) (13) Gujarati (Under DSA) (14) Art and Painting

(C) LECTURERS

Basic Qualifications: Master's Degree in the relevant subject with at least 55% marks. (Other specific requirements as indicated against each post) **Pay scale:** Rs. 2200/- to 4000/- plus admissible allowance.

LECTURERS IN: (1) Family Resource Management (2) Pharmacy (Plan Post) Specialisation in Pharmaceutics/Pharmaceutical Chemistry/Pharmacognosy preferred (3) Computer Science (Plan Post) First Class Master's Degree in Computer Science of Computer applications/Maths/Stats/Physics/Applied Physics/Electronics/Instrumentation/Computer Science of I Class Bachelor's Degree in Engineering/Technology. Knowledge of Computer Science/Programming essential (4) Economics + (Knowledge of quantitative techniques preferred) (5) Marathi (Plan Post) (Reserved) + New Criticism 19th Century Social Cultural background. Experience in Research. Editing Translation preferred (6) History (Plan Post Reserved for SC/ST) (7) Education—(Marathi Medium), Hindi & History (Reserved) (8) Education—Science & Maths (9) Education—History/Geography/Gujarati (10) Language Teaching (M.A. in English/Marathi/Gujarati with at least 55% marks with linguistics as one of the subjects) (11) Commerce (12) Nursing (Specialisation in Community Health preferred) (13) Gujarati (Under DSA) (14) Food Science and Nutrition (Home Science) (15) Family Resource Management (Home Science Architect and Interior Designer required) (16) Human Development (Home Science) (17 & 18) Extension of Education (**TWO POSTS**)—Master in Communication with Experience in Audio Visual production preferred

NON-ACADEMIC POSTS

(1) Resident Engineer—M.E. with at least 8 years experience in a similar capacity in Educational/Government Institutes and not less than 30 years of age. **Pay Scale:** Rs. 3000/- to 4500/- (2) Assistant Librarian—Master's Degree in Library or Information Sciences/Documentation or an equivalent professional Degree with at least 55% marks. Master's in Arts/Science/Commerce with Bachelor's Degree in Library or Information Sciences/Documentation. Medium of Instruction are Eng/Mar/Guj/Hin. **Pay Scale:** Rs. 2200/- to 4000/- (3) Hall Manager for Patkar Hall. Preferably Graduate with Diploma/Experience in theatre jobs. Should have knowledge of accounts managerial skills. Job involves Technical/Electrical work in a theatre. **Pay Scale:** Rs. 2200/- to 3700/- (4) Sister Tutor (Temporary for 2 years) at L.T. College of Nursing. Master's Degree in Nursing. **Pay scale:** Rs. 2000/- to 3500/- plus perks (5&6) Ward Sister in L.T. College of Nursing. Bachelor's Degree in Nursing. Medium of instruction is Eng. **Pay Scale:** Rs. 1640/- to 2900/- (7) Senior Library Assistant (Reserved) M.A./M.Sc./M.Com. with I or II class with B.Lib. Sci. Degree with 2 years experience or B.A./B.Sc./B.Com. with I or II class and M.Lib. Sci. Degree at least in II class with 2 years experience. **Pay Scale:** Rs. 1640/- to 2900/- (8&9) Technical Assistant (**TWO POSTS**) in the Department of Computer Centre. B.Sc. with diploma in computer application. **Pay Scale:** Rs. 1640/- to 2900/- (10,11,12,13&14) Junior Library Assistant (**FIVE POSTS**) (1 Reserved) Graduate in any field with Diploma/Degree in Library Science preferred. **Pay Scale:** Rs. 1400/- to 2300/- (15) Assistant Cashier—B.Com. Preferred with 3 years experience of handling cash and allied accounts work. **Pay Scale:** Rs. 1200/- to 2040/- (16&17) Laboratory Attendant (**TWO POSTS**) (1 Reserved) HSC with Science subject Graduate preferred. **Pay Scale:** Rs. 975/- to 1540/- (18&19) Research Assistant (**TWO POSTS**) (under ICAR) **Pay Scale:** Rs. 1500/- (consolidated) (20&21) Research Assistants (Home Science) (**TWO POSTS**) i) Microbiologist ii) Biochemist (22) Technical Assistant **Pay Scale:** Rs. 500/- to 900/- (Unrevised) for Posts 20 to 22

POSITIONS AT PUNE

PROFESSORS (Basic qualifications and Pay scale applicable as in A above)

(1) Communication Media for Children (Degree in communication practical work publication and experience work with and for children preferred)

READERS (Basic qualifications and Pay scale applicable as in B above)

(1) Home Science (2) Economics

LECTURERS (Basic qualifications and Pay scale applicable as in C above)

LECTURERS IN: (1&2) Family Resource Management (**TWO POSTS**) (Temporary) Medium of Instruction Marathi (3) Hindi (Reserved) Medium of Instruction Hindi/Marathi (4) Education M.Ed. with E.M. Teacher Education one of the methods in Hindi Medium of instruction Marathi/Hindi (5) Food Science & Nutrition (Reserved) medium of instruction Eng/Mar

NON-ACADEMIC POSTS

(1) Maintenance Engineer—BE (Electronics) or M.Sc. (Physics) with Electronics from recognised Institute and two years experience in TV Broadcasting. **Pay Scale:** Rs. 2200/- to 4000/- (2) College Librarian (Education) I/II Class at B.A./B.Sc./B.Com. + I/II Class in M.Lib. Sci. or I/II Class at M.A./M.Sc./M.Com. + I/II Class at B.Lib. Sci. or Diploma in Library Science. **Pay Scale:** Rs. 2200/- to 4000/- plus perks (3) Senior Library Assistant at Branch Library (1 Reserved) M.A./M.Sc./M.Com. with I or II class with B.Lib. Sci. Degree with 2 years experience or B.A./B.Sc./B.Com. with I or II class and M.Lib. Sci. Degree at least in II class with 2 years experience. **Pay Scale:** Rs. 1640/- to 2900/- (4) Senior Technician—B.Sc. with Diploma in Electronics and Radio Engineering. One year experience of repairing and servicing electronic equipment. **Pay Scale:** Rs. 1400/- to 2300/- (5) Laboratory Assistant (Reserved)—HSC with Science subject preference B.Sc./B.H.Sc. **Pay Scale:** Rs. 975/- to 1540/- (6) Sound Recordist—Diploma/Degree in Sound Recording with two years experience. **Pay Scale:** Rs. 470/- to 630/- (unrevised)

Sd/

DR. A.G. BHALWANKAR
REGISTRAR

Apologia for the Army

THE recent report of a Press Council team on the media situation in Kashmir and Punjab is entitled 'Crisis and Credibility'. A better title would have been 'Onward Indian Soldiers...'. The entire report, the main body of which is devoted to Kashmir, is a paean to the glorious role that the Indian army is playing in that state and questions the credibility of journalists and civil liberties groups which had been highlighting cases of violation of human rights by the army there.

The team, which interviewed army personnel, local officials and, in some cases, villagers who claimed to be victims of army atrocities, has come to the conclusion that most of the allegations made against the Indian soldiers are either gross exaggerations or pure inventions. The basis of the conclusion is its finding of inconsistencies and inaccuracies in the evidence given by the villagers at various times. The team members have taken great pains to prove that women of the village of Kunan Poshtpora in particular failed to give consistent replies to questions like whether they were raped or molested, whether a child was born to a woman before the alleged rape or after, whether signs of abrasions on their chests were those of molestation or of 'kangris' (earthen pots with live coals) that they carried during winter months, whether torn hymens (which were confirmed by the block medical officer who examined the victims who claimed to be raped) could have been a result of natural factors, injury or pre-marital sex. One is really impressed by the cross-examination carried out by the team in order to disprove allegations of army atrocities!

Curiously enough, attempts at such a careful and exact investigation seemed to be absent in the team's questioning of the army people—as evident in the report. In a section entitled 'The Military Version' (paragraphs 206-215), the team accepted without batting an eyelid whatever the army authorities said: that they conducted a cordon-and-search operation in the village of Kunan Poshtpora during the night of February 23/24 following which the army's medical officer early in the morning "set up a clinic which was attended by 23 persons, including eight women some of whom bore names similar to those who were subsequently named as rape victims" (it did not evidently occur to the team members to ask why it was necessary to suddenly set up a clinic in the village at that hour, and why these women came there); that after the raid was over "some village notables and the two J and K (Jammu and Kashmir) constables signed a no-objection certificate,

which is a standard requirement..."; that the army column left the village "in a friendly atmosphere exemplified by the fact that the [army] men were offered fruit and eggs".

After this *bonhomie*, some villagers from Kunan Poshtpora visited the brigadier of the area on February 27 and complained about the rape of their womenfolk by his troops. The brigadier later visited the village, was confronted with 13 women who said that they were raped, but he dismissed the charge as "malicious and untrue" (paragraph 197). The Press Council team agrees with the brigadier's version and dismisses the incident as "an invention, a hurriedly contrived piece of dissimulation" (paragraph 256). One of the reasons for its coming to this conclusion is that the village headman had signed the no-objection certificate after the raid, thereby exonerating the army of any misdeed. Yet it is well known how such certificates are obtained from villagers by gun-toting army men. In fact, the team members themselves at one point in the report admit that such certificates are "signed and easily disowned under pressure" (paragraph 345). How then could they have accepted such a certificate as evidence that everything was hunky-dory during the raid?

According to the team, "one extra-judicial killing or a single rape" by army men could be more a "product of human failure or frailty and emotional stress than of deliberate state policy" (paragraph 326). By that same logic 'one' case of inconsistency, or a 'single' instance of exaggeration (which led the team to dismiss the entire evidence of the villagers as an 'invention') could have also been considered as a product of 'human failure or frailty and emotional stress' undergone by the villagers in the course of the army raid, rather than as their 'deliberate' attempt to concoct a story. But the Press Council team is not willing to show the same consideration and sympathy for the frailty of the villagers as for that of the army men. While frailty of the former could have led to oral 'exaggerations' or even 'inventions', the frailty of the latter invariably led to physical assaults like killing or rape. Surely, one should make a distinction between the two. The Press Council team's tendency to believe whatever the army bosses told it as gospel truth and to suspect every assaulted woman of "being tutored and coerced into making statements..." (paragraph 337) is not only highly insulting to those unfortunate victims, but also betrays a bias that strikes at the very roots of the council's claims to impartiality.

POLITICS

Flip-Flop Game

EVEN as leaders of the main political parties are at pains to emphasise their parties' ideological and programmatic distinctness, many coquetties are revealed by current parliamentary practice. Consequently a government which is in a minority in the Lok Sabha has not merely been able to command the confidence of the house but is also enabled to take major and substantive decisions on critical matters, in the process vindicating president R Venkataraman's invitation to the Congress to assume office. The non-chalance with which the minority government is carrying on like a secure majority government gives the lie to the opposition parties' scathing criticism of not only the decisions taken by the government but also its penchant for taking such decisions without consultation.

It is quite evident that within parliament clandestine deals are being arranged in the name of floor management. Thus when it came to the election of the speaker the BJP quite readily supported the Congress(I) nominee Shivraj Patil in return for a BJP nominee's installation as deputy speaker. Conveniently reference is now being made to the 'convention' that the deputy speaker is an opposition nominee. It may be recalled that this convention has in the past been practised only by non-Congress governments and never by the Congress.

It is pertinent that the BJP has been no less vocal than the rest in decrying the government's various decisions. More to the point the BJP has been a consistent critic of the Congress(I)'s attempt to appropriate the nation's unity and integrity by equating its government with stability. On this occasion it was P V Narasimha Rao's claim that for the Congress to run the government it was imperative that the speaker should be from its ranks. It is therefore difficult to be persuaded by the BJP's attempts to re-establish its credentials by opposing the motion of confidence in the government, particularly in the light of I K Advani's suggestion that the days of anti-Congressism are numbered.

In like vein the left has been indignant about the government's recent and continuing tampering with the economy and has been especially unsparing in its criticism of the fact that all this was undertaken even before parliament met and before even the Lok Sabha's trust in the government was proved. Yet it was instrumental in forcing the decision of the National Front-Left Front to abstain from

participation in the vote on the trust motion. For obvious reasons support for the government was ruled out, yet the left was unwilling to see its defeat and this after accusing the BJP of collusion with the Congress(I).

Clearly the inability to initiate a coalition arrangement and the fear of pulling down the government has paved the way for inconsistent behaviour. While the left is now busy mobilising opinion against the government's intended reforms there is no move in parliament to exploit the frailty of the government. It almost appears that the left has given its tacit consent to the economic changes under way. Or else the fact that the left's generosity to the Congress(I) has gone unrequited will have to be seen as one more illustration of the former's lack of tactical finesse. Either way the left has little to gain.

SERVICE EXPORTS

Unfair Treatment

IN his statement on the government's new trade policy the commerce minister P Chidambaram, while explaining how the new system of more liberal but uniform replenishment licensing at the rate of 30 per cent for all exports instead of the erstwhile 5 to 20 per cent rates will be more transparent and free, added that it was intended to replace the 'Exim Scrip' (the new name given to the Replenishment Licence) by a 'Foreign Exchange Certificate' (FEC). In that context Chidambaram added further, and quite significantly, that "FECs will also be more effective in the area of export of services."

The above observation is significant in many respects. First it is the only reference to services in the whole statement on the new trade policy. The rest of the statement is devoted to visible trade. Second, it would appear to reflect current thinking in the government on the subject of service exports in the sense that even service exports may be considered eligible for FECs.

In this context it is worthwhile recalling that there did exist in the sixties a scheme under which all foreign exchange receipts, including those by way of gifts, were eligible for a sort of import entitlement that was tradable and was indeed freely traded. The banks would realise the premium on behalf of their clients and give them the necessary credit.

The point is that once it is recognised that foreign exchange earnings on account of export of services are no less desirable and therefore as much worthy of attention as those from exports of goods, the case for the eligibility of the former to the

proposed FECs is clear. In fact, the case is stronger if one follows Chidambaram's logic when he expatiates on the particular merits of fixing the uniform rate of 30 per cent for all exports. He claims that his new scheme "gives maximum incentives to exporters whose import intensity is low" and illustrates his point by referring to agricultural exports which earlier had very low replenishment rates of 5 per cent or 10 per cent and will now gain considerably. By the extension of the same logic service exports should straightaway be entitled to the Exim Scrips. Why should they be excluded until such time as these scrips are redesignated as FECs?

The same sort of question can be addressed to the finance minister also because today service export earnings are being discriminated against in the matter of income taxation. While export profits as narrowly defined to arise from the export of goods are totally exempt, income from service exports enjoys exemption, and that too not fully, in only a few selected cases arbitrarily chosen for favoured treatment.

BIG DAMS

Blinkered Vision

THE problem being posed by the possible submergence of the villages in Maharashtra illustrates well the range of overlapping and interconnecting issues which must be resolved before embarking on a project such as the damming of the Narmada. According to the report of the Narmada Control Authority, apparently no village, either in Gujarat or Maharashtra, was to be submerged this monsoon. Only in 1993 was there to be submersion of seven villages in Gujarat temporarily and of three villages in Maharashtra permanently. Sometime in May, however, officials descended on these villages and proceeded to force the people to sign on a document which stated that they had found an alternative settlement area and were moving out of their own accord. This was being done, the officials said, because there was danger of these villages being submerged this monsoon.

Clearly there has been either a major communication gap or, more likely, grand miscalculations. The probability of a village being submerged depends as much on the status of the construction as on such details as river flow, projected volume of water at different points in the river, etc, which obviously have not been fully taken account of. But what is even more likely is that the Narmada Control Authority knew full well that these villages would be submerged this monsoon, but

saw fit to misinform the people on this count.

All this has highlighted another problem. The people of these villages were to be moved to an area in Taloda which is to be cleared of some 2,769 hectares of prime forests. This would have jeopardised the livelihood of some 40 villages which depend on the forest. Recently, on a case filed by the Narmada Dharna Grast Samiti the district court has granted a stay on the felling of the forests. It may be recalled that the clearing of the forests by the Maharashtra government was frowned upon both by the environment ministry as well as the World Bank. What is most piquant about the current situation is that the clearing of these forests in the catchment area of the Ukai dam on Tapi river, apart from damaging the livelihood of villagers around, will also lead to increased siltation in the dam. Siltation, which is already very high in this dam, drastically reduces the holding capacity of the dam, thus making a mockery of the cost-benefit analysis—even the conventional ones which take no account of the social cost—of the dam systems. There's a hole in the bucket, Dear Liza!

WEST BENGAL

Inauspicious Beginning

HOWEVER impressive its electoral victory, the West Bengal Left Front's beginning of the fourth term in office has been far from auspicious. It was more than symbolic that the inauguration of the new council of ministers on June 25 coincided with a massive power shortfall, or load shedding to go by the local terminology, which got even worse the next day. It was followed within a week by a total collapse of the power supply system all over the state, except for the quantity generated by the Calcutta Electric Supply Corporation (CESC), which is inadequate even for its own commitments and has to be augmented by the state-run power grid. As a result, the total upset in the districts apart, there was a very serious disruption of life in the vast Calcutta conurbation affecting water supply, tram and rail transport, work in hospitals, AIR, Door-darshan and so on. Most dangerous of all its consequences, a large contingent of coal-miners was trapped deep underground for a long time, which could have ended in a grim tragedy.

The inauguration of the new ministry was also accompanied by newspaper reports with tell-tale photographs of happily some isolated, cases of atrocities on Congress supporters in rural areas—cases involving hacking off of hands in one case, apart from a few outright murders

These developments dimming the left front image were accompanied by rumblings within two of the major Left Front parties. For the first time communists were reported to have fallen out over the distribution of loaves and fishes of office when some members of the state committee secretariat of the CPI threatened resignation on the issue of the dropping of a former ministerial appointee of the party in favour of a new face. But hell really was let loose when two of the Forward Bloc ministers were replaced by new entrants. Not content with threatening a party split, the dissidents even organised a public bandh in the home-town of one of the replaced ministers.

While the power supply debacle, a technological failure, however, inconvenient to the public, may still be leniently viewed, the lack of consideration on the part of the administration reflected in the illumination of the main state secretariat as part of the celebration of the new government's installation, despite the black out all around, was a demonstration of shocking insensitivity.

More reprehensible was, perhaps, the government's, and the CPI(M) state leadership's, apathetic response to the post poll violence by its supporters in some rural areas. These incidents may not have been one-sided affairs and isolated from the social tensions in the country side. But photographs of the victims' households and the miserable pots and pans looted therefrom (and later reported to have been recovered by the police) make it quite clear that these were conflicts within the lower rungs of the rural society which, to use Marxist idioms, should have been viewed as contradictions among the people themselves. Still the Left Front leadership made no positive move in relation to these incidents till the time when Mamata Banerji had gone to seek Ivori Basu's blessings for her new ministerial career, when the chief minister for the first time deprecated these clashes and promised to secure artificial limbs from Chandigarh for the handicapped victims.

Dazzled by its unquestioned successes, the Left Front and the CPI(M) cannot afford to underestimate the gravity of the overall situation which demands utmost vigilance over all its responses.

PULSES

Not for the People

THE news that Indian scientists have at long last developed a hybrid pigeonpea plant must certainly be acknowledged as among those developments in science

which if put to correct use could restore some semblance of balance in the diet of the poorest. But that would be wishful thinking. In fact, this particular feat is a good illustration to demonstrate the hollowness of the 'science for development' myth.

There can be no denying the need to raise the output of pulses in the country, especially 'tur' with its high protein content, and a high yielding hybrid is just the right answer. As of now India produces 10 million tonnes of pulses while the demand is 14 million tonnes. The area under pulses has remained stagnant at 23 million hectares and production has gone up by a mere 0.34 per cent between 1947 and 1987. The per capita availability is only 33 gm against a nutritionally adequate level of 80 gm. In fact the per capita consumption of pulses has gone down since the fifties, which is hardly surprising given the rising price of pulses which shot up by over 560 per cent in a period of 10 years after 1977. This means that what was at one time considered a cheap source of protein in Indian diet is no longer either cheap or even easily available.

But, clearly, this is not the major concern of those who determine how the hybrid variety will be put to use. Dishearteningly enough, even the IC RISAT in its press note has viewed the new development as an opportunity to agricultural scientists and to companies to provide hybrid seeds to farmers. FICCI promptly took up the refrain suggesting that the entire process of commercialisation of the new varieties be put into the hands of private companies many of whom are already established names in the farm sector or are diversifying into it. It has further suggested that since there are so few countries which produce 'tur' the export potential of the commodity be exploited. Even though this might prove to be something of a mirage—for there are not likely to be very many countries which consume this pulse in enough quantities to necessitate large scale imports—that this new variety could be used to improve diets of the poor in this country does not seem to have crossed the minds of either the commercial interests or, sadly enough, even the scientists.

In sum, even if pulse production in the country goes up because of the hybrid variety, there is no guarantee that this will be available to the poor. Instead it will have added a new dimension to commodity transactions and provided food for thought for agricultural scientists. What is needed obviously is some sort of price regulatory mechanism as well as a

distribution network which ensures that pulses are indeed available to those to whom this is the main source of protein.

REGIONAL NUCLEAR FREE ZONE Worth Serious Consideration

PAKISTAN has been periodically proposing a South Asian Nuclear Weapons Free Zone (NWFZ) and India has with equal regularity been rejecting it. Independent of the Pakistani proposal India has been proposing various agreements, the most important of which was the 1988 Action Plan for Disarmament which sought a five-nation consensus aimed at establishing a non-proliferation regime for the region. The end result has been that there has been very little movement on this front.

This is rather unfortunate, especially given that the geo-political situation has changed considerably over the years. The signing of the IMF treaty and the success of the South Pacific Nuclear Free Zone Treaty together with the *detente* between the superpowers and the dismantling of the European defence alliances have not only given rise to a different, more optimistic mood internationally, but, more practically, have compelled the evolving of verification procedures which facilitate the triggering of other arms control regimes. Most importantly, India and Pakistan have only recently signed a no-attack on nuclear facilities agreement which, even though it has not quite got off the ground, is a major first step. In the circumstances India's summary rejection of the NWFZ proposal on the ground that given the reach of nuclear weapons, the value of such an agreement is illusory, is outdated. While it is true that without adequate safeguards, for which perhaps no effective mechanisms have yet been evolved, it does not constitute a fool-proof ban on nuclear arms programmes, the regional NWFZ acts as a 'braking' mechanism on nuclear competition in the region and as a sort of model. And the establishment of such a zone would imply a limit, however infinitesimal, on the superpowers' role in the region. India's position on the issue betrays its unwillingness to accept any restraint, even if it be reciprocated by Pakistan, on its nuclear programme. The result is a dangerous and unaffordable regional nuclear race.

SOVIET UNION

Advice but Little Aid

WHEN Mikhail Gorbachev took to mendacity on behalf of his country he must

have hoped that the west would rush to his assistance to bail the Soviet Union out of the economic crisis he had pushed it into. He did manage to have his plea heard at the G-7 summit in London last week, but returned home with the standard message from the rich, that he must first put his house in order.

Gorbachev's pleas, despite his promises (to privatise 80 per cent of retail trade) and threats (that the failure of the west to respond would result in social chaos that would jeopardise the process of 'democratic transformation' that he had begun), had little influence on the G-7. The G-7 statement merely endorsed the already publicised prescriptions of the US secretary of state. The statement called for "monetary discipline and creating the framework of a market economy"; reductions in military expenditure and public spending and a clear division of power—economic and political—between the Soviet republics and Moscow.

The summit statement apart, contradictory pronouncements have been emerging from the G-7 capitals. At the very outset, the United States was lukewarm about the whole idea while the Japanese government openly opposed the invitation on the ground that no talk of assistance was possible until Japan had resolved its territorial disputes with the Soviet Union and the Soviet Union reduced its military expenditure in the Asian republics. The United States and the United Kingdom are also unequivocal about not extending economic assistance to the Soviet Union until their prescriptions are carried out, while France, Germany and Italy are of the view that some form of direct assistance should be made available.

This last point is closely related to the relative health of the G-7 economies and their limited sectional interests. The US and the UK are in recession and have been dominated by trade and budgetary deficits. Germany is preoccupied with its recently acquired domestic commitments. France and Italy on their own are not in a position to meet more than a small part of the Soviet demands. Japan is the only G-7 member with a relatively comfortable liquidity position but is obviously happier investing it within the OECA and in the 'market friendly' countries of Asia.

There is little doubt that the west is not in a position to meet the Soviet demands. It also does not, however, want to outright turn them down and thereby jeopardise the pace of changes in the economic system. With no guarantees that economic assistance will be forthcoming with progressive shifts towards the market, some section of the Soviet leadership may use this as an opportunity to act differently.

TWENTY YEARS AGO

EPW, July 17, 1971

Cool calculation and calm assessment lie behind the announcement of the Nixon visit to China which has dramatised the *detente* in Sino-American relations, in the making for a long time... America's withdrawal from Vietnam has become inevitable due to the NLF's firm political hold over large sections of the South Vietnamese population and also due to the undoubted military prowess of the Vietcong and the North Vietnamese, especially when compared to the military and political blunders habitually committed by the Americans. The Chinese have probably also agreed to the timing of this announcement due to a concern about Vietnam. Their concern is likely to have been that an American withdrawal achieved largely by the Vietnamese themselves would leave China without much influence in Vietnam or in the rest of Indo-China... But while the Chinese are undoubtedly helping Nixon to pull his chestnuts out of the Vietnamese fire and at the same time helping themselves retain their influence in Indo-China, they are much more concerned about their position in the world as a whole, particularly *vis-a-vis* the US and the USSR.

The inference to be drawn by nations other than the superpowers is that the rules of the game in the emerging triangular relationship of the three big powers... will allow lesser nations a greater degree of freedom of action *vis-a-vis* other nations of the same status. For India, this means that we will more easily be able to take diplomatic and other initiatives with countries like Pakistan without too much interference from any of the big powers.

* * *

What dismays one most as one looks back on the two years since [bank] nationalisation is the way the banks have been left to operate in a virtual vacuum. There is no overall plan, however sketchy, to guide their operations—whether it be in allocation. To those who knew enough to discount the political clap-trap about ushering in socialism, the most compelling argument in support of nationalisation of the banks was that it would improve the quality of planning of the economy by completing the government's control over the major institutional sources of investment finance. But as things have turned out, it is precisely to this vital objective of nationalisation that the least attention has been paid.

Setting the Pace in Aluminium

Kumaran Pola

HINDALCO INDUSTRIES, one of the largest manufacturers of aluminium in the country, achieved a production of 1,39,762 tonnes of primary metal and 36,414 tonnes of rolled and extrusion products during the year ended March 31, 1991. The company expanded its installed capacity for aluminium metal from 1.35 lakh tonnes to 1.50 lakh tonnes during the year. An application was made to the government to grant an increase in licensed capacity by 1.5 lakh tonnes to take the total licensed capacity to 3 lakh tonnes. The techno-economic considerations for putting up a 1.5 lakh tonne per annum capacity smelter were examined and found acceptable. Work on the installation of another cold rolling mill is under way. The company continues to import new technologies and absorb them. For instance, the 'seed washing system' for the alumina plant was imported and absorbed in 1989-90. The company is currently implementing the absorption programme of the imported technology for modernisa-

tion of finishing facilities in the rolling mills.

The company spent Rs 23 lakh on R and D during 1990-91 by way of recurring expenditure. This represented 0.03 per cent of the company's total turnover. The company continued its efforts for improving the existing production process and developing aluminium uses with a potential for energy and wood saving. Pollution control is another area receiving attention.

The company's entry into the international aluminium market during 1988-89 helped it build up a sizeable market for its products in south-east Asia, west Asia and Germany. Government permitted export of aluminium ingots on a decontrolled basis from October 1990. This measure and the company's success in exporting its semi-fabricated products to west European and other markets enabled Hindalco to more than treble its exports in 1990-91. The value of exports was Rs 12.10 crore during 1990-91 as against Rs 3.73 crore in the preceding year.

However, the international price has dropped drastically and Indian aluminium manufacturers are not able to compete in the international market. The aluminium industry has been pleading for increase in CCS which now stands suspended. Despite the good performance on the export front, foreign exchange expenditure at Rs 18.75 crore during 1990-91 exceeded foreign exchange earnings at Rs 12.11 crore.

The company intends to diversify into steel. It is pursuing its application for a licence to set up a one million tonne steel plant for the manufacture of hot rolled products. It is going ahead with its project for setting up an aluminium foil plant with a capacity of 5,000 tonnes per annum at Jagdishpur in Uttar Pradesh.

The company experienced a setback in its financial performance. The overall return on investment was marked down to 10.34 per cent from 12.89 per cent in the preceding year. The deterioration in the assets utilisation ratio from 0.73:1 in 1989-90 to 0.82:1 in 1990-91 and in the net profit margin on sales from 13.84 per cent to 12.56 per cent depressed the return on investment. The return on owner's equity showed a similar decline. Although the company could bring down the debt/equity ratio from 0.96:1 to 0.69:1, it failed in holding the interest coverage ratio which declined to 4.21 in 1990-91 from 6.55 in the preceding year. The change in the capital structure was due to the conversion of partly convertible debentures at a premium. There was an addition of Rs 20.92 crore to equity capital and Rs 86.78 crore to reserves during the year.

The Week's Companies

(Rs in lakh)

| Financial Indicators | HINDALCO Industries | | FGP | | Indian Aluminium | |
|---|---------------------|---------------|---------------|---------------|------------------|---------------|
| | 1990 March | 1991 March | 1990 March | 1991 March | 1990 March | 1991 March |
| Income/expenses/profit | | | | | | |
| 1 Net sales/main income | 46,540 | 51,624 | 2,661 | 2,940 | 42,990 | 44,752 |
| 2 Other income | 882 | 1,970 | 73 | 104 | 1,161 | 1,992 |
| 3 Raw material cost | 14,815 | 17,694 | 612 | 723 | 7,689 | 8,547 |
| 4 Employees cost | 3,592 | 3,485 | 552 | 692 | 4,603 | 5,398 |
| 5 Depreciation | 1,095 | 1,644 | 63 | 61 | 983 | 1,009 |
| 6 Other expenses/adjustments | 16,930 | 17,602 | 1,019 | 1,158 | 20,931 | 22,337 |
| 7 Operating profit (1+2) - (3 to 6) | 10,990 | 13,169 | 503 | 426 | 9,945 | 9,453 |
| 8 Interest | 1,679 | 3,127 | 97 | 138 | 1,332 | 1,809 |
| 9 Taxation | 2,870 | 3,560 | 146 | 118 | 2,763 | 2,471 |
| 10 Net profit (7-8-9) | 6,441 | 6,482 | 260 | 170 | 5,850 | 5,173 |
| 11 Dividends | 744 | 1,142 | 108 | 108 | 1,245 | 1,245 |
| Capital/loans/assets | | | | | | |
| 12 Share capital | 2,285 | 4,377 | 490 | 490 | 4,150 | 4,150 |
| 13 Reserves and surplus | 20,047 | 28,725 | 942 | 1,054 | 11,283 | 15,211 |
| 14 Current liabilities and provisions | 6,196 | 6,903 | 387 | 374 | 8,305 | 14,456 |
| 15 Short term borrowings | 1,802 | 3,153 | 790 | 874 | 123 | 1,449 |
| 16 Long-term borrowings | 19,646 | 19,524 | 412 | 364 | 8,388 | 9,845 |
| 17 Gross fixed assets | 48,139 | 52,305 | 1,891 | 2,273 | 21,686 | 25,544 |
| 18 Accumulated depreciation | 26,336 | 29,562 | 1,164 | 1,223 | 12,765 | 13,774 |
| 19 Inventories | 8,284 | 9,591 | 708 | 762 | 9,190 | 13,848 |
| 20 Receivables | 2,585 | 3,240 | 55 | 637 | 4,989 | 6,560 |
| 21 Current assets | 19,190 | 21,382 | 1,635 | 1,992 | 22,180 | 32,568 |
| 22 Investments/other assets | 8,783 | 18,557 | 258 | 114 | 147 | 772 |
| 23 Total assets/liabilities (12 to 16) or [(17-18) + (21+22)] | 49,976 | 62,682 | 2,621 | 3,156 | 32,249 | 45,111 |
| Key financial ratios | | | | | | |
| 24 Turnover ratio (1/23) | 0.93 | 0.82 | 1.02 | 0.93 | 1.33 | 0.99 |
| 25 Return on sales (10/1) × 100 (%) | 13.84 | 12.56 | 9.77 | 5.77 | 13.61 | 11.56 |
| 26 Return on investment (%) [(10/23) × 100 or (24 × 25)%] | 12.89 | 10.34 | 9.92 | 5.39 | 18.14 | 11.47 |
| 27 Return on equity (%) [(10/(12+13)) × 100 or (23/(12+13)) × 26] | 28.84 | 19.58 | 18.16 | 11.01 | 27.91 | 26.72 |
| 28 Book value per share (Rs) | 125.12 | 85.39 | 29.21 | 31.52 | 37.19 | 46.66 |
| 29 Current market price (Rs) | 0.00 | 0.00 | 0.00 | 0.00 | 170.00 | 176.00 |
| 30 Price/earnings ratio | 7.48 | 17.94 | 11.12 | 19.01 | 12.06 | 14.12 |

Balance Sheet Analysis by Manisha C. Mehta

year and the interest coverage ratio declined from 5.18 times to 3.09 times. The increased debt was in the form of bank overdrafts.

The company has technical collaboration agreements to continue the assimilation of the latest technology from Owens-Corning Fibreglass Corporation, USA, with which continuous interaction is maintained. The company has a similar link-up with Pilkington, UK. The company imported continuous filament manufacturing product technology during 1989. The technology was partially absorbed during 1990-91 and the work is still in progress. The company spent Rs 12.87 lakh on R and D during the year by way of recurring expenditure. This represented 0.39 per cent of the company's total turnover.

The directors are happy that the company had a better year in exports with the export turnover increasing to Rs 2.27 crore from Rs 1.66 crore in the preceding year. Foreign exchange earnings and outgo amounted to Rs 2.28 crore and Rs 2.89 crore, respectively, during 1990-91.

The company achieved a reduction in electricity consumption per tonne of glass fibre products from 2,504 KW during 1989-90 to 2,425 KW during 1990-91. However, consumption per tonne of LSHS and furnace oil went up from 656 kgs to 669 kgs and that of L.P. gas from 482 kgs to 502 kgs during the period.

INDIAN ALUMINIUM

Cost Spiral

INDIAN ALUMINIUM COMPANY recorded a nominal 4 per cent growth in sales but a 5 per cent decline in operating profits and a 12 per cent decline in net profits during the year ended March 31, 1991. All the indicators of operational efficiency such as turnover ratio, net profit margin on sales, overall return on investment and return on shareholders' equity experienced a set back during the year. According to the directors, profitability was affected by two major factors: first, the export price of alumina fell by \$ 200 per tonne and this brought down export profits, and second, there was a 53 per cent increase in the power tariff at the Belgaum smelter from October 1990. Raw material cost increased by 11 per cent and employees cost by 17 per cent as a result of long-term wage settlements at some locations and enhancement of retirement benefits.

Production of aluminium (primary metal) was lower at 64,769 tonnes during 1990-91 compared to 66,459 tonnes during the preceding year. On the other hand, there was a marginal increase in the production of semi-fabricated aluminium from 67,066 tonnes in 1989-90 to 69,027 tonnes in the latest year.

The total value of the company's exports at Rs 50.5 crore was lower than Rs 69.4 crore achieved during 1989-90. According to the directors, this was the result of decline in global alumina prices and the lack of repeat orders for alumina from the USSR. However, exports of value added semi-fabricated products nearly tripled over last year's levels to reach 4,500 tonnes of a value of Rs 19.7 crore. The company was awarded the Capexul trophy for export performance for the fourth consecutive year. The company brought in net foreign exchange to the tune of Rs 21.5 crore earnings on account of exports and canvassing agency fees, etc, being Rs 50.8 crore and expenditure on account of imports, dividends, etc, Rs 29.3 crore.

The company made progress in the im-

plementation of various projects. The 77.5 MW Hirakud power project progressed well. The Belur cold rolling replacement-cum-modernisation and the Kalwa foil converting modernisation projects also made progress. The company has decided to expand the annual capacity of the alumina plant at Belgaum from 1,70,000 tonnes to 2,20,000 tonnes to meet future growth in export and domestic demand.

Total expenditure on R and D amounted to Rs 299 lakh during 1990-91 compared to Rs 229 lakh during the preceding year. The company completed the absorption of the technology imported for printed circuit boards in 1987 and advanced technology for sheet and foil rolling in 1989-90.

CAPITAL MARKET

G M Mittal Stainless Steels

G M MITTAL STAINLESS STEELS, a profit making and dividend paying company, will enter the capital market on August 1 with a public issue of 84,618 (14 per cent) fully convertible debentures of Rs 250 each for cash at par. The issue is for Rs 6 crore out of which Rs 1.59 crore worth debentures will be issued to existing shareholders in the ratio 10 debentures for every 100 equity shares and debentures worth Rs 0.29 crore to employees including Indian working Directors on a preferential basis. The issue will close on August 12 or earlier but not earlier than August 5. Each debenture of Rs 250 will be converted into 10 equity shares of Rs 10 each at a premium of Rs 15 each at the expiry of six months from the date of allotment or on March 31, 1992 whichever is earlier. Incorporated in 1980 as a private limited company and converted into a public limited company in 1986, the company has a licensed capacity to manufacture 30,000 tonnes of alloy steel castings per annum. The company is implementing a modernisation scheme to improve yield and product quality by replacing its existing ingot casting by continuous casting. The company also plans to install two FOT cranes with capacities of 40/15 tonnes and 25/10 tonnes and a 1000 KVA O.G. set. The modernisation scheme involves a capital expenditure of Rs 7.10 crore. This will be financed by term loans from financial institutions to the extent of Rs 5.25 crore and the fully convertible right debentures amounting to Rs 1.85 crore. In addition, the company is also raising funds for long term working capital (Rs 3.62 crore), normal capital expenditure (Rs 0.53 crore) and expenses for the public issue (Rs 0.40 crore). This will be financed by the balance of the rights issue of Rs 1.92

crore, public issue of Rs 1.23 crore and internal accruals of Rs 0.40 crore. The sales and other income of the company in the year to March 1991 touched Rs 33.75 crore. The company earned a profit before tax of Rs 0.74 crore and paid a dividend of 20 per cent. The equity shares of the company are currently quoted at Rs 33 on the Bombay stock exchange. Earning per share works out at Rs 4.92 and the price earning ratio at 6.70.

Sree Kailas Sugars and Chemicals

SREE KAILAS SUGARS AND CHEMICALS is entering the capital market with a public issue of 63,00,000 equity shares of Rs 10 each at par. Out of this 5,60,000 equity shares are reserved for preferential allotment to the employees including Indian working directors of the company. The issue opens on August 7. The company is setting up a 2500 TCD sugar mill to manufacture white crystal sugar. The company also holds licences for alcohol and alcohol based chemical units which are proposed to be set up subsequently. The project is located at Peruvancha village in Khammam district of Andhra Pradesh, a B category backward area about 82 kms from Vijayawada. The project is in an advanced stage of implementation. The civil works will be completed by the end of October. Plant and machinery have arrived at the site and the erection work is expected to be completed by first week of November as per schedule. The project cost of Rs 28 crore is being financed by term loans of Rs 16.80 crore and equity share capital of Rs 11.20 crore. Out of this the promoters have contributed Rs 4.90 crore and the balance of Rs 6.30 crore is being offered to the public. The equity shares of the company will be listed on the Hyderabad and Bombay stock exchanges.

IMF Borrowings: Some Myths Exposed

Arun Ghosh

We are bending to international pressure to radically alter our economic system with a suddenness (and in a direction) which may lead to a large number of closures and increased unemployment, with doubtful gains in regard to productivity. Is there no alternative?

THERE is nothing wrong in a country—having temporary balance of payments difficulties—borrowing from the IMF. After all, that was the rationale behind setting up this institution at the Bretton Woods Conference in 1944. India has also, in the past, borrowed on a number of occasions and duly repaid such borrowings. Indeed, even as of today, India is a net borrower from the IMF, and is required to repay its past borrowings. (In fact, India borrowed an amount of \$ 1.8 billion fairly recently.) In the absence of the *Economic Survey*, it is not possible to indicate the precise figures for 1990-91 in regard to our current as well as capital liabilities—nor even the immediate compulsions facing this country in regard to external payments—but, as per the Reserve Bank of India *Bulletin* of July 1991, India's borrowings from/payments abroad, during the past three years, were as given in Table 1.

Two points which are significant must be noted at this juncture because—in a somewhat strangely inexplicable statement—the finance minister has recently blamed the National Front government for the present problems faced by the country, while the governor of the Reserve Bank had publicly stated in Calcutta on May 7 (reported in *The Economic Times* of May 8) that India's present crisis has been building up slowly over the past decade.

The two points of note are: (a) that India has lately resorted to short-term commercial borrowing on a large scale, which jumped from a gross figure of Rs 1,946 crore in 1987-88 to Rs 4,265 crore in 1988-89 and Rs 4,238 crore in 1989-90; and (b) that non-resident deposits which are also of a short-term nature, and which had been increasing in the past, had started tapering off, in 1989-90. Nonetheless, of the total receipts on capital account (which were Rs 7,493 crore in 1987-88, Rs 10,305 crore in 1988-89 and Rs 10,431 crore in 1989-90) *net short-term borrowings* (i.e. net commercial credits

than 39 per cent in 1987-88 (Rs 3,123 crore); more than 50 per cent in 1988-89 (Rs 5,208 crore); and nearly 49 per cent in 1989-90 (Rs 5,041 crore).

In other words, during 1988-89 and 1989-90—the last two years of the Seventh Plan, in the Rajiv Gandhi era—the Indian economy became heavily dependent on short-term commercial borrowing from abroad. In reply to a question in parliament, it was stated recently that in 1991-92, the principal amount repayable for loans contracted abroad would be Rs 2,605 crore, while the interest payment would amount to Rs 2,002 crore—or a total debt repayment liability of Rs 4,607 crore. This amount of repayment liability was not incurred overnight; it has been the result of a long period of improvidence and irresponsible fiscal management.

In part, this order of liability was due to the increasing fiscal deficit of the government of India and, in part, due to the programme of import liberalisation (both on commercial account and for imports by the government). While during the Sixth Plan period the gap between gross domestic capital formation and gross domestic saving was 1.4 per cent of

the GDP (on an average), the picture changed dramatically in the Seventh Plan period, as Table 2 would show.

One can therefore justifiably say that the growth rate of 5.6 per cent during the Seventh Plan was achieved by mortgaging the future. To repeat, dependence on external savings jumped suddenly from Rs 6.8 billion in 1987-88 to Rs 11.1 billion in 1988-89 and, even as a percentage of the GDP, from 2.1 per cent to 2.9 per cent. On a weighted average basis, the dependence on external saving during the Seventh Plan increased to 2.5 per cent of GDP (as compared to 1.4 per cent in the Sixth Plan period).

So far, we have cited official figures of the balance of payments (as well as the gap in domestic savings in relation to GDP). Similar estimates for 1990-91 are not available, but DGC and S figures of trade (excluding most government imports) are. These are briefly indicated in Table 3.

One must add that of the total increase in the value of imports during 1990-91 amounting to Rs 4,846 crore, as much as Rs 4,546 crore was due to increased import of petroleum, oil and lubricants (POL). However, one must also add that not all this increase has arisen because of increase in import prices of oil; the quantities of import also increased significantly—despite increase in prices—because we have not been able to clamp down either conservation or substitution measures adequately (e.g. petrol products by natural gas and coal). The import (in quantitative terms) of both crude oil as well as of oil products increased significantly, as the figures in Table 4 would indicate.

It would be seen that diesel oil imports increased by more than 30 per cent, which

TABLE 1: INDIA'S BALANCE OF PAYMENTS—CAPITAL ACCOUNT

| | (Rs crore) | | |
|--|-------------|------------|-------------------|
| | 1987-88 | 1988-89 | 1989-90 |
| | (1) | (2) | (Estimate) (3) |
| 1 External assistance | | | |
| (a) Disbursements | 4454 | 4860 | 4970 |
| (b) Repayments | (-) 1526* | (-) 1650 | (-) 1916 |
| (c) Net assistance | 2928 | 3210 | 3054 |
| 2 Commercial borrowings* | | | |
| (a) Disbursements | 1946 | 4265 | 4238 |
| (b) Repayments | (-) 663 | (-) 1522 | (-) 1372 |
| (c) Net borrowings* | 1283 | 2743 | 2866 |
| 3 Non-resident deposits (net) | 1830 | 2465 | 2175 |
| 4 Other capital (net) | 1442 | 1887 | 2246 |
| Total capital account | 7393 | 10305 | 10341 |
| 5 IMF (net) | (-) 1209 | (-) 1547 | (-) 1460 |
| 6 Reserves (after allowing for errors and omissions) | (-) 956 | (-) 1449 | (-) 2866 |

reflects, in a way, the failure of the railways to meet the need for increased long distance movement of goods and passengers. And since, even where trains are hauled by diesel driven locomotives, the per tonne/km or per passenger/km consumption of diesel oil is a fraction of the consumption by trucks and buses, it is obvious that our authorities have not yet woken up to the need for improved railway services—through containerisation, door to door delivery, speed, safety, and easier booking and delivery facilities, etc. Nor has there been any progress in the move towards the use of natural gas in lieu of diesel oil, through installation of the dual-fuel motive power system between centres having natural gas, e.g. Bombay-Surat, Baroda-Ahmedabad and along the HBJ pipeline from which short 'spurs' can be taken for traffic between important towns on the way. (The theoretical possibilities of the system, which can save up to 70 per cent of diesel oil, have not only been demonstrated in India, the system is fully operational in several countries.)

The other important point that emerges from Table 3 is that in April 1991 we had actually achieved a surplus on merchandise trade account. Doubtless, this became possible through a drastic cut in imports, part of which cannot be sustained without hurting our production structure or our exports. But the point that gets firmly established is that there is considerable fat in our imports as of today as well as considerable potential for promoting exports intelligently. In addition, there is also considerable potential for saving in government imports (which do not get recorded in DGCIS data) comprising defence imports, imports of civilian aircraft, and ships, etc.

The crisis today, contrary to what the finance minister has stated, arises from: (a) a crisis in confidence of the short-term lenders on whom we had come to rely heavily from 1987-88 onwards; and (b) a crunch in the availability of foreign exchange to meet the repayment liabilities that arise from one month to the next.

It is in this context that it is relevant to note that it is the government which has been crying 'wolf' for quite some time, scaring away both the NRIs and the other lenders. In the medium and longer term, the situation is not one which cannot be retrieved by disciplined action to save on inessential imports and a steadfast approach towards export promotion. That is the background.

Let us now examine the latest situation, the *sequence of events* since the present government came to power, and the implications of the economic reform package which seems to be in the offing. Let it be stated at the outset that the sequence of events is all wrong, that we

have already played into the hands of the IMF/World Bank experts who have a *theology* that market forces alone can lead to the optimal development of an economy—a theory based on wrong premises, a wrong interpretation of the development programme adopted by the present Asian giants like Japan and South Korea—a theology which presumes a minimum of education and income and therefore the semblance of a reasonable expression of consumer choice and market competition, as well as increasing efficiency and productivity of the system.

What is the sequence of events in India over the past fortnight? India devalues by 10 per cent; and then, under pressure from the IMF/World Bank, by another 10 per cent within three days. (Remember in this context the recommendation of the World Bank report on trade reform in India which recommended devaluation by 20 per cent.)

The next step was reform of the export/import trade regime. In a sweeping set of reforms, all Cash Compensatory Support (CCS) has been abolished, a 30 per cent REP entitlement (which is to be tradeable) has been granted to *all* exports, Actual User (AU) imports have been virtually abolished (except for some items which are yet to be specified), many OGL imports have similarly been abolished, and both these categories directed to buy import entitlements from exporters in order to meet their import requirements.

It is perhaps presumed that these two reforms, *plus* the promise of a budget seeking to bring down the fiscal deficit, would get the IMF to allow the interim upper tranche loan of \$ 2 billion, with further instalments of a large loan of \$ 5 to 7 billion (under the Extended Fund Facility for structural adjustment) to be made available in instalments, as India makes further sweeping changes in industrial policy, in tariff policy, in abolishing all quantitative restrictions (QRs) on imports, bringing down the tariff on all goods (including consumer goods) to a flat rate of 20 per cent. This, briefly (and partially) is the reform package recommended in the World Bank report. Unfortunately, the consequences of this reform package are likely to be exactly the reverse of what is assumed. From a balance of payments deficit of some \$ 3 billion per annum, we are unlikely to achieve a surplus of this order—since the IMF loan would need to be repaid between three to seven years.

It is yet to be seen what the policies to be insisted on by the IMF are, for even the \$ 2 billion are yet to be released, and it is clear that the next steps taken by the government of India would hereafter be tailored to the dictates of the IMF. The portents are that industrial licensing would be abolished, the MRTP Act and

(the FERA would be amended, the latter to allow free inflow of foreign capital up to 51 per cent equity (except for a short negative list of industries involving consumer goods). That such facilities are already available to companies with up to 40 per cent foreign capital, with liberal approval of collaboration arrangements for the manufacture of soft drinks, potato chips and other consumer items, is a point which is forgotten. In fact, the surge in imports over the past few years has arisen specifically because of approval of collaboration arrangements for the manufacture of import intensive consumer goods, with no stipulation in regard to export of the products. We have of late spawned uneconomic industrial production which is import intensive and which can survive only under heavy protective barriers to import (QRs). This is most unfortunate; but one can presume that a lot of closures and unemployment will follow the reform package.

To go back, the sweeping changes in im-

TABLE 2: INDIA'S DEPENDENCE ON EXTERNAL SAVINGS

| | | (Rs billion) | | |
|---------|--|----------------------------------|------------------------|------------------|
| | Gross Domestic Product at Market Price | Gross Domestic Capital Formation | Gross Domestic Savings | External Savings |
| 1985-86 | 261.9 | 57.9 (22.1) | 51.7 (19.7) | 6.2 (2.4) |
| 1986-87 | 292.0 | 60.1 (20.6) | 53.7 (18.4) | 6.4 (2.2) |
| 1987-88 | 332.6 | 74.4 (22.4) | 67.6 (20.3) | 6.8 (2.1) |
| 1988-89 | 395.0 | 94.4 (24.0) | 83.3 (21.1) | 11.1 (2.9) |
| 1989-90 | 442.8 | 106.5 (24.1) | 95.9 (21.6) | 10.6 (2.5) |

Note: Figures in parenthesis are percentages of the GDP.

TABLE 3: INDIA'S FOREIGN TRADE
(As per DGCIS data)

| | (Rs crore) | | |
|------------|------------|---------|------------------|
| | Exports | Imports | Balance of Trade |
| 1989-90 | 27,681 | 35,412 | (-) 7,730 |
| 1990-91 | 32,527 | 43,171 | (-) 10,644 |
| April 1990 | 2,461 | 3,225 | (-) 765 |
| April 1991 | 2,953 | 2,850 | (+) 102 |

TABLE 4: IMPORTS OF CRUDE OIL AND OIL PRODUCTS
(Million tonnes)

| | 1989-90 | 1990-91 | Difference |
|--------------|---------|---------|------------|
| Crude oil | 19.49 | 20.67 | (+) 1.18 |
| Products | 6.54 | 7.79 | (+) 1.25 |
| of which | | | |
| Diesel oil | 3.05 | 3.97 | (+) 0.92 |
| Kerosene oil | 2.60 | 3.15 | (+) 0.55 |

port policy involve, among other things, a flat import entitlement of 30 per cent of the value of export, which would be tradable and which would therefore increase export profits. In principle, this appears to be a reasonable way of promoting exports. But today is it likely to work? For instance, should tea exports be entitled to the same REP facilities as the export of sophisticated engineering goods like machine tools and electrical equipment? Is tea production really price elastic? Could we not just raise excise duties for home consumption? The manufacturers of equipment may themselves need imports of raw materials (like non-ferrous metals, alloy steel)—which tea exporters do not need—as well as certain components which may not be available in the country or are not worth manufacturing in India.

The broad composition of our exports in the past couple of years should, in a way, illustrate this point and inform our policy on exports/imports. Table 5 is relevant in this context.

That the idea of a flat REP entitlement on all exports is misconceived would be patently clear from the composition of our exports and, more pertinently, the trend of exports (even though over one year). For instance, our export of naphtha is entirely due to the present surplus of this product, and the way the demand for motor spirit is increasing, and if we go in for fanciful aromatics projects (by cracking naphtha), we would be deficit in this item. Gems and jewellery would in any case require a much higher REP entitlement, our imports in the two years being Rs 4,242 crore in 1989-90 and Rs 3,732 crore in 1990-91 or 81 per cent of exports in 1989-90 and 73 per cent in 1990-91. And do we want to export raw cotton rather than cotton manufactures?

Equally, do we need the REP entitlement for the export of ores and minerals? The small-scale manufacturers/exporters of garments have already represented that they always quote in rupee terms and so the devaluation of the rupee is going to affect them adversely.

In short, it is possible, indeed likely, that for primary products, devaluation would turn the terms of trade against India, whereas a flat rate of REP entitlement, while a useful device in the long run, may become counter-productive in the short run, and be especially detrimental to engineering exports.

The devaluation of the Indian rupee is considered to be necessary. But by whom? If one leaves out bulk imports and export related imports, one is left with a relatively small segment of imports of machinery and components against free foreign exchange, and a large chunk of imports

against project aid (the latter amounting to as much as Rs 2,342 crore in 1990-91). Devaluation may have some impact on the former. On the other hand, if the associated part of the World Bank package, of a sharp reduction in import duties and the abolition of QRs is pursued, we would be truly in a mess. On exports, the terms of trade may move against us. On imports, devaluation will both raise prices in India (where imports are involved)—or reduce the profits of the oil companies if oil prices are not raised, and thereby accentuate the fiscal deficit—and not inhibit project imports since they are all against 'tied' credits. In fact, the only effect would be to raise project costs and increase the fiscal deficit.

THE ALTERNATIVE

What is the alternative? Of course, a reduction in the budgetary deficit of the centre is a must. But this should have preceded all other policy changes. As of today, this could and should be achieved in a manner calculated not to hurt the economy, and can still be achieved in the following manner:

first, by holding expenditure on defence, and gradually reducing it, through diplomatic negotiations, and a reduction in the arms race between India and Pakistan,

second, by holding expenditure on internal security and reducing it gradually, in either case, there will be a reduction in expenditure (on defence and internal security) as a percentage of the GDP, and hopefully, even in terms of actuals in the future,

third, by economy in the delivery of services by decentralisation, making the local bodies (locally elected panchayats and municipalities) responsible for local area development rather than through central schemes and Centrally Sponsored Schemes,

fourth, by reducing the many covert and some part of the overt subsidies (which today benefit the affluent) and *targeting* the latter among the poor,

fifth, by improving the performance of public sector enterprises (PSEs) and making it clear that they cannot rely on budgetary subsidies and that they can expect to be paid only on the basis of the 'value added' by them, in suitable cases, the management can be handed over to the workers—as in the case of the Kamani Engineering Company—by restructuring their capital and giving workers loans to contribute to equity, the workers on their part having to accept a cut/freeze on their emoluments. The sale of a part of the equity of all PSEs to workers and also to private parties—except for certain strategic sectors—should also be a part of this exercise because such sales will (a) en-

TABLE 5 BROAD PATTERN OF INDIA'S EXPORTS (Rs crore)

| | Apr-Mar 1989- 90 (1) | Apr-Mar 1990- 91 (2) | Percent- age Change (3) |
|---|-------------------------------|-------------------------------|----------------------------------|
| 1 Plantation products | | | |
| 1.1 Tea | 905 | 1,075 | (+) 18.8 |
| 1.2 Coffee | 348 | 251 | (-) 26.1 |
| 2 Agricultural and allied products | | | |
| 2.1 Rice | 426 | 440 | (+) 3.1 |
| 2.2 Unmanufactured tobacco | 149 | 193 | (+) 34.5 |
| 2.3 Manufactured tobacco | 52 | 71 | (+) 122.5 |
| 2.4 Spices | 241 | 233 | (-) 5.4 |
| 2.5 Cashew kernels | 368 | 447 | (+) 21.5 |
| 2.6 Handpicked groundnut | 34 | 58 | (+) 72.2 |
| 2.7 Oilcake | 546 | 625 | (+) 14.4 |
| 2.8 Castor oil and derivatives | 43 | 58 | (+) 33.7 |
| 2.9 Sugar molasses | 32 | 37 | (+) 15.2 |
| 2.10 Fruits and vegetables | 208 | 217 | (+) 4.4 |
| 2.11 Processed fruits, juices and misc items | 160 | 213 | (+) 17.3 |
| 2.12 Meat and meat products | 114 | 141 | (+) 23.9 |
| 2.13 Raw cotton | 128 | 855 | (+) 565.8 |
| Total of agricultural and allied products (incl others) | 2,637 | 3,725 | (+) 41.3 |
| 3 Marine products | 687 | 960 | (+) 39.8 |
| 4 Ores and minerals | 1,380 | 1,693 | (+) 22.8 |
| 5 Leather and leather manufactures | 1,951 | 2,554 | (+) 30.9 |
| 6 Gems and jewellery | 5,296 | 5,210 | (-) 1.6 |
| 7 Sports goods | 81 | 92 | (+) 13.0 |
| 8 Chemicals and related products | 2,974 | 3,196 | (+) 7.5 |
| 9 Engineering goods | 2,863 | 3,549 | (+) 24.0 |
| 10 Electronics and computer software | 421 | 352 | (-) 16.3 |
| 11 Project goods | 37 | 157 | (+) 321.2 |
| 12 Textiles | | | |
| 12.1 Cotton yarn, fabrics and made ups | 1,480 | 2,069 | (+) 39.6 |
| 12.2 Ready made garments | 3,224 | 4,042 | (+) 25.4 |
| Total of textiles (incl jute, silk, manmade fibres, etc.) | 5,585 | 7,103 | (+) 2.2 |
| 13 Handicrafts | 403 | 429 | (+) 6.5 |
| 14 Carpets | 700 | 745 | (+) 6.3 |
| 15 Petroleum products (mainly naphtha) | 697 | 938 | (+) 34.6 |
| Grand total (incl others) | 27,681 | 32,527 | (+) 17.5 |

these workers as partners in the production endeavour, (b) lead to greater openness and accountability of all PSEs, and (c) help to increase the distance (which should be brought about in any case) between government administration and the PSEs, prevent the patronage and misuse of PSEs by both politicians and bureaucrats, and encourage 'accountability' in the true sense of the word, through accountability for efficiency and profitability, providing for adequate disclosures through annual reports in regard to the functioning of the company in meetings of directors of whom some would also be from outside the government, as well as in the annual general meetings of shareholders (where all shareholders, including workers) would be present;

sixth, by raising direct taxes and also extending their coverage, as well as extending the coverage and extent of indirect taxes on items of elitist consumption thereby raising government revenues and making for more egalitarian taxation; the mere removal of the innumerable exemptions and 'costs' would help greatly in this direction;

seventh, by postponing all mega projects (and even deferring some of the long maturity prestigious projects of doubtful economic value); the large number of approved but as yet unstarted petrochemical projects fall in this category; and

finally, by equating, as rapidly as possible, the overall rates of domestic saving and domestic investment. This point needs special elaboration.

What is the greatest need of the country today? The provision of *gainful employment* to all and an *increase in the productivity of all workers* currently employed are a matter of the greatest urgency. Today only some 30 per cent of the cultivated area is irrigated. Of the 180 million hectares of cultivated area, more than 100 million hectares stand degraded. The people in these areas can barely take one crop in these rainfed degraded areas and live below the subsistence level.

Local area development, restoring the land back to its original productivity, would require massive investment in rural infrastructure. The moisture retention capacity of the soil needs to be improved; land levelling, contour bunding, tree planting, creation of small local irrigation facilities, all these activities would help, but they need the employment of manpower, under local supervision and local direction. An employment guarantee scheme can achieve this in rural areas. (In urban areas, such a scheme can help to improve urban infrastructure, and pave the way to greater integration of the villages with neighbouring towns.) But such a programme would call for: (a) large

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outlays of funds for several years, and (b) devolution of the required funds for such programmes must be locally directed.

Once the land is capable of giving, say, three crops in place of one, once horticulture, dairying, poultry keeping, etc, are encouraged, the need for the employment guarantee scheme would also gradually disappear. Industry and services would grow to process produce and to meet the demand of villagers.

So while subsidies are being reduced, *a minimum income should be guaranteed to all* so that there is no distress, no unfair sharing of the burden of the sacrifices the nation is required to make.

Such a procedure would also increase rural savings, induce direct investment in rural areas and help to equate overall savings in the economy to investment. That would automatically bring in macro-economic balance.

At the same time, because of the present skewed distribution of income in the country, we cannot give up import trade control (by way of QRs and high import duties) on elitist consumer oriented imports which are not essential for the development of the economy.

At the same time, the simplification of both the industrial licensing system as well as of the import control regime is desirable. These had become sources of corruption of both the politicians and the bureaucrats. While reform in both areas is necessary, as stated earlier, the reform needs to be well thought out, in tune with our needs and potential. One needs to proceed more slowly and judiciously. To repeat, one need not make a flat rate of REP available to all exporters. That will only turn the terms of trade against us, as well as lead to closures of industry and unemployment. There is need for both finesse and careful calibration in this regard, for a flat rate of REP is an additional devaluation, implying only a multiple exchange rate, one for exports the other for imports. Apart from the problems cited earlier, it would lead to pressure on the exchange rate through 'invisibles', and thereby adversely affect capital inflow. The justification for REP licensing is different and must be accepted; the REP rate should not be the same for all exports. Reform must also be not only gradual—as was the case with partial decontrol of cement, reducing the percentage of 'levy cement' over a period of years—but carefully calibrated. What has happened is hasty and ill-conceived.

Equally, in regard to industrial licensing, there is little need for the present system. The extant licensing system can be scrapped except for: (a) a small list of reservations in favour of the small-scale producers (e.g., the handloom weavers); (b) a change in lending policies, making

for a lower debt: equity ratio for large industries, and making capital and credit accessible in adequate measure to the small producers at the same interest rate as to large producers—today the large borrowers pay 14 per cent interest rate to the IDBI while the handloom weaver has to pay 25 per cent or more to the village moneylender and this has to change and can change only by revitalisation and democratisation of the co-operative credit system; (c) giving teeth to the MRTP Commission in respect of 'anti-trust' measures as well as Restrictive (and Unfair) Trade Practices, breaking up oligopolistic price fixing; and (d) making FERA more effective by stipulating that all foreign investors (with equity, say, of more than 25 per cent) shall have a favourable balance in the matter of external payments. A multinational firm is normally expected to maximise its profits; and this can be done by 'transfer pricing' and locating profits in 'tax havens', of which there is a growing number. There is a proposal to allow foreign investment up to 51 per cent freely, except for a negative list. Instead, like China, why do we not merely insist on a favourable balance in external payments? Foreign investments should be welcome provided their total remittances (of profits, interest, as well as outgo for the import of raw materials and components) are, say, 50 per cent (or some such percentage) of the export of their products. This should be insisted on except where we ourselves negotiate for the inflow of foreign investment for upgrading technology in a few selected directions. China is today getting foreign investment to the tune of some \$ 10 billion annually—the amount has been on the increase—on precisely the above conditions. Investors are attracted because of the large domestic market; and the wages are low enough to warrant profitable exports. Similar conditions exist in India, but we must make foreign investment advantageous not only to the foreign investor but also to us.

There are many other reforms which are necessary, but they cannot all be spelt out here. The question that arises is: why are we bending to international pressure to radically alter our economic system with a suddenness (and in a direction) which may lead to a large number of closures, and increased unemployment, with doubtful gains in regard to productivity? It seems we are in for a period of 'de industrialisation'.

The government spokesmen say that an IMF loan is a must to avert disaster. The worst disaster is a default. Suppose we were to announce that there shall be a *postponement* of the repayment of capital and interest for five years, and that we would resume repayments only after

restructuring our economy? Would our international reputation be any worse than it is today? Suppose we were to gradually introduce the reforms suggested above first putting our own house in order. What would happen? Did the UK ever repay the US for the debts incurred during the second world war? What is the position regarding commercial debts of Latin American countries? True, the White Man and the Black are different! But we would only be declaring a temporary moratorium making our export pay for our imports, increasing our exports so that we can pay for our past borrowings later, and meanwhile clamp down to put our own house in order and improve production. Incidentally, we are frequently paying 50 to 100 per cent more for project imports under 'tied aid'. Why should we be so chary of getting tough with those who have been taking us for a ride? What great reforms has China introduced that it is getting foreign investment to the tune of \$ 10 billion annually and getting kudos from *The Economist*, London? We should, of course, ensure that any surplus of exports over imports will be used, even within this five-year period, to repay, pro rata, the interest on past *private* loans first, and thereafter the interest on Official Development Assistance. It is the high interest short term borrowing in the recent past that is breaking our back; and these loans need to be partially written off and partially paid back. Let us reproduce what the IMI has to say on the Mexican financial package:

MEXICO formally initiated negotiations on multi year bank financing package in April 1989, preliminary agreement was reached with the bank advisory committee in July 1989 and the term sheet was issued in September. The package was completed in September 1990. As a result, bank debt amounting to \$ 7 billion was extinguished outright, while claims of \$ 23 billion were subjected to a below market rate of interest of 6.25 per cent. (See IMI, *International Capital Markets Developments and Prospects*, Washington, DC, May 1991).

We have an outstanding debt liability of \$ 70 billion today. We propose to incur additional liabilities on condition we reform our system to a point where we would become primarily exporters of primary products and importers of manufactured goods (including capital equipment). The World Bank report on trade reform gave some results of simulation exercises of what is likely to happen after seven years of reform provided we were to follow the bank-recommended reform package. Our manufacturing output would be stagnant; our machinery output would decline by anything between 10 and 16 per cent. Our minerals output (and obviously exports) would go up. I

this what this country wants to achieve? In conclusion, our endeavour should be:

- (a) to borrow as little as possible, something like \$ 2 billion, to meet immediate commitments;
- (b) to bring in our own reforms in our own way; and if this is not agreed to;
- (c) to threaten to openly postpone the repayment of past obligations and seek our own solutions on the lines suggested.

This country is large enough, its people resourceful enough, to get out of our present troubles, which have been forced on us by policies followed during the second half of the eighties, in the interest of some 100 million affluent Indians. The policies now being pursued are calculated to help only these same 100 million.

It is time that someone spoke up and agitated for the 750 million Indians who have been left out of this race for affluence; and certainly for the 350 million Indians who still exist below the poverty line.

The fate and the livelihood of these

people are more important than the so-called prestige of a 100 million Indians who would thereafter feel sheepish and unable to show their face to their friends in Washington, New York and London. We ought to seriously reconsider some of the policies already adopted. Devaluation is a fact; but the REP percentages can still be changed, with different groups of products having different entitlements. And while simplification of the industrial licensing system is necessary, we must not give up the objectives of: (a) industrialisation, and (b) employment-intensity in selected industries. Finally, while we must have greater fiscal discipline, that discipline must be brought about through cuts in defence and internal security expenditure and greater efficiency of developmental expenditures through decentralisation. We must have an employment guarantee scheme to revitalise our rural areas; and a minimum income, and higher productivity should be the touchstone of our policies. We need wise modulation of policy, not hasty, knee-jerk reactions of the type we have seen in the past couple of weeks.

Removal of political interference and bureaucratic control is essential, but even if these are removed, there is no guarantee that the institution will develop flexibility and adaptability to be a competitive and viable market player. Over the years the banks and financial institutions have been subjected to administrative directives, formal as well as informal, and have lost the will and capability to make their own business strategic decisions. Autonomy has to be understood in a much wider frame, which postulates that each unit has the operational capability and flexibility to take decisions to keep itself as a strong and viable institution geared to provide diverse products and services to its customers at competitive costs.

The Indian banking and financial systems have always adjusted prices to their costs. In the environment likely to emerge, a host of administrative issues relating to costs and profitability have to be tackled: the cost of intermediation, employee productivity, reduction in transaction processing costs, the cost-benefit of different types of financial services. There are far too many entrenched vested interests, who have a lot to lose if each unit is to restructure its operation to achieve internationally accepted standards of costs, efficiency and productivity.

No authority can fine-tune the policy package specific for each unit. What the policy-makers can, and should, do is to remove all negative hurdles and give positive support to each individual unit to enable it to function as a profit-oriented institution.

Institutions which are effective players in the market must promote integrity in the market place. This will be the most difficult thing to ensure in the Indian context.

The parameters of competition policy should allow for the encouragement of competitive forces and widening of the range of competitive play, but at the same time they must provide for adequate monitoring arrangements at the in-house level, at the level of any self-regulating organisation with responsibility for setting rules and precedents, and at the level of authorities. While the category of financial regulations which are anti-competitive in nature are progressively being diluted in most of the developed countries, there has emerged increasingly a compelling need in public interest for guarding the system against abuses and frauds for the protection of investors, borrowers, and other users of the financial system. Investors have a right to protection against undue risks or losses and damage that may arise from failures, malpractices, manipulations, and other bad conduct on the part of those who are offering the financial services. In recent years, the

POLICY FOOTNOTES

Financial Sector Reform: Enemy Within

D N Ghosh

There are grave doubts whether the financial services sector in India has the confidence and the credibility to implement any kind of reform package.

THE agenda for reforming the financial sector set by the IMF-World Bank aims to create a competitive environment, which will eliminate bureaucratic and political interference in the functioning of the system and allow market forces to benefit consumers of financial services.

Can we make the market regime workable? Of the several prerequisites for ensuring a smooth transition, the most critical are institutional capability and integrity in the financial sector. There are grave doubts whether the financial services sector in India has the confidence and credibility to implement any kind of reform package.

For most of the units in the financial sector, there is a thin protective veil over their weak financial strength, making them ill-equipped to face competition, far less to take advantage of any competitive opportunities in a deregulated climate. We face the stark reality today: either we make our banks and financial institutions strong enough to face competition or we

face the prospect of our domestic institutions being unable to grow in a climate of competitive pressures in the wake of freedom of entry for foreign financial agencies. We are coming to be driven to a situation which will allow little time for preparing a reasonably acceptable level playing ground. The outcome could be destabilising with unpredictable consequences for the political economy of the country. It will be tragic if we succumb to the authoritarian logic that there is no way out.

We have no time to lose. We have to give a mandate to each unit to achieve viability within a certain time-frame. Each unit will have to follow its own route, specifically devised by it on the basis of its financial position, strength and weakness of its asset-liability pattern, the market niche it has carved out for itself and its operational constraints. Each unit has to work out its own strategy on the basis of its perception of the competitive environment.

discussion on conflict of interest problems in banking and finance, which has a long history, notably in the US, has seen a considerable revival in a number of countries, such as Canada, France, Germany and the United Kingdom. The recent scandal in the Tokyo securities market, which forced the resignation of the chiefs of the two largest securities houses in Japan, brings out the fact that despite the very rapid development of the securities market, transactions are still done on a discretionary basis in an atmosphere and under conditions bordering on impropriety.

The three basic principles—the requirement of fair trading, the duty of skill, care and diligence, and the duty of disclosure of information—will meet with the stiffest resistance in the process of reforming the organisation and functioning of the financial market. The reluctance to reform is deeply ingrained in the structure of our financial industry. The relationship between big business and the financial industry is intertwined; the special cosy relationship helps generate and guarantee benefits which would not pass the test of ethics and fair play. These 'club arrangements' operate effectively to frustrate the regulatory efforts. The SEBI has continued to remain toothless for several years now. When impropriety exceeds the limit of public decency, resignations of chiefs of some institutions have been sought and obtained, but then these have all been symbolic gestures: a triumph of symbol over substance.

It is naive to think that efficient but clean business will come about automatically through market forces. The Tokyo scandal has provoked sharp comments from several financial journalists in the western press; they have no doubt found it handy to bash Japan for not adequately opening up the financial sector and assuring transparency and fairness in securities transactions. Read the following no-holds-barred observation of the *Asian Wall Street Journal* (June 26, 1991):

Certainly one lesson that Japan's state officials might extract both from their own experience and from that of their many over regulated neighbours in the Far East is that big bureaucracy does not promote integrity in the market place. Rather, it tends to breed a clique of entrenched interests favoured by the government machinery, and prone to assume they can get away with a fat measure of shady dealing. Thus did the Philippines' late president Marcos end up with his cronies, thus does India endure the monopolies run by a few big families, and thus does Japan to a milder degree today find itself embarrassed over the misdeeds of its big business groups. These business interests, in turn, tend to throw some of their muscle into thanking their patron bureaucrats vigorously enough to ensure that the flow of favours continues. Should anyone be shocked when it turns out that the improper back-room

payments have become standard procedure among the main dealers in the Japanese stock market?

A three-trillion dollar economy can brush off fleas on the thick hide of an ox, but can we?

Institutional integrity will turn out to be the main bottleneck towards a reform plan. Institutions cannot be reformed by fiat. Surviving competition in a highly volatile market involves a succession of decisions affecting every facet of a company's operation: in the matter of cost reduction, improvement of productivity,

modernising system and technology, insider trading, strict ethical standards to avoid conflicts of interest situations. Vested interests will be at stake at each stage and will bide their time to strike.

The specifics of the reform package may be formulated at the behest of the foreign aid-giving agencies, but its implementation is a matter of domestic politics. Politician-reformers at the national level may turn out to be stubborn politician-resistors at the grassroots level. Can they be won over? We can only wait and see.

POTOMAC MUSINGS

A Season of Mothers

Deena Khatkhate

Saddam may have lost the Gulf war, but when he called the war 'the mother of all battles' he conquered the English language. So many mothers have since sprouted all over.

IN this world of quick television sound bites one can see the ancient war in ancient India and the modern war in the modern world with different messages. Lord Krishna of Peter Brooke's *Mahabharat* is somberly chastising Americans and others in the western world that 'victory is defeat', but the vibrations from the modern Gulf war are different—for Saddam Hussein, defeat is victory. Saddam may have been defeated in the mundane vocabulary of the ordinary people, but he has conquered the English language. If you see on the television the shambles to which Iraq's hapless people have been reduced, the ashen faces of young babes and the wizened faces of the old, screaming mothers clutching morsels of food, slaking their thirst with foul drain water, holding their babies to their milkless breasts, and the hordes of defecting Saddam's army men with craven faces, hanging on to American soldiers' epaulets, begging for shelter, just ignore all this as the Americans' dissimulating pranks. Saddam Hussein has won a great victory through his defeat. He called his war with the allied forces "the mother of all battles". And as a result so many mothers have mushroomed all over, in the lingo of statesmen, journalists, scientists and factotums of the president of America.

The first to come in the aftermath of the Gulf war was the mother of all world orders. President Bush declared that the old order had ended and a new world order was being born through the midwifery of America. What is this new world order? Israelis and Arabs would be friends not foes, they would re-live the Old Testament; West Asia would be a zone of peace.

But wait a minute lest you get it all wrong. 'World order' is what you heard! No, in this society of political pluralism you talk only in plurals. It is not a new world order, but new world orders. Kuwait's reconstruction is on the agenda and the losses borne by Turkey and Egypt are heavy and need to be compensated. Orders for new goods and services will be there. But if the new world order is to be firmly and permanently in place, there should be new world orders for armaments and ammunition. Saddam Hussein's mother of battles may have perished, but the mother of all world orders for armaments has taken her place.

But what about a mother of all defeats? The leaderless, fatherless democrats cannot escape such a mother. Many democrats had stood up with courage against the despatching of GIs to the Gulf. They lost hopelessly and helplessly watched president Bush's electoral stock soaring sky-high during the war. The feedback from their constituencies was frightening. They tried to backtrack and put some gloss on their opposition. But the Republicans hammered away ruthlessly at the 'unpatriotism' of the Democrats. The Democratic party is not getting anyone to be a presidential candidate for the 1992 race. Everyone is chickening out. By not voting for the Gulf war, the Democrats fear losing votes in the 1992 elections. The mother of all defeats.

From the Desert Storm has emerged a new storm of political wheeling and dealing by ex-president Reagan and ex-vice president Bush in cahoot with their acolytes, CIA Cassey and co. Gary Sick, respected professor at the University of Columbia and former Carter aide, has

come out with the stinging charge that the officials in Reagan-Bush campaign had made a secret deal with Iran to delay the release of 52 US hostages until after the election. This has triggered an enquiry by the Congress. So the Democrats, poor souls, should not drown themselves in sorrow. Their mother of hopes, presidential hopes, is waking up from deep slumber; she is smiling.

Mother of all hopes, did you say? Yes, it is not only the mother of all hopes but a most fecund mother at that. Alan Friedman and Lionel Barber, of the *Financial Times*, have come up with a sensation. The Bush administration pushed through a \$1 billion loan guarantee to Iraq for exports before the invasion of Kuwait. And this despite the solid evidence available to the administration that Iraq had abused US funds with impunity, manipulated the US banking system illegally to fund its arms purchase programmes and collected generous kickbacks, including armoured trucks, as a part of the loan deal. All this was in defiance of the advice given by highly placed US government officials at the time. The Democrats have been blessed with a heaven-sent opportunity to transform their mother of defeats into a mother of presidential hopes. And to add to the glory of the Democrats' mother of hopes is what Robert Woodward, of Watergate fame, has revealed. Bush's war against Saddam Hussein was his own, not General Powell's, not Jim Baker's, not even Dick Cheney's. The Gulf war was, oh, a mother of Bush.

The mother of all Bushes is perhaps the right description. The other day Bush was celebrating his great victory at a gathering. A wag asked him, "What role did Barbara Bush play in the conduct of the war?" With a coast-to-coast smile and his usual distorted syntax, the president said, "she is a mother of all Bushes". For Indians who are used to Indira Gandhi being the mother of all Gandhis this may sound rather jejune, but not in this society. The mother of all Bushes must have brought into this world the best of all children. But newspapers are naughty; they flashed the news the next day that Neil Bush, one of the sons of the mother of all Bushes, was reprimanded by the superior court for his conflict of interest entanglement in a fraudulent savings and loans association.

This season mothers are everywhere. And here comes the mother of all deceptions. She is everywhere, dominating everyone around her and, shall we say, destroying them all in the process—one thing which Saddam Hussein's mother of all battles could not do. There is a sordid story making the rounds in cocktail circles for the last five years, though nothing

emerged until recently. There is a small computer software firm, Inslaw, which signed a contract with the federal government in 1982 to supply all 94 US attorneys' offices with software which it had developed. In early 1984, the government terminated the agreement and Inslaw as a result slid into bankruptcy. The company went to court, charging the government with stealing its property and software "by trickery, fraud and deceit". In subsequent appeals, the attorney general's office brought pressure on court judges and, by various machinations, thwarted Inslaw from getting justice. But the firm did not let up and has now convinced the House Judiciary Committee that it should see through every document connected with its plea. Many heads may roll as a result.

But this is one mother of deception, there are two others. Bush's chief of staff Sununu had made 90 trips in the public interest, using government transport and money to visit his dentist in Boston and play golf in New Hampshire. When asked, the president justified all this by saying that he needed to have "voice contact" with Sununu when he was away. But Sununu could not get away with this. His minions, to whom he had denied these goodies, have blown the whistle. Shenanigans amongst Bush's coterie are now seeing the light of the day. The disease has spread fast. Robert Clarke, the controller of the currency, is found to have indulged in conflict of interest transactions. Asked about this impropriety, his answer, like that of all honest men till they are found to be dishonest, is that "according to his interpretation of the rules, his act was permitted". Even the hallowed educational institutions have not escaped the mother of all deceptions. A congressional investigation committee has identified several educational institutions such as Stanford, Harvard, Yale and a whole lot of others as having fudged the aid given to them to cover expenses which were extraneous to the purpose for which it was given. Most of the culprits are Ivy League colleges. Only two state universities are amongst them. Money has been spent on interesting projects. Cornell University had billed thousands of dollars for executive jet services for its president, Frank Rhodes. If you want an explanation, here it is: the president is a tall man and just is uncomfortable in commercial airplanes.

In the midst of all these too many mothers—mother of all battles, mother of all world orders, mother of all deceptions—one is confused about which one to love. But this is not a new predicament here. There are different kinds of mothers—biological mothers, step-mothers, live-in mothers, surrogate

mothers and casual mothers. Yet a riddle remains. A mother of battles? A mother of deceptions? But why not a father of battles? One is not only naive but also a backward walker in the terrain of knowledge. Invoking mother and not father was a stroke of a genius in this epoch of fatherless children who can be manufactured through IVF.

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Reducing the Fiscal Deficit Soft and Hard Options

I S Gulati

If the objective seriously is to reduce government dissaving and cut deficit financing then the budget-makers cannot get away by setting their sights only on the fiscal deficit without specifying how the targeted reduction in the fiscal deficit is to be achieved.

THIS short note attempts to set out the issues for debate on the question of reducing the deficit in the government's budgetary operations in the context of the stabilisation programme being currently talked about to meet the difficult economic situation the country is facing.

That the deficit can be quite different, depending on the manner of its measurement, can easily be seen from the accompanying table. Row 3 gives the revenue account deficit for three years, 1989-90, 1990-91 (revised estimates) and 1991-92 (Interim Budget estimates), row 6 the capital account surplus and row 7 the overall budget deficit. In addition, in row 8 is presented for the same three-year period what has recently come to be called the fiscal deficit, a term formally taken note of in the documents of the Interim Union Budget for 1991-92. Finally, in row 9 is presented the figure separately for 1989-90 and 1990-91 of the increase in net RBI credit to the government.

The deficit on revenue account reflects the excess of current government expenditure over current government receipts and can therefore be considered, rightly and properly, to reflect the dissaving of the government sector of the economy. While in 1989-90, dissaving of the government sector, in the above sense, amounted to 2.73 per cent of GDP, the revised estimates for 1990-91 put it at 3.49 per cent.

The government sector incurs sizeable expenditure on capital account and to finance such expenditure the government sector raises funds by borrowing from the other sectors, including the external sector. In addition, the deficit on revenue account has to be met. Are the funds the government sector is able to borrow from the other sectors adequate to meet both the sector's own capital account requirements and the deficit on revenue account? In 1989-90 they were not. The revenue account deficit of Rs 11,912 crore was far, far in excess of the surplus of Rs 1,320 crore on capital account. Hence the

budget deficit of Rs 10,592 crore, amounting to 2.43 per cent of GDP for that year. It is to be noted that only a small part (11.1 per cent) of the revenue account deficit (Rs 1,320 crore out of Rs 11,912 crore) could be met out of the government sector's borrowings after meeting the sector's capital account expenditure commitments; the balance of Rs 10,592 crore had to be met by the sale of treasury bills to the RBI, i.e., through deficit financing. The position in 1990-91, as per the revised estimates, was that as much as 38.7 per cent of the revenue account deficit could be met out of borrowed funds. Although the budget deficit in 1989-90 and 1990-91 (revised estimates) was nearly the same in absolute figures, as a proportion of GDP it was 2.14 per cent in 1990-91 as against 2.43 per cent in 1989-90, indicating that the ratio of deficit financing had declined somewhat in 1990-91.

Analytically, the change in the ratio of deficit financing to GDP should be of significance, particularly when the emphasis of policy has to be on containing inflation. However, it could well be argued that, if a tab has to be kept on the extent of deficit financing, the figure of budget deficit does not reflect fully the extent to which the government sector is financed by deficit financing. The Chakravarty Committee argued strongly in favour of going by the increase in RBI credit to government to measure the resort to deficit financing. That the figure of the increase in RBI credit to government can be significantly different from the figure of the budget deficit can be seen from the table. For both 1989-90 and 1990-91 (RE) the former figure is considerably higher than the latter, though even then the ratio of deficit financing was considerably lower in 1990-91 (2.48 per cent) than in 1989-90 (3.17 per cent).

Interestingly, indeed intriguingly, the maximum attention was focused in the Interim Union Budget not on the revenue account deficit or on the budget deficit or on the increase in RBI credit to govern-

ment, but on what is called the fiscal deficit to measure which one sets off the entire government expenditure, i.e., expenditure on revenue account plus that on capital account, against the government's revenue account receipts. As against the fiscal deficit estimated at 8.59 per cent of GDP in 1990-91, the target the Interim Budget set for 1991-92 was 6.5 per cent of GDP, although the budget figures as presented add up to a somewhat larger deficit of 7.02 per cent. No target is set for either the revenue account deficit or the budget deficit. Actually, however, some reduction is envisaged in both the revenue account deficit, from 3.49 per cent of GDP in 1990-91 to 3.04 per cent in 1991-92 (the absolute figure of revenue account deficit goes up somewhat), and the budget deficit, from 2.14 per cent of GDP in 1990-91 to 1.71 per cent in 1991-92. But the reduction in the fiscal deficit of 1.57 percentage points is sought principally through a significant reduction in capital expenditure. At the same time, there has been a reduction in government borrowing, though not to the full extent of the reduction in capital expenditure. Clearly, however, the axe is to fall in the current year principally on government in-

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TABLE: UNION GOVERNMENT'S RECEIPTS, EXPENDITURE AND DEFICITS, 1989-90, 1990-91 AND 1991-92
(Rs crore)

| | 1989-90 (Actuals) | 1990-91 | | 1991-92* |
|--|----------------------|-------------------|-------------------|-------------------------------|
| | | Budget | Revised | |
| 1 Revenue account receipts | 52,296 (12.00) | 57,938 (11.49) | 57,381 (11.38) | 63,584 (10.89) |
| 2 Revenue account expenditure | 64,208 (14.73) | 70,970 (14.07) | 74,966 (14.86) | 81,350 (13.93) |
| 3 Deficit on Revenue account (1-2) | 11,912 (2.73) | 13,032 (2.58) | 17,585 (3.49) | 17,766 (3.04) |
| 4 Capital account receipts ¹ | 25,038 (5.75) | 29,589 (5.87) | 32,559 (6.43) | 30,998 ² (5.31) |
| 5 Capital account expenditure ³ | 23,718 (5.44) | 23,763 (4.71) | 25,746 (5.10) | 23,209 (3.97) |
| 6 Surplus on capital account (4-5) | 1,320 (0.30) | 5,826 (1.15) | 6,813 (1.35) | 7,789 (1.33) |
| 7 Budget Deficit (3+6) | 10,592 (2.43) | 7,206 (1.43) | 10,772 (2.14) | 9,977 (1.71) |
| 8 Fiscal Deficit [1-(2+5)]=(3+5) | 35,630 (8.18) | 36,795 (7.29) | 43,331 (8.59) | 40,975 ⁴ (7.02) |
| 9 Deficit as reflected in the increase in RBI credit to government | 13,813 (3.17) | — | 13,000 (2.58) | — |

Notes: (1) Excludes recoveries of loans and amounts raised by net sale of treasury bills to RBI
(2) Includes Rs 2,500 crore on account of amount to be raised through disinvestment of government equity in selected public sector undertakings in favour of mutual funds and financial institutions.
(3) Net of recoveries of loans
(4) Exceeds the official figure by Rs 2,500 crore on account of amount raised through disinvestment of government equity in public sector undertakings. Reduced by Rs 2,500 crore the fiscal deficit would amount to 6.59 per cent of GDP, i.e., not far above the target of 6.5 per cent set out for 1991-92.
Figures in parenthesis in various rows are respective proportions of GDP at current prices of the relevant years
* Interim budget estimates

Source: Interim Union Budget, 1991-92

vestment to achieve the targeted decline in the fiscal deficit.

One can think of an altogether different scenario under which the revenue account deficit has been the focus of targeting, then not only would there have been any need to reduce the government's capital expenditure, but at the same time the government sector's dissaving would have been drastically slashed, say, from 3.49 per cent of GDP in 1990-91 and 3.04 per cent as envisaged in the Interim Union Budget to 1.92 per cent and even with capital account level of receipts and expenditures remaining unchanged, relative to GDP, the budget deficit would have come down drastically from 2.14 per cent in 1990-91 to 0.47 per cent, i.e., by 78 per cent. As for the fiscal deficit, its reduction to 7.02 per cent of GDP would still have been achieved.

The difference between the two routes of deficit reduction ought to be noted straightaway. Under the route chosen in the Interim Budget, reduction of fiscal deficit is achieved only marginally through a reduction of the deficit in the revenue account; under the alternative route the focus is on revenue account deficit reduction. Under the former route the budget deficit, and hence deficit financing, is only partially reduced. Under the latter, it is drastically curtailed. Of course, by follow-

ing the latter route the level of government capital expenditure and borrowing is maintained, whereas the path taken for the former route envisages sizeable reduc-

tion in both government capital expenditure and borrowing.

It should be evident that by choosing the route the Interim Union Budget did it decided to go for the soft option, an option that would not call for hard decisions that would have to be taken were a commitment to be made for closing the revenue account gap. Nor is any commitment entered into with respect to reduction in the budget deficit or deficit financing, something that one would expect to be high on the agenda if inflation has to be contained. Going by the manner of the Interim Union Budget, the uppermost concern in reducing the fiscal deficit to the extent it does seems to have been to reduce the size of total government expenditure; between 1990-91 and 1991-92, the reduction proposed in expenditure, on revenue and capital accounts together, is from 19.96 per cent of GDP to 17.90 per cent, i.e., by 2.06 percentage points, which is a little over 80 per cent of the scheduled reduction in the fiscal deficit between the two years. If however, the purpose seriously is to reduce government dissaving and/or cut deficit financing then our budget-makers cannot get away by setting their sights only on the fiscal deficit without specifying how the targeted reduction in the fiscal deficit is to be achieved—how much by reducing the revenue account deficit, the budget deficit and/or capital expenditure. The argument here for transparency is not for its own sake but to ensure that the agenda is set in the right terms.

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Smell of Surrender

BM

The finance minister was so satisfied after the devaluation of the rupee that he declared that the foreign exchange crisis had been resolved and he would now turn to the 'constructive tasks' of structural adjustment of the economy. However, having lured the government of India to put all its eggs in the IMF basket, the foreign creditors are playing the proverbial cat and mouse game with this country.

THE Congress(I) government headed by P V Narasimha Rao has embarked on an adventurous course in the management of the economy and the polity. The entire focus is on what is euphemistically called 'structural adjustment' financed by massive foreign credits. In this process the government is fast losing its credibility and its chances of getting a foothold in the prevailing alignment of political forces may disappear sooner than was earlier believed likely.

It is not possible to disagree with the BJP leader, I K Advani that unlike minority governments in the past years, the present government stands completely isolated. Minority governments in the past, among them one headed by Indira Gandhi needed outside support to assure them a majority in parliament and this cast on them the political obligation to seek a measure of consensus on policy issues. The government headed by P V Narasimha Rao lacks such support and has, therefore, to seek a majority in parliament from issue to issue and from day to day. This is not a sustainable position and it can collapse suddenly any time and on any issue. The whole arrangement in which the government rests is by its very nature, unstable.

The government's deal with the BJP on the choice of speaker of the Lok Sabha has called into question its secular credentials. The shipping out of gold reserves to the Bank of England, sought to be carried out clandestinely but soon exposed, is bound to have further damaged the already low credit-rating of the country. Finance minister Manmohan Singh had issued immediately after he assumed office that there was no question of selling or swapping of gold and had promised that he would bring back the gold sold by his predecessor to raise foreign credits. He seems to have become so helpless that he is putting all his trust in the financial and policy backing of the World Bank-IMF combine. But even as he is feverishly negotiating for a big IMF loan under its structural adjustment facility, the fresh credits from abroad which he expected to

flow in after the devaluation and the changes in foreign trade policies as desired by the World Bank-IMF combine are still being held back. This would appear to be intended to expose India's abject helplessness. The idea is that the government in India should be put in such a difficult position that it has no option but to submit to all the conditions, explicit and implicit, laid down by the foreign creditors.

Interestingly even I G Patel, former governor of Reserve Bank of India, who had recently issued a joint statement in support of structural adjustment on the lines dictated by IMF, has been put off by the rather feckless manner in which the complex problems of the economy are being handled. He has said that putting 25 tonnes of reserve gold in the custody of the Bank of England to be available as collateral for raising foreign credits at short notice was a 'national humiliation'. In spite of pledging its reserve gold, the country will be able to manage a loan for only one month of not more than 80-90 per cent of the value of the yellow metal. And this at interest rates much above the LIBOR, I G Patel has disclosed. When questioned in parliament, the finance minister, who talks so much about running an open government, evaded a straight reply on the terms on which the gold had been transferred to the Bank of England. Manmohan Singh's credibility was not enhanced when he retracted his earlier criticism of the gold sale by his predecessor in the finance ministry.

Manmohan Singh was so satisfied after the devaluation of the rupee that he declared that he had put an end to the foreign exchange crisis and he could now turn to the "constructive tasks" of structural adjustment of the economy. But the foreign creditors, it appears, are playing the proverbial cat and mouse game with India. Even after luring India into the IMF parlour, fresh credits are being held back. The government of India had meanwhile been cleverly denuded of the will to stand up and assert its sovereignty before the foreign creditors. All its eggs have been

put in the IMF basket. The government has opted for unreserved surrender before the foreign creditors and to bow towards an economic and, in due course, political regime which suits the interests of the foreign creditors. The notion that the industrially developed countries in the west, as a group and separately, will transfer real resources to spur the stability and development of the Indian economy and polity was always fanciful. These countries, directly and through the international financial institutions controlled by them, may have played some role in augmenting the flow of real resources to the developing countries for a while during the sustained expansionary phase of their economies after the end of the second war. But they ceased to play that role after the mid-seventies when the developed market economy countries themselves were faced with acute problems. This is reflected in the so-called aid weariness, the shrinking of multilateral concessional credits and the stiffening of conditionalities attached to bilateral as well as multilateral credits advanced to the developing countries. The World Bank and IMF in recent years have linked their credits to India explicitly to 'disciplinary measures' euphemistically termed structural adjustments.

It is not fortuitous that during the eighties India played an ambivalent role in the global economic and political arena. It has been adjusting step by step to the demands of the developed countries on the deregulation of its economy, opening it up for market-oriented investment of domestic and foreign capital, and conforming to the laws of the developed countries on intellectual property rights and trade in services.

In addition to the pressure of the developed countries, stepping up their search for profitable markets for their export surpluses and investment, a thin upper crust of Indian society has been striving to bring about shifts in economic and social policies in line with the designs of the developed countries and their multinationals as promoted through the international financial institutions. The facile notion of India emerging as a medium level developing country, notwithstanding mass poverty and a level of industrialisation resting on a narrow social base which has not brought about any change in the occupational pattern of the population, has been cynically encouraged. Things are now coming to a head in India. The so-called policy of liberalisation initiated in the early eighties and implemented with special energy in the second half of the decade has failed to deliver what was promised. While growth has remained uncertain, market forces have tended to boost labour-saving and

capital- and import-intensive technologies and concentration of economic power. Experience has proved that while relaxation of bureaucratic regulation is undoubtedly necessary as well as desirable for unshackling industrial enterprise, meaningful planning and regulation of business activity combined with public investment setting the pace for development are an essential condition for self-sustaining growth.

The joint statement issued by P N Dhar, I G Patel, M Narasimham and R N Malhotra which summarised the World Bank-IMF demands on India and recommended their acceptance was clearly a command performance. Manmohan Singh was obviously so much enamoured by it that he, once again ineptly, arranged its circulation among MPs and was rapped for it. The statement was issued as an ideological onslaught on what are cynically referred to as outdated policies of an era gone by though one of the signatories, I G Patel, had to observe in public that while liberalisation and decontrol were necessary, one should not forget the virtues of self-reliance and austerity which ultimately led a nation to strength and progress.

An alternative line of policy which rejects the IMF line and calls for a

"modulated reform programme" has been presented by a group, including some leading economists. The programme gives priority to mobilisation of domestic resources for growth of the economy and welfare of the people. India is faced with two options. One is the World Bank-IMF line which will shift the burden of development on to the poor, while sacrificing the sovereignty of the country and in the process completely subvert the ability of the system to find an independent alternative. The other is to move towards self-reliance and an egalitarian social order which alone will preserve the economic and political sovereignty of the country. These alternatives have to be squarely faced and must not be allowed to be obfuscated by focusing on selected aspects of the current economic situation, especially the balance of payments crisis. To halt a suicidal policy drift and return to the path of independent economic and social development, adjustments in official economic policy and management have to be made. These adjustments, however, have to be in a direction away from and opposite to the adjustments which the IMF is laying down as the preconditions for its loan and to which the Congress(I) government is submitting as price for the loan.

annum against the dollar, 13 per cent against the pound sterling, 15 per cent against the DM, 16 per cent against the French franc and 6 per cent against the yen. The rate of inflation in India, to which the Reserve Bank press note referred, compared with the rates in the relevant other countries by and large did not exceed these levels. In other words, the exchange value of the rupee has been maintained in real terms in recent years. No doubt it was to this 'realistic' exchange rate policy that the World Bank vice-president was paying kudos.

More importantly, the devaluation of the rupee at a time when both domestic economic growth and world trade are forecast to decelerate is unlikely to produce the expected salutary impact on export performance. Of course, profitability of exporters would improve and the rupee value of foreign exchange reserves would be inflated. On the other hand, import prices, too would go up, instantly contributing to strengthening of domestic inflationary pressures and reinforcing the high cost economy, thereby necessitating further downward adjustments of the rupee's exchange value in the course of the normal working of the exchange rate adjustment mechanism—a vicious circle. The adverse effects of any strengthening of inflationary pressures on the poorer sections of the population do not, of course, need to be emphasised.

Even if the flawed official justification of the devaluation is accepted, the immediate impact will in any case not be favourable because of what is known as the 'J' effect—that prices adjust faster than the volume of trade so as to give an unfavourable turn to the terms of trade. In other words, the trade deficit would continue to grow despite the effective devaluation of the currency until importers switch to alternative domestic supply sources and exporters win back or expand market shares. India may thus have to wait for a year and more to see the expected beneficial effects on balance of payments of the devaluation. By then it may well be a different ball game for the country's polity as much as for its economy.

Wishful Thinking on Devaluation

The devaluation of the rupee at a time when both domestic economic growth and world trade are forecast to decelerate is unlikely to produce the expected salutary impact on exports

LESS than a week after one of the World Bank vice-presidents paid a handsome tribute to India's realistic exchange rate policy in the past few years, the rupee's external value was adjusted downward (to use official jargon) or the rupee was devalued (in common parlance) by about 19 per cent against the US dollar and 17 per cent against the pound sterling in two stages in the first week of July. Fighting shy of admitting the fact of devaluation, both Reserve Bank and finance ministry officials used all kinds of euphemisms. Though it was widely known that there had been no marked movements in the world currency markets so as to warrant a steep downward adjustment in the value of the rupee, official spokesmen brazenly maintained that what had been done was nothing but a routine adjustment.

Adjustments of the exchange rate are, of course, essential to avoid overvaluation of the currency, for overvaluation discourages exports and encourages imports. It also leads holders of foreign currencies to speculate in the parallel market and spurs capital flight. The crucial question here was whether the rupee was over-

valued. Was there any evidence that the rupee's value had risen in relation to those of the major currencies? In a managed floating exchange rate regime, the authorities are supposed to monitor exchange rate movements closely and get ample opportunity to correct the rate if it deviates from the levels considered desirable from the point of maintaining competitiveness, having regard to price movements domestically and internationally. Such downward adjustments of the value of the rupee have been going on ever since the rupee started floating in a managed fashion in 1975 and particularly so in the eighties.

Between 1980 and 1990 the rupee had depreciated through the crawling peg method by 55 per cent against the dollar, 50 per cent against the pound sterling, 60 per cent against the deutsche mark and 72 per cent against the yen. In other words, on an average the value of the rupee had been falling by 5 to 6 per cent per annum in relation to the principal international currencies. Indeed, in the past two or three years, the rupee had declined on an average by 10 per cent per

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Manipuri's Thwarted Claim for Recognition

Krishna Chaitanya

The long-standing and legitimate demand for inclusion of Manipuri in the eighth schedule of the constitution is beginning to acquire a militant hue.

MANIPURI is the richest and the most widely spoken of the languages belonging to the Tibetan-Burmese-Kukichin languages family which together with the Munda language family are not represented in the eighth schedule of the constitution, in which only languages belonging to the Aryan language family and the Dravid language family have been included. As many as ten languages from the Aryan and four from the Dravid language families figure in the eighth schedule of the constitution. But the other language families, i.e., the Tibetan-Burmese-Kukichin family and the Munda family spoken by the tribals have not been so included.

Among the Tibetan-Burmese-Kukichin languages spoken by the tribals in the north eastern states, the claim of Manipuri for inclusion in the eighth schedule is the strongest, since it is spoken by the largest number of the people in the region, after Assamese. Thus Manipuri fulfils all the requisites which should qualify it for the constitutional recognition. But the legitimate claim of the Manipuri for being included in the eighth schedule has all along been rejected by the successive government in India. "If a language is to be recognised", India's first prime minister, Jawaharlal Nehru had told the Lok Sabha on August 7, 1958, in what was supposed to be a policy statement on the issue, "it must fulfil two important criteria; the more widespread character of the language and the use of the language by a large number of people".

Manipuri as per the last Census (1981) is spoken by around 13 lakh people, or by about 67 per cent of the population in Manipur, by around 2 lakh people in Assam, by 50,000 in Tripura, by 3,000 in Mizoram and by another thousand in Meghalaya. Besides, a popular dialect of Manipuri, known as 'Meiteilon' is spoken by a section of the population in west Bengal and Uttar Pradesh as well. Manipuri is also the official and 'court language' inside the state of Manipur. Indeed it has been so since time immemorial. During the period of monarchy, it was the language of the king's court. All the royal edicts and other sources upon which Manipur's recorded history has been based, are in Manipuri. The Britishers, after their annexation of Manipur, allowed

Manipuri to be the link language. Throughout Manipur's recorded history it has been the court language known as 'Chairap' and 'Kuchu' in its criminal courts known as 'Garod' and in the special courts for women known as 'Pachas'. At the time of independence in 1947, Manipuri was made the official language of Manipur. In the same year, the Court Act, 1947 made Manipuri the recognised language for the auxiliary courts of the high court.

Manipuri in fact is the one language of the north east with a script that is more than a century old. The origin of the language, as such, dates back to as early as 500 B.C. Owing to its richness, the Bharatiya Sahitya Academy has recognised it as one of the advanced modern languages of the country. The Jawahar Lal Nehru University, Delhi has introduced Manipuri at the post-graduate level by opening a separate Manipuri centre. Other prominent universities like Delhi, Guwahati and North Bengal have also deemed it proper to offer Manipuri as an alternative language paper. Inside Manipur, it has been made the medium of instruction right from the primary to the post-graduate level. On another plane, around four-fifths of the programmes broadcasted from the Imphal are in Manipuri. Other stations like Guwahati, Silchar and Agartala also regularly broadcast programmes in Manipuri. Despite this, the Manipuris' demand for granting their language a place in the eighth schedule of the constitution has been persistently rejected, even though languages which do not fulfil these two criteria, at least not as comprehensively as Manipuri does (such as Sindhi), have been granted the privileged status. The chairman of the Manipuri Language Co-ordination Committee Niromba points out that according to the 1981 Census, Sindhi is spoken by barely nine lakh people whereas Manipuri is spoken by more than 15.5 lakh people.

But then, Sindhi belongs to the Aryan languages family, the speakers of which together with those of the Dravid language group live in what passes, as the 'mainland of India and constitutes the so-called 'mainstream' of Indian society and polity, whereas the users of Manipuri live in the north eastern states which our ruling elites treat as no better than their imperialistic

strongholds. How can the language of a colony be given a place in the constitution of the master country? There cannot be any other explanation for the denial of constitutional recognition to Manipuri.

It is this attitude of our ruling elites, of which the denial of constitutional recognition to Manipuri is a typical example, that is responsible for the continued alienation of the north eastern tribal societies from the national mainstream. The rejection of the legitimate aspiration of Manipuris has naturally generated a feeling of hurt, bitterness and alienation. Such feelings are understandable if we consider the inferior treatment to which the language is being subjected. Manipuri children grow up receiving education in Manipuri but when they begin job hunting they find that they are not allowed to take up examinations for civil and other services of the government of India in their own language. Thus they find that the already limited number of government jobs available are further limited in their case. Similarly, even though recognised by the Bharatiya Sahitya Academy as an advanced modern Indian language, works of art and literature in Manipuri are subjected to inferior treatment. For instance, Manipuri dramas are denied entry in the annual drama competition organised by the AIR. Nor are Manipuri films accepted for the film festivals except in a special category. Again, though Manipuri legislators speak only in Manipuri, in the state legislature,

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MPs from Manipur are not allowed to do so in the parliament

Such humiliations naturally create resentment and if not remedied is bound to lead to rebellion. Until 1989 it was solely the Manipuri Language Demand Committee, an organisation of intellectuals and literary figure, which had been articulating the aspirations of the Manipuris on the language issue. Their method of such articulation was confined to rallies and seminars both at Imphal and Delhi and to sending memorandums to the government. However, at the time of the 1980 general election the All Manipur Students Union (AMSU) decided that they had enough of memorandums and assurances. AMSU not only took the lead in the formation of Manipur Language Demand Co-ordination Committee (MLDC) but also succeeded in persuading organisations like Tripura Upjatiya Yuva Samiti (TUIAS), All Assam Manipur Students Union and Manipuri Apunda which is the coordinating body of Manipuris living in various north eastern state other than Manipur to extend their unequivocal support to the cause of Manipuri language. AMSU also asked the political parties in Manipur and their candidates to spell out their stand on the language issue in clear cut terms. Parties other than Congress(I), like Manipuri People Party and the Janata Dal promised that they would exert pressure on the central government to include Manipuri in the eighth schedule. According to Niromba, some of the candidates even promised that if they failed to solve the language issue they would resign their seats.

After the formation of the National Front government at the centre, the newly formed language committee again sent a memorandum to the government. It took three months for the government to acknowledge it. But what the committee received was a terse reply that extending the eighth schedule would create many problems and so the government's language policy would remain unchanged. Enraged by this betrayal, the committee announced the resumption of its struggle and again the AMSU took the lead by announcing its decision to boycott the schools and colleges. From January 1990 AMSU organised a spate of bandhs and demonstrations on this issue. The response of the present Manipuri government which came to power on an election manifesto that promised inclusion of the language in the eighth schedule of the constitution was like that of any other government—ordering the paramilitary forces to suppress it. Thus during the last one year at least five agitationists have been killed and several others injured in the police firing. In January last, AMSU also gave a call for boycott of republic day function which was a success.

What distinguishes this new phase of

the agitation is its renewed vigour and a clear militancy with the youth and students coming into the forefront of the struggle. Previously it had been the Manipur Sahitya Parishad firstly and the Manipuri Language Demand Committee later on, which had been spearheading the struggle by organising demonstration in Imphal, celebrating Manipuri day in Delhi, organising seminars in Imphal and Delhi and submitting memorandums to the government. Such actions had elicited only hollow promises.

In May last, panicked by the militancy of the movement the then chief minister Ranbir Singh rushed to New Delhi with an all party delegation minus Congress(I), which has been opposing the move for Manipuri's inclusion in the eighth schedule. The delegation met the then prime minister V P Singh who is reported to have assured the delegation that he favours the inclusion of not only Manipuri but some more languages in the eighth schedule. V P Singh is also reported to have asked the delegation to mobilise the support of the opposition parties, particularly that of the Congress(I) so that

bill on the issue as and when introduced does not fall through in the parliament.

The MLDC however, boycotted the all party delegation and instead sent a separate memorandum putting forward the legitimate claim of Manipuri and requesting the PM to expedite the process of granting constitutional recognition to Manipuri. However, these eight or nine months since then have seen no action emanating from the government side on the issue.

The inclusion of Manipuri in the eighth schedule is urgently called for to correct the grave injustice meted out to Manipuris. Any procrastination on the issue will only support the insurgents' argument that—there is no salvation for the north eastern tribals under the Indian constitution, that Indian imperialists will not allow the tribals their legitimate rights, that there is no difference between various political parties and so irrespective of whichever party comes to power the north east will continue to be treated like a colony and the Indian polity holds out no hope for the fulfilment of genuine regional democratic aspirations.

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Perception and Presentation

A Telugu Film on Naxalites

K Balagopal

The changes that have occurred in the establishment's picture of Naxalism have run a tortuous course. Each time in the recent past when it thought that a proper way of presenting the Naxalites to the people had been devised it discovered that the reality had moved ahead and the framework had to be re-done. An instance of the latest recasting of the framework is the recently made film People's Encounter.

I

WHAT the ruling class thinks of a rebellion, what it wants the rebellious classes and the intermediary classes to think it thinks, and what it wants those people themselves to think, are three different though closely interrelated things. Of these, only the last two are visible. They are expressed in the press, in cinemas, in literature, in politicians' platitudes and polemics, in academic theories, etc., intermixed from below with some amount or other of the opinions of the intermediary classes and affected to one extent or other by the internal contradictions within the *establishment*. The first of the three—what the ruling class itself thinks of the rebellion—can only be inferred from the last two. Simultaneously one infers also the current state of the relation between the ruling class and the rebellion, that is to say the current state of the class struggle, for it is this that ultimately decides what the ruling class thinks and what it says, and the gap between the two. This is the true 'meaning' of the theories, the polemics, the ideas and the myths propagated through the cinemas, the press, literature, and other 'forms of social consciousness'.

The analysis of thought structures, of frameworks of cognition, is in fashion these days. The project is inherently epistemological but usually it is the epistemology that is most ambiguous. A socially significant framework of cognition can be made sense of only as the product of a particular tension in the historically evolving totality of social relations, these relations are *real* and *external* to the framework, and they determine the various frameworks employed to cognise them. Underlying any act of cognition is the social-historical process that is simultaneously a product of human practice and—at any given cross section of time and place—the determinant firstly of objective limitations to the possibilities of human practice and secondly of a

range of frameworks of cognition, a range of structures of social consciousness. It is not that any framework can be chosen by anybody, on the contrary the position that a group or class occupies in the objective historical process and the choice it makes from among the possibilities of practice open to it in the current state of the social struggle play a determining role in this choice. And it is not that any choice is equally valid in the sense of being true to reality or equally honest in the sense of being genuinely believed by its proponents. The fidelity of any ideology to objective truth—its capacity to cognise reality faithfully—and to subjective truth—its concurrence with what the class or group that propounds it really believes to be true—varies, and it can be by and large said that the more a social class or group is on the ascendant, the more that it is able to carry others with it and is courageous in the choice of the possibilities open to it, the more efficacious will be the framework of cognition it 'chooses' and the more honest will be its presentation of its perceptions. Analysis of thought-structures, therefore, cannot end with a clarification of its internal relations nor with a merely formal linking with a mutilated reality that is neither seen as part of a totality nor as part of history nor—most importantly—as a determinant of the cognitive structure but only as an epistemologically unrelated symbolic parallel. The analysis must *infer* the cognitive structure from the reality that is epistemologically prior to it, though it is perceived and analysed through one cognitive structure or other.

Many objections will be raised to this project. It will be said that such a process of reduction will stumble upon too many irreducibles but while the difficulty of executing the project in full must be admitted, two things need to be added: one, the very lack of a holistic-historical outlook encourages analysts to discover more irreducibles than are actually there, two, as Lenin said, scientific materialism

unabashedly admits that naive realism is its first cousin. Whatever the analytical difficulties of reducing an ideology to its material base, unless one posits the existence of such an epistemological relation, one will be left with a politically debilitating agnosticism. The nonchalantly truth-neutral, value-neutral way in which the word 'discourse' is being bandied about these days makes it necessary to emphasise this. It will further be asked: when reality is never perceived directly but only through one framework of thought or other, and when all possible frameworks are generated by that reality itself, how does one get hold of a framework that explains every other framework, a framework that will judge the truth, the honesty and the efficacy of every other framework. It is precisely here that the replacement of epistemologically sound notions like practice, ideology, class interest, progress, etc., with the dubious notions brought into being by the latest explorations in *Mimamsa Shashtra*—or perhaps one should call it *meta-Mimamsa Shashtra*—should be thoroughly criticised. All frameworks of consciousness are not equally valid, equally honest or equally fruitful. The capacity of a given cognitive structure to reveal the truth depends on which social practice has generated it. The most advanced social practice, that of the historically most dynamic social class or group taking maximum advantage of the possibilities open to it, generates the framework of thought most faithful to contemporary reality, and the framework of expression most faithful to itself. Such a framework can 'see' the reality underlying other cognitive accounts. If it is finally objected that there is no analytical test for determining which is the most advanced social class or group nor which is the best possible choice of the opportunities open to it, and that therefore the philosophical project ceases to be purely analytical and becomes political, then the answer is that that is as it should be. Indeed, unless the philosophical project ceases to be purely analytical and actually becomes political, we cannot rid ourselves of this crippling agnosticism that crops up again and again in ever new and seemingly radical and intellectually very fashionable forms. Intellectual history, unfortunately, appears to be moving in the opposite direction. From being theorists of a reality that they made no attempt to change, the most fashionable thinkers are turning into theorists of a meaning that knows no criterion of truth and falsity. The meta-theoretic project makes sense only as a critique of theories born of reactionary, conservative or hesitant social practices from the stand-point of the theoretical position of the most advanced social prac-

tice. Otherwise the notion of thought climbing over itself and turning into an abstraction that looks down upon its own concreteness is merely the latest conceit invented by the alienated human intellect.

II

The 'Naxalite menace' has started menacing the framework of understanding popularised by the *establishment* in Andhra Pradesh. Indeed it is this menace rather than the actual 'menace' that is resulting in frustrated outpourings in the press and elsewhere. Each time in the recent past when they thought they had evolved a proper way of conceptualising and presenting the Naxalites to the people, they have discovered that reality has moved ahead, and they have to re-do their framework. The more the people at large start looking to the Naxalite movement as a possible political alternative the more difficult becomes the task of devising a credible but negative presentation of the 'Naxalite problem'.

The changes that have come about in the *establishment's* picture of Naxalism have run quite a tortuous course. It should not be thought that the picture has been purposefully created by some Board of Ideological Managers; nor is it true that at each turning point in the political struggle between the revolutionaries and the *establishment*, a whole paradigm has been discarded and a new one constructed. No such thing has happened. But individual themes have been devised, elaborated and discarded, and at any given point of time what prevails is a not very coherent total picture. What has destroyed the coherence is not the general truth that ideology is rarely consciously crafted, a fact which has never obstructed coherence, but a two-fold change that has gradually crept over the state's politics. One is the degeneration of ruling class politics to a level that is all set to vie with the popular image of Bihar, a fact that destroys the propaganda value of the image of violence commonly used to describe Naxalism; and the second is the recent success of revolutionary politics in catching the imagination of the broad masses as a political alternative, as distinct from a successful strategy of social and economic militancy. There was a time, not long ago, when revolutionary politics appealed only to its immediate social and economic beneficiaries and visionary idealists. It is only recently that in the search for an alternative to the absolutely disgusting level to which ruling class politics is degenerating rapidly, Naxalite politics has started catching the imagination of a large section of the public. The revolutionary groups themselves do not appear to have fully appreciated the significance of this change,

which would require considerable reorientation of their organisational methods, but that is not of much moment right now. The change and the particular tension it generates in the relation between the ruling classes and the people at large—both in their manifestation as toiling and oppressed masses and as political animals—as well as the tensions it generates within various sections of the propertied classes, puts a heavy pressure on the conscious and unconscious creators of ideology, and on the possibility of viable and coherent cognitive frameworks.

There is a recent vantage point from which one can study the outcome of these tensions and pressures. That is a film recently made by Ramoji Rao entitled *People's Encounter*. Ramoji Rao is the most class conscious representative of the dominant section of the provincial elite of Andhra Pradesh, and also a man who has always been conscious of the importance of political and ideological tasks. To give him due credit, he is not guilty of the usual incompetence and inefficiency in the execution of the task he sets himself, a trait that sets him apart in a class that characteristically vulgarises and bungles any task that requires the slightest finesse. What Ramoji Rao and his class really think of the Naxalites and what he wishes to suggest that the people should think of them, are closely interwoven in the themes and images that constitute the film. It is the latter that is explicit and visible, for when a class-conscious elite produces a piece of art or literature what it is telling you is primarily not what it thinks, but rather what it would like *you* to think, unlike an oppressed class or group, whose art is primarily a statement of its own ideas. To put it differently, the art of an oppressed class is never honest whereas the art of the oppressed is always honest even when it is untrue.

In creating a critical image, there are two possible choices. One is to pick up the deviance and errors of the original and create a summary and pass it off as the image of the original; the second is to ignore the deviance and stick to essentials but give it an interpretation that recommends its rejection. The image of Naxalism created by the Telugu press in which Ramoji Rao's *Eenadu* has generally played a leading role has primarily been of the first type. The acts of arbitrary violence and extortion are totalled up and labelled revolution. But in making this film, which is a more explicitly ideological venture—and also, incidentally, a more directly commercial venture—Ramoji Rao rejects that method and creates an image of the second type. This is one reason why the police was reportedly unhappy with the film, for they would have liked an ex-

posure of the bad side of revolutionary politics rather than the creation of a more complex image which, in their view, gives needless legitimacy to the Naxalites. They cannot, of course, understand that the legitimacy has already arrived, and the film is only being intelligent enough in realising that it has.

The dialogue between violence and non-violence is a central theme of the film. There was a time when this opposition formed the staple of the ruling classes' presentation of the 'Naxalite question'. The dialogue, naturally, used to end in a vindication of non-violence as the path best suited to our culture, to the tenets of humanism, and the only legitimate political choice in a parliamentary democracy. There was undoubtedly a time when this presentation had an element of honesty (which we have earlier distinguished from truth) in the sense that India's ruling classes did believe that they could sort out their internal political problems and deal with the dissatisfaction of the masses through the institutions of democracy without recourse to abnormal quantities of explicit violence. Today its use cannot boast of even that much of honesty.

And yet the dialogue between violence and non-violence continues to haunt the ideologues of the propertied classes. It is principally a measure of the intellectual bankruptcy that the degeneration of their material existence has driven them to, but Ramoji Rao adds two supplementary arguments centred around the problem of violence to salvage something from the demise of non-violence as an ideological weapon. The protagonist of non-violence in the film—and of everything else the director wishes to tell—is a woman doctor by name Jyoti. She is a very human creature in contrast to both the Naxalites and the police. She is charming, has a sense of humour, and expresses many homely sentiments. It is easy for the viewers to take a liking to her and identify with her. And she is a determined and principled votary of non-violence. She gives up her policeman husband because she cannot accept the taking of human life in the name of 'performance of duty' and she disagrees with her Naxalite brother because she cannot accept the taking of human life in the name of a better future. She represents all the non-violence centred arguments the film-maker uses against Naxalites: the traditional one that it is morally wrong, and the supplementary ones added (though by no means invented) by the film-maker, that violence is unnecessary for achieving justice and that it brings needless repression onto the masses. The first argument was greeted with derision and mirth by viewers in

cinema halls across the State. Jyoti the wide-eyed doctor gives lectures to the Naxalites about democracy and violence and challenges the Naxalites to give up their path of violence and aspire for power by mobilising mass support and participating in elections. Given the stark reality that elections are not won by mobilising mass support but by mobilising liquor, money and muscle power which is as violent a method as the proverbial 'barrel of the gun', this argument does not carry much conviction with the viewers. The maker of the film is no more convinced—less indeed, for he cannot possibly have any of the doubts that the gullible among the masses may have—but he would like to convince them if at all that is possible. There being not much possibility of that, Ramoji Rao adds to the moral argument the more 'pragmatic' argument embodied in the second: people's problems can be solved by legal and democratic means if only one has the patience to pursue the effort; such patience, indeed, is the price one pays for democracy; and it is only the impatient who take to violence as a quick and easy solution. A situation is introduced to try out this argument. A landlord living in a tribal area, finding that the tribals are resisting his attempts to grab their land, manages to get an eviction order from the government on the ground that the tribals' land is to become part of a tiger sanctuary. When the tribals resist the eviction order and stage a dharna peacefully under the leadership of the good-hearted doctor the police intervene and beat them up mercilessly. The Naxalites then enter the picture, charge at the policemen with dreadful looking automatic weapons, and drive them away. The doctor remonstrates against this violent intervention which would only bring repression upon the tribals. She issues a challenge that she would get the eviction order stayed by legal means and the Naxalites laugh at her. (So, indeed, do the viewers in the hall). She first encounters the hurdle of corrupt ministers and pliant officials. A genuine dilemma is thus introduced which, if unravelled realistically, could have made for a meaningful discussion of at least one important aspect of 'the Naxalite problem'. But the dilemma is resolved most dishonestly. The state's high court, allowing a petition against the eviction filed by the doctor, pronounces that since there is no evidence of the presence of tigers in the area the eviction should be stopped; and it even discharges at one stroke the tribals from the criminal case of trespass and resistance of authority filed against them. This is a dishonestly anti-climactic denouement, for if it had been so easy to move our courts and obtain justice for the poor and the oppressed the question of

political violence would never have arisen except as an abstract debate. Communist revolutionaries may believe that the working masses cannot obtain political power by peaceful means, but the working masses themselves, taken as a whole, are attracted initially to revolutionary violence not for this reason but for the reason that it offers a feasible way of obtaining justice in a society in which none of the legitimate institutions of authority are effective in doing so. Ramoji Rao is close enough to the administration to know that there are literally hundreds of cases of tribals petitioning either the courts or the government about eviction from their land in the name of forest conservancy if not animal sanctuaries; and that very few of these petitions have been settled in favour of the tribals; and further that it is only where the Naxalites have intervened and either organised a tribal protest or threatened the officials that the evictions have stopped, the total quantity of forest land thus being in the 'illegal' enjoyment of the tribals tallying upwards of four hundred thousand acres in the State. And he is also knowledgeable enough about the ways of the world to know that the common experience of persons who are organising the poor and the oppressed through legal and peaceful means is one of tremendous frustration. It is an insult to the intelligence of the people to suggest that they are resorting to violence when a writ petition in the high court would work equally well.

In any case the argument convinces no one. So the film employs as its central theme the third argument centred around the question of violence. This argument is basically no more honest, but that does not matter from the point of view of efficacy since it is not yet totally discredited. It is clever enough to use non-violence, not as an argument on behalf of the system and against the revolutionaries, but on behalf of the people, and *against* the establishment as well as the revolutionaries: 'your violence and their violence is crushing us on both sides'. This argument of 'the common people caught between Naxalite violence and police violence' is a happy solution to the dilemma the Telugu press faced some time ago, of how to stop ignoring the very evident occurrence of 'police excesses' and yet not lend credibility to the politics of Naxalites. It was popularised by Ramoji Rao's own *Enadu* and picked up gleefully by the rest of the Telugu press. It is this 'encounter' of the people with the corrupt, brutal and immoral establishment on one side and the impatient and cold blooded Naxalites on the other side that gives the film its title. It is only in this form that the argument of non-violence retains any presentability at all.

But why do Naxalites use violence, and why do the police crush the people violently? This question has to be answered by the *establishment's* presentation of the 'Naxalite problem'. The revolutionaries themselves explain their violence as a necessary means for the overthrow of the armed might of the state of the propertied classes and the establishment of the political rule of the working masses. This, naturally, is never discussed in the *establishment's* presentation, though a person like Ramoji Rao who was once upon a time a fellow-traveller cannot claim to be unfamiliar with it. The police view of revolutionary violence consists of two elements: that it is a species of gangsterism with which some people acquire wealth and power; and that it is a desperate way to political power that parties which are unable to win elections have opted for. These arguments, however much the maker of the film may find them appealing, are not acceptable to the people and therefore they cannot become part of a credible presentation. The argument for revolutionary violence that is most commonly given and widely accepted by the masses is that it is the only feasible way of obtaining justice in a society wherein every institution of democracy has been prostituted to the purposes of the rich and the powerful. This explanation is widely prevalent, and has even been publicised well by the press whose small town reporters have all got converted to this view much to the annoyance of their editors and proprietors. This view of Naxalite violence frequently results in the bemusement of its converts for a considerable part of Naxalite violence is oriented towards their larger aims and is in no way related to the solution of any immediate problem, but nevertheless it has held its ground and is gaining rapid acceptance. Ramoji Rao takes over this version for his film, but incorporates it as part of the basic theme where the 'people' are pitted against the corrupt and brutal *establishment* as well as the cold-blooded revolutionaries: selfish politicians and corrupt administrators have subverted our democracy, and the Naxalites, a mixture of impatient idealism and cold-blooded calculation, are taking advantage of the resultant crisis to offer quick and ruthless solutions to problems for which the system offers no solution, but in the process they are completing the destruction of the system and paving their way to power with the blood of innocent people. Police violence, in this presentation, becomes a necessary counter to this strategy, for no system can silently allow subversives to take advantage of whatever is rotten within. But the hatred that the people have for the brutalities of the police is such that Ramoji Rao cannot af-

ford to ignore it if his effort is to have credibility, and so the actual depiction of the police is in a terribly uncomplimentary light. Indeed the film shows the police in such a bad light—as a bunch of corrupt, self-serving, bunglers—that the police establishment of the state was reportedly very unhappy with the censors for having allowed the film. However, the common feeling that people have towards the police is such that it is impossible to make a film on political violence that will be credible enough for the people to see it, and will also please the police. In any case this kind of a presentation of what is 'rotten' in the police does not in any way militate against the role attributed to it in the total political context.

Even within an empirical understanding of the question of political violence as an efficacious way of solving people's problems in a system in which all normal means of justice have been subverted and destroyed, there is third element to the debate that even the most honest presentation of the ruling class will not discuss. It is not merely a question of revolutionary violence vs police violence. To admit the first term into the discussion would be fatal to the kind of presentation that Ramoji Rao makes. And so it is not admitted but instead is subsumed under the confession that the people do have a lot of problems whose solution is being rendered impossible by corrupt and inefficient administrators and degenerate politicians, leading to the search for violent means of solution. That violence—poverty, hunger, destitution, inequality, domination, oppression, unfreedom—is inherent in social structure is not admitted, for that would alter the whole context of the discussion of revolutionary violence. All that is admitted is that while the system may not exactly be a garden of Eden it is basically livable and workable except that unfortunately there has been a growth of corruption, brutality and other undesirable traits lately which needs urgent remedy. Some apples, in other words, have started rotting. In this film, the system is represented by a brutal, oppressive and lecherous landlord living in a tribal area and the forest and police officials who are subservient to him. The landlord has forced a woman to live with him and offer her body to the government servants who are his henchmen. (She finally denounces him in a people's court and gets him shot dead by the Naxalites.) The film makes no effort to hide the ugliness of these rotten apples, a determination that covers a bigger resolve to never admit that what is rotten is more than a few—or many, for that matter—individuals. This deceptively confessional attitude is now quite typical of the public face the ruling class puts on. It is so con-

scious of the need to admit just this much and nothing more that the moment you try to bring in the argument that the structure itself is unjust and iniquitous it bursts out with angry rhetoric about Poland, Roumania and Tiananmen Square.

Naturally, when only this much of rottenness is admitted and the possibility of curing it by means sanctioned by this very structure is asserted, then revolutionary violence starts hanging in the air, bereft of a material basis and a historical justification. *It becomes an autonomous act of political choice made by self-willed individuals, a choice that need not have been made at all, had those individuals not willed it capriciously.* Once the revolution is thus made an act of autonomous choice that need not at all have been made, the suppression of revolutionaries and the people behind them by the state becomes an act of legitimate counter-violence in self defence. And if the people are harmed in the process, that is extremely reprehensible, but it is very evident who caused the whole thing. It is the determination to save this argument about 'who started it' that leads to such passionate outbursts about what happened in eastern Europe whenever you try to talk about the violence inherent in the structure of our society, a violence that is reproduced and not cured by its institutions.

The moment revolution is turned into a capricious act, autonomous of historical necessity, it becomes whimsical and arbitrary, romantic and brutal. The romantic and the brutal are the most compelling qualities of the images of revolution this film presents. The large majority of actual 'Naxalites' are quite mundane individuals living underground or above, organising people in villages, mines, colleges, factories and 'bastis', but this film knows nothing of their existence. The 'Naxalites', for this film, are tough young men and women who dwell in permanent isolation on the invisible slopes of the other side of the hill. When the tribals need them they become mysteriously aware of it and come dancing over the hill to the accompaniment of heralding music, dressed in olive green and carrying very terrible looking automatic firearms. They start firing from their weapons without even stopping to take aim, and depart back to the other side of the hill the moment they have killed enough. Now and then they make a short and contemptuous speech in reply to the doctor's voluble hectoring. They are coldly self-assured and confident in contrast with the very warm and human doctor and the bungling policemen who corruption has reduced to a subhuman level. There is a telling scene in the film—a Naxalite is killed by the police in a fake encounter. A bright

policeman, the doctor's former husband in fact, gets the idea that instead of cremating or burying the dead body they should let it lie there and keep watch over it so that when the dead man's comrades come looking for the body they can also be apprehended. The other policemen accept the suggestion, and they put the corpse up on a tree and stand guard underneath and around the tree. The dead man's comrades, instead of giving up the idea of taking the dead body, as any real life revolutionaries would do, decide to lift the dead body literally over the heads of the policemen and take it away. They build a rope bridge from tree top to tree top, descend on the body from above, tie a rope to it, and take it away dangling at the end of the rope. The point is not whether Ramoji Rao himself is unintelligent enough to believe this to be possible. The point is what makes such a feat part of the image of a Naxalite projected in this presentation of Naxalism by a very class-conscious member of the ruling class. The point is what is the total picture that these images of cold-blooded efficiency, silent brutality and inhuman confidence add up to.

The whimsicality and the arbitrariness of the revolution lies in each act of the process becoming autonomous of the others, rendering the totality of it senseless. This is the way the press in the state has always depicted Naxalite politics, as a series of unconnected, unintelligible, autonomous acts of romantic and brutal cruelty, and this is the impression about Naxalite politics that anyone learning of it through the press is bound to get. When Ramoji Rao was accused of distortion of reality in making this film, he replied very truthfully that anybody who has been reading the papers for the last two years knows that what he has said in the film is nothing but the truth. That is so. The press itself—with a leading role played by the daily of which Ramoji Rao is not only the proprietor but also an almost mythically watchful editor—has invented the presentation of Naxalism as a series of unconnected and autonomous acts, a presentation taken over by the film. At places the fracture becomes so acute that the film merely produces shot after shot of newspaper photographs of burning of buses, blowing up of police jeeps, kidnapping of government officials, killing of police informers and the dynamiting of buildings. It creates a very effective picture of mindless violence that rounds off the argument of autonomy. Naturally then the police must step in. Some—indeed many—of them may be stupid, avaricious, lecherous, brutal, but the task of policing is an essential task. Our society—it suddenly becomes 'our' society to the unguarded viewer—cannot be allowed to

be blown up by this mindless violence. It is here that one suddenly realises that the film's seemingly candid depiction of the police is very deceptive. The image of the police that all of Ramoji Rao's candid depiction adds up to is not one of a brutal instrument of suppression but of an undependable and inefficient guardian of our society. Just as the image of the politician that his equally candid depiction adds up to is not one of a defender and a representative of an oppressive society, but of a weak, incapable, corrupt, venal humbug whom we cannot trust with the task of ruling this country.

To achieve this certain things are quite consciously left out of this film that purports to discuss the 'Naxalite problem' frankly. The most striking omission is the very methodical brutality with which the state has met the revolutionary challenge. The Indravelli tribal massacre was a conscious attack on a peaceful gathering aimed at stemming the rapid spread of revolutionary organisation among the very militant Gondhs who are the biggest tribe of south central India. In this film it becomes a routine police firing on a mob following a fatal attack on a policeman by a tribal girl who has been raped by him. The police department for all that it has its share of corrupt, bungling, cowardly officers, is by no means the ludicrous force the film makes it out to be. Both its regular force and its special wings—the nameless numberless gangsters armed with anonymity and unbridled powers to kill and maim—are very efficient in their ruthlessness, and its intelligence wing possesses quite a lot of intelligence. That the police has not been able nevertheless to solve the 'Naxalite problem' is besides the point. No police force anywhere in the world has solved any such problem of political rebellion. It can only suppress more or less brutally, more or less intelligently and more or less temporarily and the Andhra police has been no less efficacious than any police force anywhere. And the same is true of the political leaders whose failure to solve the problem is no proof of their lack of determination and intent, but only of the impossibility of the task.

But to admit this would be to admit that the state is inherently a repressive apparatus, and to bring the discussion perilously close to the forbidden threshold of the notion of a violent and oppressive social structure guarded by a violent state apparatus. It would then remove the image of fractured acts of brutality attributed to the incidents of incendiary protest indulged in by the People's War group. It would reveal that for a period of nearly two decades a regime of unquestioned police brutality prevailed, about which the press rarely wrote, 'public opi-

mon' scarcely bothered, the courts and their *habeas corpus* jurisdiction were impotent, and the political government was unfazed notwithstanding sizeable democratic protest. It would reveal that Ramoji Rao and his ilk would never have felt it necessary to break the long silence and talk to the people about the 'Naxalite problem' through their papers and their films if the Naxalites had not discovered at least a temporary if rather doubtful way of unsettling through acts of arson, detonation and abduction the complacent establishment which had thought that a few more guns to commit a few more encounters and a few more ingenious methods of torture would see the end of the 'problem'. And it would then go on the focus attention on certain very basic facts which Ramoji Rao's films and the establishment's polemics in general steadfastly refuse to acknowledge. I am not referring to abstract things like the historical necessity of revolutions but to much more concrete things that if today over large parts of the state, the poor and the wretched are walking with head held high, that is because of the Naxalites, that in spite of the most brutal suppression the 'Naxalite problem' has spread from the remote corner of Srikakulam to each of the 23 districts of the state, not excluding Hyderabad city where the landgrabbers and political warlords no longer feel very safe, that there would have been no integrated Tribal Development Agencies, no Tribal Co-operative Corporations, no Remote Area Development Programmes, none of the tremendous exposure that has become customary of the corruption of government servants and the inefficacy of courts, nor the repeated talk of implementing land reforms that has become fashionable once again, but for the Naxalites that it is the 'Naxalite menace' that has generated a whole new culture of people protesting against and agitating about every act and incident of injustice, people collaring errant government officials and elected representatives and those lordly creatures coming to regard themselves answerable to the masses.

A presentation that refuses to acknowledge so much of the problem can not resolve it with any credence. Jyoti the doctor sits in a hunger protest on behalf of the 'people' demanding that both the parties—the Naxalites and the government—give an assurance that they will abjure their respective paths of violent protest and violent suppression. Since the demand does not address the real problem of either party, she cannot possibly succeed. The 'people' in the film are shown to side with her but the people in the cinema hall are evidently very impatient with this artificial presentation of the problem of political violence. To give him due

credit Ramoji Rao does not attempt an artificial denouement to match it. Neither side accepts the hand of non-violence held out by the doctor, but in an evidently symbolic last scene, the toddler born to the tribal girl raped by a policeman comes forward and holds the dying doctor's hand. Since the burden of proof or disproof is thus pushed on to the future, any reaction to it can be dismissed as prejudice, and therefore it is best to leave it unstated.

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Job Reservations and Efficiency

A M Shah

Efficiency or merit is not a fetish of the elite, but an essential ingredient in every field of life, whether in the defence services or department of space or in the soft fields like language and culture. The policy of reservations for backward classes is a major barrier to achieving efficiency.

IT has become difficult to discuss the question of efficiency and merit *vis-a-vis* reservations for backward classes dispassionately these days. Even well-meaning social scientists become passionate in discussions of this question and accuse others of prejudice arising out of their caste and class background. In effect they repeat the debate on relative influence of heredity versus environment on intelligence which was settled in favour of environment long ago. No social scientist worth the name would now argue that children of the blacks or of lower castes and classes are born with low intelligence. This does not, however, mean that prejudices do not exist at the popular level. It should be possible, however, to rise above these prejudices and have a dispassionate discussion of the efficiency question.

The constitutional concern for efficiency is clear in article 335, which reads: "The claims of the members of the scheduled castes (SCs) and the scheduled tribes (STs) shall be taken into consideration, consistently with the maintenance of efficiency of administration, in the making of appointments to services and posts in connection with the affairs of the union or of a state" (emphasis added). While inefficiency can result due to many factors, article 335 indicates that a policy of reservations of government posts inconsistent with requirements of efficiency would become a deliberate pursuit of efficiency.

Why does the constitution refer to efficiency with regard to only SCs and STs and is silent with regard to other backward classes (OBCs) is puzzling. In any case, however, if considerations of efficiency apply to reservations for SCs and STs, they should apply with greater force to reservations for OBCs, who enjoy higher social and economic status and whose constitutional entitlement to reservations is lower than that of SCs and STs.

It is essential to view the term 'administration' in article 335 broadly and in the context of modern economy and society. A major change has taken place in the nature of personnel employed by the government during the last 40 years or so. Today, administration is not confined to the central and state secretariates and the offices of commissioner, collec-

tor, magistrate, tehsildar, and so on. The government establishments now cover a vast range of specialised fields, such as space, atomic energy, aeronautics, meteorology, electronics, scientific and industrial research, hospitals, and so on. The public sector undertakings include huge modern factories, banks, and business corporations. Municipal and zilla parishad administration also includes technical posts such as those of architects, engineers and doctors. The so-called general administration includes many posts requiring technical skills in economics, statistics, accounting, law, etc. With computerisation the nature of skills required of so-called subordinate staff in offices is also fast changing. When the plan to computerise land records is implemented, even village accountants will have to learn new skills.

Despite these radical changes, most advocates of reservations continue to argue in terms of general administrative posts only. They then talk of qualities of the heart required of these administrators. They forget that even when we appoint a typist we look for typing skills, not qualities of the heart.

How the government has handled the question of efficiency *vis-a-vis* reservations needs examination. First of all, it has exempted the defence services from reservations. The constitution itself seems to envisage this exemption. In part III on fundamental rights—the same part which makes special provisions for backward classes—article 33 states, "Parliament may by law determine to what extent any of the rights conferred by this part shall, in their application to the members of the armed forces or the forces charged with the maintenance of public order, be restricted or abrogated so as to ensure the proper discharge of their duties and the maintenance of discipline among them." This article seems to be a check on any possible attempt to introduce reservations for backward classes in the armed forces. In addition, there is a general consideration that defence of the country is so vital that the efficiency of the armed forces cannot be compromised for the sake of the policy of reservations for backward classes.

As regards civil posts, the ministry of

social welfare, the commissioner for SCs and STs, the joint parliamentary committee on the welfare of SCs and STs, the recently constituted commission on SCs and STs, and above all, the MPs and MLAs belonging to SCs and STs endeavour to enlarge the scope of reservations for SCs and STs. On the other hand, the ministries and departments controlling their respective posts as well as the department of personnel and administrative reforms try to meet the efficiency requirements of posts. Accordingly, posts can be exempted from reservations by special or general instructions issued by the department of personnel. Not only specific posts but also entire categories of posts and even entire departments and institutions have been exempted.

It is almost impossible to obtain information about inter-ministerial and inter-departmental exercises concerning desirability or otherwise of introducing reservations for posts in a certain department or institution as well as of granting exemptions from them. However, the power wielded by the concerned department or institution and by its lobby seems to be a major factor in deciding to reserve or to exempt. Moreover, a department or institution might stand exempted simply because the pro-reservation lobbyists had not taken initiatives to get reservations introduced into it.

I have not succeeded in my efforts to locate a comprehensive compilation of information on exempted posts. Probably such a compilation does not exist, as it was recently reported in the press that the government was refusing to provide information on exempted posts. One has, therefore, to depend on random bits and pieces of information. This information is, moreover, limited to reservation of posts for SCs and STs and that too mainly in the central government services. Although the states also exempt posts from reservation for OBCs due to considerations of efficiency, I have very little information about such posts. Despite these limitations, it would be useful to analyse available information.

A Handbook of Reservation for SCs and STs, recently compiled by two judges B D Purohit and S D Purohit (Jainsons, New Delhi, 1990, pp 79-91), shows that all scientific and technical posts in the departments of space, atomic energy, and electronics have been exempted. In other departments, scientific and technical posts belonging to grades above the lower grade in Class I service and satisfying certain conditions have been exempted. In Indian Airlines and Air-India no relaxation or concession in qualifications and experience is given while appointing pilots and high technical personnel. All scientific posts in the Indian Institute of

Science in Bangalore and the Centre for Chemical and Molecular Biology in Hyderabad have been exempted. In certain institutions of higher education, such as IITs, IIMs, and central universities, while reservations are made in non-academic posts, the teaching posts have been exempted, though pressures are now building up to introduce such reservations in central universities.

The courts have by and large taken the position that in the case of SC and ST candidates qualifications can be relaxed for posts at the lower level of bureaucracy. The judicial attitude is summed up in Krishna Iyer's comment supporting promotion of junior division clerks belonging to the SCs as senior division clerks in the case of *Thomas vs State of Kerala*: "After all, here is a pen-pushing clerk, not a magistrate, accounts officer, forest officer, sub-registrar, space scientist, or top administrator or one on whose initiative the wheels of a department speed up or slow down" (AIR 1976, SC 490:527).

One of the consequences of reservation of posts in an institution is disputes about allocation of the reserved number of posts between its departments or sections. For example, when a certain per cent of posts have to be reserved in a university, each department claims that it is more scientific or technical than others and therefore should be exempted from reservation. The disputes are then settled on non-academic grounds.

Exemptions from reservation raise several important issues. First of all, where and how do we draw the dividing line? On what basis do we say that an institute for physical science or technology should be exempted from reservations but not a university which also has departments of sciences and technologies. It is indeed curious that reservations exist in the teaching posts in institutions of medical education and research, including the All India Institute of Medical Sciences in New Delhi. Does this mean that medical sciences are less important than other physical sciences? Similarly, while the IIMs are exempted, why are the university departments of management studies not exempted? Furthermore, what is the rational argument for exempting posts in science and technology but not in economics, history, law and other social sciences and humanities? Do we accept the view that economists, accountants and auditors are less important than physicists, chemists, zoologists and botanists for the nation? In this post-industrial, post-modern, information age it would be ridiculous to argue that the so-called soft fields like language and culture are less important to the nation than the so-called hard fields like the armed forces and the

should we forget inter-sectoral linkages due to which inefficiency in one sector adversely affects efficiency in other sectors.

The argument in favour of exempting only higher posts from reservations needs to be examined carefully. Efficient performance of numerous tasks nowadays requires team work between all the members of a team, high and low. For example, in an operation theatre a senior surgeon requires not only a few junior surgeons but also a few nurses and other assistants. The efficiency of each one of them is crucial. The same is true of army battalions, scientific laboratories, factories, offices, and so on. It is well known that one of the frustrations of highly qualified scientists, doctors and other professionals in India is the poor quality of supporting staff. Secondly, it should be realised that many of the so-called lower jobs are becoming more and more skilled now. The day is not far off when most of Krishna Iyer's pen-pushing clerks will be replaced by computer operators. And thirdly, advocacy of inefficiency at the lower level of bureaucracy means open support to poor service to the public in all public service institutions, such as post office, bank, railways, and tehsildar's office.

The advocates of reservations, including judges, frequently argue that since minimum qualifications are always attached to posts, no harm would result

from reservation of a certain proportion of posts. This means a selection committee need not even aim at selecting the best of the candidates. This is like saying that since minimum marks are laid down for passing an examination, we need not award first class marks, prizes and medals. The fundamental issue is: should we value mediocrity by design? Or, should we value excellence—in every walk of life and at every level?

The central government has exempted from reservations a number of non-scientific and non-technical posts because of, to quote from the *Handbook of Reservation for SCs and STs*, "the exceptional circumstances and the special nature" of these posts (op cit, pp 81-83). Most of them are posts of private secretaries, assistant private secretaries, personal assistants, etc, to the prime minister and other ministers, to the Planning Commission members, and to the principal secretary and the special assistant to the prime minister. Those VIPs whose personal staff is not so formally exempted from reservations, manage to get the most efficient personal staff by transfer or by deputation. Such formal or informal exemption of personal staff of the VIPs from reservation indicates how the VIPs observe a double standard. This is not different from the advocates of local language as the medium of education sending their own children to English



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medium schools and to foreign universities, and the advocates of 'swadeshi' going abroad for even minor surgical operations and that too at the expense of the government. Recently a central minister said openly that he would advocate reservations in the appointment of doctors in hospitals but would get his own surgical operation performed by the most efficient surgeon. It is also not uncommon to find academics advocating reservations in public forums but refusing to make appointments on the basis of reservation in their own institution or department.

Reservation of teaching posts in educational institutions violates a fundamental norm of education. (Reservation in admission of students is a different issue.) Every educational institution, including primary school, needs an environment of cultivating merit, if not excellence. Therefore, to compromise with merit in appointment of a teacher at any level is to subject his students, including those of backward classes, to mediocrity for the entire length of the teacher's service, i.e., a whole generation of students. How can we expect teachers who know that they have been appointed without merit, to enforce the criteria of merit in evaluating their students? And how can there be education without evaluation of merit? In fact, a teacher has to go on evaluating students every day, not just at the annual examination. To provide reservations in the appointment of teachers, therefore, amounts to planning for inefficiency in a sector of society whose essential function is to develop efficient human resources for society. It is indeed ironical to find academics supporting reservations in the appointment of teachers.

Efficiency or merit is not a fetish of the elite, as frequently alleged. It is in fact an essential ingredient in every field of life ranging from defence services at one end to information services at the other. The future course of nation's development will require increasing numbers of men and women with talent and skill in every department and at every level of government as indeed in every walk of life. Not only industry, commerce, the professions and other fields located in towns and cities but also agriculture and other aspects of village economy and society will require efficient administrative services. To believe that villagers do not care for efficiency is to grossly underrate their needs, perceptions and judgments.

Striving for perfection is a value in itself with deep roots in India's past, but it acquires special importance in the modern competitive world. If India is to survive as a nation in this world, it has to strive for highest standards of efficiency in every field and remove all barriers to efficiency.

Reservations for backward classes in jobs in government establishments and public sector undertakings are one of the major barriers. During the last 40 years or so, numerous distortions and aberrations have developed in the policy of reservations. Simultaneously, considerations of efficiency and merit in the interest of the nation as a whole have become overwhelming. The nation has reached a stage when it should seriously review the entire policy of job reservations for backward classes, just as it has reviewed the policy of nationalisation of industries and already taken steps towards privatisation. The policy of job reservations needs to be

replaced by effective programmes of affirmative action to promote efficiency, merit and skills among the weaker sections of society. Primary education and other programmes linked with it should receive the highest priority. Maximum attention should be given to the lowest levels so that affirmative action at the higher levels can also become effective. This does not mean we abandon the goal of social justice but use different methods to achieve the same goal.

[This is an enlarged version of my article in *The Times of India*, January 15, 1991. I thank B Sivaramayya for enlightening me on legal issue.]

A Saddam May Go, but Saddams Must Remain

Frederick F Clairmonte

The US formula is simple: we work on both sides of the street and all parts of the street. Saddam is no doubt to be shunned now, but it is necessary to find a Saddamite clone, preferably another Baathist Sunni dictator, that could dovetail with the requirements of US policy.

ALL is well, or so it seems. The general has apologised to his commander in chief whom he considers "a great man". No doubt his indiscretion will not prevent him from acquiring his fifth star.

Apologies may paper over the cracks, but the general's critique can be evaluated at many levels, strikingly so against the horrendous tragedy of the abortive Bush bankrolled and inspired uprisings against Baghdad's authority. In his television blast off, Schwarzkopf intoned that Bush's decision to end the 100 hour war was "courageous and humane", but went on to wax rapturously that his recommendation was "to continue the march... we could have completely closed the door and made it a battle of annihilation". The explicit implication if the war had been prolonged another 24 hours he could have clobbered Saddam, but Bush saved Saddam's bones.

Invocations to Bush's 'humaneness' by Schwarzkopf is comically irrelevant. For the New World Order has only one military superpower and its predilection is not human rights, democracy and humaneness, but the preservation and extension of the rights of Big Capital. Over the last two decades alone, successive US administrations have taken the belligerent lead in vetoing United Nations resolutions on aggression and international law.

An exemplary case history in its flouting of international law was the General Assembly's condemnation of the

violation of Panamanian sovereignty (December 29, 1989). To cite but paragraphs one and two of the indictment:

- (1) 'The General Assembly' *strongly deplore* the intervention in Panama by the armed forces of the United States, which constitute a flagrant violation of international law and of the independence, sovereignty and territorial integrity of states.
- (2) *Demand* the immediate cessation of the intervention and the withdrawal from Panama of the armed invasion forces of the United States.

Where are human rights in Panama today? Why has the US trampled on this resolution? Where are the promised financial handouts for reconstruction of this still devastated country? Always a neo-colony, the country is today hegemonised by an unconstitutional clique of earners, custodians of the interests of the 6 per cent white minority, ravaged by an unemployment tornado of 35-40 per cent, busted by rampant inflation, an ideal system engineered to be perpetuated by a permanent US occupation. Is Grenada any different?

Bush understands the logic of such depredation, after all, he was its architect. Indubitably, at a personal level he claims to be opposed to Saddam Hussein, but as with Noriega, he was a man with whom US institutions trafficked, and with whom his entourage had always been on congenial terms.

Saddam no doubt is to be shunned, but

what is presumably desirable is to find a Saddamite clone, preferably another Baathist Sunni dictator, that could dovetail with the requirements of US policy. The crux of his policy was articulated by Marlin Fitzwater, the presidential spokesman: "Iraq should remain a single country, since it's good for the stability of the region that it maintains its territorial integrity. We do not intend to involve ourselves in its internal power struggles." What stability are we talking about? For whom?

Since the advent of the Truman Doctrine what measures have US administrations deployed to ensure this 'stability'? The anti-Mossadeq coup of 1953? Creation of the Baghdad Pact? The unbending support of Israel in its obduracy to seek a just solution to the Palestinian issue? The answer is unequivocal: every US measure has crushingly contributed not to the region's stabilisation, but to its destabilisation.

Is the staggering arms race launched by Bush another artifice for promoting regional stability? Even before the Iraqi dead were precipitously bulldozed into their trenches to avoid a body count, the Bush cabal had already informed Congress that it intends to sell hi-tech weaponry worth \$18 bn to five Gulf states. When accorded Congressional benediction, the Export Import Bank will be authorised to guarantee commercial loans made to overseas arms buyers. And this while a civil war rages and hundreds of Kuwaiti oil wells are still burning.

The arms bazaar will thus continue to flourish in the 1990s as it did in the 1980s when West Asia absorbed a staggering \$120 bn of arms sales. The US is, of course, not alone; there are other big time arms pedlars foraging for a fast buck. Of all the major weapons bought by the third world in the second half of the 80s, around nine tenths originated from the Security Council's five permanent members, the bulk going to West Asia.

Bush cannot wiggle off the hook by turning Saddam into a scapegoat because it was he who incessantly instigated the Iraqi people to rise up against the man that he labelled "worse than Adolf Hitler". The upshot is millions of displaced persons, more tens of thousands of dead, and the abandonment of those who risked their skins in their striving to oust Saddam. Once again, the harsh reality of 'human rights' has nothing in common with the crassness of Bush's *machtpolitik*.

A point emphasised by A M Rosenthal of *The New York Times*, himself an establishment journalist of the far-right: "The foreign policy bureaucracy has shown repeatedly that its only real passion is for the *status quo*. Most American diplomats I've met do not consider pro-

moting human rights and democracy as important as foreign policy goals or national interests" (*The New York Times*, April 3, 1991). Circumvention of human rights, however, is not confined to the 'foreign policy bureaucracy' but extends to the entire political caste and the impresarios of US finance capitalism to whom 'human rights' are as delectable as a dried banana skin.

Compassion and assistance to the stricken Kurds is mandatory, but it should not obfuscate what is being done by Bush to promote himself and his electoral politics of 1992. The CIA's strategies were never intended to call a halt to the afflictions and atrocities perpetrated by several states against the Kurds. The marketing logic is rudimentary: sooner or later the Iraqis will be entering the arms bazaar, but the Kurds as a small minority, won't have the money to do so, or even if they had they still will not possess a firm geopolitical base.

The Lebanonisation of Iraq is thus anathema to the global multi-billion dollar arms bazaar. Recognition of this has not deterred the CIA (and others of its international fraternity) from manipulating the Kurds, and then selling them out at the appropriate moment when 'national interests' so dictate. Mustapha Barzani, a personal friend of Bush, was brought (with his son) to the US by The Company in 1975; he died in Alexandria, Virginia in 1979 at the time when Bush was actively engaged in The Company's business.

In William Casey's gripping formula: we work on both sides of the street, and all parts of the street. Bush, who understands the Kurd's ideological and tribal division, was not the first president to bamboozle them. Nixon pushed them aside at the Shi'is' request. In the multi-billion dollar credit deals with Saddam, Reagan recognised that the Kurds and their aspirations had no place on the US agenda, and this at the same time that he was pushing through the Iran Contra deals.

It is disingenuous to pillory Bush for loss of nerve and lack of a sense of moral purpose. Equally given the premises and co-ordinates in which Bush operates, such expletives as cynicism and hypocrisy are meaningless to explain his conduct, which remains perfectly consistent.

In the Treaty of Sevres (1920) the promise of Kurdistan was made in the ebullient wake of the break up of the Ottoman empire by the imperial duo, France and Britain. A honeymoon of short duration. The nationalist Kemal Ataturk was opposed to the idea, a stand that meshed with the annexationist thrust of British imperialism articulated by Lord Curzon.

Kurdistan's fate was sealed by the 1923 Treaty of Lausanne. The toad was swallowed. The petrol-rich vilayets (provinces) of Kirkuk and Mosul were grabbed by Britain, and attached to the newly created state of Iraq in 1925 in what was to become, in effect, a neo-British colony. By that time, Colonel T E Lawrence (1888-1935), that exalted servitor of Empire, had been transmogrified into Corporal T E Shaw of the Royal Air Force who pontificated that the time had come to write the Kurds' obituary which he did with that scathing sentence: "The Kurds are a people of the past".

As a military man, Schwarzkopf had only an exiguous grasp of the exigencies of imperial power in the Gulf. He failed to perceive the simple truth: that there are Saddams behind Saddams, that a Saddam may go but Saddams must remain. This is a political constant which, at no time, Bush and his imperial presidency have ever lost sight of.

Conflicting Images; India and the United States

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The Compleat Angler

S R Sen

Between the IMF, the World Bank and the Aid Consortium, India today is caught in a vice with little freedom of action. Since the terms and conditions prescribed by the IMF and the World Bank suit the private interests of some of our own businessmen and politicians, it will be difficult to loosen the grip of the vice.

ANGLING, or fishing by bait, hook and line, is a popular sport in many countries, but specially in Britain and the US where it has been developed into an admired art. Isaak Walton's famous book *The Compleat Angler*, written three centuries ago, remains a revered classic in these two countries even today.

The Compleat Angler taught generations of Britons and Americans not only the fine points of the great art of angling or fishing directly but also helped them indirectly to achieve success in many other pursuits, which required careful strategic and tactical preparation, cautious waiting and very prompt action whenever needed. If the battle of Waterloo was won on the playing fields of Eton, many a successful business, diplomatic and hegemonistic ventures of these countries had their roots in the angling lessons learnt earlier.

How to attract even the wary fish to the angling area through disturbing action upstream and strewing 'chum' (or bits of fish food) and 'fly' near it, camouflage the 'bait' containing the 'hook', dangle it at the proper level through a 'sinker', keep a watch on it through a 'bobber', use a 'reel' and a long enough 'line' to give the needed 'play' to a strong fish and to tire it out by suitable moves are all considered to be essentials of this classic sport.

The word 'angling' has become an important element of British and American vocabulary and behaviour pattern. 'Angling' for attention or favour is, of course, a very common expression. Providing a tempting 'bait' to the guillible is another. Many shops periodically advertise concessional 'sales' of a few articles as 'chums'. When a shopper is attracted by these 'chums', he is clearly tempted to buy other non-concessional goods very attractively displayed side by side, goods which he had not thought of buying when first attracted by the advertisement. Banks and associated business houses often offer attractive loan, hire purchase and credit card facilities to enable a client to buy what he would not ordinarily buy and refrain from putting pressure for repayment of instalments due for some time, but after a suitable lapse of time when the interest burden has mounted sufficiently, 'haul up' the hapless client and force him to make

much larger payment than what he had originally bargained for. In Industrial take-over exercises, offering of 'baits' to selected key executives of the potential target firm as a preliminary step is fairly common. The same is true of exercises for ferreting out trade secrets of rival organisations in private business.

The bait of 'subsidiary alliance' which was offered two centuries ago by the East India Company to the Nizam of Hyderabad was a very sophisticated example of the art of angling by that semi-commercial and semi-military company in the field of diplomacy and warfare. The fear of Tipoo Sultan and his French ally was played upon by the Company to induce the Nizam to bite the bait of the British alliance and get so 'hooked' as to lose his independence eventually.

The success of this first 'subsidiary alliance' or 'foreign aid' was so great from the Company's standpoint that later it was extended to several other Indian princes paving the way for establishing British hegemony over the entire Indian sub-continent. When some of these princes were initially reluctant, situations were so created in their neighbourhood that they could not decline such an alliance. The 'subsidiary alliance' was indeed the classic case of 'foreign aid' which was the precursor of many other similar 'aid' exercises (and in some cases of hegemony) during the next two centuries both in India and other parts of the world.

The role of the United Fruit Company in Central America, ITT in Chile and the oil companies in West Asia are some examples of private enterprise in this direction.

The 'aid' that the young and pliable Shah of Iran received against Mossadegh, Khomeini received against the older and overbearing Shah, a weaker Saddam Hussein received against domineering Khomeini and the vulnerable Arab 'oil' states received against an ambitious Saddam Hussein are but recent variations of comparable practice by a superpower.

RECENT INDIAN EXPERIENCE

In the early years after independence, the Indian leaders recalled the history of the earlier 'subsidiary alliances' and were reluc-

tant to accept any 'foreign aid' except to a small extent and under their own terms. The US and Britain, in their anxiety to build up a cordon *sanitaire* around communist USSR and China, pressed 'aid' upon India. Aid to Pakistan was used as a lever to persuade India to accept some economic, if not military, aid. This economic aid, *inter alia*, was expected to serve the purpose of overcoming India's strong position in NAM and giving entry to American and British 'experts' to key Indian officials. When after the cut off of US aid during the Bangladesh episode, India expressed a desire not to accept any further aid from the US, the latter insisted on India taking at least a token aid of \$ 25 million. A reason, privately given, was that the US wanted to maintain through this token aid some continuing relation between US and Indian officials.

When the rift between China and Soviet Union became apparent, China was offered substantial technical and economic aid. Over the years, this paid good dividend to the US. India's position became somewhat weaker. After the recent troubles in the Soviet Union, India's value in international power politics has become even less.

In the fifties, when India was still reluctant to accept large bilateral aid and seemed to favour multilateral aid, World Bank and IMF started giving loans to India in a big way. A new concessional loan window, IDA, was opened in the World Bank, keeping the needs of India specially in mind. An innovative measure, a 'consortium' of both multilateral and bilateral aid agencies, was devised to take care of the needs and susceptibilities of India.

In the first few years of the 'consortium' the US pressed other countries to step up their lending to India. In the next phase these other countries pressed the US to step up its lending to India. Currently, all the members of the 'consortium' have combined to form a virtual cartel to force India to subordinate its own preferences to their terms and conditions for loans. Competition which is prescribed for 'trading' is avoided for 'lending'.

Like a strong fish, India struggled for a fairly long time against being 'hooked'. Once or twice, the 'hook' scraped through the skin or the 'line' broke. But as years passed, the 'hook' pierced deeper and the line was pulled up closer. With each natural or contrived crisis, especially during the last four or five years, India seemed ready to accept increasingly stiffer conditions and even to be 'hauled'.

The World Bank and IMF are undoubtedly international organisations with boards of directors and staff in which India has also a representation. But with the system of weighted voting, it is only three or four developed countries led by the US who call the tune. 'What the American Congress will

'favour' is often the main preoccupation of the senior officials of the World Bank and IMF.

During the McNamara era, the World Bank retained some independence. In spite of Nixon's strong opposition, the board of directors of the bank could be persuaded by India to continue loans to India during the Bangladesh episode and re-elect McNamara for a new term of five years. But after McNamara, the bank has come under almost complete domination of US government. There are undoubtedly a few vice-presidents from developing countries in the bank but their selection and behaviour pattern are more like those of the Indian 'show-pieces' in the British Viceroy's Executive Council than of real representatives of the people.

The subservience of most other developing countries is often even worse. The arrogance of some of the World Bank and IMF officers, especially from developed countries, *vis-a-vis* the smaller countries has to be seen to be believed. They are sometimes worse than the pro-consuls of Britain when the Empire was at its zenith. Among them sympathy for the borrowing countries is often criticised as 'clientitis' and there is competition as to who can impose stiffer terms.

CONDITIONALITIES

When 'foreign aid' was being given to the developed countries of Europe, by the US as well as the World Bank and IMF, the terms were very easy and conditionalities minimum. When 'aid' for the developing countries was started, particularly for India, these were gradually tightened but still continued to be reasonable for several years. But later they became progressively more stiff. India continued, however, to enjoy the benefit of some of the earlier easy terms until the eighties. With the Reagan and Thatcher era, India steadily fell from grace.

With the present foreign exchange crunch, part of which has resulted from India's own shortsighted policies during the last five years, especially during 1990, some of the favourable terms which India enjoyed earlier have virtually disappeared. Between IMF, World Bank and the Consortium, India today is in a vice as it were with very little freedom of action of its own. Since the terms and conditions prescribed by IMF and World Bank suit the private interest of some of our own businessmen and politicians, the grip of the vice seems almost inescapable.

Compared to IMF and World Bank loans, those from the international money market have higher rate of interest but much less conditionality and take much less processing time. If a shadow price is ascribed to these last two, the difference between IMF/World Bank and commercial loans would work out to be substantially less than the quoted interest rates. The recent downgrading of India's credit rating is partly due to ephemeral political causes and not basic

economic reasons and can be corrected with a well calculated policy. It will not be wise to rush and bite without careful scrutiny a dangled 'bait' which may eventually make our plight worse.

Of course, in statecraft sometimes risk has to be taken. But this should be calculated risk.

If India simultaneously takes effective export production and promotion measures and dampens domestic demand for more important exportable goods through heavy excise duties with prompt drawbacks for exports, there should be no harm in its borrowing large amounts from IMF under the softer tranches and from the World Bank under old style programme and project loan facilities. If necessary, these could be supplemented by offering attractive terms for NRI investment and also borrowing from the international money market for specific productive projects. In fact one need not worry about the total volume of foreign loans so long as one can ensure that these contribute to net foreign exchange earnings. Such loans represent largely the innocuous 'chum' and not the 'bait' hiding a 'hook'.

But India needs to be specially cautious about (i) foreign market borrowing for non-productive purposes, (ii) loans under the stiffest tranche of IMF and (iii) structural adjustment loans from the World Bank.

In particular, India would do well to study carefully the unhappy experiences of some of the countries of Africa and South America. For example, Nigeria was persuaded by the World Bank to accept a large structural adjustment loan in the mid-eighties. Even after more than four years of intense

adjustment pain caused by this bitter medicine, the end of the economic sickness is not yet in sight while the tormenting side-effects in the shape of social and political trouble in a country full of vulnerable groups is already being felt. The supposed safety net proved in practice most inadequate.

India should also recall its own painful experience in the wake of the devaluation of 1966, when both the US government and the World Bank failed to secure the approval of the US Congress for the loan package recommended to and accepted by it.

As a fish cannot afford to do without food simply for the fear of a hidden 'hook' in one of the pieces of 'chum', India cannot also obviously afford to forgo all foreign loans for fear of a possible catch in one. But it should follow a policy of austerity when faced with risky waters, avoid greed and take every possible care that a 'hooked bait' is not mistaken for a harmless 'chum'. If per chance, however, it happens to make such a mistake, it should not swallow the 'hook' so much that it cannot get rid of it later through some effort. If this latter is not feasible, it should try to develop enough capability to bite through the 'line' itself and get away.

This kind of circumspection is much more needed today in India than ever before. But the requisite call for austerity, the 'export or perish' slogan and grit are still unfortunately missing.

Indeed, a time has come to counter manuals by Walton and his followers for the 'angler' by equally good manuals for defensive action for those who run the risk of being 'angled'.

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Religion, Communal Identities and Communal Violence

Balraj Puri

Communalism and Communal Violence in India by Asghar Ali Engineer; Ajanta Publications, New Delhi, 1989; pp 344, Rs 250.

COMMUNAL violence is not only the weakest aspect of the Indian polity but also of Indian scholarship. Its growing frequency and intensity defy the riot controlling state agencies as well as the analytical tools of social scientists. A secular Constitution framed on the basis of a long liberal and tolerant Indian tradition, humanitarian instincts of the common man, committed peace activists, concerned intellectuals, not to speak of a powerful state machinery and numerically far larger following of the self-proclaimed secular parties have failed to build up defence against the rising tide of communal violence.

Asghar Ali Engineer, in the book under review rightly argues that the age old theory of communal riots which puts the blame on the British policy of divide and rule or ascribes it to the colonial policy of underdevelopment of the economy "is no longer adequate to explain comprehensively the complex nature of communal violence today". One might, in fact, question his assertion that "the theory had its full validity then". Perhaps even then it had only a partial validity.

Criticising the tendency to use a simplistic theory or an oversimplified hypothesis to explain away what is a most complex phenomenon, the author attempts to develop a broad theoretical framework, for the purpose. He has indeed excellent credentials for the task. He is not only a scholar of repute, with deep knowledge of religions, particularly of Islam, he has also done a large number of empirical studies on communal riots in post-independence India. His commitment to secular values and objectivity, too is beyond doubt. Study of communal violence is for him, as the blurb says, more than an academic exercise, it is a mission for him.

While developing a macro theory of communal violence, the author also provides for micro specificities on which he has collected a lot of evidence, appended to the book. Perhaps a more rigorous exercise could use this evidence for evolving a coherent and comprehensive theoretical generalisation.

The relationship between religion, communalism and communal violence are the basic key to his theory. Religion is, according to him, a force to be reckoned with in India, firstly, because it is a poor and backward country. Secondly, alienated insecure urban people seek psychological compensation through religion. Further, religious operators develop their political links. "The scenario is thus complete for religious fundamentalism to play its political role"

It is not only a poor and backward country in which the role of religion is becoming

important. Religion continues to be important in American lives—far more important, as Kenneth Wald notes, than politics. Charles W Dunn similarly observes that "religion has become more important in the lives of Americans as religious issues have entered the political arena in unprecedented fashion".

An American's need for "a sense of certainty and community within the larger society's insecurity and impersonality" [Robert Booth Fowler] must, in fact, be greater than that of an Indian. One must not be either apologetic or seek special explanation for what Asghar Ali calls religiosity of Indians. On issues like family planning, abortion and Darwin's theory, there has, for instance been absolutely no organised resistance from religious quarters as is the case in America. It is not possible to find any support in the "cascade of books and articles recently published in America on issues involving religion and politics" [Mark A Noll] to Asghar Ali's assertion that "there is no place for use of religion or religious identity for political purposes as far as the west is concerned".

However, the author distinguishes between opportunist and creative use of religion. He also affirms that religion is not the root cause of communal conflict. Communalism, according to him, is all about secular issues without involving any religious sectarian doctrine. He defines communalism as achieving secular goals through religious channels. He also makes a very pertinent distinction between faith as an ideology and as an identity.

The Muslim League was, for instance, concerned with secular interests of the Muslim identity i.e. share in power and employment. It did not at all bother about doctrinal or religious problems of Islam. Similarly the Akali Dal to start with was concerned with secular problems of Punjab or the Sikhs e.g. formation of a linguistic state, share in river waters and claim over Chandigarh.

In an ideological or theological sense religion has much less to do with politics in India than it does in the west. Engineer, therefore, rightly argues that neither was the Muslim League led by a 'mullah' nor the Hindu Sabha by a 'shankaracharya'. But he does not draw a distinction between communalism and fundamentalism and often uses the terms interchangeably. In communal politics, religious doctrines and personalities do not matter. But as fundamentalist trends start emerging, 'imams' and 'shankaracharyas' are becoming politically relevant.

In analysing the politics and religion of

the two major communities, the author, in order to maintain his impartiality, tries to keep the scales even. He quotes Tara Chand at length to show how much affinity there is between the two religions. He also cites much evidence to show a great deal of intolerance, even brutalities and barbarism committed by the Hindus.

The fact however, is that Hinduism and Islam are not comparable religions; unless the current process of semitisation of the former really succeeds. The attempt to prove the eventual unity of all religions as Gandhi and Azad did or find out affinities between Hinduism and Islam, as Tara Chand did, have no relevance to either the communal situation or to the understanding of the two religions. The diversity and range of Hindu philosophical thought—with almost no scriptural authority for socio-political behaviour—sharply contrasts with the precise theological and socio-political character of Islamic beliefs.

Theological and philosophical differences, between Hinduism and Islam are not the cause of any conflict between them. It is due to the blurring of distinctions between Hindu religion and the ancient history, civilisation and mythology of India that it almost projects itself as a religionised version of Indian nationalism. It is the attitude of the two communities towards nationalism that is the real source of confusion. For Hindus Bharat Mata is the most sacred goddess which is not merely a political concept but also has a religious and spiritual significance. Hindus are tolerant of the religious beliefs of Muslims but tend to find them wanting in their emotional allegiance to the most sacred Hindu goddess and mythological heroes.

The author comes nearer the truth when he differentiates between religious and political intolerance. But there is need to go deeper into the roots of political intolerance of Hindus. As they are in a majority and as nationalism is almost a religion for many of them, even liberals among them find it difficult to appreciate the urge for a distinct identity among Muslim and Sikh minorities.

Again, the author's attempt to find similarities between majority and minority communalism which "feed and fatten" each other is an oversimplification. For majority communalism tends to acquire a nationalistic fervour and develops affinities with fascism whereas minority communalism tends to be particularistic and separatist. A separatist particularistic brand of Hindu communalism was always a marginal phenomenon whereas it represented the Muslim mainstream and demanded partition of the country; more as a reaction to the assimilative character of Congress nationalism than to the communalism of a non-entity like the Hindu Maha Sabha.

Anyhow the author makes a valid distinction between religious consciousness and communal consciousness. One may not lead to the other. Gandhi and Azad were thoroughly religious but not communal. Jinnah and Savarkar were least religious but communal.

Under what circumstances and due to what reasons does one consciousness lead to the other?

The author bases his theory on "dynamics of economic development and social change, accompanying it" The capital path of development, according to him, generates ethnic and communal conflict because it is uneven and accentuates exploitation and injustice. It is truer of the developing third world countries where a sense of primordial identities (caste, communal or ethnic) prevails over class identities. As secularism and democracy are bourgeois ideals necessary for developing a capitalist society, he implies, the problems these ideals are facing are inherent in capitalism.

Obviously the theory was developed before the Gorbachev revolution in the Soviet bloc which demonstrated the autonomy of ethnic and religious identities from economic and political systems and their stronger pull than class identities even in a 70-year old socialist system. And as convincingly argued by Nathan Glazer in *Beyond Melting Pot*, a developed country like the US is far more congenial for growth of ethnic identities than the developing third world. If economic deprivation and exploitation led to alienation of communities, the Sikhs—almost the richest community of India—would have been the most contended and integrated.

At one stage, in one of the articles included in the book obviously written much later the author concedes that there is basically nothing wrong with communal identities which must be respected even encouraged. Assertion of communal identity is a universal phenomenon both developing and developed countries experience it he adds.

Alas, the idea is not developed further and its implications have not been worked out. Some of the relevant questions are: What should be the sphere of autonomy of the communal identities? What should be their relation with one another, with other types of identities and the national identity? And above all, when does a communal identity cease to be benign and become malignant?

The author sets store on the role of the politicians to connect the loose ends of his thesis. They are told, carefully cultivate religious orthodoxy which in turn is used for promoting communalism and which in turn is used for provoking communal riots. "In the ballot box oriented democracy, they can hardly resist the temptation to manipulate the caste and communal sentiments for winning elections."

The statement, in fact, begs the question: Why do caste and communal sentiments matter in winning elections? If a politician is to remain in business, he must take cognisance of the prevalent sentiments. And if democracy is to prevail, how can ballot box be avoided? In every pluralist democracy parties and candidates are supposed to cultivate and manipulate permutations and combination of ethnic groups to ensure their victory. To expect Indian voters, politicians and the democratic system to behave differently is either utopian or hypocritical.

It is the realisation of this reality that makes the author pessimistically conclude that communal violence cannot be completely contained in our society. "We will have to live both with communalism and communal violence for quite sometime to come." When a person like Asghar Ali Engineer—a crusader for and scholar of communal peace—comes to this conclusion, one cannot help feeling a sense of despair.

As the book is a compilation of articles of the author written at different points of time and for different types of audience, there is not only an inevitable repetition but also occasional incoherence. However, piecing together some of his arguments in different parts of the book, it is possible to arrive at a less pessimistic and more positive conclusion.

He has conceded that religion is not the main cause of communalism. Similarly communalism should not be treated as the sole cause of communal violence. It is also a product of the atmosphere of violence which has grown independent of communalism. Further, if we replace the pejorative term communalism by a value neutral term communal identity it can be argued that recognition of communal identities and proper articulation and satisfaction of their aspirations should be a better way of promoting communal peace.

The author provides another vital clue to the analytical and prescriptive study of the problem when he marshals evidence of the fact that Muslims are a part of regional cultural mainstreams. Locally integrated communities do provide a durable basis for building an edifice of a nation. But the

model of nation building that attempts to integrate every community directly with an elusive national mainstream often tends to disrupt grassroots level integration of communities.

It has not been sufficiently realised and Asghar Ali, too, does not squarely face the fact that Indian nationalism is too inadequate a force to unite the nation whereas some of its expressions are a positive threat to national unity. While there are plenty of common symbols at the regional level, they are only a few at the national level. Bhagwan Ram may be accepted as a national hero but is it fair to expect Muslims to worship him as 'bhagwan'? The only way to unite the country is to supplement the appeal of nationalism with common super national ideals and regional sentiments.

The role of ethnic identities in promoting national unity has not been properly appreciated in India. So is the case with religious and communal identities. They are not only a part of the Indian reality which cannot be dismissed but are also capable of making a positive contribution to national life. Moreover, religion, communal identities and communal violence may be related but are also autonomous.

A study of the inadequacies of Indian nationalism, its relationship with communal and ethnic identities has vital relevance for the future of Indian civilisation, Indian democracy and Indian unity. But the task is so complex and daunting that even the best works on the subject do not seem good enough to meet the challenge of the situation. And Asghar Ali's work is certainly among the best.

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MARTHA ALFER CHEN

Rural households particularly in the semi arid areas of India routinely plan for and manage the uncertainties associated with regular seasonal fluctuations and periodic drought induced crises. These uncertainties pose particular hardships for the poor who are extremely vulnerable in terms of their access to resources. This study describes and analyzes the strategies adopted by different types of households to cope with seasonality and drought in a village in a semi arid region of Gujarat state in western India.

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Indo-Soviet Trade and Technology Transfer

Bernard D'Mello

India and the Soviet Union: Trade and Technology Transfer by Santosh Mehrotra; Cambridge University Press, Cambridge, 1991; pp xvi + 242, £ 30 (hard bound).

THE Soviet Union is presently in the midst of restructuring its foreign economic relations. A book which deals with Indo-Soviet trade and technology transfer upto the mid-1980s should provide an opportunity to assess the past economic relations between a centrally planned economy and a developing capitalist economy at a time when the former is on the threshold of major structural changes. The book under review is the outcome of the author Santosh Mehrotra's doctoral thesis at the economics faculty of the University of Cambridge. Its scope is quite comprehensive, but, perhaps because of its wide canvas, the analysis lacks in depth, particularly on technology transfer.

The book is divided into three parts. Part I covers the influence of the Soviet Union's central economic planning on India's development strategy, the geopolitical and ideological factors influencing Indo-Soviet economic relations and the Soviet Union's economic interest in non-'socialist' LDCs. Part II encompasses Soviet aid and technology transfer in building industrial enterprises in India. Part III deals with bilateral payments and bilateral trade (trade diversion, commodity composition, stability of export earnings and terms of trade). It is not possible for us to comment on all these dimensions of Indo-Soviet economic relations and so we will restrict ourselves to technology transfer and some aspects of trade relations.

Mehrotra chooses to cover almost all the industries in which Soviet technology transfer is supposed to have taken place—heavy electricals; heavy metallurgical and mining machinery, steel plants and steel plant design, oil exploration and production, petroleum refining, pharmaceuticals and surgical instruments. The publishers claim that these are 'illuminating and detailed case studies' of technology transfer. In my view however the case studies fail to illuminate this area of darkness and they are far from detailed. The story of the atrophy of Heavy Engineering Corporation's or Mining and Allied Machinery Corporation's technological potential is far more complex than can be surmised from the information put together. Neither can Bharat Heavy Electrical's relative success be adequately understood from the information the author has provided.

Technology is knowledge, skills, methods and procedures which are materialised or embodied in designs, specifications, operating instructions, machinery and equipment, etc. Acquisition of the embodiments of technology need not necessarily mean the acquisition of the technology itself. This

distinction is important, for technology suppliers often transfer the embodiments of technology without transferring the technology itself. The author seems to have erroneously equated 'transfer' of designs with 'transfer' of 'know-why'.

Mehrotra examines firm level contracts without adequately setting out the framework within which these contracts were functional. Actually negotiations first begin at the inter-governmental level where the Soviet side is represented by the State Committee on External Economic Relations. Inter-governmental agreements are entered into to coincide with India's five-year plans. These agreements list the plan projects for which Soviet collaboration is envisaged and set out the broad parameters for the same, like the scope of Soviet collaboration, the basis of pricing, etc. This is the basic framework within which inter-firm level contracts were entered into. For instance, in steel there is the Soviet firm Tiazpromexport which negotiates and transacts on behalf of all the concerned Soviet enterprises and institutes (Gipromez, Gipromkoks, etc) for undertaking a particular project. Unresolved differences at the firm level are resolved at the inter-governmental level. Mehrotra calls the firm level contracts 'near-turnkey contracts'. Actually, there are a whole host of separate contracts like those for export of hardware, licence agreements, technical 'assistance' contracts, training contracts, engineering consultancy contracts, R and D assistance contracts, construction supervision contracts, etc.

The case studies of technology transfer are bare outlines but here too there are factual errors. For instance, while the Central Engineering and Design Bureau (CEDB) of Hindustan Steel had arisen in association with the Krupp-Demag combine at the Rourkela Steel Project, the same is not true about the role of the British Consortium ISCON at Durgapur Steel Project [p 102]. Indian personnel were not associated in the design work at the one-million-tonne stage of Durgapur as in Bhilai or Rourkela. Another factual error is that the four million tonne stage of "Bhilai and Bokaro are almost entirely indigenously supplied" [p 104]. For instance, the fourth quarter 1981 capital cost figures for the Bhilai four million tonne expansion show the *direct* import content of equipment for the continuous casting plant and plate mill to be 63.8 per cent and 30.4 per cent respectively. The overall *direct* import content of the equipment costs in a 1983 estimate was 15 per cent. Also, *indirect* import contents in the form of completing equipment supplied

to HEC to fulfil its equipment supply contracts are said to be quite significant. Another factual error is the assertion that the Basic Oxygen Furnace or LD Converter "was pioneered in Asia for the first time in Rourkela in the late fifties" [p 109]. Actually, Japan was the first Asian country to adopt the process [UN Economic Commission for Europe, *Comparison of Steel Making Processes*, 1962, pp 78-81].

An important aspect of Soviet collaborated projects is that, in the 70s, particularly when India attained a comfortable level of foreign exchange reserves, a switch to western collaborations began. This was due, among other factors, to a realisation that the level of Soviet technology was inferior to western technology. The author does not adequately stress this important transition in his case studies of BHEL, HEC, or MAMC. There are many advantages that these firms perceived in switching over to western collaborations. For instance, the likelihood of reorganisation and rationalisation of their production processes, superior technology, ability to face competitive threats, improved chances of getting contracts where global tenders are invited, etc.

Regarding bilateral trade, I have the following comments: (1) I think that so-called trade diversion by India is a non-issue for much of India's exports to the Soviet Union is undertaken by India's private sector and private business will export to those countries where exports are more profitable. (2) The use of coefficient of variation in comparing the instability of India's export earnings from the USSR and the rest of the world is problematical. There is no way of carrying out a test of significance since the distribution of Σx^2 is not known. Also, a comparison of stability of export earnings is meaningful only if the proportions of exports of the particular commodity going to the USSR and rest of the world are not too widely different. In the case where the proportion of exports going to the USSR is, say, 1/10th of that going to the rest of the world, a comparison of the instabilities of export earnings (following the author's methodology) is meaningless. (3) Studying the terms of trade with unit value indices over 1970-71 and 1981-82 when there have been changes in the commodity composition would mean that one would find a change in the terms of trade even if prices of the traded goods had not changed much. (4) More manufactured goods exports to the USSR would actually result in a net outflow of hard currency since these goods have significant hard currency import content.

Before concluding, I cannot help but mention a factual blunder on the first page of the first chapter [p 9]. The author states that the famous 1944 Bombay Plan was produced by the National Planning Committee of the Indian National Congress! He further goes on to say that Bose and Nehru were among the authors of the Bombay Plan! However, this part, the book should be of interest to development economists, international economists and to economic administrators.

Income Inequality and Elasticity of Personal Income Tax

Pawan K Aggarwal

This paper develops a technique for estimating the effect of a change in inequality in the distribution of income on the yield of personal income tax. The technique is applied to estimate the effect of income inequality on the yield of personal income tax in India. It is found that, for a given tax schedule, an increase (decrease) in inequality in the distribution of income among the taxpayers increases (decreases) yield of personal income tax in India. Further, the study brings out that in India, during 1966-67 to 1983-84, inequality in taxable income was marked by a declining trend, and this had substantial negative impact on elasticity of the tax. Had the inequality remained unchanged, elasticity of the tax with respect to gross domestic product would have been around 1.49 instead of 1.17.

Government policies directed at mitigating inequality in the distribution of income seem to dampen growth of yield of the personal income tax. This is an important factor that should be explicitly taken into account in the tax revenue forecasting exercises. If the inequality is expected to decline at a rate lower than that in the reference period, then the effective elasticity would be in the range of 1.17 to 1.49, and if it is expected to decline at a rate higher than that in the reference period, then the effective elasticity may be well below 1.17.

I Introduction

MITIGATING inequality in the distribution of income and imparting built-in flexibility to the tax system have been among the main objectives of the government of India. These objectives may, however, come into conflict with each other. A declining (rising) trend in inequality in the distribution of income may have a negative (positive) impact on built-in flexibility or elasticity¹ of the personal income tax. In estimating elasticity of the tax, no attention has generally been paid to the trends in inequality in the distribution of income. The results of select studies on income elasticity of the Indian personal income tax by Sahota (1961), Gulati (1962), Cutt (1969), Jain (1969), Nambiar and Joshi (1974), Srivastava (1975), Gupta (1975), Rao (1979), Khadye (1981), Gupta and Aggarwal (1982), Bagchi and Rao (1982), Aggarwal (1984), Rao (1987), and Bagchi (1988) are given in Table I classified by the methodologies adopted. None of these studies quantifies the impact of inequality on elasticity of the tax. The purpose of this paper is to fill this gap.

The study reveals that in India during 1966-67 to 1983-84, inequality in taxable income was marked by a declining trend and this had substantial negative impact on elasticity of the personal income tax.

The study requires estimation of income inequality and elasticity of the tax. Methods of estimation of elasticity are reviewed in Section II. The constant rate-base method of estimating elasticity that has been adopted in this study has been modified to account for variation, over time, in the distribution of income within the income classes. The modified method is described in Section III. Section IV indicates data

limitations and suggests remedies. Choice of reference period, coverage and choice of rate structure are indicated in Section V. Working of the series of hypothetical tax revenue at the rate structure of 1983-84 is presented in Section VI. Estimates of elasticity are presented and discussed in Section VII. Section VIII contains conclusions of the study.

II Methods of Estimation of Elasticity: A Review

Estimation of elasticity involves capturing that component of the tax yield which can be considered as automatic growth at a constant tax structure. Historical tax yield comprises the tax yield at a constant tax structure and the effect, on tax yield, of the discretionary changes brought about in the tax structure during the reference period. Various methods of estimating elasticity of a tax have been discussed in the literature. These are based on capturing the automatic growth in tax yield at a constant tax structure from the historical tax yield or estimating the hypothetical tax yield at a constant tax structure or adjusting the estimate of buoyancy² of the tax.³ All these methods can be said to have a common conceptual framework.

In general, tax yield (T) can be said to depend mainly on the tax base (B), index of inequality (II) in the distribution of tax base, and the tax rate structure (R). Further, the tax base can be said to depend on the national income (Y) and the tax structure. Tax structure can affect the tax base mainly through the level of exemptions, deductions and marginal tax rates. Exemptions and deductions are inversely related to the tax base. With a higher exemption limit, lesser number of persons fall within the purview

of the tax and a lower proportion of total income of different taxpayers is subject to the marginal rate schedule. Marginal tax rates may affect the tax base through their effect on work effort and tax evasion. The tax yield model can be written as

$$T = f(B, II, R) \quad (1)$$

$$B = f(Y, R) \quad (2)$$

In the reduced form, the tax yield can be expressed as

$$T = f(Y, II, R) \quad (3)$$

Inequality in the distribution of tax base may be measured in terms of Gini index or by any other measure of inequality. However, specifying by a single variable, a tax structure with many marginal tax rates, exemptions, deductions and credits, etc, is a difficult task. To overcome this complex problem, a number of techniques have been used in the literature which give rise to different methods of estimation of elasticity of a personal income tax. Various methods of estimation of elasticity of a tax can be classified into the following three broad categories:

- (i) Those based on direct estimation of elasticity
- (ii) Those involving estimation of hypothetical series of tax revenue at a constant tax structure
- (iii) Those based on adjustment of estimate of buoyancy of the tax

Methods based on direct estimation of elasticity of a tax use relation (3) with observed series of tax revenue. However, it has generally been estimated without inclusion of inequality variable. This category of methods includes those based on (a) the use of tax rate and base variables, pursued by Wilford (1965), Ray (1966), Legler and Shapiro (1968), Muskin and Lupo (1967), and Srivastava (1975), (b) use of dummy

variables for the years of major discretionary changes, developed by Singer (1970), Chelliah and Chand (1974) and Wasylenko (1975); and (c) cross-section of groups of taxpayers by income as proposed by Mishan and Dicks-Mireaux (1958), Blackburn (1967), and Pechman (1973); and by region as advocated by Tanzi (1969) and subsequently applied in various studies including Anderson (1973), Tanzi (1980) and Rao (1987). The methods based on tax rate and base variables may not be thought appropriate for two reasons. First, representing a multi-rate tax structure by a single adequate tax rate is not an easy task. Second, while the use of base variable is presumed to capture the effect of discretionary changes, it also captures effect of non-discretionary changes as the base may change in spite of an unchanged tax structure. Srivastava (1975) suggests use of two parameters instead of a single tax rate variable, one parameter representing initial rate and the other representing incremental factor in the tax rate as one moves from a low-rate bracket to a high-rate bracket. However, interpretation of two-parameter representation of the multi-rate personal income tax is not unambiguous. The technique of dummy variables allows capturing generally the constant shifts in tax revenue and is beset with problems of potential multicollinearity. The methods based on cross-section data assume that the relationship between average tax liability and average taxable income across income classes or regions is the same as the relationship for the country as a whole at those levels of taxable income. This assumption does not seem to hold good in reality.

Methods involving estimation of series of hypothetical tax revenue at a constant tax structure use relation (3) with series of hypothetical tax revenue instead of observed revenue and with exclusion of tax rate variable. This, however, has also been generally estimated without inclusion of inequality variable. Methods in this category differ with respect to the process of obtaining series of hypothetical tax revenue. Various methods developed for obtaining the hypothetical series include (a) proportional adjustment method developed by Sahota (1961) and Prest (1962), the characteristics of which have been studied in detail subsequently by Chelliah and Chand (1974); and (b) the constant rate-base methods.

The proportional adjustment method assumes that the revenue effect of a discretionary change and the tax yield exclusive of the effect of the discretionary change grow at the same rate. If this assumption is not satisfied with respect to a major component of resource mobilisation, then application of proportional adjustment method may give a distorted series of hypothetical tax revenue. Further, the quality of the series of hypothetical tax revenue would greatly depend on the quality of the estimates of revenue effects of the discretionary changes brought about during the reference period.

The constant rate-base methods differ

with respect to the degree of disaggregation of the data. These include those suggested by Auld (1971), Lewis (1962), Pearse (1962) and Wasylenko (1975). The methods used by Lewis and Auld are based on highly aggregated data. The method used by the former is based on the application of a single tax

rate in the previous year to the tax base in the current year and that used by the latter is based on the application of a single effective marginal tax rate in the previous year to the change in the tax base in the current year. Methods advocated by Pearse and Wasylenko are based on data grouped by in-

TABLE 1: RESULTS OF EARLIER STUDIES ON INCOME ELASTICITY OF THE PERSONAL INCOME TAX IN INDIA

| Methodological Category/Study | Reference Period | Estimate of Elasticity | Remarks |
|---|--------------------|------------------------|--|
| 1 | 2 | 3 | 4 |
| <i>A Estimates Based on Proportional Adjustment Method</i> | | | |
| Sahota (1961) | 1951-52 to 1957-58 | 0.56 | Based on data for first and last years of the reference period |
| Cutt (1969) | 1955-56 to 1960-61 | 0.50 | |
| | 1960-61 to 1964-65 | 0.65 | |
| Rao (1979) | 1960-61 to 1973-74 | 0.76 | With three sets of estimated revenue effects of discretionary changes ¹ —do— ² |
| Khadey (1981) | 1960-61 to 1974-75 | 0.77 | |
| | 1960-61 to 1978-79 | 0.88 | |
| Gupta and Aggarwal (1982) | 1961-62 to 1975-76 | 0.93 | |
| Bagchi and Rao (1982) | 1965-66 to 1979-80 | 1.08 | |
| Aggarwal (1984) | 1970-71 to 1981-82 | 0.86 to 1.04 | |
| Bagchi (1988) | 1965-66 to 1973-74 | 0.99 | |
| | 1973-74 to 1984-85 | 0.62 | |
| <i>B Estimates Based on Inclusion of Tax Rate Variable in Elasticity Equation</i> | | | |
| Srivastava (1975) | 1961-62 to 1972-73 | 1.00 | Progressive rate structure is represented by an estimated initial rate and an incremental factor. |
| <i>C Estimates Based on Constant Rate-Base Method</i> | | | |
| Gulati (1962) | 1949-50 to 1958-59 | 2.70 | At the rate structure of 1958-59. Based on data corresponding to first and last years of the reference period. |
| Gupta (1975) ³ | 1951-52 to 1964-65 | 0.63 | At the rate structure of 1954-55 with exemption limit at Rs 4200 and Rs 3000 respectively. |
| Gupta and Aggarwal (1982) ⁴ | 1954-55 to 1964-65 | 0.53 | At the rate structure of 1972-73 |
| | 1965-66 to 1975-76 | 0.56 | At the rate structure of 1974-75 |
| | 1954-55 to 1964-65 | 0.63 | |
| | 1965-66 to 1975-76 | 0.58 | |
| Rao (1987) ⁵ | 1953-54 to 1974-75 | 0.91 | At the rate structure of 1961-62 |
| | | 0.92 | At the rate structure of 1974-75 |
| <i>D Estimates Based on Cross-Section Data</i> | | | |
| Rao (1987) | 1961-62 | 1.33 | |
| | 196-67 | 1.35 | |
| | 1971-72 | 1.51 | |
| | 1974-75 | 1.36 | |

Notes: 1 Budget estimates of revenue effects of discretionary changes made in different years ignore the revenue effects of some of the discretionary changes on the optimism that the effect would be compensated for by better tax compliance. In the absence of any evidence in favour of such an optimism, Bagchi and Rao have accounted for also the revenue effects of such discretionary changes and obtained three alternative sets of estimates of the revenue effects.

2 Aggarwal used three alternative sets of revenue effects. First, as per the budget estimates, second, accounts for also the revenue effects of the change made outside the budget, third, accounts for also the revenue effects ignored on the optimism of better tax compliance, but only to the extent of 50 per cent of such revenue effect.

3 Elasticity estimates by Gupta (1975) are with respect to assessed income, whereas by others are with respect to GDP at factor cost (at current prices).

4 Covers the categories of taxpayers: Individuals, Hindu undivided families, unregistered firms, and associations of other persons.

5 Covers only individuals and Hindu undivided families.

come classes. In estimating hypothetical tax revenue with the tax structure of a reference year, the former lays emphasis on imposing the distribution of income of the reference year in all the years in the reference period while the latter stresses imposing the ratios of deductions to incomes by income classes in the reference year, in each of the years in the reference period. The method based on highly disaggregative data applies legal tax structure of the reference year to the incomes of each of the taxpayers in each of the years in the reference period. It is implicitly assumed in the constant rate-base methods that the distribution of income within an income class remains unchanged over time. If this assumption is violated then these methods may give a distorted series of hypothetical tax yield that may result in a misleading estimate of elasticity.

The method based on adjustment of estimate of buoyancy was proposed by Choudhry (1979). It derives a 'divisia index' on the basis of historical data on the tax yield. This index is used to adjust buoyancy

of the tax to obtain an estimate of elasticity. This method can be said to suffer from two major limitations. First, it can underestimate the positive revenue effects and overestimate the negative revenue effects. Second, it may not give satisfactory results when the effects of the discretionary changes are of large magnitude.

III Proposed Modification in Constant Rate-Base Method

Depending on the available data, the constant rate-base method based on data grouped by income classes is applied in this study for estimating series of hypothetical tax revenue at a constant rate structure. However, the method based on grouped data, as generally applied, ignores changes, over time, in the distribution of income within the income classes. We have modified the rate-base method to account for these changes. The changes in per capita income of the taxpayers in a given income class, over time, are taken to reflect changes in the distribution of income among the taxpayers within the income class. Therefore, even the modified method would not correct for a change in the distribution of income that would not change per capita income of the taxpayers. But such a change is unlikely to have a significant impact on the tax yield. The modified rate-base method as applied in the current study is described below. This method involves the following four steps in estimating a series of hypothetical tax revenue at a given rate structure:

- (i) obtaining average tax rates and average incomes by income classes in different years;
- (ii) estimation of hypothetical average tax rates by income classes in different years at the rate structure of the reference year;
- (iii) estimation of hypothetical tax revenue by income classes in different years at

the rate structure of the reference year; and

- (iv) obtaining the time series of hypothetical tax revenue at the rate structure of the reference year.

The following notations are used in describing these steps:

- n = number of years in the reference period
- k = number of income classes
- N = number of taxpayers
- TI = taxable income
- TR = tax revenue
- ATI = average taxable income
- ATL = average tax liability
- ATR = average tax rate
- ATR^* = estimated hypothetical tax rate at the rate structure of a reference year
- TR^* = estimated hypothetical tax revenue at the rate structure of a reference year.

Scripts i ($=1, 2, 3, \dots, n$) and j ($=1, 2, 3, \dots, k$) would be used for i th year and j th income class respectively, e.g., TI_{ij} would denote taxable income of the j th income class in the i th year.

(i) Steps 1 and 2

Average tax rate and average taxable income of different income classes can be obtained for each of the years in the reference period, as follows:

$$ATR_{ij} = TR_{ij}/TI_{ij} \quad \dots(4)$$

$$ATI_{ij} = TI_{ij}/N_{ij} \quad \dots(5)$$

If, over time, distribution of taxable income within each income class remains unchanged, then the average tax rates corresponding to a reference year as given by equation (4) can be taken as the average tax rates applicable to the other years at the rate structure of the reference year. However, if distribution of taxable income within an income class does not remain unchanged, then for that income class the average tax rate at the rate structure of the reference year need be estimated by accounting for the change in distribution of taxable income within the income class. For estimating such hypothetical average tax rates, we assume that for fixed income brackets, change in the distribution of taxable income within an income class is appropriately reflected in change⁶ in the average income of the income class. So the average tax rates, at the rate structure of a reference year, applicable to an income class in different years can be estimated by accounting for the change in average taxable income of the income class.

The hypothetical average tax rates can be estimated on the basis of a relationship between the average tax rate and average taxable income at the rate structure of the reference year. For r th year as the reference year, this relationship may be estimated by fitting the following specifications of an average tax rate function:

$$ATR_{ij} = \alpha_1 + \beta_1 ATI_{ij} + \tau_1 (1/ATI_{ij}) \dots(6)$$

$$\text{Log } ATR_{ij} = \alpha_2 + \beta_2 \text{Log } ATI_{ij} + \tau_2 (1/ATI_{ij}) \quad (7)$$

TABLE 2: RANGE OF AVERAGE INCOMES AND AVERAGE TAX RATES OF INDIVIDUAL TAXPAYERS BY INCOME CLASSES (1966-67 TO 1983-84)

| Income Class (Rs Thousand) | Range of Average Taxable Income (Rs Thousand) | Range of Average Tax Rates (Per Cent) |
|----------------------------|---|---------------------------------------|
| (1) | (2) | (3) |
| 15-20 | 16.83 - 17.87 | 6.92 - 12.72 |
| 20-25 | 21.89 - 22.37 | 11.64 - 16.74 |
| 25-30 | 27.01 - 27.50 | 15.62 - 20.47 |
| 30-40 | 34.12 - 37.73 | 22.07 - 26.77 |
| 40-50 | 44.01 - 45.43 | 25.36 - 34.57 |
| 50-70 | 57.42 - 58.78 | 32.23 - 42.42 |
| 70-100 | 81.27 - 82.76 | 39.30 - 51.28 |
| 100-200 | 123.86 - 133.66 | 49.28 - 65.04 |
| 200-300 | 234.65 - 244.45 | 52.52 - 74.81 |
| 300-400 | 337.21 - 347.10 | 49.06 - 75.79 |
| 400-500 | 436.00 - 461.54 | 50.54 - 80.15 |
| Above 500 | 903.03 - 2050.96 | 63.49 - 87.64 |
| All | | 13.23 - 19.58 |

TABLE 3: ESTIMATES OF PARAMETERS OF THE EQUATION OF AVERAGE TAX RATE AT THE RATE SCHEDULE OF 1983-84

| Equation No | Dependent Variable | Constant Term | Average Taxable Income | Log of Average Taxable Income | Inverse of Average Taxable Income | R ² | Range of Deviation of Estimated Values from Actuals (Per Cent) |
|-------------|--------------------|---------------------|------------------------|-------------------------------|-----------------------------------|----------------|--|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| i | Log ATR | 4.04867 (18.83) | | 0.01151 (0.32) | 35.71960 (13.30) | 0.99 | (12,13) |
| ii | Log ATR | 1.40934 (3.94) | | 0.43447 (5.78) | | 0.75 | (51,44) |
| iii | ATR | 47.94967 (21.87) | 0.01322 (4.46) | | 791.01408 (11.23) | 0.96 | (14,260) |
| iv | ATR | 27.82315 (6.00) | 0.03061 (3.30) | | | 0.48 | (-76,55) |

Notes: 1 Estimates are based on cross-section of income classes for the relevant assessment year.
2 Estimates correspond to the taxpayers with taxable income greater than Rs 15,000
3 Figures in parentheses give t-statistic.

These specifications allow the average tax rate to vary with average taxable income. These specifications are thought appropriate as the average tax rate at high income levels is expected to rise with income. It is so, because of lower increase in marginal tax rates with increase in income at high levels of income and because of ceiling on maximum marginal tax rate in general. The choice between these specifications has to depend on the parameter estimates and allied statistics.

Let us denote the estimated values of α_1 , β_1 , τ_1 , α_2 , β_2 , and τ_2 at the rate structure of the reference year by α_1^* , β_1^* , τ_1^* , α_2^* , β_2^* and τ_2^* respectively. Now, the estimates of average tax rates in each of the years at the rate structure of the reference year can be obtained by simulating these specifications as follows:

$$ATR_{ij} = \alpha_1^* + \beta_1^* AT_{ij} + \tau_1^* (1/AT_{ij}) \quad (8)$$

$$\log ATR_{ij} = \alpha_2^* + \beta_2^* \log AT_{ij} + \tau_2^* (1/AT_{ij}) \quad (9)$$

ATR_{ij} can be obtained with the empirically preferred specification of the average tax rate function.

(ii) Steps 3 and 4

Tax revenue of an income class, in different years, at the rate structure of the reference year by accounting for the change in distribution of taxable income in the income class can be obtained as:

$$TR_{ij} = TI_{ij} \cdot ATR_{ij} \quad (10)$$

Tax revenue of the taxpayers of all the income classes can be obtained as:

$$TR_i = \sum_{j=1}^k TR_{ij} \quad (11)$$

TR_i gives the series of hypothetical tax revenue at the rate structure of the reference year.

IV

Data, Limitations and Remedy

The only source of data on income class-wise distribution of the taxpayers in India is *All India Income Tax Statistics* (AIITS). The limitations of these data have been widely discussed (see, for example, Gupta and Aggarwal, 1982, Chapter II; and Bagchi and Aggarwal, 1983). These data are based on the assessments completed in a year. These data for a year can be taken to correspond to a fraction of the total number of taxpayers in that year and these relate to the incomes earned in the previous year.

The fraction of total number of taxpayers covered in AIITS has not remained unchanged over time. So the time series of hypothetical tax revenue require adjustments. The adjustment multiplier for the i th year ' M_i ' can be taken as the ratio of total number of taxpayers (N_i^*) to those covered in AIITS (N_i) in the i th year (i.e., $M_i = N_i^*/N_i$). For this purpose, the data on the total number of taxpayers in the books of the department at the end of a year are taken from the *Report of the Comptroller and Auditor General of India, Direct Taxes*

V

Reference Period, Coverage and Rate Structure

Reference period is taken from 1966-67 to 1983-84. Prior to 1966-67, the legal definition of taxable income differed significantly from that in the later years, and 1983-84 is the latest year for which comparable data are available. From 1984-85, the data published are return-based instead of assessment-based, i.e., the published data are based on the information as furnished by the taxpayers instead of information on the taxpayers after their assessments are completed. AIITS was not published for the years 1971-72 and 1973-74. Excluding these two years, our reference period covers 16 years.

The study covers the single major category of personal income tax payers—'individuals'. These account for more than 90 per cent of the number and taxable income of all the taxpayers.

Estimates of elasticity are obtained at the rate structure of the latest year in the reference period, i.e., 1983-84. During the reference period, the exemption limit for individuals has been raised from Rs 4,000 to Rs 15,000. It was Rs 15,000 in the assessment year 1983-84.

VI

Estimation of Series of Hypothetical Tax Revenue at Rate Structure of 1983-84

The estimates of series of hypothetical tax revenue at the rate structure of 1983-84 are obtained in the following two stages:

(i) Estimates of Average Taxable Income

Average taxable income of each income class is computed for different years in the reference period. In each income class, a substantial variation in average taxable income over time is observed—the variation is specifically marked in the high level income classes. The range of variation in the average taxable income, in the income classes Rs 15-20 thousand, Rs 30-40 thousand, Rs 100-200 thousand, and above Rs 500 thousand was Rs 16.83-17.83 thousand, Rs 34.12-37.13 thousand, Rs 123.86-133.66 thousand and Rs 903.03-2050.96 thousand respectively (Table 2, column 2). This suggests that the distribution of income within the income classes has not remained unchanged over time. This would have caused substantial variation over time in the average tax rate of an income class even at an unchanged rate structure. Therefore, we have estimated hypothetical tax rates for each of the income classes in different years at the rate schedule of a reference year by accounting for changes in the distribution within the income classes.

(ii) Estimates of Hypothetical Average Tax Rates and Tax Revenue

Average tax rate is obtained for each in-

period. As one would have expected, the average tax rate of each income class has shown wide variation over time (Table 2, column 3).

For estimating hypothetical average tax rates, equations 6 and 7 are estimated with and without the inverse of average income variable with the cross-section of income classes for the year 1983-84. The parameter estimates alongwith allied statistics are given in Table 3.

TABLE 4: RANGE OF ESTIMATED HYPOTHETICAL AVERAGE TAX RATES OF INDIVIDUAL TAXPAYERS AT THE RATE SCHEDULE OF 1983-84, DURING 1966-67 TO 1983-84 BY INCOME CLASSES

| Income Class (Rs Thousand) | Range (Per Cent) |
|-------------------------------|---------------------|
| 15-20 | 7.02 - 8.03 |
| 20-25 | 11.62 - 12.03 |
| 25-30 | 15.87 - 16.25 |
| 30-40 | 20.96 - 23.19 |
| 40-50 | 26.59 - 26.88 |
| 50-70 | 32.24 - 32.72 |
| 70-100 | 38.85 - 39.17 |
| 100-200 | 45.41 - 46.42 |
| 200-300 | 52.42 - 52.76 |
| 300-400 | 55.13 - 55.32 |
| 400-500 | 56.66 - 56.93 |
| Above 500 | 59.65 - 61.40 |

TABLE 5: ADJUSTMENT MULTIPLIERS OF INDIVIDUALS TO CORRECT FOR VARIED COVERAGE OF THE TAXPAYERS IN DIFFERENT YEARS

| Year | Total No of Taxpayers (Thousand) | Taxpayers Covered in AIITS (Thousand) | Adjust- ment Multipliers of Indi- viduals (2)/(3) |
|---------|---|--|--|
| (1) | (2) | (3) | (4) |
| 1966-67 | 2234 | 1586 | 1.409208 |
| 1967-68 | 2214 | 1510 | 1.466258 |
| 1968-69 | 2146 | 1753 | 1.224515 |
| 1969-70 | 2366 | 1793 | 1.319778 |
| 1971-72 | 2569 | 1967 | 1.306296 |
| 1972-73 | 2692 | 1966 | 1.369066 |
| 1974-75 | 2885 | 2119 | 1.361128 |
| 1975-76 | 2981 | 2131 | 1.399013 |
| 1976-77 | 2877 | 2139 | 1.344958 |
| 1977-78 | 3038 | 2228 | 1.363668 |
| 1978-79 | 3052 | 1667 | 1.831141 |
| 1979-80 | 3160 | 1549 | 2.040309 |
| 1980-81 | 3489 | 1237 | 2.821003 |
| 1981-82 | 3521 | 1200 | 2.934072 |
| 1982-83 | 3612 | 1055 | 3.423878 |
| 1983-84 | 3638 | 886 | 4.103614 |

Note: The decline in the number of taxpayers covered in AIITS during the period 1977-78 to 1983-84 is attributable to the departmental policy to allocate relatively lesser resources for compilation of income tax statistics.

Source: For column (2) *Report of the Comptroller and Auditor General of India* for different years, and for column (3) *All India Income Tax Statistics* for dif-

From Table 3 it would be noted that the parameter estimates of both the specifications of the tax rate function are significant at 99 per cent level of confidence. As expected, in both the specifications, the variable—inverse of average taxable income—is an important variable, as dropping it from the specifications leads to substantial reduction in their explanatory powers (column 6). So the specifications with the inverse variable are preferable to those without it. Between equations 6 and 7, the latter gives better fit in terms of explanatory power of the equations, and the range of deviation of

simulated values from the actual values of the average tax rates (columns 6 and 7). This suggests that equation 7 is preferable to equation 6. Therefore, equation (i) is used for estimating hypothetical average tax rates in different years at the rate schedule of the assessment year 1983-84. The ranges of estimates of hypothetical average tax rates by income classes, thus obtained at the rate schedule of the year 1983-84, are given in Table 4.

From Table 4 it may be noted that hypothetical average tax rate of an income class has shown a substantial variation during the

reference period. The ranges of variation in the hypothetical average tax rates for the income classes Rs 15-20 thousand, Rs 100-200 thousand, and above Rs 500 thousand are respectively 7.02-8.03 per cent, 45.41-46.42 per cent and 59.65-61.50 per cent. This suggests that failure of the earlier researchers to account for this variation in the average tax rate of an income class might have introduced an unknown distortion in their series of estimated hypothetical tax revenue at a constant rate structure and hence in their estimates of elasticity of the tax.

Hypothetical tax revenue in different income classes of the taxpayers, with taxable income exceeding Rs 15,000⁵ in each of the years in the reference period, at the rate schedule of 1983-84 is obtained by using the hypothetical average tax rates in equation 10. Hypothetical tax revenue in a year is obtained by adding the hypothetical tax revenue in different income classes. This gives a time series of hypothetical tax revenue at the rate schedule of 1983-84.

Hypothetical tax revenue as well as taxable income of different years is not comparable over time because of variation in coverage of the taxpayers in different years. These series need to be corrected. This is done by multiplying the revenue and taxable income in a year by the adjustment multiplier which is the ratio of total number of taxpayers in a year to the number of taxpayers covered in our data set. The adjustment multipliers of individuals computed for different years are presented in Table 5 (column 3). The corrected series of taxable income and of hypothetical tax revenue are given in Table 6 along with gross domestic product (GDP) at factor cost and current prices (with one-year lag). Gini index of taxable income of individuals is estimated based on the distribution of taxpayers into the same set of 14 income classes in each year in the reference period. The 14 income classes comprise 12 income classes as listed in Table 2, and the other two income classes as nil to Rs 10,000, and Rs 10,000 to Rs 15,000. Gini indices are estimated by accounting for inequality within the income classes. This has been done, following Aggarwal (1990) and Kakwani (1980, Chapter 6), on the assumption of linear density functions within the income classes.⁶ Lower and upper values of the estimates were obtained to test for goodness of fit of the linear density functions. The estimated values of Gini index were found to lie between their lower and upper values implying that the assumption of linear density functions within the income classes is not unrealistic. These values of Gini index (G) along with its lower (GL) and upper (GU) values are given in columns 5 to 7 in Table 6.

TABLE 6: ESTIMATES OF TAXABLE INCOME, HYPOTHETICAL TAX REVENUE AT THE RATE SCHEDULE OF 1983-84, NATIONAL INCOME AND GINI INDEX OF TAXABLE INCOME

| Assessment Year | Taxable Assessed Income (Rs Crore) | Hypothetical Tax Revenue at the Rate Schedule of 1983-84 (Rs Crore) | Gross Domestic Product at Factor Cost at Current Prices (Rs Crore) | Gini Index of Taxable Income | | |
|-----------------|------------------------------------|---|--|------------------------------|---------------------|------------------|
| | | | | Lower Value (GL) | Estimated Value (G) | Upper Value (GU) |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1966-67 | 835.00 | 191.02 | 22030.00 | 0.35018 | 0.44396 | 0.49406 |
| 1967-68 | 916.27 | 213.69 | 25480.00 | 0.36114 | 0.44502 | 0.49078 |
| 1968-69 | 998.71 | 221.27 | 29870.00 | 0.35883 | 0.42570 | 0.46427 |
| 1969-70 | 1136.55 | 251.32 | 30548.00 | 0.35915 | 0.42126 | 0.45793 |
| 1971-72 | 1475.14 | 324.37 | 36736.00 | 0.36671 | 0.41102 | 0.43923 |
| 1972-73 | 1159.32 | 258.43 | 39274.00 | 0.33444 | 0.39636 | 0.43524 |
| 1974-75 | 1347.32 | 275.60 | 53826.00 | 0.32540 | 0.37320 | 0.40559 |
| 1975-76 | 1579.71 | 310.33 | 63342.00 | 0.32001 | 0.35411 | 0.38167 |
| 1976-77 | 2012.28 | 419.60 | 66630.00 | 0.34090 | 0.36065 | 0.37804 |
| 1977-78 | 2277.15 | 457.49 | 71665.00 | 0.31837 | 0.33123 | 0.34568 |
| 1978-79 | 3090.79 | 611.66 | 80931.00 | 0.30506 | 0.31610 | 0.32363 |
| 1979-80 | 3416.41 | 685.39 | 87214.00 | 0.29536 | 0.30840 | 0.31588 |
| 1980-81 | 4260.41 | 889.27 | 95358.00 | 0.31043 | 0.32260 | 0.32934 |
| 1981-82 | 4482.10 | 925.81 | 113548.00 | 0.29981 | 0.31246 | 0.31888 |
| 1982-83 | 5836.87 | 1119.08 | 130770.00 | 0.28229 | 0.29120 | 0.29598 |
| 1983-84 | 7233.83 | 1503.27 | 145961.00 | 0.31433 | 0.32181 | 0.32569 |

Notes: 1 Gross Domestic Product (GDP) shown against the *i*th assessment year corresponds to the (*i*-1)th financial year, i.e., column 4 gives one year lagged values of GDP.

2 Gini index of taxable income of individuals is estimated based on the distribution of taxpayers into the same set of 14 income classes in each year. The 14 income classes comprise 12 income classes as listed in Table 2, and the other two income classes as nil to Rs 10,000, and Rs 10,000 to Rs 15,000.

TABLE 7: ESTIMATES OF ELASTICITY OF PERSONAL INCOME TAX

| Eq No | Constant Term | Coefficient of Log of | | | R ² | DW-Statistics |
|-------|--------------------|-----------------------|---------------------|------------------|----------------|---------------|
| | | GDP | Taxable Income (TI) | Gini Index (G) | | |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| (i)** | -8.4799 (3.91) | 1.4900 (6.23) | | 1.7835 (2.04) | 0.96 | 1.98 |
| (ii)* | -6.8213 (2.38) | 1.1722 (4.64) | | | 0.95 | 1.48 |
| (iii) | -1.3845 (17.86) | | 1.0630 (49.81) | 0.6441 (6.21) | 0.99 | 1.72 |
| (iv)* | -1.2315 (5.17) | | 0.9567 (31.37) | | 0.99 | 1.87 |

Notes: ** Estimated by Cochrane-Orcutt method that adjusts for serial correlation of first order.

* Estimated by Cochrane-Orcutt method that adjusts for serial correlation of second order.

1 Figures in parentheses give t-statistic.

2 All the elasticity estimates are significant at 99 per cent level of confidence.

VII

Estimates of Elasticity of Tax

Estimates of elasticity of the tax are obtained by estimating the following two specifications of the tax function (3) with

exclusion of tax rate variable:

$$\text{Log TR}_i^{**} = \alpha_1 + \beta_1 \text{Log GDP}_{i-1} + \tau_1 \text{Log G}_i \quad (12)$$

$$\text{Log TR}_i^{**} = \alpha_4 + \beta_4 \text{Log GDP}_{i-1} \quad (13)$$

where TR_i^{**} is corrected hypothetical tax revenue in the i th year at the rate schedule of the year 1983-84 β_3 and β_4 can be interpreted respectively as partial and total elasticities of the tax with respect to GDP

Both the equations 12 and 13 are estimated by Ordinary Least Squares method. In case of problem of serial correlation, an equation has been re-estimated by Cochrane-Orcutt iterative method that adjusts for serial correlation. All the parameter estimates of equations 12 and 13 along with allied statistics are given in Table 7. Estimates of partial and total elasticities of the tax with respect to taxable income are also obtained by re-estimating equations 12 and 13 by replacing GDP_{i-1} by taxable income of the i th year. These are also reported in Table 7.

From Table 7, it would be noted that partial elasticity of the tax with respect to in-

equality in the distribution of taxable income is significantly positive (column 4), with all the income variables used. This suggests that the decline in inequality in taxable income during the reference period would have had negative impact on the total elasticity of the tax. If the distribution of taxable income had remained unchanged during the reference period then the total elasticity of the tax with respect to GDP would have been around 1.49 instead of 1.17 (equations (i) and (ii), column 2). These findings are also supported by the estimates of elasticity with respect to taxable income. If the distribution of taxable income had remained unchanged during the reference period, then the total elasticity of the tax with respect to taxable income would have been around 1.06 instead of 0.96 (equations (iii) and (iv), column 2). This implies that the government policies directed at mitigating inequality in the distribution of income in general and in the distribution of taxable income in particular dampen growth of the tax yield. This seems to be an important ingredient for tax revenue forecasting exercises,

that has so far been ignored or its effect has not been made explicit.

VIII

Conclusions

A change in inequality in the distribution of income is found to have significant impact on growth of revenue from the personal income tax. A rise (decline) in the inequality increases (decreases) the tax yield. The decline in inequality in the distribution of taxable income during 1966-67 to 1983-84 had substantial negative impact on elasticity of the personal income tax. The effect of inequality in income distribution on the tax yield has implications for forecasting the tax yield. Therefore, this effect should be explicitly taken into account in the tax revenue forecasting exercises.

If the inequality in income distribution can be held constant, then the total elasticity of the personal income tax with respect to GDP can be taken to be around 1.49, and if it is expected to decline at a rate lower than

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that in the reference period, then it would be in the range 1.17 to 1.49. Further, if the inequality is expected to decline at a rate higher than that in the reference period, then the elasticity of the tax may be well below 1.17.

Notes

[I have benefited from many discussions on the topic with R K Das, Amarendra Bagchi, Pulin B Nayak and Shyam Nath. My thanks are due to Praveen Kumar, S N Sharma and Promila Rayvanshi for adept secretarial assistance.]

- 1 The elasticity of a tax reveals how the tax yield at a constant tax structure grows in response to growth in national income or the tax base. It is defined as the ratio of proportional change in the tax yield at a constant tax structure to the proportional change in national income or the tax base.
- 2 Buoyancy of a tax is defined as the ratio of proportional change in the historical tax yield to the proportional change in national income.
- 3 There is another approach to calculating elasticity that gives, year by year, point elasticity. This method of calculating elasticity assumes equiproportionate growth in incomes of all the persons, and that the income growth does not affect their marginal tax rates. For an exposure to this method of calculating elasticity see Fries, Hutton and Lambert (1982), and Hutton and Lambert (1980).
- 4 The type of change in the distribution of taxable income within an income class that would not be affecting the average taxable income of the income class is unlikely to have any significant impact on average tax rate of the income class, at an unchanged tax structure.
- 5 Rs 15,000 was the exemption limit in the assessment year 1983-84.
- 6 Suppose there are n taxpayers that are grouped into k income classes, $(x_0 \text{ to } x_1)$, $(x_1 \text{ to } x_2)$, ..., $(x_{k-1} \text{ to } x_k)$. Let n_i and y_i denote number and income of taxpayers in the i th income class. Further, let f_i and p_i denote proportions of number of taxpayers in and up to the i th income class respectively. The formula used for computation of Gini index, based on the assumption of a separate linear density function within each income class which exactly fits the data points, is

$$G = GL + \frac{1}{\mu} \sum_{i=1}^k f_i^2 \mu_i G_i$$

where

$$GL = 1 - \sum_{i=1}^k f_i (q_i + q_{i-1})$$

$$f_i = n_i/n$$

$$\mu_i = y_i/n_i$$

$$\mu = y/n$$

$$y = \sum_{i=1}^k y_i$$

$$q_i = \frac{1}{\mu} \sum_{j=1}^i f_j \mu_j, \quad i = 1, 2, \dots, k$$

$$G_i = (2/15) (\Delta x_i / \mu_i) (9 d_i + 9 d_i^2), \quad i = 1, 2, \dots, k-1$$

$$G_k = (\mu_k - x_k) / (\mu_k + x_k)$$

$$\Delta x_i = x_i - x_{i-1}$$

$$d_i = (\mu_i - x_{i-1}) / \Delta x_i$$

GL gives an estimate of income inequality (G) based on the assumption that inequality of income within each income class is zero. The test of goodness of fit of the linear density functions within the income classes is conducted on the basis of the following inequality

$$GL < G < GL + D$$

Where D_i for the last income class is open ended class is given as

$$D = \left\{ \sum_{i=1}^k f_i^2 (\Delta x_i d_i (1 - d_i) + f_k (\mu_k - x_{k-1})) \right\}$$

The estimate of G satisfying the above inequality would mean that the fit is satisfactory. For an exposition to the above formulae see, for example, Aggarwal (1990), Gastwirth (1972), and Kakwani (1976).

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HOECHST INDIA LIMITED

FORM 11 A

(See Rule 4A(1))

Form of general notice to be given to the members of the public before making an application to the Central Government under sub-section (2) of Section 22 of the Monopolies & Restrictive Trade Practices Act, 1969

NOTICE

It is hereby notified for the information of the public that HOECHST INDIA LIMITED proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of Section 22 of the Monopolies & Restrictive Trade Practices Act, 1969 for approval to the establishment of a new undertaking/unit/division. Brief particulars of the proposal are as under —

1. Name and address of the applicant
Hoechst India Limited
Hoechst House, Nariman Point
193, Backbay Reclamation,
Bombay 400 021
2. Capital Structure of the applicant Organisation
Authorised capital
Rs 100,000,000 divided into 1,000,000 Equity shares of
Rs 100/- each
Issued, Subscribed and Paid-up Capital
Rs 95,769,000 divided into 957,690 Equity shares of
Rs 100/- each
3. Management Structure of the applicant Organisation
indicating the names of the directors, including
managing/wholtime directors and manager, if any
The Company is managed by the Managing Director under
the overall supervision and control of the Board of
Directors
Names of Directors
Mr Vijay Maliya (Chairman)
Dr E Baltin (Managing Director)
Mr S V Divecha
Mr C L Jain (Whole-time Director)
Dr H G Janson
Dr J Reden
Mr U Seitz
Mr H J Timmer
Mr P N Venugopalan
Mr V L Schmidt
(Alternate Director to Dr H G Janson)
Mr K K Unni (Wholtime Director)
(Alternate Director to Mr H J Timmer)
4. Indicate whether the proposal relates to the establish-
ment of a new undertaking or a new unit/division
The proposal relates to the manufacture of new Articles in
the existing manufacturing plant
5. Location of the new undertaking/unit/division
Mulund
District Greater Bombay
Maharashtra State
6. In case the proposal relates to the production, storage
supply, distribution, marketing or control of any
goods/articles indicate
i) Name of goods/articles
ii) Proposed licensed capacity
iii) Estimated annual turnover
BATRAFEN (Ciclopriox Olamine) CREAM and SOLUTION
Will be manufactured within the installed capacity available
in Mulund, Greater Bombay, Maharashtra State for
Ointments/Liquid Orals
Rs 140 crores approximately
7. In case the proposal relates to the provision of
any services, state the volume of activity in terms of
usual measures such as value, income turnover, etc
Not Applicable
8. Cost of the Project
NIL Since formulation activity will be undertaken within
the existing facilities for Ointments/Liquid Orals available in
Mulund as stated above
9. Scheme of finance indicating the amounts to be
raised from each source
Not Applicable

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Government of India, Ministry of Industry, Department of Company Affairs, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein

HOECHST INDIA LIMITED

Sd/-

K SUBRAMANI
COMPANY SECRETARY

Dated this 19th day of July 1991

Depreciation Restriction

Revenue Potential and Impact on Corporate Sector

K C Sharma

This paper examines the government's decision, taken in December last year, to limit allowable depreciation to 75 per cent of the amount calculated under the Income Tax Act and attempts to assess (a) the extent of corporate tax revenue which could have accrued from this measure if all the existing leakages in the corporate tax system had been plugged, and (b) its impact on the level of gross saving of the corporate sector. It is argued that the revenue raising potential of this measure was largely frittered away in 1990-91 due to the availability of many tax offsetting provisions in the present corporate tax system and the author attempts to identify the major leakages and suggests measures to plug them. It is also suggested that this measure of disallowance of depreciation be tried again in 1991-92 after removing the identified leakages.

THE government of India had announced on December 27, 1990 that the allowable depreciation on the written down value of block of assets would be limited to 75 per cent of the amount calculated under the Income Tax Act and had estimated additional resource mobilisation of Rs 750 crore from this measure during 1990-91. The government had earlier hiked the surcharge on corporate income tax from 8 per cent to 15 per cent and had estimated accretion of Rs 400 crore from that measure. These corporate tax measures together aimed at mobilising Rs 1,150 crore were taken on top of the two main steps of abolition of investment allowance/IDBI deposit account scheme and reduction in the basic tax rates by 10 percentage points in the union budget, 1990-91, which were expected to generate additional revenue to the tune of Rs 800 crore and yield total corporate tax revenue of Rs 6,089 crore in 1990-91 under the new dispensation as against Rs 5,289 crore under the old tax structure. Inclusive of the two post-budget corporate tax measures mentioned above, the government had evidently taken steps to raise corporate tax revenue of Rs 7,239 crore in 1990-91.

Against the envisaged corporate tax collection of this order in 1990-91, the interim central budget for 1991-92 has presented only the original budget estimate of corporate tax revenue of Rs 6,089 crore for 1990-91 and the revised estimate of Rs 6,350 crore. In his budget speech, the union finance minister had attributed the additional corporate tax collection of Rs 261 crore over the budget estimate largely to the post-budget additional resource mobilisation during 1990-91. The budget papers, on the other hand, state that the revised estimate of corporate tax collection has been arrived at after taking into account the changes made through the Taxation Laws (Amendment) Act, 1991 which includes the depreciation restriction measure. Therefore, in the absence of any explicit reference in the union budget to the extent of accretion to corporate tax revenue from this measure, it is difficult to ascertain its likely contribution to the exchequer. But since the post-budget hike in surcharge on corporate income tax by seven per cent would have anyway yielded revenue to the extent of at least Rs 328 crore (total collection from 15 per cent surcharge being Rs 702 crore as per revised estimate in the interim

budget) and also because there are many tax offsetting provisions in the current corporate tax structure to have permitted depreciation restriction measure to yield the requisite additional revenue, its implication for the economy need to be carefully examined. Moreover, the latest available data on net corporate tax collection in 1990-91 has reportedly shown actual corporate tax revenue at around Rs 5,300 crore because of the higher order of refunds disbursed in 1990-91 amounting to Rs 2,032 crore relating to the accounting year 1989-90 as against Rs 1,150 crore refunded in 1989-90 pertaining to 1988-89. But for the sharp rise in refunds by Rs 882 crore in 1990-91, the corporate tax revenue would have aggregated Rs 6,182 crore.

This paper attempts to assess (a) the extent of corporate tax revenue which could have accrued from this measure specifically if all the existing leakages in the corporate tax system had been plugged, and (b) its impact on the level of gross saving of the corporate sector. Since the revenue raising potential of this measure was largely frittered away in 1990-91 due to availability of the many tax offsetting provisions inherent in the present corporate tax system, this paper also attempts to identify the major leakages and suggests measures to plug them. It also suggests that this measure of disallowance of depreciation to the extent of 25 per cent for tax computation be tried again in 1991-92 after removing the identified leakages in order to realise the full revenue potential of this measure for meeting increased revenue requirements. However, before dealing with this subject, it is essential to first deliberate as to what the restriction on allowable depreciation implies.

The paper has been divided into six sections. Section I deals with the implications of the measure of restriction on allowable depreciation for the prevailing rates of depreciation. Section II spells out the methodology used for computing the additional corporate tax revenue which could have been raised from this measure in 1990-91 if leakages had been sealed. Section III details the actual computations of additional corporate tax revenue based on the available data. Section IV sets out the impact of the diversion of resources from the corporate sector to the government by way of additional tax revenue on the gross saving

of that sector. Section V identifies the various leakages in the present corporate tax structure, which would first need to be sealed before the requisite revenue could accrue from this measure if this measure was to be extended to 1991-92 and Section VI summarises the conclusions.

I

Implication of Depreciation Allowance Restriction

Depreciation allowance is allowed to be deducted from the gains of business or profession in order to provide for replacement cost of assets which are used up in the course of carrying on of such business or profession. Depreciation allowance therefore provides a cover against the diminishing value of assets on account of their wear and tear over a certain specified period which may broadly correspond to the pre-determined life of an asset.

Ordinarily a company is allowed to charge depreciation on its fixed assets broadly by using two methods, viz, the written down value method and the straight line method which are also known as 'declining balance method' and 'sum-of-digits' or 'fixed instalment method'. The written down value method has an advantage over the straight line method in so far as it enables a company to charge more depreciation in the earlier years of the use of an asset than in the later years. Thus it provides for accelerated depreciation in the earlier stage and helps the company to recover a major portion of its investment in plant and machinery at a speedier pace and leads to greater generation of internal resource which would have otherwise gone toward tax payments.

The Income Tax Act prescribes rates of depreciation according to the written down value method to enable speedier recovery of cost of assets by the assessee with a view to promoting investment. The Companies (Amendment) Act, 1988, on the other hand lays down different rates of depreciation according to the written down value method as well as the straight line method for presentation of books of accounts. The Companies Act, 1956 already allows further flexibility to the companies to compute their profit separately under section 205 for payment of

dividend and under section 350 for payment of remuneration to the directors, manager, etc. of the company. Under section 205, the Central Government can also allow a company to pay dividend for any financial year out of the profits of the company for that year or any previous financial year without providing for depreciation. A comparative picture of the rates of depreciation which are broadly admissible under the Income Tax Act and the Companies (Amendment) Act, 1988 is presented in the annexure.

The restriction on allowable depreciation for various blocks of assets to the extent of 25 per cent in 1990-91 was applicable for rates admissible under the Income Tax Act. As a result, the rates of depreciation on the specified blocks of plant and machinery given in the annexure against three different slabs of 33.33 per cent, 50 per cent and 100 per cent stood reduced to 25 per cent, 37.5 per cent and 75 per cent respectively. These rates had become admissible with effect from the accounting year 1987-88 when these were hiked from the earlier rates which were spread over five slabs including the general rate of 15 per cent, the special rate of 20 per cent and three other rates of 30 per cent, 40 per cent and 100 per cent. The rates of depreciation on residential and factory buildings and wooden structures had been left unchanged at 5 per cent, 10 per cent and 100 per cent, respectively, since the accounting year 1983-84 but a higher rate of 20 per cent was introduced in 1987-88 for hotels and small dwelling units with plinth area of up to 80 square metres. Similarly while rates of depreciation admissible on vessels ordinarily operating on inland waters were left unchanged at 20 per cent for speed boats and 10 per cent for the other vessels, those on ocean-going ships were hiked from rates ranging from 5 to 10 per cent, to 20 per cent. Therefore the depreciation restriction measure should have reduced all the admissible rates of depreciation by one-fourth and its impact should have been spread over a wide spectrum of industries. However, it is entirely a different matter as to how much of this impact led to correspondingly higher taxable profits of the companies due to several tax offsetting provisions and tax concessions built into the present corporate tax structure. Therefore, the moot question is whether this measure in itself had led to any increase in taxable profits in 1990-91. If the revised budget estimates of corporate tax revenue are any indication, the government expectation of raising additional corporate tax revenue of Rs 750 crore from this measure had largely not materialised.

II

Methodology of Computing Additional Tax Revenue

In order to estimate the amount of additional tax revenue which could accrue to the central government from extending the restriction on admissible depreciation allowance from 1990-91 to 1991-92, it is essential in the first place to estimate the

amount of total depreciation which could have been provided by the private corporate sector and the non-departmental public sector enterprises separately in 1990-91 for computing the same for the entire corporate sector. This can be done by adopting any one of two alternative procedures.

The first method makes use of the available data on total depreciation as published by the Central Statistical Organisation (CSO) for 1987-88 and projects it for 1990-91 on the basis of annual average compound rates of growth for the private corporate sector and non-departmental public sector enterprises witnessed in the preceding three years, which coincide with the first three years of the Seventh Plan.

The second method relies on the projection of the available RBI company finances data on gross fixed assets formation and the average depreciation rate to estimate total depreciation for the private corporate sector (excluding co-operatives) for 1990-91. As regards depreciation provided by the public sector non-departmental enterprises, this has been projected on the basis of average annual compound rate of growth of depreciation provided by the non-departmental enterprises generating surplus internal resources, for which such data are available from the survey of the Bureau of Public Enterprises.

These data on total depreciation for the private corporate sector and public sector non-departmental enterprises generating surplus internal resources would have to be adjusted for estimated depreciation provision made by the loss-making companies. Even if some of these companies made profits in 1990-91, they would have been eligible to set off these profits against losses incurred in the preceding years and as such would not have contributed to the exchequer despite showing taxable profits after implementing depreciation disallowance provision in 1990-91.

Since there is no other reliable parameter to segregate the depreciation provided by profit-making companies from that of loss-making companies at the global level, the ratio of depreciation provision made by the existing profit-making companies to that of all companies covered in the RBI sample studies on company finances has been used. The ratio of depreciation provision of the existing loss-making companies to that of all companies covered in the RBI studies on company finances, which was placed at about 23 per cent in 1985-86, has been rising subsequently due to widespread industrial sickness and stood at 32 per cent in 1987-88. Assuming that this trend would have continued in the subsequent years as well, the ratio of depreciation provision of loss-making companies to all companies could have gone up to 40 per cent in 1990-91. Thus the ratio of depreciation provision as between profit-making and loss-making companies can be taken at 60:40 for 1990-91. This ratio is considered reasonable on other grounds also because each year a substantial portion of the depreciation on on-going new investments in plant and machinery made during the preceding two years or so

would have to be largely excluded by the companies from their depreciation claims as these new investments generally take time to fructify and yield profits to enable the companies to set off their tax liability by filing eligible claims on depreciation. In the absence of any other firm data, the proportion of depreciation eligible for working out tax liability at 60 per cent of the total estimated depreciation seems reasonable.

While these ratios would suffice for obtaining the total depreciation which could have become eligible for computing depreciation disallowance and the consequent additional tax liability in respect of companies in the private corporate sector, similar ratios for the public sector corporate enterprises would have to be worked out in proportion to the depreciation allowance which could have been provided by the profit-making and loss-making companies in that sector in 1990-91. The available data on depreciation provision in respect of non-departmental enterprises in the public sector reveal that the share of depreciation provided by the enterprises generating surplus internal resources to total depreciation provided by all the non-departmental enterprises is 50.4 per cent for the first three years of the Seventh Plan. In the absence of any other reliable data to bifurcate total depreciation of public sector enterprises as between profit-making and loss-making companies therein, the share of depreciation provided by the enterprises generating surplus internal resources to total depreciation provided by the non-departmental enterprises could well represent the respective shares of profit-making and loss-making enterprises at 50:50 for 1987-88. This ratio was expected to come down in 1990-91 as there has been an increase in the losses of loss-making units since 1987-88. Moreover, government investment in public enterprises is generally having longer gestation periods than in the private corporate sector due to the nature of such investment. Therefore, generation of surpluses by the government's recent investments would involve longer time-lags. In the circumstances, the ratio between depreciation provision of profit-making non-departmental enterprises can be placed at 45:55 for 1990-91.

TABLE I: TOTAL DEPRECIATION AS PROVIDED IN BOOKS OF ACCOUNTS
(Rs crore)

| Year | Total Depreciation | |
|----------|--------------------------|------------------------------|
| | Private Corporate Sector | Non-Departmental Enterprises |
| 1984-85 | 3405 | 4307 |
| 1985-86 | 4057 | 4540 |
| 1986-87 | 4478 | 5256 |
| 1987-88 | 5242 | 6410 |
| 1988-89* | 6053 | 7320 |
| 1989-90* | 6989 | 8360 |
| 1990-91* | 7700** | 7200** |

Notes: * Estimated.

** Rounded off to the nearest hundred.

Source: Central Statistical Organisation for data up to 1987-88

Total depreciation projected for the private corporate sector and the non-departmental public sector enterprises has to be segregated for profit-making companies by applying the above given ratios to derive the eligible depreciation which could have qualified for yielding additional tax benefit under the depreciation restriction measure. Detailed computations using the two methods are given in the following section.

III

Estimates of Possible Additional Tax Revenue

(A) ADDITIONAL REVENUE AS PER CSO DATA

The CSO data on total depreciation provided by the companies in their books of accounts in the private corporate sector as well as by non-departmental enterprises in the public sector up to 1987-88 and estimates for the subsequent three years are presented in Table 1.

Total depreciation registered an annual average compound rate of growth of 15.5 per cent in the private corporate sector and 14.2 per cent in non-departmental enterprises during the first three years of the Seventh Plan. Assuming that these growth rates would have been maintained in the next two years of the Seventh Plan, total depreciation would have stood at Rs 6,989 crore for the private corporate sector and Rs 8,360 crore for the non-departmental enterprises in 1989-90 as compared to the level of Rs 5,242 crore and Rs 6,410 crore, respectively, in 1987-88. The Gulf crisis which led to the acute balance of payments situation had a

dampening effect on imports of capital goods. This together with difficult domestic situation and extra-budgetary doses of taxation would have adversely affected the tempo of new investment in the second half of 1990-91. Therefore, the gross fixed assets formation and the resultant rate of growth of depreciation would have decelerated. In fact the deceleration in industrial production and in the incremental bank credit was already in evidence since the first quarter of 1990-91 over that in 1989-90, which may be expected to be reflected in lower rate of growth of new investment. This would have, in turn, reduced the rate of growth of depreciation which may be placed at 10 per cent for 1990-91. Similarly total depreciation that could have been provided by the non-departmental enterprises may also not exceed 10 per cent in 1990-91 due to reports of subdued performance of the public sector units, with the infrastructure sector suffering a severe setback in the second and third quarters of 1990-91 and a general slow down in the public sector investment. The results of public sector enterprises for the first half of 1990-91 have already shown increased losses of loss-making units.

At the above given rates of growth of depreciation, the total depreciation provided by all the companies in the private corporate sector would work out to about Rs 7,700 crore and that by the non-departmental public sector enterprises to about Rs 9,200 crore in 1990-91. Of this, depreciation provided by profit-making companies in the private corporate sector at 60 per cent and that by profit-making non-departmental enterprises at 45 per cent as suggested earlier in the section on

methodology, would yield eligible depreciation of Rs 4,620 crore for the private corporate sector and Rs 4,140 crore for the non-departmental enterprises, which would form the basis for computing exempted and taxable portions of depreciation.

The taxable portion of eligible depreciation at 25 per cent depreciation restriction can thus be estimated at around Rs 1,155 crore for the private corporate sector and Rs 1,035 crore for the non-departmental enterprises, as shown in Table 2. This could have yielded additional corporate tax revenue of Rs 531 crore from the private corporate sector and Rs 476 crore from the non-departmental public sector enterprises, together accounting for Rs 1,007 crore, composed of Rs 876 crore at the basic tax rate of 40 per cent and Rs 131 crore at 15 per cent surcharge thereon, of which Rs 61 crore could have accrued from hike in surcharge by 7 per cent.

Thus whichever of the two methods is applied for working out the feasible additional tax revenue owing to restriction on depreciation allowance by 25 per cent, collection could have ranged from about Rs 1,000 crore to Rs 1,100 crore, inclusive of surcharge of Rs 130-140 crore. Even excluding surcharge, additional tax revenue could have ranged from Rs 870 crore to Rs 960 crore which is also higher than Rs 750 crore estimated by the government. But since there are several tax offsetting provisions in the corporate tax structure, revenue of this order would not have been realised.

(B) ADDITIONAL REVENUE AS PER RBI AND BPE DATA

Estimates of anticipated additional corporate tax revenue resulting from the measure of depreciation disallowance have been presented in Table 5 on the basis of data obtained from RBI sample studies in respect of public, private and financial and investment companies. Total depreciation for 1987-88 for the sample companies has been blown up using the population paid-up capital to work out depreciation for the private corporate sector as a whole.

Depreciation to be provided by the private corporate sector in 1990-91 has been computed by moving forward the level of depreciation for 1987-88 to 1990-91. For this purpose, the level of gross fixed assets has

TABLE 2: FEASIBLE ADDITIONAL TAX REVENUE IN 1990-91 BASED ON ESTIMATES OF CSO DATA (Rs crore)

| Sector | Eligible Depreci- ation | Portion of Eligible Depreciation | | Additional Tax Revenue | | | Total (col 5 + col 8) | |
|---------------------------------|-------------------------------|-------------------------------------|-----------------------------|--------------------------------------|---------------|---------------|-----------------------------|-------|
| | | Exemp- ted (75 Per Cent) | Taxable (25 Per Cent) | At Basic Rate (40 Per Cent) | Surcharge | | | |
| | | | | | 8 Per Cent | 7 Per Cent | | Total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Private corporate sector | 4620 | 3465 | 1155 | 462 | 37 | 32 | 69 | 531 |
| Non-departmental enterprises | 4140 | 3105 | 1035 | 414 | 33 | 29 | 62 | 476 |
| Total | 8760 | 6570 | 2190 | 876 | 70 | 61 | 131 | 1007 |

TABLE 3: TOTAL DEPRECIATION OF PRIVATE CORPORATE SECTOR

(Rs crore)

| Year | Public Limited Companies | | | Private Limited Companies | | | Financial and Investment Companies | | |
|---------|--------------------------|--------------|------|---------------------------|--------------|------|------------------------------------|--------------|------|
| | Gross Fixed Assets | Depreciation | Rate | Gross Fixed Assets | Depreciation | Rate | Gross Fixed Assets | Depreciation | Rate |
| | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1984-85 | 37398 | 2362 | 6.3 | 12330 | 943 | 7.7 | 316 | 33 | 10.5 |
| 1985-86 | 45294 | 2917 | 6.4 | 13938 | 1018 | 7.3 | 407 | 48 | 11.8 |
| 1986-87 | 54622 | 3231 | 5.9 | 16092 | 1089 | 6.8 | 879 | 78 | 8.9 |
| 1987-88 | 61695 | 4148 | 6.7 | 18400 | 1650 | 9.0 | 1282 | 125 | 9.8 |
| 1988-89 | 69715 | 4671 | 6.7 | 20424 | 1838 | 9.0 | 1603 | 157 | 9.8 |
| 1989-90 | 78778 | 5278 | 6.7 | 22671 | 2040 | 9.0 | 2004 | 196 | 9.8 |
| 1990-91 | 86656 | 5806 | 6.7 | 24938 | 2244 | 9.0 | 2204 | 216 | 9.8 |

Notes: 1 Data are estimated at the global paid-up capital on the basis of RBI company finances studies for the period 1984-85 to 1987-88 and projected at the specified rates for the subsequent years.

2 Depreciation rate is derived by taking depreciation provision as a percentage of gross fixed assets.

been worked out in the first instance by taking average absolute growth in gross fixed assets witnessed during the first three years of the Seventh Plan at 13 per cent for public limited companies, 11 per cent for private limited companies and 25 per cent for financial and investment companies for 1988-89 and 1989-90 and estimated growth rate of 10 per cent for 1990-91 for the aforementioned reasons. Total depreciation for each year has been derived at the observed depreciation rates of 6.7 per cent for public limited companies, 9 per cent for private limited companies and 9.8 per cent for financial and investment companies in 1987-88. Depreciation rates for 1987-88 alone have been taken for the necessary computation, as the admissible rates of depreciation on various blocks of assets were hiked under the Income Tax Act with effect from the accounting year 1987-88. Total depreciation for the entire corporate sector worked out in the manner described above would have amounted to Rs 3,806 crore in respect of public limited companies, Rs 2,244 crore for private limited companies and Rs 216 crore for financial and investment companies in 1990-91 as may be seen from Table 3.

As 60 per cent of the total depreciation would represent the share of profit-making companies, Rs 3,484 crore in respect of public limited companies, Rs 1,346 crore in respect of private limited companies and Rs 130 crore in respect of financial and investment companies could have come in the purview of eligible depreciation for computing taxable portion thereof. As 75 per cent of the depreciation was entitled for tax exemption and only 25 per cent was taxable, Rs 871 crore in respect of public limited companies, Rs 336 crore in respect of private limited companies, and Rs 33 crore in respect of financial and investment companies [The basic rate of corporation tax is 40 per cent for widely held companies, 45 per cent for closely held industrial companies and 50 per cent for trading and investment companies. The surcharge on corporation tax is uniformly fixed at 15 per cent for all these companies.] could have fallen in the tax net and yielded additional tax revenue of Rs 401 crore, Rs 174 crore and

Rs 19 crore, respectively. The total additional tax revenue from the private corporate sector possibly on account of coming in of Rs 1,240 crore of depreciation in the tax net could have thus amounted to Rs 594 crore, comprising Rs 36 crore from the hike in surcharge from 8 per cent to 15 per cent.

On the other hand, total depreciation in respect of non-departmental public sector enterprises generating surplus internal resources may be placed at Rs 4,993 crore in 1990-91 at the growth rate of 14 per cent for 1989-90 as observed from 1985-86 to 1988-89 and at the growth rate of 10 per cent in 1990-91. These estimates are presented in Table 4.

Of the total depreciation of the non-departmental enterprises generating surplus internal resources, the eligible depreciation falling within the purview of the measure announced by the government could have amounted to Rs 4,463 crore on the basis of Rs 3,227 crore provided in 1987-88 and Rs 1,236 crore for the subsequent period at 70 per cent of the incremental depreciation of Rs 1,766 crore provided from 1988-89 to 1990-91. Of the eligible depreciation, Rs 3,347 crore (75 per cent) would have belonged to the exempted category and Rs 1,116 crore (25 per cent) could have been taxable. At the given corporate tax incidence of 46 per cent, additional tax revenue from non-departmental enterprises could have amounted to Rs 513 crore, including Rs 31 crore from hike in surcharge by 7 per cent.

In short, the additional tax revenue computed on the basis of RBI and BPE data could have been of the order of Rs 1,107 crore, including Rs 67 crore arising from the hike in surcharge from 8 per cent to 15 per cent as shown in Table 5.

IV

Impact on Gross Saving

Gross saving of the corporate sector needs to be estimated first before assessing the impact thereon of the possible tax collection estimated earlier. For this purpose, gross saving of the private corporate sector and non-departmental public sector enterprises is required to be estimated distinct from each other not only to assess the impact separately but also because of conceptual differences between the methods applicable for working out gross saving of the two sectors. These are discussed below.

Gross saving of the private corporate sector is measured as a sum of total depreciation and net saving. Net saving itself is derived by deducting the non-operating surplus of the companies from their retained profits. Retained profits represent the residual amount available for ploughing back into business after payment of tax and dividends from profits before tax which constitute both operating profits from normal business activity of a company and non-operating surplus/deficit emanating from its other activities and write-back of certain items pertaining to the previous year/s. These other activities may be classified as of capital nature and revenue nature. Non-operating

surplus may arise on capital account from profits on sale of fixed assets and profits on sale of investments. Similarly non-operating surplus may also arise on revenue account from write-back of excess provisions of tax, dividends, etc. made in the earlier years, insurance claims received, reverse flow of other claims such as excess excise duties paid, set-off against sales tax, etc. write-back of income/expenditure relating to the previous year and other unclaimed balances. However, due to the nature of origin of various items of non-operating surplus/deficit, all the items do not merit to be included in the saving/disa-saving of a company. There is a general consensus that only some items of a revenue nature such as excess provisions of tax, dividends, etc. written back during the current year can be legitimately taken into account for calculating the saving of a company. It has been observed that such excess provisions written back have generally constituted around one-fourth of the total non-operating surplus of the companies and may be considered for inclusion in the computation of gross saving. It may, however, not change the overall saving scenario to any significant extent or alter the results perceptibly at the macro level. Therefore, the concept of net saving as used for the private corporate sector is that which has so far been widely accepted and generally used.

Retained profits and non-operating surplus of the private corporate sector can be derived on the basis of the observed pattern of their behaviour and structural relationship between major items such as sales, profits before tax, tax provision, profits after tax and dividends as thrown up by the RBI company finances studies. To begin with, sales have been moved forward by projecting the recent growth rate in sales. Profits before tax are in turn obtained as an observed percentage of sales. Retained profits in 1990-91 have been derived by providing for the normally observed percentage of tax provision to estimated profits before tax and similarly observed percentage of dividends to profits after tax. Non-operating surplus is deduced at the ordinarily observed percentage of retained profits in the last couple of years or so. Since no consistent trend is discernible ultimately in the non-operating surplus as well as retained profits of the companies over a period of say five or 10 years, net saving of the private corporate sector as published by the Central Statistical Organisation registers vast fluctuations, as may be seen from Table 6. Therefore, a structural relationship between a number of inter-related items has to be perceived over a shorter time-frame in order to obtain the results.

Net saving of the private corporate sector has been accordingly taken at Rs 776 crore in 1988-89 which represents the annual average of net saving achieved in the preceding three years from 1986-87 to 1987-88. On the basis of 18.7 per cent average annual compound rate of growth in net saving observed in the latest RBI study on 622 large public limited companies, each

TABLE 4: DEPRECIATION PROVIDED BY NON-DEPARTMENTAL ENTERPRISES GENERATING INTERNAL RESOURCES

| Year | No of Enterprises Generating Surplus Internal Resources | Amount of Depreciation Provided by Such Enterprises (Rs Crore) |
|---------|---|--|
| 1 | 2 | 3 |
| 1984-85 | 112 | 2360 |
| 1985-86 | 126 | 2264 |
| 1986-87 | 128 | 2669 |
| 1987-88 | 127 | 3227 |
| 1988-89 | 133 | 3982 |
| 1989-90 | — | 4539* |
| 1990-91 | — | 4993* |

Notes: * Estimated.

Source: Survey of Public Enterprises, 1988-89

having paid-up capital of Rs 1 crore and above and covering the period 1986-87 to 1988-89, net saving has been projected for the next two years and estimated at about Rs 1,100 crore in 1990-91. Even if the alternative method of estimating separately the retained profits and non-operating surplus of the private corporate sector is to be followed on the basis of available company finances data, retained profits can be placed at about Rs 2,000 crore and non-operating surplus at about Rs 900 crore in 1990-91 on the basis of observed structural relationships between major economic variables of the companies as explained above. Since the methodology adopted for computing net saving of the private corporate sector so far takes retained profits net of non-operating surplus, net saving would again be placed at Rs 1,100 crore. Thus the same results are obtained by both the methods whether by projecting the CSO data on net saving or the major economic variables based on RBI company finances data.

Gross saving of the private corporate sector can thus be estimated to range from Rs 8,800 crore to Rs 9,366 crore in 1990-91, comprising Rs 7,700 crore to Rs 8,266 crore towards total depreciation as estimated earlier and Rs 1,100 crore towards net saving. Gross saving of this order of the private corporate sector as against additional tax revenue which could have accrued on account of the depreciation disallowance, ranging from Rs 511 crore to Rs 594 crore estimated above, could have reduced gross saving of the private corporate sector by around 6 per cent.

As regards the gross saving of the non-departmental public sector enterprises it is measured as a sum of total depreciation, retained profits and deferred revenue expenditure (DRE) written off during the year. Since no data are reported by the non-departmental enterprises with regard to their non-operating surplus, no adjustments are made to that effect. However, deferred revenue expenditure written off during the year by the non-departmental enterprises is included in their gross saving as it represents certain payments made or payable which are amortised annually over a specified period such as technical assistance fees under foreign collaboration agreements, one-time installation charges for computers and other equipment, liability for debenture redemption premium set up at the time of allotment, retirement benefits for employees, etc. While total depreciation of the non-departmental public sector enterprises in 1990-91 has been taken on the basis of the earlier estimates presented in Table 1, estimates of retained profits and deferred revenue expenditure are based on similar data published by the Bureau of Public Enterprises in their annual surveys on the performance of public sector enterprises operating during the year.

Gross saving of the non-departmental public sector enterprises is estimated at Rs 12,680 crore in 1990-91, comprising total depreciation of about Rs 9,200 crore, retained profits of Rs 2,700 crore based on current trends and Rs 780 crore towards deferred

revenue expenditure written off during the year. Retained profits of non-departmental public sector enterprises have been reported at about Rs 3,450 crore for 1989-90. However, retained profits may be estimated at around Rs 2,700 crore in 1990-91 due to the reported increase in the losses of loss-making units during the first half of 1990-91 by Rs 622 crore and the likely subdued performance of the profit-making units during the next six months of 1990-91 due to deterioration in the overall economic environment and the reported decline in the performance of infrastructure industries in the public sector. Therefore, gross saving of the non-departmental public sector enterprises aggregating Rs 12,680 crore could have gone down by about 3.8 per cent to 4 per cent if additional tax revenue ranging from Rs 476 crore to Rs 513 crore from the non-departmental public sector enterprises on account of depreciation disallowance had been realised in 1990-91.

On the whole, gross saving of the corporate sector could have shown only a small

decline ranging from 4.6 per cent to 5 per cent on account of depreciation restriction if the possible tax collection of Rs 1,007 crore to Rs 1,107 crore from the private corporate sector and the non-departmental public sector enterprises taken together had actually materialised by the effective plugging of existing leakages in the corporate tax system, as against the estimated gross saving of about Rs 21,480 crore to Rs 22,046 crore in 1990-91. The corporate sector could have had made up the actual gap, if any, arising in their resources on account of depreciation restriction by either mobilising greater internal resources by improving productivity and reducing dividends or by raising external resources to a larger extent by greater resort to market funds or by employing varying combinations thereof and thus maintained the expected level of investment in 1990-91. But since the corporate tax collection shown in the interim budget for 1990-91 has hardly presented any evidence of revenue raising impact of this measure while at the same time several tax reduction

TABLE 5 ADDITIONAL TAX REVENUE IN 1990-91 BASED ON RBI AND BPE DATA

| (Rs crore) | | | | | | | |
|------------------------------|-----------------------|----------------------------------|-----------------------|------------------------|------------|-----------------|-----------------------|
| Sector | Eligible Depreciation | Portion of Eligible Depreciation | | Additional Tax Revenue | | | Total (col 5 + col 8) |
| | | Exempted (75 Per Cent) | Taxable (25 Per Cent) | At Basic Rates | 8 Per Cent | 7 Per Surcharge | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Private corporate sector | 4960 | 3720 | 1240 | 517 | 41 | 36 | 77 |
| Non-departmental enterprises | 4463 | 3347 | 1116 | 446 | 36 | 31 | 67 |
| Total | 9423 | 7067 | 2356 | 963 | 77 | 67 | 144 |

TABLE 6 GROSS SAVING OF THE CORPORATE SECTOR

| (Rs crore) | | | | | | | |
|------------|--------------------------|-------------------------|--------------------|------------------------------|-------------------|------------------|----------------------|
| Year | Private Corporate Sector | | | Non-Departmental Enterprises | | | |
| | Depreciation | Net Saving ^a | Gross Saving (2+3) | Depreciation ^d | Retained Profits | DRE | Gross Saving (5+6+7) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1980-81 | 1429 | 584 | 2013 | 1639 | 286 | 64 | 1417 |
| 1981-82 | 1704 | 485 | 2189 | 2033 | 337 | 62 | 2472 |
| 1982-83 | 2092 | 568 | 2660 | 2664 | 498 | 66 | 3228 |
| 1983-84 | 2830 | 390 | 3220 | 3253 | 107 | 94 | 3454 |
| 1984-85 | 3405 | 795 | 4200 | 4037 | 732 | 171 | 4940 |
| 1985-86 | 4057 | 1467 | 5524 | 4540 | 981 | 235 | 5756 |
| 1986-87 | 4378 | 462 | 4940 | 5256 | 1475 | 291 | 7022 |
| 1987-88 | 5242 | 399 | 5641 | 6410 | 1710 | 423 | 8543 |
| 1988-89 | 6053 ^d | 776 ^c | 6829 ^d | 7320 ^d | 2628 | 562 | 10510 |
| 1989-90 | 6989 ^d | 921 ^d | 7910 ^d | 8360 ^d | 3450 ^d | 670 ^d | 12480 ^d |
| 1990-91 | 7700 ^d | 1100 ^d | 8800 ^d | 9200 ^d | 2700 ^d | 780 ^d | 12680 ^d |

a As provided in the books of accounts. It would differ from the depreciation provision which may be worked out by the alternative method of estimated value of fixed capital stock and the expected age of various types of assets.

b Net saving represents retained profits minus non-operating surplus.

c Deferred Revenue Expenditure.

d Estimated.

Notes: 1 Net saving is subject to substantial revisions if derived by a change in methodology. 2 Retained profits and deferred revenue expenditure pertain to operating non-departmental enterprises and are based on surveys of public enterprises published by the Bureau of Public Enterprises.

3 The data on depreciation and net saving are those published by the Central Statistical Organisation.

procedures are available in the current corporate tax system to have neutralised the tax collecting potential of this measure it could have had hardly made any dent on the corporate investment in 1990-91.

V

Leakages from Feasible Additional Revenue

In view of the fact that the government could not realise the anticipated additional revenue from the measure of depreciation restriction in 1990-91 on the one hand and the need to reduce the burgeoning deficit on revenue account, *inter alia*, by raising the requisite revenue from corporate income tax commensurate with its potential on the other, it is desirable to first identify the existing leakages in the corporate tax system and plug them and thereafter extend this measure to the current financial year in the full-scale central budget for 1991-92. The exercise of checks would enable the government to mobilise that additional revenue in 1991-92 which it could not realise in 1990-91 from this measure. It may be emphasised that accretion of additional corporate tax revenue of the order envisaged in 1990-91 is quite feasible in 1991-92 provided the companies are not allowed to considerably reduce or nullify their additional tax liability arising from this measure by adopting escape routes presently available to them.

This can be done by bridging the following gaps in the corporate tax system.

Firstly, whenever companies are not in a position to claim depreciation allowance in particular assessment year/s due to losses or insufficiency of profits, the unabsorbed depreciation is allowed to be added to the claims made for the subsequent years. Therefore, even those companies which were hitherto making marginal profits or losses would have substantial unabsorbed depreciation allowance relating to the previous years to be set off against additional taxable profits during the current year which might be computed by them as a result of the proposed restriction on the allowable depreciation.

Secondly, there are numerous tax concessions which the companies normally try to avail of in order to minimise their tax liability. As such, there are a number of prosperous zero tax companies and high profit making but low tax paying companies which would have escaped the tax net in 1990-91, as in the past, due to the scrapping of Section 115J of the Income Tax Act in the central budget for 1990-91 which required the companies to pay tax on at least 30 per cent of their book profits. Unless this provision is reintroduced, multiple tax concessions would again enable many good companies to neutralise the impact of the restriction on depreciation allowance on their tax liability if this measure is adopted for 1991-92.

Thirdly, unabsorbed investment allowance of the preceding years up to 1989-90 would have been carried forward to 1990-91 and a large portion thereof would again spill further into 1991-92 which might also be availed of suitably by the companies to negate

their additional tax liability arising from depreciation allowance restriction unless set-off of taxable portion of depreciation is disallowed against various tax concessions, including unabsorbed investment allowance.

Fourthly, a high degree of flexibility is allowed to the companies for writing off depreciation in their books of accounts according to the straight line method as well as written down value method at the rates prescribed under the Companies (Amendment) Act, 1988 and for write-back of depreciation provided by them in the earlier years, as against the amount computed by them under the Income Tax Act according to written down value method with yet another set of depreciation rates for working out their tax liability. Besides serving the purpose of window-dressing for many a company and confusing even the knowledgeable observer, this flexibility allowed to the companies to use one written down value method under the Income Tax Act at one set of rates of depreciation for computing their income tax liability and another written down value method under the Companies (Amendment) Act at different rates of depreciation for presentation of their annual accounts, could be used ingeniously by the companies to reduce their overall tax liability.

Since the amount of unabsorbed depreciation, extent of tax concessions and unabsorbed investment allowance would differ from company to company, as also their profitability which would ultimately determine their ability to resort to these tax reducing provisions to the desired extent, it is not possible to predict as to which of these measures, either singly or in combination with one another, may be adopted by the individual companies to reduce their tax liability to the minimum. Moreover, not only no firm data on unabsorbed depreciation allowance, unabsorbed tax concessions and unabsorbed investment allowance are available, but also these data, even if surmised, cannot be straightaway clubbed together to derive the admissible tax deductions on account of the carry forward of these items from the preceding years to 1991-92. The extent of leakages accordingly could not be estimated with any precision although it would be necessary to take relevant steps in the full central budget to plug them effectively with a view to augmenting additional resource mobilisation effort during the current financial year.

VI

Conclusions

The quantum of additional corporate tax revenue estimated in the range of Rs 1,007 crore to Rs 1,107 crore, computed by using two different sets of data at the given premises, represents the maximum additional corporate tax revenue that could accrue to the government in 1991-92 by extending to the current year the restriction on depreciation allowable on written down value of assets to 75 per cent of the depreciation normally allowed under the Income Tax

Act, as announced earlier for 1990-91. Interestingly, both the methods of computation have given estimates very close to each other. But since there are a number of built-in leakages in the corporate tax system as it prevails today, the final outcome would depend on the extent to which these leakages are effectively plugged. Presumably, it is for this reason that the government had made a somewhat cautious calculation of raising additional revenue of only Rs 750 crore by this measure in 1990-91 but failed to realise even that target on account of the absence of necessary checks on the loopholes discussed above.

The government, however, could introduce this measure again in 1991-92 with the necessary checks and balances in the corporate tax system such as reintroduction of the earlier provision of minimum tax on 30 per cent of the book profits of the companies, abolished in the 1990-91 central budget, to stop the phenomenon of zero-tax companies, either by placement of moratorium on tax concession arising from unabsorbed investment allowance for a couple of years or phasing tax concession available on it over a period of four to five years, and disallowing set-off of 25 per cent depreciation disallowance by either unabsorbed depreciation or unabsorbed tax concessions. This would enable the government to raise revenue as originally envisaged from this measure.

The depreciation restriction measure in effect means that depreciation rates applicable, *inter alia*, for various types of plant and machinery allowed under the Income Tax Act, which were hiked substantially from five slabs of 15 per cent, 20 per cent, 30 per cent, 40 per cent and 100 per cent up to the accounting year 1986-87 to only three slabs of 33.33 per cent, 50 per cent and 100 per cent with effect from the accounting year 1987-88 and onwards, would stand moderated to 25 per cent, 37.5 per cent and 75 per cent, respectively. Similar reductions would occur in rates of depreciation admissible on buildings ranging from 5 to 20 per cent, on wooden structures at 100 per cent, on furniture and fittings at 10 to 15 per cent and on ships at 10 to 20 per cent. However, consequent on abolition of investment allowance/IDBI Investment Deposit Account Scheme in 1990-91, together with a corresponding reduction in the corporation tax rates, it is desirable to retain liberal depreciation rates under the Income Tax Act to encourage private investment. Incidentally, steps need to be taken to ensure better tax compliance by the companies at the substantially reduced rates of corporate income tax enunciated in the 1990-91 central budget. The impact of the depreciation restriction measure on the gross saving of the corporate sector would be rather small, at best 4 to 5 per cent, and may not adversely affect private investment if adopted as a one-time measure for 1991-92 only.

[The article expresses personal views of the author. The author is grateful to R Nagaraja Rao for the useful suggestions.]

MEASURE: COMPARATIVE RATES OF DEPRECIATION ADMISSIBLE ON MAIN BLOCKS OF ASSETS UNDER THE INCOME TAX ACT AND THE COMPANIES (AMENDMENT) ACT

(Per cent)

| Blocks of Assets | Under Income Tax Act | Under Companies Act | |
|--|----------------------------|------------------------|-------|
| | WDVM | WDVM | SLM |
| <i>Buildings</i> | | | |
| 1 Buildings used mainly for residential purposes | 5 | 5 | 1.63 |
| 2 Buildings not used mainly for residential purposes (factory buildings) | 10 | 10 | 3.34 |
| 3 Building used as hotels and dwelling units with plinth area not exceeding 80 sq metres | 20 | .. | .. |
| 4 Purely temporary erections such as wooden structures | 100 | 100 | 100 |
| <i>Furniture and fittings</i> | | | |
| 1 General rate if not covered under item 2 | 10 | 10 | 3.34 |
| 2 Rate applicable in hotels, restaurants, educational institutions, libraries, etc; and for hire purposes | 15 | 15 | 5.15 |
| <i>Plant and machinery</i> | | | |
| 1 General rate other than those covered by item (2) | 33.33 | .. | .. |
| (a) Single shift | .. | 15 | 5.15 |
| (b) Double shift | .. | 22.5 | 8.09 |
| (c) Triple shift | .. | 30 | 11.31 |
| 2 (i) Machinery used in the production and exhibition of cinematographic films, recording equipment, projecting equipment, etc; electrical machinery, juice boiling pans, sugarcane crushers, electrically operated vehicles, machinery used in the production of electronic goods, etc | 33.33 | 20 | 7.07 |
| (ii) Machinery used in the manufacture of electronic goods or components | 33.33 | .. | .. |
| (a) Single shift | .. | 20 | 7.07 |
| (b) Double shift | .. | 30 | 11.31 |
| (c) Triple shift | .. | 40 | 16.21 |
| (iii) Aerial photographic equipment, concrete pipes manufacture moulds, drum container manufacture, earth moving machinery, moulds in iron foundries, motor tractors, harvestors, ropeway structures, etc | .. | 30 | 11.31 |
| (iv) Aeroplanes-aeroengines, motor buses, motor lorries and motor taxis used in a business or running on hire, moulds, used in rubber and plastic goods factories | 50 | 40 | 16.21 |
| (v) Air pollution control equipment, water pollution control equipment and solid waste control equipment | 50 | .. | .. |
| (vi) Shoe and other leather goods factories, wooden lasts used in the manufacture of shoes | .. | 30 | 11.31 |
| (a) Single shift | .. | 45 | 18.96 |
| (b) Double shift | .. | 60 | 29.05 |
| (c) Triple shift | .. | .. | .. |
| (vii) Wooden parts used in artificial silk manufacturing machinery, cinematographic films—bulbs of studio lights, flour mills—rollers, gas cylinders including valves and regulators, glass manufacturing concerns—direct fire glass manufacturing purposes, iron and steel industry—rolling mill rolls, match factories—wooden match frames, mineral oil concerns—plant used in field operations, mines and quarries accessories, salt works, sugar works—rollers | 100 | 100 | 100 |
| (viii) Energy saving devices, being specialised boilers and furnaces, instrumentation and monitoring system for energy flows, waste heat recovery equipment, co-generation systems, electrical equipment, burners and other specialised equipment | 100 | .. | .. |
| (ix) Renewed energy devices being solar systems, wind mills, electric generators, pumps running on wind energy, biogas plant and biogas engines, electrically operated vehicles including battery or fuel cell powered vehicles, equipment used for waste conversion, machinery or plant used in the manufacture of any of these items | 100 | .. | .. |
| <i>Ships</i> | | | |
| 1 Ocean-going ships | | | |
| (i) Fishing vessels with wooden hull | 20 | 27.05 | 10 |
| (ii) Dredgers, tugs, barges, survey launches and other ships used mainly for dredging purposes | 20 | 19.8 | 10 |
| (iii) Other ships | 20 | 14.6 | 5 |
| 2 Vessels ordinarily operating on inland waters | | | |
| (i) Speed boats | 20 | 20 | 7.07 |
| (ii) Other vessels | 10 | 10 | 3.34 |

WDVM = written down value method; SLM = straight line method.

Notes: 1 Buildings include roads, bridges, culverts, wells and tubewells.

2 The above list of blocks of assets is indicative and not complete as the list of items classified against different rates of depreciation under Income Tax Act and the Companies Act is not uniformly available on comparable lines. The list is broadly comparable.

3 The above rates of depreciation under the Income Tax Act came into effect from the accounting year 1987-88 and have remained unchanged since then. Similarly the above rates of depreciation under the Companies Act are those given in Schedule XIV of the Companies (Amendment) Act, 1988.

4 With the introduction of a uniform accounting year with effect from the financial year ended March 1989, many companies had to either extend or shorten their accounting year 1988-89 in compliance with this provision of the Income Tax Act inserted under the Direct Tax Laws (Amendment) Act, 1987. While full normal depreciation is admissible under the Income Tax Act even if an asset is in use for a few days during the previous year, proportionately increased depreciation was admissible for the transitional year 1988-89 wherever the accounting year consisted of 13 months or more.

5 Where, during any financial year, any addition is made to any asset or any asset is sold, discarded, demolished or destroyed, the depreciation on such assets is to be calculated on a pro rata basis from the date of such addition or up to the date on which the asset is sold, discarded, demolished or destroyed, in terms of the provisions of the Companies Act.

6 Extra shift allowance was abolished with effect from the accounting year 1987-88 under the Income Tax Act following steep hike in the rates of depreciation allowable from that year under this Act. This system, however, continues to prevail under the Companies Act.



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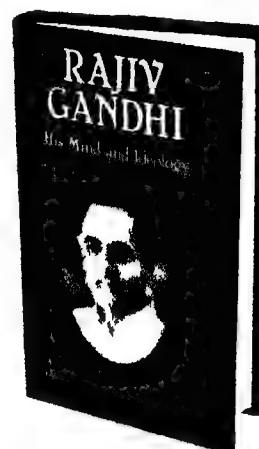
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Communists and Democracy in the Philippines

Olle Törnquist

In 1986, the 'national democratic movement' which constituted the main force of the revolutionary Left in Philippines calling for a boycott of the historic elections ordered by Marcos ran into a blind alley. Other cause oriented groups rallied behind Cory Aquino and in February, Marcos had to flee the country unable to face the upsurge of people's protests. The 'national democratic movement' seemed almost irrelevant and it had soon to admit that its boycott decision had been at least a 'major tactical blunder'.

While it is important to inquire why the boycott decision was taken and why the Left lost its initiative, this article explores why the radical Left failed to carry out materialist analyses towards a more fruitful and convincing understanding of political transformation in general, and in this case the growing importance of struggle for political democracy in particular within the framework of their basic theses.

[This paper has been published in two parts. The first part appeared last week.]

IV

Rethinking?

CAME then the snap-elections and the 'EDSA revolution'. As we have seen, democratic means and demands had not been especially relevant within the radical Left. Those who suggested at least alternative tactics were either imprisoned or severely weakened. The promising attempt to establish 'Bayan' as a broad coalition of popular oppositional forces had failed.

The radical Left could do little but watch how more or less bourgeois forces, and even the Church (both of which in theory were bound to fail in any progressive undertaking), managed to guide and manipulate widespread and explosive interests in democratic rights and rule (which in Left-theory no classes were primarily interested in anyway) and got rid of Marcos, in the process using all means at their disposal (except armed struggle).

But how did the radicals read what they saw? Did they develop previous analyses further, and did their views on democracy change?

'DEMOCRATIC SPACE' OR BUSINESS AS USUAL?

Previous dissidents within the radical Left, including the 'popular democrats' and an alliance of socialists called BASIG,⁷¹ who had opposed the boycott and acted in favour of critical participation in the elections, felt vindicated. In their view, the 'EDSA revolution' had overthrown much of Marcos authoritarianism and created a 'democratic space' which had to be defended and used as long as possible.⁷² Meanwhile the armed struggle should be terminated, while the capacity to rapidly resume it could be kept intact. The new government was lacking a clear-cut social basis. Many forces were now competing for best possible positions. The radical Left should offer critical support to progressive factions within, and aspects of, the new administration, and try to make use of it. Conservative forces which had defected the Marcos regime for opportunistic reasons had to be obstructed. Radical people should try to work within the administration and

also approach progressive young officers. A lot of interest organisations among various sections of the population, cause-oriented groups, community organisations, etc, could now be even more active. There were, for instance, also unilateral actions among peasants and tenants who tried themselves to enforce agrarian reforms.⁷³ The popular initiatives should not primarily be brought under the umbrella of, for instance, the 'national democrats', but instead be supported and radicalised. The 'people power' which was expressed at EDSA could thereby be institutionalised and serve as a more firm and radical base for a more progressive coalition government.

These and similar arguments in favour of urgent democratic action to develop a basis for extended democratic rights and rule were faced with suspicion, and a general incapacity among the leading mainstream 'national democrats' to take any firm decisions. A large-scale debate on aims and means had emanated out of the devastating boycott decision.⁷⁴

This was one of the reasons why the full capacity of the radical Left to make use of the new and wider room for manoeuvre and to influence the new regime could not be utilised. Four years later, Sison, among others, admitted that a lot of opportunities "to work with Cory but also with the lower levels of RAM" were lost.⁷⁵ "She still did not have much organisational following in 1986 and we could have offered some in exchange for certain gains... For instance, we could have helped her against Enrile. Dante had the best of contacts and could have bridged me. But the boycott debate took so long time..."⁷⁶

Another reason why the radical Left mainly remained a spectator even after EDSA was the very conclusions which the mainstream 'national democrats' slowly arrived at.

The general secretary Salas resigned and the boycott-decision was, after some months, recognised as a 'tactical blunder'. But not even the two almost disobedient issues which could be published by *Praktika*, a theoretical journal of the National Urban Commission of the Communist Party, included much more than extrapolations from previous arguments and debates. The 'insurrec-

tionists', as we know, claimed that the snap-elections and EDSA had been lost opportunities. But since the revolutionary situation soon dwindled they had little to offer for the time being. And while certain arguments in other articles were rather close to those advanced by the 'popular democrats', there were, as in 1978, mostly references to Lenin's, Stalin's and Dimitrov's more cautious theses about the need to use all possible means for tactical purposes, especially when no revolutionary situation exists.⁷⁷

According to the orthodox 'national democrats', on the other hand, nothing serious could actually have happened in February 1986. The whole affair was simply a quarrel within the elite, where some factions had become fed-up with Marcos' way of governing the country, the deep economic crisis and the risk that the 'national democrats' would take over. (Some even maintained that Washington had masterminded the whole affair.⁷⁸) No basic socio-economic changes had taken place. The old ruling classes were still in place. The new government did not signal any qualitative change.⁷⁹

Meanwhile, however, many mainstream leaders kept a comparatively low profile and 'gave Aquino a chance'. For instance, negotiations between the National Democratic Front and the new government had started in August, and a ceasefire was agreed upon in November.

There were special difficulties related to these negotiations, including among other things, that those in actual command of the contending armed forces did not take part, and that it was hard for the 'national democratic' representatives to base themselves on a firm political line which was still under review.⁸⁰

But the main and general problem was rather that the new government never "got a chance". If the 'national democratic' leaders believed in their own argument that no real changes had taken place in February 1986, the new government would not be able to change much if anything. So why then "give Aquino a chance" if she could not take it?

One answer could have been that the 'na-

tional democratic' leaders were really serious in both giving Aquino and some of her associates 'a chance' as individual leaders and trusted the 'national democratic' thesis that no real socio-economic changes had taken place. But this implied that there was a need to mobilise and trade alternative "critical" support for Aquino so that she would get a real option to challenge the dominating classes. And such support was not offered by the mainstream 'national democrats', only by much less powerful Left-dissidents.

A more plausible answer is therefore that it was not Aquino who should get a chance but rather the vacillating 'national democratic' sympathisers and many of Aquino's followers who must be able to discover that the new government could not change anything. This tactic was thus almost the same as in late 1985, when the leaders who did not give the struggle for fair elections a chance but instead advocated boycott claimed that the masses would follow them as soon as people realised that more radical methods were necessary.

Consequently, the progressive forces within Aquino's administration could not rely on alternative social forces in their attempts to countervail demands from within the armed forces, landowners, national and international private business and other. But despite the fact that the rightward drift of Aquino's administration was to a certain extent a self-fulfilling prophecy of the mainstream 'national democrats', these claimed to be vindicated and began to speak up with self-confidence again. Sison, for example, stated that "the replacement of Marcos by Aquino has not rooted out the fundamental causes of fascist dictatorship, has not solved the deepgoing crisis of the semi-colonial and semi-feudal system and has kept the ground fertile for social unrest and armed revolution..." (The new government) represents the same class interests (as Marcos)—those of the comprador big bourgeoisie and the landlord class...⁸¹

That this thesis was totally inconsistent with accusations against the Aquino government for not doing anything progressive did not mean much, besides in private conversations.⁸² The most brutal dispersal of a peasant rally in central Manila in the end of January 1987, which left eighteen people killed, was instead followed by the suspension of the peace-talks on the part of the 'national democrats', after which the doors remained closed.⁸³

ANOTHER ELECTION DEBACLE

Voices of dissent continued, however, to appear among the 'national democrats'. Just a few days before the Mendiola massacre and the break down of the negotiations, continued peace-talks and broad unity against 'fascism and imperialism' had been most forcefully advocated from within a 'national democratic' framework. The Philippine concept of "popular democracy" could be

legitimised as a "substage in the national democratic struggle" by recalling the European Communist tradition of initiating Dimitrov's so-called 'popular fronts' to defend 'bourgeois democracy' against fascism before it was possible to go ahead with more advanced means and aims.⁸⁴

Moreover, while the party organ *Ang Bayan* spoke vehemently about the senatorial and congressional elections scheduled for May 1987, and seemed to rule out any form of participation, the 'national democrats' decided to participate indirectly through a new legal party initiated in 1986 by, among others, Sison and his wife, 'Partido ng Bayan' (PnB), the organisation 'Volunteers for Popular Democracy', (VPD), and certain groups within 'Bayan', which formed the 'Alliance for New Politics'.⁸⁵ ⁸⁶

For a majority of the 'national democratic' leaders 'Partido ng Bayan' seemed to be a way of relieving the movement from paralysing disputes on issues of democracy and participation in elections. Having established the party, most of the activists would instead be able to concentrate on actions among peasants and workers and other sections of the population as well as the armed struggle, while the dissidents would be left alone with at least a formal chance to prove their point.⁸⁷

The results were extremely depressing. Hardly anyone was elected, not even to the Congress. Over-all analyses of the election results reveal a drastic return to the pre-martial law period of 'cacique democracy', to use Ben Anderson's notion.⁸⁸ Most of those elected belong to prominent business cum political 'families'. The radical Left was in no way ready to replace this 'elite democracy' with 'popular democracy'. There was also some fraud, harassment (including the assassination of the chairman of the PnB), and army offensives against the clandestine organisations which enabled the military to control the voting in many radical strongholds.⁸⁹

Despite the Left should have been able to do better.⁹⁰ The 'national democratic' movement as a whole may have been serious about using the elections for propaganda purposes. In the senatorial elections (where the nation as a whole serves as a constituency) this may not have been a matter of dispute. For instance, one of the dissidents who ran as a candidate for the senate, Bernabe 'Dante' Buscayno, claims that he himself told people to listen but not necessarily vote for him.⁹¹ However, he is far from alone in adding that several of the candidates for the Congress could have won if the full capacity of the 'national democratic' movement had been mobilised in support of the candidates and democratic politics.⁹²

To begin with, the forces of the Left were inexperienced and used to boycotting elections. Not even all loyal followers cast their votes. But the real failure was "on the open market". The organisation of the campaign was poor even in terms of supporting the

candidates, getting people to register, and organising activists to protect and count the votes. And certain contending candidates were able to buy their way from sections of the 'national democratic' movement which tried to mobilise resources for the real struggle.

Secondly it was probably even more important that the 'new politics candidates' could only trade progressive ideas—not reliable promises on what to deliver and realistic chances to win. The price which a poor and fragile voter would have to pay in case his 'radical' candidate did not win could be substantial. The 'national democrats' who fought landowners in the fields or capitalists in the workplaces were more interested in, for instance, favourable relationships with the local police and some 'private contributions' than in access to governmental and bureaucratic positions and democratic rule of public resources.

The well established political machines and socio-economically deeply rooted patron-client relationships were thus given a free lease on life and won the day.

The outcome was a loss of face for the Left, but orthodox 'national democrats' may have felt justified. They seemed victorious as the party-leadership closed the internal debate in early-August 1987. While the remaining dissidents in general and the 'popular democrats' in particular were harshly criticised, certain concessions may have been made to those who had suggested urban insurrections. Rural as well as urban offensives were initiated which met with little success but, especially during 1988, exposed many militant leaders as well as vulnerable followers to severe hardships, internal witch-hunts for traitors, and outright state-sponsored terrorism by semi-private vigilante armies.⁹³

While the orthodox leaders resumed their predominance, the legendary founder of the New People's Army and one of the candidates for the senate, Commander Dante, who had long been most sceptical over the policies but had tried to work from within, came out openly with his critique. He was, among other things, against the emphasis on armed struggle, advocated radical politics within the framework of the 'democratic space', suggested that the development of capitalism had created new important contradictions, and most of all rejected all forms of dogmatism.⁹⁴ I shall soon return to his ideas and his new project.

It was not only 'national democratic' hardliners who grabbed for their guns. In the end of August, the first really serious coup-attempt against Aquino by anti-communist officers, who must have felt outmanoeuvred by the politicians after the elections, forced the legal-Left—which had just tried to advance through a popular transport strike against higher oil prices and other applications which had almost paralysed Manila—into defensive positions.⁹⁵ Those who tried to use the 'democratic space' to influence the regime were from now on incapable of do-

ing much more than watching Aquino adjusting her staff and policies to the right.

NEW STAKES IN DEMOCRACY?

While staging new drastic offensives against the regime, the mainstream 'national democrats' also engaged themselves in the nationwide provincial and local elections in early 1988. There were cases where local popular groups succeeded in boosting progressive candidates. But generally speaking the previous attempts to initiate 'new politics' seem to have been replaced by widespread adaptation to what was so obvious in the May 1987 election—a clear tendency toward the restoration of 'cacique democracy'. The 'national democrats' now played the game, and joint business and 'political families continued to score victories—provided that they had come to some kind of agreement in terms of money, various supplies including weapons, a friendly local policeman, etc, with more or less powerful and well armed revolutionaries in their area.⁹⁶

When discussing how the 'national democrats' might approach the coming elections in 1992 Sison as well as Luis Jalandone of the NDF are eager to emphasise "the need to build regional and local alliances and do what is possible within the system, like in the local elections of 1987/88"⁹⁷

'Empowerment'

In face of the electoral failures in 1987 and 1988, the restoration of 'cacique democracy', the revival of dogmatic 'national democrats', frequent coup-attempts, and a weak government drifting rightwards, one of the priorities of the "popular democrats" has been to help vulnerable people 'empower' themselves through their own development initiatives, thereby becoming reasonably autonomous citizens—a basic pre-condition for a more genuine democracy.⁹⁸

This is thus a conscious attempt to combine development efforts and political struggle. Strikes, militant and sometimes armed struggles, pressure politics, etc, are fine. But the emphasis on such methods presuppose that one first must grab political power, then economic power, and finally use all these powers to make people viable and fully capable of governing themselves and the country. If, on the other hand, serious efforts are made to help people to do some labour for themselves (and not only for others) in terms of joint development efforts, they should already at present become viable enough to participate as reasonably autonomous citizens who can stand up for themselves in a more democratic struggle for radical change of society.

In other words: the international discourse on "civil society against the state", and the role of so-called 'non-governmental organisations' in general and social movements in particular (with or without 'green' perspectives), has become increasingly important for the 'popular democrats'—as have the large sums of money available

for such projects on the development-aid-markets.

Much energy has for some time been spent on initiating and stimulating various development projects, including education and popular co-operation, among local cause-oriented groups and community organisations as well as, for instance, within trade unions.

The 'popular democrats' can not protect the activities or, for instance, get rid of a landlord by the use of arms. And their followers, who are usually from the 'middle-class', may be less 'devoted' than the guerrilla soldiers. But the 'popular democrats', can deliver certain goods—at least partly through their access to development funds—and they do address people's livelihood problems in concrete local settings. They can also, in the general debate, put forward grand visions about alternative development strategies.

The idea is, of course, that these projects and movements shall become self sustainable within a reasonable period of time and constitute the basis for local people's councils. This will then, among other things, undermine a good deal of the basis for 'cacique democracy'. People themselves will be able to form and govern parties rather than the other way around. And the same holds true for the organs of the state at various levels.

Actually, similar perspectives and practices have even deeper roots and quantitative importance among many socialist oriented groups and community organisations.⁹⁹ While the 'popular democrats' turn mainly to local activists affected by the 'national democratic' perspective, socialists and social democrats reach out to those influenced by their concepts.

But one cannot stop here. In the Philippines as in India or Indonesia and elsewhere almost every political force, including the religious institutions and some business factions, have created their own environment of so-called NGOs.¹⁰⁰ And every cluster has its international financiers and patrons of various kinds, with various special interests, such as the undermining of the state or other political forces.¹⁰¹

Even president Aquino herself has recently made an attempt to by-pass especially the senate and congress, but also parts of the central administration, by turning directly to various local governors, mayors and friendly old as well as timely established new NGOs, thereby getting hold of the international development funds directed to the NGOs, drawing on some of their success-stories, and reviving her populist 'people power' heritage in face of the 1992 elections.¹⁰²

Finally, the whole process has created huge markets with good opportunities for not only 'organic intellectuals' but also, and perhaps mainly, for more or less devoted, often missionary-minded, and entrepreneurial 'middle class' development organisers with irrelevant experiences and in-

sufficient education.¹⁰³

This is not to say that the genuine efforts to develop foundations for 'popular democracy' are hopelessly undermined from the very beginning. But there is definitely a need for closer studies of the decisive interests involved, both among those who try to 'stimulate' and among their 'targets'. The most serious problem is perhaps that the theoretical and analytical frameworks adhered to by the radicals rarely generate such concern and studies.

For instance, the concept of "civil society against the state" does not help much when attempting to answer questions such as under what conditions different features of democracy become instrumental for various groups and political forces.¹⁰⁴ This is crucial. Most of the actors may be interested in a 'democratic space' wide enough to allow their 'business' to continue without being repressed or regulated by an unfriendly state. But what about the democratisation of existing public administration and resources? What about extending democratic rule to vital resources which are now privately controlled?

Moreover, if funds are available overseas it may be more important to go for a workshop in Amsterdam than to join those fighting political monopolisation of credits in Manila or in one of the provinces. And to what extent are people really 'empowered' and the projects sustainable? Do those who are eager to sustain progressive development projects look for the best possible patron? What shall local activists do when they cannot even start a union or a co-operative because of threats or naked repression?

In a discussion about the problems of combining people's own development efforts with democratic political struggles the largest popular co-operative effort in the country merit special attention.

One of the most important bases for the powerful 'national democratic' movement grew out of the poor tenants in Tarlac, Central Luzon, their leader since the sixties, Commander Dante, and their struggles against Japanese imperialism, Philippine landlords, post-colonial authoritarianism, as well as their own war-lords. The New People's Army was formed here in 1969 and led by Dante. At present, however, the same peasants and the same leader are instead busy laying the groundwork for what may perhaps become a 'New Democratic People's Project'.¹⁰⁵

Dante still claims that oppression under feudal landlords and the Marcos regime was for many years so massive that people simply had to fight illegally, and defend themselves through armed resistance. But in the early-eighties, and after the assassination of his friend Ninoy Aquino in 1983, the situation started to change. From his prison cell Dante argued in vain for, among other things, the participation of the communist-led movements in the snap-elections.

After his release Dante returned as an observer to the highest organs of the Com-

Communist Party. But when not only Leftist incidents on lower levels but also Dante himself claimed that the mistakes were fundamental, he again found himself part of a tiny minority, and came to realise that the movement as a whole was not seriously interested in the 'new politics' that he and others fought for in the May 1987 elections.

The election was no personal disaster for Dante, who received more votes than anybody else in the Left. But when he was personally hit by the violence he sought to avoid, and when the dogmatic leadership closed the internal 'national democratic' debate, Dante spoke out openly and felt that politically he had to start from scratch in Tarlac, where people would also protect him.^{106, 107}

Decades of militant struggle against the, in many respects, feudal landlords in Tarlac had compelled Marcos to initiate a minor land reform in areas where maize and rice were grown. Many of the old sharecroppers were now independent small farmers. As far as they were concerned the anti-feudal struggle for land was over, for all practical purposes.

Instead, they were now exposed to all the disadvantages of capitalism. Their plots were small, and they had no access to support from politicians and bureaucrats. The farmers were therefore not able to acquire the effective production inputs which businessmen sold or rented at good profit. After the harvest, mill-owners and others charged exorbitantly. Middlemen bought cheaply and sold dearly. Most of the farmers were heavily indebted. The workers were given miserably low pay. And of course there was also a scarcity of labour opportunities.

Many had already lost their land. Concentration of land ownership, or at least 'kulakisation', i.e. the growth of a group of rich farmers with their own workers, seemed imminent. Dante therefore suggested that the many small farmers should make use of the new room for manoeuvre under president Aquino, co-operate openly, and seek public credits. By acting in common they could provide more and cheaper input goods, and use them more effectively. Better preparation and irrigation of the fields could be organised collectively. Everyone could harvest their own fields, but the harvest should then be stored collectively, and be sold only on the farmers' own terms, preferably with no middle-men involved. The co-operative could take care of as many bags as were needed to repay the loans, and then ask for new money. Later they could invest in their own mill and in other processing. This, in turn, would give the workers better wages and more jobs.

The peasants shook their heads in disbelief, thinking of all the unsuccessful co-operatives that smart businessmen and politicians had turned to their own profit. But Dante had been able to gain unquestioned confidence among perhaps 500 peasants since decades of dedicated work among them. If for nothing else, they joined out of

loyalty, while the guerrillas in the nearby mountains left their former commander in peace.¹⁰⁸

The next item on the agenda was now not merely to avoid being obstructed by the state, but to get access to sizeable credits. Like Ninoy Aquino, the present governor of the area chose a live-and-let-live relationship with Dante and his peasants. In the presidential palace Corazon Aquino probably neither dared nor wanted to move against a man who had been the friend and prison mate of her assassinated husband during the 1970s.

Late in 1988 the project could be launched.

When I arrived in Tarlac about a year and a half later the 500 sceptical peasants had become more than 4,000 enthusiasts. Their plots, which are still individually owned, comprise more than 8,000 hectares.¹⁰⁹ The sugarcane-growing Hacienda Luisita close by is 2,000 hectares smaller, but is, of course, endowed with more capital. The co-operative is the largest in the country.¹¹⁰ Production has increased drastically. The rice, maize, and beans harvested are stored collectively until the purchasers offer acceptable prices. Even those harvest-time workers who are employed by the farmers themselves get better pay under the supervision of the co-operative. The farmers have been able to repay their previous loans, and are no longer threatened by bankruptcy. The state credits to the co-operative have even been repaid ahead of schedule. As a result they have been able to get even larger loans, from a government which lacks its own success stories, and is doing its best to exploit those of Dante.¹¹¹ In and outside the country even conservative columnists and business reporters write assured and admiring articles about the co-operative.

There are, of course, also problems (such as how much of the net harvest that should be invested or how much to pay those employed by the co-operative). But above all, the co-operative suffers from growth pains causing some problems of organisation and leadership, among other things. More and more people want to enroll. Schools need to be started as soon as possible. The drought is getting serious and there is fanatic digging for water, which in the future may be pumped up by use of windmills rather than with the expensive electricity or diesel. When I was there, top priority was given to the new rice mill, which was inaugurated later on in April.

More than seventy elected local leaders co-operate in some twenty groups, with one co-operative co-ordinator and one technical adviser each, constituting the basis of the central leadership. Internal democracy is 'developed according to the speed at which the peasants themselves recognise the advantages of co-operation'. To prevent infiltration there is a requirement that those who have been employed by the co-operative must have a local base. Those who are to run the new rice mill will also own shares in it,

thereby securing their own interest in its effectivity.

In the main office—with a few long tables at one end of an otherwise empty factory hall which has been rented cheaply, and is used mainly as a warehouse—we discuss the background and development of the left.¹¹² Finally I ask Dante whether he has abandoned politics. Has he become merely a progressive moneylender with good contacts or a managing director for a farmer's co-operative? Does he want to exploit the success story in Tarlac to run for mayor, governor or congressman in the elections in 1992? What about the self-reliance of the project? Can it really stand as a model for other areas in the Philippines?

Dante is conscious of the fact that Tarlac is unique in some respects: the farmers own their land, he himself is a seasoned leader, they can now act quite openly, and they can get considerable credits—which the co-operative is productive enough to repay immediately.

But on the other hand, the preconditions are not extraordinary. The land was not theirs from the start, but they forced the change. The leadership grew with the struggle. Nor is today's room for manoeuvre a gift from heaven, but a product of hard work. And the co-operative is viable enough to pay back its credits even ahead of schedule. Tarlac is not the only place where this kind of thing can be done, Dante says. I am not so sure, mentioning as an example areas where poor peasants cannot organise co-operatives or trade unions because of the landlords' private armies. Dante nods, and says that at least they can now form broad popular defence organisations.

But then he adds that "on the other hand, the whole point is really that we might fail here in Tarlac". The argument is that the project cannot succeed within the parameters of the system. Peasants must have more power.

Dante's big idea is that people do not become revolutionaries in Tarlac or anywhere else just by receiving propaganda, but only through their own personal experiences. Now, when the room for manoeuvre is so much greater than under Marcos, one has to work hard and fast together with the peasants to achieve as much as possible "under existing relations of production". Only when the peasants are themselves confronted with the unavoidably hard opposition from powerful businessmen, politicians and bureaucrats will they be able to develop the common political struggle. "And only then can I decide how I should proceed myself. I am not even sure how far this process has advanced by the time the new elections are held."

How important is the struggle for democracy? Dante believes that most of the peasants are conscious of the need for freedom and possibilities to co-operate, as well as elected politicians and reasonably uncorrupt administrators who can fix loans on favourable terms, are indispensable if they

are to continue. I would argue that this heavy dependence on—and motive to fight for—not only civil rights and freedoms, but also for political rights and a democratic state administration can partly be explained by one factor specific to Talarac: in contrast to many other important development organisations and action groups in the Philippines, the co-operative in Talarac does not primarily rely on international assistance. But the risks that Dante and all those involved will have to add just to the best possible patrons in order to sustain the individual project are of course great. For how long and to what extent democracy will make sense in Talarac remains to be seen and analysed.

Coalition building

Finally, in addition to the attempts by 'popular democrats' and socialists to 'empower' people as a means to developing better conditions for genuine democracy, the tradition from the *Plaridel Papers* to create a framework for coalitions between various groups within the radical Left has at present become increasingly important and gained some success.

The hard times for the Left may be right for limited co-operation. The mainstream 'national democrats' have faced serious problems, including efficient hard repression since they resumed the armed struggle in 1987. And while many committed activists who have fought oppression and exploitation for many years may become even more devoted but also more isolated—since they find few if any alternative avenues which do not imply that they almost have to start anew—many of those who distance themselves from the mainstream movement do not turn to hard work in alternative projects. Some gains are reported from the labour front, but the student movement is on the retreat. The next military coup attempt may be successful. The recent developments in China and Eastern Europe have generated a lot of questions. And within the clandestine movement there are even difficulties in carrying out simple discussions in face of the outright war declared by the state. Finally, new elections in 1992 must soon be tackled.

One aspect of the just mentioned coalition building efforts is that popular democrats and socialist oriented intellectuals conduct and publish analyses which open up for discussions of what conclusions the many factions could agree upon—rather than on areas of disagreement, while other questions remain to be solved or can be taken up later. This is also reflected in frequent 'public forums' where concerned scholars, leaders, and activists with various ideas and experiences are able to meet and discuss. Lectures, statements and comments are often published.

These are not new phenomena, though they may have become more important. But another feature is at least some leaders within a number of various groupings—including 'national democrats', 'popular

democrats', radical socialists and nationalists, as well as followers of the old Communist Party—have for some time been able to meet and, in an atmosphere of mutual respect, hold discussions around what concrete issues some or all of them should be able to co-operate on.¹¹³

All this has favoured broader actions in questions such as the US-bases, the huge Philippine debt and its consequences for common people, human rights, and a genuine agrarian reform. One could also mention the successful attempts by 'popular democrats' in the provinces to get a broad following behind and respect among the fighting parties for a concept of 'peace zones'.¹¹⁴ Finally it is not impossible that some kind of argument among the various progressive forces can be reached as they face the 1992 elections.

However, these tendencies should not be overestimated. There are not only problems of differing analyses, strategies, and tactics. Everyone concerned carries along assorted bad experiences amassed over the years. Moreover, it is important to remember that coalitions are built mainly on rather short term questions, focusing demands rather than alternatives and relating to traditional pressure politics primarily in the capital. Therefore as 1992 elections approach one can not be sure that the alliances are made compatible with the efforts to 'empower' people and develop bases for more genuine democracy. The coalitions may instead be adjusted to the ways in which sections of the Left related to the best possible patrons within the existing framework of 'cacique democracy' in the 1988 local elections.

V

Towards a Conclusion

The experiences from Communist led political struggles in Indonesia and India indicate that various forms of appropriating surplus through the monopolisation of mainly public communal and co-operatively managed conditions of production—often in combination with privately owned resources which usually are external in relation to the units of production (for instance credits and irrigation) had been difficult to take into proper consideration with the use of predominant Marxist theories. These characteristics may be labelled political rent capitalist. One can study them without abandoning Marxism by extending the analyses of means of production to include also additional vital conditions of production. If these dynamics are vital a lot of people should have a material interest in struggling for demonopolisation though they may vacillate between democratisation and privatisation.¹¹⁵

Clearly the Philippines is much different from both Indonesia and India. The role of the colonial and post colonial state to take one example has been much less decisive in the Philippines despite Marcos' attempts at state led development and his cronism. In

no way does my brief study of the Philippines allow for systematic comparisons with the above conclusions about neglected rent-capitalist features in India and Indonesia. However, it seems to me as if the main reason why it was difficult for almost all sides of the radical Philippine Left to foresee the growing importance of struggle for democracy was that their basic theoretical and analytical perspectives allowed for the identification of main sources of power only outside the political sphere.

In the beginning of this article maximum democracy was defined as the actual capacity of the adult citizens to exercise in various forms equal effective rule over resources which they hold in common without thereby undermining the absolutely necessary prerequisites for this rule.

Democracy was not vital according to most radical Philippine analysts and ideologues. The essential prerequisites for democracy or the "actual capacity to exercise equal effective rule"—were lacking. They had to be fought for. However, this could rarely be done in legal, peaceful, and democratic ways because of the limited rights and liberties available. Furthermore, the essential resources in the society were not even formally public but in private hands. Even if the organs of the state, and public resources had been reasonably democratically governed it would not necessarily have created significantly better preconditions for democracy. Nor would it have undermined the dominating classes: Imperialists, big capitalist compradors, landlords and others who were in command of the real sources of power. These had instead to be tackled head on.

This is not to say that all political analyses were equally square. But even most of the dissidents employed short term tactical perspectives in support of the above mentioned basic views when arguing in favour of—for instance—critical participation in an election. They wanted to start from the actual level of consciousness among the people and win them over step by step, or they wanted to create a revolutionary situation, or they recommended struggle over the control of relatively autonomous institutions, and so on.

On the other hand the more independent dissidents who gave priority also to the creation of autonomous organisations—popular participation in addition to representation pluralism and coalition building, etc.—and have added since some time back the 'empowering' of people within movements and NGOs—usually abstain from basic analyses of which controls of private and public resources should be tackled because such considerations could undermine their attempts to build tactical coalitions. This makes it difficult for most of them to indicate which social forces might be interested in fighting for their democratic model in a longer term perspective. Many different interests and actors are involved, including neo liberals and new patrons. There is thus

need for closer studies of under what conditions, for how long, and to what extent popular movements may find it instrumental to give priority to various features of democracy.

(Concluded)

Notes

- 71 BISIG (Union for the Advancement of Socialist Thought and Action) was founded in May 1986 by radical socialists and Marxists with various backgrounds (including Christian social democracy, trade union work, community activism concerned scholarship, the old as well as new communist movement) For a review of socialist groups in the Philippines, see Paul Petitjean, 'The Trajectory of the Left Forces that Supported Cory Aquino's Campaign', in *International Viewpoint*, No 103, July 14, 1986 See also BISIG, 'The Socialist Vision', in *Kasarinlan*, Vol 2, No 3, 1987, and Francisco Nemenzo, 'Beyond February The Tasks of Socialists' (paper presented at the BISIG founding congress 24-25 May, 1986), in *Kasarinlan*, Vol 2, No 1, 1986
- 72 I draw mainly on interviews with Randolph David, March 20, 1990, Horacio Morales March 27, 1990, Clark Soriano and Isagani Serrano, January 19 and March 20, 1990, Ed Tadem, March 12 and 14, 1990, Francisco Nemenzo, March 23, 1990, and Ed de la Torre, May 3, 1990
- 73 For these and similar actions see Felipe S Ramiro Jr et al *Popular Grassroots Initiatives Towards Genuine Agrarian Reform A Descriptive Report* (Quezon City: CPAR, 1989)
- 74 See for instance the reviews by Alex Magno, 'CPP Rethinking', and 'The Philippine Left as the Crossroads' and by Paul Petitjean 'After the Election Reassessment in the Revolutionary Left', 'Communist Party Makes a Self Criticism' and 'A Year of Debate', in *International Viewpoint*, June 2 and June 30, 1986, and June 29, 1987 respectively
- 75 RAM, Reform the Armed Forces of the Philippines Movement, was important in the overthrow of Marcos
- 76 Interview May 3-4 1990
- 77 See *Praktika*, Vol 1 No 1 (May) 1986 and No 2 (August) 1986
- 78 That the US was deeply involved is quite something else And one should not forget basic economic determinants, including the ways in which Marcos' attempts at state led development were undermined by international creditors, including the IMF According to Rene Ofreneo, concerned scholar and dean of UP School of Labour and Industrial Relations, this may even have been the main cause for the downfall of Marcos Interview March 26, 1990
- 79 For a bold version, see Sol del Pilar, 'When a Zigzag Turn is a Longer Route' in *Praktika*, Vol 1 No 2 1986
- 80 See, for instance, 'Caselene Forum' in *Diliman Review*, Vol 34, No 4, Edilberto Zamora 'A Reply' in *Kasarinlan*, Vol 3, No 4, 1987, Pepe Manalo 'Political Strategy and the Political Negotiations' and Gregg R Jones *Red Revolution*, op cit, Ch 15
- 81 Written lecture by Sison dated Stockholm January 26, 1987, p 41
- 82 Conversations with Sison February and October 1987

JAYSHREE CHEMICALS LIMITED

It is hereby notified for the information of the public that Jayshree Chemicals Limited proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (2) of Section 22 of the Monopolies and Restrictive Trade Practices Act, 1969, for approval to the establishment of a new division. Brief particulars of the proposal are as under:-

- | | |
|---|--|
| 1 Name and address of the applicant | JAYSHREE CHEMICALS LIMITED 14, Netaji Subhas Road, Calcutta-700 001 |
| 2 Capital structure of the applicant organisation | Authorised 80,00,000 Equity Shares of Rs 10/- each Rs 8,00,00,000/- Issued, Subscribed and Paid-up 18,48,750 Equity Shares of Rs 10/- each Rs 1,84,87,500/- |
| 3 Management structure of the applicant organisation indicating the names of the Directors, including Managing/whole-time Directors and Manager, if any | The names of the Directors of the Company are as under - Shri N D Bangur Shri T P Chakravarti Dr Dara P Antia Shri S K Bangur—Managing Director Shri A K Rungta Shri R Viswanathan Shri S S Ghosh Shri N R Hota Shri M V N R Seshagiri Rao Shri A K Sureka |
| 4 Indicate whether the proposal relates to the establishment of a new undertaking or a new unit/division | The proposal relates to the establishment of a new division |
| 5 Location of the new division | 512, Maker Bhavan No III, New Marine Lines Bombay 400 020 |
| 6 Capital structure of the proposed undertaking | Same as in No 2 hereabove |
| 7 In case the proposal relates to the production, storage, supply, distribution, marketing or control of any goods/articles indicate i Names of goods/articles ii Proposed licensed capacity iii Estimated annual turnover | Not applicable |
| 8 In case the proposal relates to the provision of any service, state the volume of activity in terms of usual measures such as value, income, turnover, etc | The proposal relates to the establishment of a separate division to undertake construction of buildings as contractors |
| 9 Cost of the project | Rs 1,10,00,000/- |
| 10 Scheme of finance, indicating the amounts to be raised from each source | Rs 10 lacs by way of unsecured loans and balance from payments against running bills |

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest therein

K G BALDI
Secretary

Dated, 18th July, 1991

- 83 For an interesting contemporary analysis, see Ed Tadem, 'The Agrarian Question Confronts the Aquino Government' in *Kasarinlan*, Vol 2, No 4, 1987
- 84 A clandestinely distributed discussion paper written under the pseudonym 'Pepe Manalo' and later on published under the title 'Political Strategy and the Political Negotiations'. It is interesting to note that this terminology was later on applied by the top-communist leaders when 'Popdem Question' was discussed as late as in early 1988, others maintained that it might not merely be atactic but could even serve as an alternative programme (*CPP Document Captured by the Authorities from the Archives of Rafael Baylosis in Early 1988*). At least as early as 1987 the organisation 'Volunteers for Popular Democracy' was included in the National Democratic Front, although identified as having a shallow role as a united front tactic. The argument that there was a need for a strategic conceptualisation of the legal struggle was, however, regarded as problematic, and it was stated that the 'popular democrats' had initiated co-operation with 'non national democratic progressive forces' without the approval of the party (*Captured minutes of the CPP CC Plenum* January 6 March 18, 1987)
- 85 'Bourgeois elections and Parliament Props for Counterrevolution' *Ang Bayan* No 4, March 1987
- 86 For a report on the formation of 'Partido ng Bayan' see *Midweek* Vol 1 No 36 October 1 1986
- 87 Indirectly confirmed by Sison and his wife in interview, May 3 4, 1990. Sison himself has written that the 'Partido ng Bayan' could "relieve the legal mass organisations and alliances of the burden of having to debate and divide over whether to participate or not in voting exercises". They could instead concentrate on fundamental sectoral and multisectoral issues and simply decide and set forth the criteria for influencing the electoral process". Sison and Werning *The Philippine Revolution*, op cit, p 169
- 88 Ben Anderson 'Cacique Democracy' op cit
- 89 See *Condensed Report on the May Elections*, Institute for Popular Democracy (Quezon City 1987) and summaries of a survey and analysis of political clans in the Philippines carried out by the same institute in *Conjuncture* (published by the Institute for Popular Democracy), Vol 1 No 2, and in *Far Eastern Economic Review*, September 14, 1989, which also included additional material (Cf also Ed de la Torre, 'Structural Obstacles to Democratisation in the Philippines II: Continuing of Political Clans' in *Conjuncture*, Vol 1, No 7, June 1988, and the report in *Far Eastern Economic Review*, May 21, 1987). I draw also on interviews with the director of the institute, Clark Soriano March 20, 1990 and would like to thank Ben Anderson for fruitful conversations on related issues of his 'Cacique Democracy'
- 90 To get an idea of some expectations, see Ed de la Torre, 'Electoral Etudes' in *Midweek*, Vol 2, No 23, May 13, 1987
- 91 Interview, March 26, 1990. The chairman of PnB claimed, however that Dante was out for votes (*Midweek*, Vol 2, No 37 September 23, 1987). And many seemed to agree on the fact that the radical alliance should have abstained from the senatorial elections and concentrated on the Congress. For a presentation of the 'Vanguard of the 'New Politics', the Magnificent 7' see *Midweek*, Vol 2, No 19, April 1, 1987
- 92 Here and below I draw especially on interviews with Dante, March 25 and 26, 1990, Joe Castro, previous leading member of PnB and one of its candidates for the Congress, March 25, 1990, Horacio Morales, candidate for the senate, March 27, 1990, Etta Rosales, leading member of Bayan and PnB, March 23, 1990, Ed de la Torre, leading member of VPD, May 3, 1990, Clark Soriano, director of the Institute for Popular Democracy and in charge with their studies of the elections, and on the interview with Fidel Agcaoli, chairman of PnB in *Midweek*, Vol 2, No 37, September 23, 1987
- 93 For one general review, see Gregg R Jones, *Red Revolution*, op cit, pp 162f and 239 ff. It might also be interesting to note that the chairman of the Manila-Rizal Committee, Filemon Lagman, who in 1978 revolted against the party leadership by suggesting critical participation in the elections and thereafter was purged, has now resumed his position as he is reported to be in favour of armed urban actions and 'insurrectionist' perspectives, *Far Eastern Economic Review*, August 23, 1990, p 18ff
- 94 See the interview with Dante (Panayan kay Dante hinggil sa stratehiya) in *Diliman Review*, Vol 35, No 3, 1987
- 95 For interesting analyses, see *Kasarinlan* Vol 3, No 2 1987 and Francisco Nemenzo, 'A Season of Coups' in *Kasarinlan*, Vol 3, No 4, 1987
- 96 I continue to draw mainly on many of the sources mentioned in relation to the May 1987 elections (Cf also Gregg R Jones, *Red Revolution* op cit, p 310f)
- 97 Interview with Jalandoni, May 3 and with Sison May 3 4 1990
- 98 I am mainly drawing on interviews with Isagani Serrano Philippine Rural Reconstruction Movement January 19 March 20 and May 29, 1990 and Clark Soriano, Institute for Popular Democracy January 19 and March 20 1990, Horacio Morales, March 27, 1990, and Ed de la Torre, May 3 1990, plus various issues of *Rural Reconstruction Forum* and *Conjuncture*, and Ed de la Torre's *The Politics of Popular Democracy* (Horacio Morales's *Political Economy of Popular Democracy* (Quezon City: Institute of Popular Democracy 1986), *Selected Speeches Isagani Serrano* (Quezon City: PRRM 1990), and by the same author *Developing a Fourth Generation NGO Strategy* paper to the 31st International Training International Institute of Rural Reconstruction October 11, 1989. See also Alex Magno 'Popular Democracy as apolitical form' in *Diliman Review*, Vol 34 No 3 1986
- 99 I am particularly thankful for discussions with Karina Constantino David, professor of Community Development and formerly Aquino's deputy secretary for social affairs and development, and herself an activist in the field, March 28 1990. See also her *Community Organisation and People's Participation*, paper for a seminar with the Dag Hammarskjöld Foundation Uppsala May 1984, and *The New Politics: Lessons from the Democratic Struggle in the Philippines* (manuscript 1988) available with the library of the UP Third World Studies Centre)
- 100 The dogmatic 'national democrats' are no exception. If for no other reason, they need their own NGOs to raise money (Confirmed off record by leading members.)
- 101 I continue to draw on the interview just mentioned with Karina Constantino David, (Cf also Karina Constantino David 'The Limits and Possibilities of Philippine NGOs in Development', paper for the University of the Philippines Round Table discussions on participation, March 9, 1990), and would also like to thank, among others, Mario Bolasco, for sharing his analysis of the role of the Church, interview March 19, 1990
- 102 Her movement is called KA BISIG (linked arm in arm)
- 103 In relation to this and the two paragraphs above, I am especially thankful for private communication, dated July 26, 1990, on a review of some foreign aid projects and several NGOs in the Philippines
- 104 Cf my 'Communists and Democracy: Two Indian Cases and One Debate' op cit
- 105 For the following I am mainly relying on discussions and interviews with Dante and Fatima Penilla Buscayno, his companion and additional propelling force within the project, January 21, and March 24-26, 1990, their unpublished paper 'Co-operatives: A Self Help Approach to Poverty Alleviation', (February 1990), and news clippings
- 106 Directly after a TV show where he had analysed the election results, terrorists attacked his car with submachine guns, but were only able to murder two of his friends and seriously wound two others. See also Fatima Penilla Sibal's story in *Diliman Review*, Vol 35 No 3, 1987
- 107 See the interview with Dante in *Diliman Review*, Vol 35 No 3 1987
- 108 At present the mainstream national democrats' are unhappy with Dante and his project (interview with the representative of NDI Luis Jalandoni, May 3, 1990, and with Sison May 3 4 1990), while dissidents are often favourable, though eager to stress certain special features in Iarlag which I shall return to
- 109 According to written communication with Fatima Buscayno (August 12 and October 20 1990) the project has since then grown steadily and expanded into an additional district (no 1) in Iarlag and the Pampanga and Nueva Ecija provinces. Some 8,000 farmers are now involved
- 110 Property of the Cojuangcos, including Corazon Aquino
- 111 Even the then agrarian secretary Florencio Abad told me (March 20 1990) that Dante is and I understand him tired, of being used by everybody by the government by various groups, by everybody
- 112 The office has since been moved to the new rice mill
- 113 I draw on interviews in March 1990 with people more or less directly involved. I am also told that a more open attitude has been authorised by the top 'national democratic' leadership
- 114 See eg Henry GP Isaac Jr 'The Naga Popdem Experience', in *Conjuncture*, Vol 3 No 4 1990
- 115 For the general conclusion see my *What's Wrong with Marxism* Vol 1 and 2, op cit. For a previous attempt to study when democracy made sense for communists in West Bengal and Kerala, see my *Communists and Democracy*, op cit



بنك عمان المحدود
Bank of Oman Limited

(Incorporated in UAE with Limited Liability)

Air India Building, Nariman Point, Bombay 400 021

BALANCE SHEET AS AT 31ST MARCH, 1991

Bombay Branch

| As at 31 3 90 Rs P | CAPITAL & LIABILITIES | 31 3 91 Rs P | As at 31 3 90 Rs P | PROPERTY & ASSETS | 31 3 91 Rs P |
|-----------------------|--|------------------|--------------------------------|--|------------------|
| | 1 Capital Deposit with Reserve Bank of India under Section 11(2) (a) & (b) of the Banking Regulation Act 1949 comprising of Government Securities of face value of Rs 15 000 000/ are included in investments | | 5 875 995 43 | 1 Cash In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes) | 208 076 111 66 |
| 2 000 000 00 | | 2 000 000 00 | 21 142 029 64 | 2 Balance with Other Banks (i) In India 6 063 516 67 (ii) Outside India 1 890 967 01 | 7 954 483 68 |
| 4 399 897 00 | 2 Reserve Fund and Other Reserves | 5 584 633 00 | 19 689 318 72 | On Current Accounts (i) In India 5 063 016 67 (ii) Outside India 1 890 967 01 | |
| | 3 Deposits and Other Accounts (i) Fixed Deposits from (a) Banks Nil (b) Others 1 092 456 583 14 (ii) Savings Bank Deposits 30 858 954 44 (iii) Current Accounts Contingency Accounts etc from (a) Banks 731 201 89 (b) Others 153 661 432 30 | | 21 142 029 64 19 689 318 72 | On Deposits (i) In India 1 000 500 00 (ii) Outside India Nil | |
| 747 663 755 47 | | | Nil | 3 Money at Call and Short Notice | Nil |
| 18 639 101 18 | | | Nil | 4 Investments (at or below cost) (i) Securities of the Central & State Governments & other Trustee Securities including Treasury Bills of the Central & State Governments 376 877 485 00 (ii) Equity Shares 995 000 00 (iii) Debentures or Bonds 11 493 750 00 (iv) Other Investments Nil (v) Gold Nil | |
| 560 385 37 | | | | | |
| 221 403 219 74 | | 1 977 708 171 77 | 241 713 805 00 | | |
| 988 266 461 76 | | | 500 000 00 | | |
| | 4 Borrowings from Other Banking Companies, Agents, etc (i) In India 63 850 000 00 (ii) Outside India 106 749 02 | | 6 218 750 00 | | |
| 2 250 000 00 | | | Nil | | |
| 315 276 13 | | 61 956 749 02 | Nil | | |
| 2 565 276 13 | | | 248 439 555 00 | | 389 296 235 00 |
| | Particulars Secured Nil Unsecured 63 956 749 02 | | | | |
| Nil | | | | | |
| 2 565 276 13 | | | | | |
| 5 303 387 12 | 5 Bills Payable | 13 621 166 24 | | 5 Advances (other than bad & doubtful debts for which provision has been made to the satisfaction of the Auditors refer Notes 2(b) & (4)) i) Loans Cash Credits Overdrafts etc (i) In India 465 280 455 56 (ii) Outside India Nil | |
| | 6 Bills for Collection being bills Receivable as per contra payable (i) In India 106 796 069 01 (ii) Outside India 112 268 217 31 | | 345 509 475 51 | | |
| 112 390 133 98 | | | Nil | | |
| 111 778 524 09 | | 218 994 286 32 | 345 509 475 51 | (ii) Bills Discounted and Purchased (excluding Treasury Bills of the Central & State Governments) payable (i) In India 151 734 443 43 (ii) Outside India 51 082 358 75 | |
| 224 168 658 07 | | | | | |
| | 7 Other Liabilities (i) Balances due to Head Office and Foreign Branches 11 581 386 83 (ii) Income accounted in advance 6 747 242 93 (iii) Others 2 692 651 45 | | 246 667 368 51 | | |
| 10 515 495 86 | | | 56 679 402 80 | | |
| 7 287 103 33 | | 21 021 281 91 | 303 346 771 31 | | |
| 784 750 04 | | | 648 856 246 82 | | |
| 18 587 279 23 | | | | | |
| | 8 Acceptances, Endorsements and Other Obligations as per Contra | 105 942 179 71 | | | 668 097 257 74 |
| 166 432 064 46 | | | | | |
| | | | | | |
| 411 723 093 77 | Carried Forward | 1 708 828 467 27 | 943 996 145 61 | Carried Forward | 1 273 424 088 00 |



بنك عُمان المحدود
Bank of Oman Limited

(Incorporated in UAE with Limited Liability)

Air India Building, Nariman Point, Bombay 400 021

BALANCE SHEET AS AT 31ST MARCH, 1991

Bombay Branch

| As at 31 3 90 Rs P | CAPITAL & LIABILITIES | 31 3 91 Rs P | As at 31 3 90 Rs P | PROPERTY & ASSETS | 31 3 91 Rs P |
|-----------------------|---|------------------|-----------------------|---|------------------|
| 1 411 723 023 77 | Brought Forward | 1 708 828 467 27 | 943 996 145 61 | Brought Forward | 1 273 494 088 08 |
| | 9 Profit and Loss Account | | | 6 Bills receivable being bills for collection per contra payable | |
| 10 387 760 87 | Profit as per last Balance Sheet | 22 316 095 70 | 112 390 133 98 | (i) In India | 106 726 069 01 |
| | Add Profit for the year per Profit & Loss Account Annexed | 5 923 679 47 | 111 778 524 09 | (ii) Outside India | 119 268 217 31 |
| 14 910 434 83 | | 28 239 775 17 | 224 168 658 07 | | |
| 25 298 195 70 | Less Profit Remitted | Nil | | 7 Constituent's Liabilities for Acceptances, Endorsements and other obligations per contra | |
| Nil | Less Transferred to Statutory Reserve | 1 184 736 00 | 166 432 064 46 | | 105 042 179 71 |
| 2 982 100 00 | | | | 8 Premises less Depreciation | Nil |
| 22 316 095 70 | | 27 055 039 17 | Nil | 9 Furniture & Fixtures | |
| | 10 Contingent Liabilities | | | (including capitalised alterations) less depreciation | |
| | (i) Claims against the Banking Company not acknowledged as debts | 212 087 78 | 8 067 424 36 | Cost as per last Balance Sheet | 12 364 612 49 |
| | (ii) Guarantees given on behalf of | | 4 319 785 20 | Addition during the year | 1 956 149 45 |
| | (a) Customers of Head Office and Foreign Branches | 2 347 183 00 | 12 387 209 56 | | 14 320 761 94 |
| 4 093 841 00 | (b) Officers | Nil | 22 527 07 | Less Disposal during the year | 1 756 847 39 |
| 43 793 570 46 | (c) Others | 223 467 74 | 12 364 612 49 | | 12 563 914 62 |
| | (iii) Liabilities on bills of exchange rediscounted | 135 000 000 00 | 5 448 069 49 | Less Depreciation upto 31 3 91 | 6 261 285 62 |
| Nil | (iv) Liability on account of outstanding forward exchange contracts | 21 814 394 00 | 6 916 543 00 | | |
| 95 776 484 00 | | | | 10 Other Assets | |
| | | | | (i) Head Office & balances with Foreign Branches | 250 846 38 |
| | | | 1 187 084 22 | (ii) (a) Interest accrued on investments | 15 172 192 50 |
| | | | 10 046 906 30 | (b) Other interest and commission receivable | 3 938 582 70 |
| | | | 5 606 443 60 | (c) Prepaid expenses & sundry amounts receivable | 111 224 921 44 |
| | | | 15 093 897 10 | (iii) Stamps & Stationery | 311 895 31 |
| | | | 185 971 11 | (iv) Vehicles less depreciation | 324 885 00 |
| | | | 406 106 00 | | |
| | | | 22 525 708 33 | 11 Non Banking Assets acquired in satisfaction of claims | Nil |
| | | | Nil | | |
| 1 434 039 119 47 | TOTAL RUPEES | 1 735 883 506 44 | 1 434 039 119 47 | TOTAL RUPEES | 1 735 883 506 44 |

See Notes attached

This is the Balance Sheet referred to in our report of even date

Sd/
P N GHATAIA
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Bombay July 20 1991

FOR BANK OF OMAN LTD

Sd/
S V KUMAR
CHIEF MANAGER

Sd/
MA BAIG
ASST CHIEF MANAGER

Sd/
DEEPAK ASGAONKAR
MANAGER ACCOUNTS & D P



Bombay Branch

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1991

| Previous Year Rs P | EXPENDITURE | Year Ended 31 3 1991 Rs P | Previous Year Rs P | INCOME (Less provision made during the year for bad and doubtful debts and other usual or necessary provisions) | Year Ended 31 3 1991 Rs P |
|-----------------------|--|---------------------------------|-----------------------|--|---------------------------------|
| 77 654 300 95 | 1 Interest paid on deposits, borrowings from foreign banks/branches Reserve Bank of India Financial Institutions etc | 124 992 481 91 | 93 542 057 25 | 1 Interest and discount including from foreign Branches | 140,433 659 83 |
| 4 734 383 67 | 2 Salaries Allowances Provident Fund and Bonus | 5 344,670 64 | 13 164 716 79 | 2 Commission Exchange and Brokerage | 9 562,533 47 |
| 70 126 50 | 3 Local Advisory Board Members Fees and Allowances | 62 549 00 | Nil | 3 Rent | Nil |
| Nil | 4 Loss on Sale of Investments | Nil | 1 961 950 00 | 4 Net profit on sale of investments gold silver land premises and other assets (not credited to reserves or any particular fund or account) | 61,500 00 |
| 5 859 885 87 | 5 Rent taxes insurance lighting etc | 5 799 325 90 | Nil | 5 Net profit on revaluation of investments gold silver land premises and other assets (not credited to reserves or any particular fund or account) | Nil |
| 2 248 00 | 6 Law Charges | 239 311 00 | Nil | 6 Income from non banking assets and profit from sale of or dealing with such assets | Nil |
| 923 242 40 | 7 Postage telegrams telephones and stamps | 869 128 30 | 1 993 317 19 | 7 Other Receipt | 854 637 95 |
| 25 000 00 | 8 Audit fees | 38 000 00 | | | |
| 3 011 889 17 | 9 Depreciation on and Repairs to the Banking Company's property | 3 118 860 15 | | | |
| 457 571 77 | 10 Stationery printing advertisement etc | 565 225 87 | | | |
| Nil | 11 Loss from sale of or dealing with non banking assets | Nil | | | |
| 3 012 958 07 | 12 Other Expenditure | 3 959 099 71 | | | |
| 14 910 434 83 | 13 Balance of profit for the year | 5 993 679 47 | | | |
| 110 662 041 23 | TOTAL RUPEES | 150 912 331 25 | 110 662 041 23 | TOTAL RUPEES | 150 912 331 25 |

See Notes attached

This is the Profit and Loss account referred to in our report of even date

So

PNGHATAIA

for and on behalf of

PRICE WATERHOUSE

CHARTERED ACCOUNTANTS

Bombay July 20 1991

FOR BANK OF OMAN LIMITED

Sd
S. V. JIMAL
CHIEF MANAGER

Sd
M. A. BAK
CHIEF MANAGER (O)

Sd
DEEPAK ASGAONKAR
MANAGER ACCOUNTS & D.P.

Schedule of Particulars of Advances Required by the Banking Regulation Act 1949 (Act X of 1949) Attached to and Forming Part of the Balance Sheet as at 31st March, 1991

| 31 3 1990 Rs P | PARTICULARS | 31 3 1991 Rs P | 31 3 1990 Rs P | PARTICULARS | 31 3 1991 Rs P |
|-------------------|---|-------------------|-------------------|---|-------------------|
| 366 468 913 15 | 1 Debts considered good in respect of which the Banking Company is fully secured | 779 086 499 94 | 524 174 75 | 1 Debts due by the Directors or Officers of the Banking Company or any of them either severally or jointly with any other persons | 230 297 40 |
| 115 094 798 87 | 2 Debts considered good for which the Banking Company holds no other security than the debtor's personal security | 91 162 068 66 | Nil | 2 Debts due by Companies or firms in which the Directors of the Banking Company are interested as Directors Partners or Managing Agents or in the case of Private Companies as Members | Nil |
| 157 048 475 09 | 3 Debts considered good secured by the personal liability of one or more parties in addition to the personal security of the debtor | 190 964 658 54 | 569 045 00 | 3 Maximum total amount of advances including temporary advances made at any time during the year to Directors or Managers or Officers of the Banking Company or any of them either severally or jointly with any other persons | 378 899 10 |
| 9 713 541 01 | 4 Debts considered doubtful or bad not provided for | 6 884 038 30 | Nil | 4 Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the Directors of the Banking Company are interested as Directors Partners Managing Agents or in the case of Private Companies as Members | Nil |
| 648 324 829 02 | | 668 097 257 74 | Nil | 5 Due from Banking Companies | 14 528 547 96 |



بنك عمان المحدود
Bank of Oman Limited

Bombay Branch

NOTES FORMING PART OF THE ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 1991

1 Significant Accounting Policies

- The Balance Sheet and the Profit & Loss Account have been prepared in conformity with Forms A & B of the Third Schedule to the Banking Regulation Act 1949
- Foreign Currency Translation
 - Assets & Liabilities in Foreign Currencies are translated at the rates notified by FEDAI as on 31st March 1991 and Contingent Liability in respect of forward Exchange Contracts and Letters of Guarantee are included at the contracted rates
 - Outstanding forward exchange contracts are revalued at the rates notified by FEDAI as at 31st March 1991 and resulting gains or losses on revaluation are credited or charged to income as the case may be
- Investments
Investment in Securities of the Central & State Government and other Trustee Securities including treasury bills of the Central and State Governments Shares Debentures or Bonds, other investments are valued at lower of cost or market value on a global basis
- Advances
 - Provision for Bad & Doubtful debts
The Provision for Bad and Doubtful debts is made to the satisfaction of the auditors after considering the value of realisable securities held by the bank in respect of such advances and other related factors till date. In cases where the bank has made no provision for bad and doubtful debts in respect of advances considered doubtful to the satisfaction of the auditors appropriate disclosures have been made to that effect
 - Advances are stated net of bills of exchange rediscounted and specific provision in respect of bad and doubtful debts
 - Provisions have been made on a gross basis. Tax relief which will be available when the advance is written off will be accounted for in the year of write off
- Premises Furniture and Fixture
 - Premises furniture and fixtures equipment and vehicles have been valued at cost less depreciation
 - Depreciation has been provided on all the assets at the rates specified in Schedule XIV to the Companies Act 1956 on written down value method for the whole year including additions made during the year
- Income Recognition
 - Interest income is recognised on accrual basis and in the case of fully & partly non-performing advances the same is recognised on recovery and settlement
 - Commission and fees charged are credited to income at the time the transactions occur
- Gratuity.
Provision for gratuity to Staff has been made on an accrual basis as certified by the actuary. Separate trust for Gratuity is yet to be set up

h) Head Office Administration Expenses

As per the past practice Head Office Administration Expenses are not charged to the Profit & Loss Account

2 Provision for Income Tax

- Provision for income tax has been made on the basis of the stand taken by the bank in the return of income and appeal filed by it with the assessing authorities. Pending outcome of the appeal/assessments the additional tax liability if any, cannot be ascertained

- The Bank is of the opinion that the decision of the Honourable Supreme Court regarding the taxability of interest on sticky advances in the case of State Bank of Travancore v/s CIT is not applicable in cases where no interest has been charged on sticky accounts. The bank has therefore not made any provision for income tax in respect of cases where no interest has been charged on sticky accounts. Loans and Advances considered good include

- An amount of Rs. 256.90 lacs being advance against shares pledged by borrowers with the covering letter only are considered as fully secured as per the legal opinion obtained by the bank
- An amount of Rs. 978.54 lacs given as a bridge loan to a borrower company against the public issue of convertible debentures supported by letters of comfort given by some of bankers to the issue are considered as commitments by the management and hence considered good and fully recoverable
- An amount of Rs. 204.47 lacs due from a borrower company secured by tangible assets which is identified to be a sick industrial company under the Sick Industrial Companies Act

- In cases where the Bank has made no provision for Rs. 6,884,038.30 in respect of bad and doubtful advances the balance as on 31st March 1991 in the Unremitted Profits Account is considered adequate to cover the after tax impact of subsequent losses if any arising out of these advances. In view of the steps being taken for the recovery of these advances it would be premature to quantify such losses

5 Particulars of Remuneration paid to the Chief Executive Officer (*)

| | Previous Year | Current Year |
|---|------------------|-------------------|
| | 14.89 to 5.11.89 | 14.90 to 31.3.91* |
| Salary & Bonus | Rs. 124,466.90 | — |
| Perquisites evaluated in accordance with Income Tax Rules | Rs. 20,154.00 | — |
| Total | Rs. 144,620.90 | Nil |

(*) There is no Chief Executive Officer posted at the Bombay Branch of the Bank during the year under audit

- The previous year's figures have been regrouped/rearranged wherever necessary

AUDITOR'S REPORT ON THE INDIAN BRANCH OF BANK OF OMAN LIMITED UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949

We have audited the attached Balance Sheet of the Indian Branch of BANK OF OMAN LIMITED as at 31st March 1991 and the relative Profit and Loss Account of the Indian Branch of the Bank for the year ended on that date signed by us under reference to this report

In accordance with the provisions of Section 29 of the Banking Regulation Act 1949 read with the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act 1956 the Balance Sheet and the Profit and Loss Account together with the notes attached thereto are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act 1956. The accounts are therefore drawn up in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act 1949

We report that subject to and read with the foregoing remarks

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory
- The transactions which have come to our notice have been in our opinion generally within the powers of the Indian Branch of the Bank

- In our opinion proper books of account as required by law have been kept by the Indian Branch of the Bank so far as appears from our examination of these books maintained and produced to us at Bombay

- The above mentioned Balance Sheet and Profit and Loss Account of the Indian Branch of the Bank dealt with by this report are in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given to us the Balance Sheet and Profit and Loss Account together with the notes thereon and subject to

- Note 9(b), regarding provision for tax not made and interest not charged on sticky advances

and

- Note 4 regarding provisions not having been made for certain bad and doubtful advances of Rs. 6,884,038.30

give the information required for Banking Companies and on such basis give a true and fair view in the case of the Balance Sheet of the state of affairs of the Indian Branch of the Bank as at 31st March 1991 and in the case of the Profit and Loss Account of the profit of the Indian Branch for the year ended on that date

Sd/-
P. N. GHATGIA
PARTNER
For and on behalf of
PRICE WATERHOUSE
CHARTERED ACCOUNTANTS

Bombay July 20 1991

Understanding Fakirmohan

Biwamoy Pati

RABI SHANKAR MISHRA and Jatindra Naik (January 19, 1991) raise certain points centred around my paper/rejoinder (April 8, 1989 and October 20, 1990). It is really surprising to find Mishra and Naik accusing me of highlighting Fakirmohan Senapati as a champion of the language of the peasants. My basic thrust was to locate Fakirmohan's shift to the 'spoken' language from the 'high', Sanskritised Oriya, in a context when the existence of Oriya as an independent language was being questioned. It was *not* my remotest objective to present the case for Fakirmohan. In fact, I had tried to project exactly the opposite of what I have been accused of—i.e., how the language of the peasant was appropriated by an upper caste/class Oriya intellectual to demonstrate the independent identity of Oriya. Hence my point that the peasants' language saved Oriya from being obliterated—a feature yet to be recognised, given the hegemony of upper caste/class values.

Mishra and Naik seem to make a 'historic block' out of Fakirmohan. It is not my intention to establish who was a 'greater' writer (?)—Fakirmohan or some writer of the 1930s. For that matter, as far as 'greatness' or complexity of vision is concerned one need not even go to the 1930s. Here one can refer to Bhima Bhoi, a blind, tribal poet, a contemporary of Fakirmohan, as long as he is accepted as a creative person, given the domination of upper caste/class values and the reverence for literary canons. Bhima's humanism, universalism and popularity need to be delineated while referring to Fakirmohan. Two lines from this poet gives us an idea of his vision

Let my soul be condemned to hell,
But let the universe be redeemed

It is from their acceptance/construction of Fakirmohan as a 'historic block' that Mishra and Naik approach the question of perceptions of agrarian tension within literary texts. Their analysis pivots around a 'no-change'/'static' perspective. This implies that they do not provide any space for developments, the human agency and interventions between Fakirmohan's time and the 1930s.

Mishra and Naik attempt to whitewash Fakirmohan's role in the Bhuyan rebellion (Keonjhar, 1891). What they dismiss as "an expression of local grievances of some tribal leaders" was in actuality an anti-imperialist/feudal movement with a long history. Keonjhar saw a series of attempts by the British to interfere in its affairs in the 19th century. This, coupled with the oppressive feudal structure, provided the basis for a series of Bhuyan uprisings, culmina-

ting in the 1891 'meli' (revolt), chronicled by Fakirmohan. The way the British bailed out the princely state and rescued Fakirmohan (the assistant dewan of Keonjhar) from the rebels, who had imprisoned him, illustrates the broader linkages of this rebellion most unambiguously. More importantly, Fakirmohan's own account bears testimony to his upper caste/class construction of the tribal in revolt.

My point regarding Mangaraj's poverty-stricken background has been grossly misunderstood. My argument was that perhaps Mangaraj's 'upstart' origin was significant to Fakirmohan. Possibly the upper caste/class notions of the Oriya intellectual and his desire to preserve the social hierarchy shape Fakirmohan's construction

of Mangaraj as wicked and vicious—the 'upstart *nouveau riche*' appears to be the target of criticism. I have obviously nowhere suggested that Fakirmohan located all poor people as 'bad' (or, all rich people as 'good')!

My positions on Sachidananda Routroy are articulated elsewhere. It is fine if one decides to criticise him for his 'links' since the late 1940s. However, I would request Mishra and Naik to produce a single evidence to show that he was associated with the structures of feudalism or capitalism in the 1930-40 period. These 'links' with and recognition from the latter developed *only* after his compromise and retreat. To say that few Oriya literary critics understand the discipline of history and few historians/social scientists of Orissa care to use texts for historical and social analysis is too sweeping a generalisation to be worthy of any comment.

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LESSONS FROM INDIAN EXPERIENCE**



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- Latest equipment from Buckau Wolf India Ltd — a renowned supplier of sugar plant and machinery
- Ideal location in close proximity to cane rich areas for assured cane supply*
- Professional Management
- Minimum Gestation - Production expected by November 1991
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- Listing at Hyderabad & Bombay Stock Exchanges

* "With proper effort for exploiting the cane potential, the mill can easily expand its capacity to 10,000 TCD."

Vasanthdada Sugar Institute, Pune

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Perception of Management Major portion of command area is irrigated. Any future change in Government policy should be for the better in view of increasing demand for sugar

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Hyderabad



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Madras

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Corporation of India**
Hyderabad



**State Bank of Hyderabad
Merchant Banking Division**
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**Fairgrowth Financial
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Hyderabad



Bank of Baroda
Hyderabad

Standard Chartered
Standard Chartered Bank
Madras



Karnataka Bank
Hyderabad

THE BEGINNING OF A SWEET SUCCESS STORY

WEEKLY

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1786

Oustees of Chandil Dam

THE displaced people from the Chandil dam, a part of Subarnarekha Multi-purpose Project (SMP), sat on an indefinite hunger strike from July 2 in front of the office of the superintendent engineer, Chandil dam at Chandil. The hunger strike organised by the displaced peoples' organisations namely Visthapit Mukti Vahini and Icha Kharkai Bandh Visthapit Sangh ended on July 11 after a written assurance by the project authorities that their demands would be met very soon. With the onset of monsoon, the issue of rehabilitation of 11,675 families has created a sense of despair, uncertainty and tension among the oustees as their homes will be inundated this monsoon.

The SMP authorities claim that the rehabilitation of the displaced people will be done such that the present living standard would not only be maintained but increased substantially. But in the rehabilitation plan conceived and implemented by the authorities there is no special provision to provide employment opportunities. Similarly, no investment plan for the scheme to provide employment to the oustees has been made. About 600 jobs meant for the oustees of SMP as a part of the rehabilitation programme have gone to non-oustees.

The rehabilitation plan prepared by the SMP authorities has not been implemented. The villagers of Durri have raised objections against low compensation but have no option other than accept the meagre amount. The 32 oustee families have lodged their cases at the office of the additional magistrate (land acquisition) at Sarakela. No hearing has been made in this regard so far. When the villagers of Baksai refused to accept the meagre amount, the SMP authorities threatened the villagers with dire consequences and delayed payments which forced the villagers to accept them.

Similarly there is a continuous agricultural plot of 20.8 acres in the village Moisada. The SMP authorities have given compensation for only 12.8 acres on the pretext that 'their' map shows only 12.8 acres of land.

Nearly 50 families were displaced without any compensation to pave the way for colonies to house project officials and engineers working at the dam site. Last year in the villages Odiya and Kudaktapa, nearly 360 and 100 acres of land were submerged respectively. This land was not declared submerged and has so far not even been acquired by the authorities. On June 7 the villagers of Durri met the administrator who assured them that their village would not come under sub-

mergence that year. A few days later, B K Roy (a rehabilitation officer) went to this village and told the people that their village would be completely submerged this year and the people should start moving elsewhere.

In April 1991, a time-bound programme was formulated for the visits of rehabilitation officers to every village which would be submerged and for listening to the grievances of the affected villagers. But no rehabilitation officer has come to the villages yet. In December 1990 the government of Bihar issued a revised rehabilitation policy for the affected people from SMP. As per this policy, every oustee of 18 years and above who owns less than five acres of land will get two acres of land or Rs 10,000 for the purchase of land and additional Rs 15,000 for preparing the purchased land for cultivation. Secondly, every oustee will get Rs 20,000 for the construction of a house. The type of land bought for Rs 5,000 per acre will take at least 10 years to make it fit for cultivation purposes. What will the oustees do in this period? The SMP authorities have decided to release the amount of Rs 20,000 for the construction of houses in three instalments. This is not only troublesome but also expensive in the long run.

To assess the environmental damages and losses, the project authorities are supposed to carry out detailed studies and follow up action plans to rectify the damages. Just one study was commissioned which was carried out by a private agency, Metaplanners and Management Consultants based in Patna and was completed in less than a year in 1990. Incidentally this study was commissioned after the work on the project was started. Much of the information in this study derives from government data, rather than fresh independent empirical data. Such a study can hardly be passed off as a legitimate environmental study. The World Bank has also expressed its unhappiness over this study. In fact, they have pressurised the project authorities to again carry out a detailed technical, economic and environmental study of the project. The revised study will be carried out by an independent agency in the coming months. While the work on the project is going on, the project authorities have yet to receive formal environmental clearance from the ministry of environment and forests.

New Delhi

KAVALIJI SINGH

Against IMF Loan

THE Association of Indian Economics Studies, Madison, USA, was founded in

1975. Its ninth bi-annual conference took place two weeks ago in Chicago. This conference discussed the economic situation in India and our members are concerned with the growing problems of the economy. At this conference, all the attending presidents of the association felt strongly about the need for a debate on the forthcoming negotiations with the IMF and drafted an open letter to the new prime minister, P V Narasimha Rao, which is reproduced below.

Congratulations on your election to the high office of the prime minister of India. As you have rightly pointed out in your first press conference, India continues to face severe economic problems. One of the major problems relates to the shortage of foreign exchange and the need to service external debt. A large amount of gold has already been reportedly sold. Your government will now seek another loan from the IMF since such a loan seems quite attractive, certainly in the short run. It seems that IMF and World Bank are also keen to give a loan to India. We suggest that your government assess seriously before it accepts another loan from the IMF. IMF loans are based on 'conditionality'. The earlier 1981-82 IMF loan imposed serious conditions and propelled India towards the debt trap—a situation in which India finds itself today. Reports suggest that this time the IMF is planning still harsher conditions such as devaluation and privatisation that will drive India into a deeper debt trap from which it may be impossible to get out. As the experience of countries like Brazil and Mexico shows, IMF 'conditionalities' are determined by highly biased economic analyses based on outdated ideologies, such as the infallibility of market solutions, that lead to low growth and anti-social policies. IMF policies help the short run at the cost of degenerating the long run problems. Devaluation, privatisation and export-led growth theory remain discredited. There is little hope that these will solve India's economic crises even its external debt problem. India is a large country, has enough potential to develop alternative means to solve its economic crises and needs to learn from the successes of Japanese and other similar economies. It can and should negotiate hard for the desired loans without mortgaging its economic independence, security and future growth for an immediate gain.

In view of the importance of this issue and the expertise of its members, the Association of Indian Economics Studies is organising a whole session on 'IMF Conditionality and Indian Economic Crisis' at its next economists' meeting in New Orleans.

ROMESH DIWAN

Rensselaer Polytechnic Institute, New York

Single-Point Budget

THE budget for 1991-92 addresses itself essentially to a single-point agenda. This was perhaps to be expected in view of the insistence of the IMF on the government of India bringing down its fiscal deficit to 6.5 per cent of GDP in the current year from the level of 8.4 per cent in 1990-91. Accordingly, the budget estimates presented by the finance minister this week show a reduction of Rs 5,604 crore in the fiscal deficit, from Rs 43,331 crore as per the revised estimates of last year to Rs 37,727 crore in 1991-92. This is sought to be achieved, hopefully, by raising the government's revenue receipts by 17.7 per cent while restraining the growth of its total expenditure to 6.3 per cent, both over the revised estimates for 1990-91. That is the arithmetic of it which, going by past experience, could prove tragically fragile. The budget for 1990-91, for instance, had hoped to contain the growth of the government's total expenditure at 6.9 per cent whereas the actual increase has turned out to be 14.9 per cent as per the revised estimates for the year and as a result the fiscal deficit which was expected to be Rs 36,795 crore has floated to Rs 43,331 crore. The political economic omens, in terms of the strengthening of inflationary pressures and the more government without a majority in parliament and assailed by dissensions within its own party and by aggressiveobbies of different interest groups, are scarcely more propitious in the current year for the fructification of the finance minister's expectations.

But more than the fragility of the budgetary arithmetic is at stake. The reining in of the government's total expenditure to show the fiscal deficit to be of the precise dimensions permitted by the IMF has been achieved by a massive slashing of capital expenditure, the rise in which is budgeted to be less than 1 per cent over the revised estimate for 1990-91. The finance minister's claim to have provided for a respectable 12.6 per cent rise in the budgetary allocation for plan expenditure is more than a little misleading because here again it is plan expenditure on revenue account which has been budgeted to rise by a whopping 21.7 per cent whereas the allocation for plan expenditure of a capital nature shows an increase of a mere 4.5 per cent. This demure withdrawal of the government from investment activity is, of course, what the IMF's diktat insists upon but against the background of the generally acknowledged onset of recessionary conditions in the economy is this such a good thing to happen even going by conventional economic wisdom?

The finance minister is not lacking in good manners. He

has not omitted to mention the need for special care to see that the burden of what he calls the 'fiscal correction' does not have to be borne by the poor. He has provided, *inter alia*, Rs 2,100 crore for rural employment generation under the Jawahar Rozgar Yojana. As it turns out, this is exactly what the programme had been allocated for 1990-91. In other words, employment creation for the rural poor has been denied any share in the 12.6 per cent increase in the plan outlay the budget takes credit for. And given the sharp rise in prices all round, the unchanged allocation for the Jawahar Rozgar Yojana must mean fewer person-days of employment even at the same money wage rates (meaning sharply reduced real wages in view of the steep rise in the prices of the basic necessities of life). But that is not the worst of it. How well will the budgetary allocations for rural employment generation and other such programmes stand up once powerful interest groups start their game of asking for more—for instance, once rich farmers all over the country decide to tell the finance minister what he can do with his funny idea of doing away with the fertiliser subsidy or once exporters, having digested the devaluation bonanza, set up a chorus about the country's exports being in jeopardy unless the government forthwith restores the export subsidy? In his budget speech the finance minister has already assured the prosperous farmers that they "will be compensated for the proposed increase in the price of fertilisers through suitable increases in procurement prices". Now, the price of rice in the wholesale markets rose by over 13 per cent in 1990-91 and that of wheat by nearly 49 per cent and the government's own *Economic Survey* is quite categorical about the contribution of enhanced procurement prices to these price increases, it points out, "the increase in prices of cereals, particularly rice and wheat, was attributable to the substantial increases in procurement prices and the consequent rise in issue prices which set the trend for open market prices". All the same the finance minister is ready with his assurances of further increases in procurement prices.

With the IMF holding the government's nose to structural adjustment and the powerful and the rich brooking not the slightest interference with the good life they have been used to, something has to give and what can that be but the measly allocations for employment, social services and such like? Such a denouement has been rendered virtually inevitable by the way the finance minister has chosen to go about stitching together his proposed 'fiscal correction'.

CAUVERY DISPUTE

Evading the Issue

RIVERS have always aroused strong emotions. Quite apart from their role in the community's economy, or perhaps emanating from this, they become integrated into the cultural and social fabric of the people who live around them. Any threat to a people's right over river waters can then be easily construed and projected as a threat not only to the livelihood but to the long standing life styles of the people concerned, even if this is not really the case. Inevitably these become political issues and have to be acknowledged and dealt with as such. The problem with the manner in which the Cauvery dispute (and for that matter, every other river dispute in the country) has been handled is that the attempts at resolving it have baulked at recognising this reality and have in fact tended to deplore the supposed 'politicisation' of the issue. In effect, technical administrative and judicial solutions to the problem have come to founder in the political squalls.

The Cauvery dispute in its present phase is a typical illustration of this phenomenon. Attempts to arrive at the so-called equitable distribution of waters have been constantly bogged down by disputes over the veracity of the relevant statistics regarding the volume of water and the irrigated areas etc. provided by the two states. Even if a specially constituted body were to conduct extensive surveys for these data, they would still be disputed. Such a body of data would become operational only if there were agreement between the disputing parties on the manner in which river waters might be shared. And this is a political exercise. The setting up of a tribunal was not a wholly acceptable decision for either state and, given the course of discussions prior to its setting up and later, it could more or less have been foreseen that the tribunal's orders, interim or otherwise, would have been challenged by one or the other states. Karnataka's contention that the interim order did not take into account the volume of water available in the river in laying down the minimum volume to be released to the Mettur dam is as valid as Tamil Nadu's claim that without these waters the 'kuruvar' crop in the delta were at risk. In other words, the essence of the disagreement about the interim order was the same as the issue which gave rise to the setting up of this tribunal (and other similar adjudicating bodies in the past). Karnataka's response of passing an ordinance ostensibly protecting the Cauvery waters, but in effect nullifying the interim orders of the tribunal, not only makes a mockery of the judicial processes, but sets unsavoury precedents. The centre's deci-

sion to seek the advice of the Supreme Court is an expression of its inability to come to terms with the political content of the issue.

In the meanwhile, of course, much water has flown down the Cauvery, literally. The river in spate, overflowing the 70 year old Krishnarajasagar dam and inundating the famed Brindavan gardens, has forced Karnataka to release waters such that the Mettur dam is likely to be full this season, for the first time in a decade. The irony is that despite there being enough waters, the tribunal's orders will probably continue to be challenged by one or the other state, the Karnataka ordinance will come to stay and the Supreme Court will work at its own pace to devise a solution.

POLITICS

Premium on Chauvinism

Will India be going the Yugoslav way? It appears that Nehru and Tito who had worked hard in consolidating the solidarity of the third world countries did not succeed appreciably in developing inter-regional amity within their own federal polities. The triangular conflicts among the Yugoslav federal centre, Slovenia and Croatia bursting into intermittent hot wars on the one hand and India's embroilment with secessionist violence in the states of Jammu and Kashmir, Punjab and Assam on the other have already proved the point. The recent aggravation of the quarrel between Tamil Nadu and Karnataka over the sharing of the Cauvery waters has only revealed another dimension of the simmering tensions within the pluralistic entity that is India. Political manoeuvres, including the resignation of the Tamil Nadu Congress (I) president from the union government and the threat of withdrawal of support to it by the AIADMK MPs and the unarticulated threat of a similar move by the Karnataka Congress(I) members in the union government and parliament have been backed by a simultaneous 12 hour bandh in both the states. The centre's tentative move to remove the strife from the streets to the quieter arena of the Supreme Court's sanctuary may succeed in soothing the nerves, but only temporarily. The issue has now come to the present level of confrontation after decades of meandering through the corridors of negotiation and arbitration.

The Cauvery water dispute, however, is not the only flash point of inter-state confrontation nor is it the hottest so far. The inter-state boundary dispute between Assam and Nagaland has led to warlike actions by the state armed forces on more than one occasion. The favourable background for the solution in all such cases has to be sought in the cultivation of

fraternal relations among the various communities of the Indian people, overcoming their manifold divisions. This can be sought to be achieved only on the basis of a credible perspective of shared benefits from an all-round development of the country as a whole. With the gradual dimming of such prospects, only the centrifugal pressures can gain momentum.

Earlier the Indian communists at least sought to intervene in the critical developments of this nature with a degree of goodwill. When tempers had been running high over the Bihar-Bengal merger proposal, mooted by the late B C Roy in the fifties, the secretaries of the Bihar and Bengal units of the CPI met to draw up a common platform for joint action. Similarly, for a time the communists also tried to intervene soberly in the Maharashtra-Karnataka dispute over Belgaum. Now, of course, with the high premium gained by chauvinism of all sorts even in the former socialist paradise, discretion is deemed to be the better part of valour.

THE BUDGET

Blurred Figures

EVEN if one were to look at the central budget on its own—forgetting for the moment that it is part of the package of closely interconnected measures that the new government has taken since it took over—the very first thing that strikes one is that while compared to the interim budget presented by the Chandra Shekhar government in February, the reduction in the fiscal deficit is only Rs 748 crore (from Rs 38,475 crore to Rs 37,727 crore), the measures proposed to raise additional revenues and to reduce certain non-plan expenditures add up to amounts several times as large. Thus the additional taxation proposed in the budget is estimated to net Rs 2,617 crore in the current year, with the centre's share coming to Rs 2,005 crore. On the expenditure side, the abolition of the export subsidy along with the subsidy on fertilisers and sugar should save the exchequer a sizeable amount (the overall saving of Rs 1,726 crore shown in the budget appears to be a gross underestimate). The question arises then about where all these amounts have got absorbed, since the reduction in the fiscal deficit is relatively so small.

As one probes the figures, one notices that the provision for non-plan expenditure in the budget is higher by Rs 2,790 crore in comparison to that made in the interim budget. On the plan side there is virtually no difference between the interim budget and the budget under review. True, the finance minister has shown a reduction in the revenue deficit of Rs 3,912 crore over the interim budget. But since revenue receipts are projected to show a

net improvement of Rs 3,945 crore and with the economy measures referred to above, why has it not been possible to make a larger reduction in the revenue deficit? In this context, the large step up in the provision for interest payments, by as much as Rs 5,600 crore, is intriguing and has gone unexplained either in the budget papers or in the budget speech.

While the finance minister has underlined that for non-plan expenditure, excluding interest payments, defence and major subsidies, the budget provision he has made "reflects a reduction of Rs 1,538 crore compared with the provision in the revised estimates for 1990-91", he has overlooked to explain the enormous increase in the provision for interest payments. The three major heads accounting for the increased provision are market loans, provident funds and small savings. Together the increases under these three heads add up to Rs 5,721 crore. On the other hand, there is hardly any increase in interest receipts. Take small savings, of which three-fourths are supposed to be channelled to the states. Should not a corresponding increase in interest collections from the states have been provided for?

The more tongue-tied the finance ministry is with respect to the budget, the more natural it is for outsiders to suspect that everything is not right with the figures. In this particular case, given the general belief about the sacrosanct nature of interest liabilities as contractual obligations and therefore the tendency in general to accept the figures unquestioningly, could it not be an attempt on the part of the mandarins of the ministry to exploit this credulity and make an over-provision? Surely, the finance minister owes everyone an explanation of why he has had to provide for such a large increase in non-plan expenditure in general and interest payments in particular.

RESERVATION POLICY

Congress Dilemma

THE five-member constitution bench of the Supreme Court has categorically demanded from additional solicitor general Altaf Ahmed the present government's clear-cut stand on the August 13, 1990 notification on the implementation of the Mandal Commission's recommendations issued by the National Front government. The additional solicitor general's attempt at evasive action by citing the reference, in the president's address before parliament on July 11, to the government's commitment "to special measures in favour of socially and educationally backward classes" was curtly dismissed by the bench.

The Supreme Court's firm demand is a welcome departure from its earlier ambiguous pronouncements, most notably

the orders of September 11, September 21 and October 1, 1990 in response to the prayer of anti-reservationist petitioners for a stay of the implementation of the August 13 notification until the court had given a final verdict on its constitutional validity. Each of the orders was ostensibly a clarification of the preceding order, yet the orders only became progressively more ambiguous.

While today the roles are reversed with the government being ambivalent and the court seeking a clear statement, many questions remain. The court had fixed November 6, 1990 as the date of commencement of hearing of the petition challenging the constitutional validity of the notification. The matter was of sufficient public and political importance and had generated large scale violence in parts of the country and caused the fall of the then government. It is surprising that the court should have dragged its feet on so important a matter as to be seeking clarifications from the government nine months after the scheduled commencement of the hearings.

More importantly, the petition relates to the constitutional validity of the notification. It is therefore unclear as to why the present government's stand is so crucial a concern. The bench has sought from the government not a clarification on the modalities of the reservation arrangement but "a categorical statement whether it supports the stand of the previous government on the reservation issue or not". It may reasonably be assumed that the constitutional status of the notification has little to do with the position of the government of the day. Perhaps the Supreme Court is unwilling to hand down a clear cut ruling itself.

This notwithstanding, the court's demand may have its positive aspect of compelling the Congress(I) to discard its vacillating opportunism. Neither in its election manifesto nor in statements subsequent to assuming office has the party made its position clear on the issue save for feeble interjections on the introduction of some economic criterion to determine backward status. This ambivalence is not without reason. From August 1990 on a vociferous section of the party has been advocating the implementation of the commission's recommendations. Electoral compulsions made ambivalence a party programme.

The latest outburst has come from welfare minister Sitaram Kesri who has instructed his ministry to proceed with the job of making out a foolproof case for reservations with a view to ensuring a favourable verdict from the court. The party's cabinet committee on political affairs also favours a pro reservation stand. Yet opposition from those like Arjun Singh and S B Chavan can be expected to

be stubborn. It remains to be seen how a party already faced with dissent on the new economic adventures of the government tackles so contentious an issue.

POLITICAL PRISONERS

Specious Argument

IN West Bengal, there are a little over 4,500 undertrial prisoners. Among them there are 21 Naxalites whose duration of detention varies from four to 11 years. Following a long drawn out legal battle for their release, the Calcutta High Court issued an order on April 5, directing the state government to "take necessary steps for releasing the undertrial Naxalite prisoners within 13th April, 1991". In his order, the judge, Dilip Kumar Basu, commented "I think and hold that detention of most of the political prisoners is illegal and in violation of their fundamental rights as contemplated in Article 21 of the Constitution of India". He directed the state government's home secretary to submit a report to him on April 19, complying with his directive. On that date, the state's advocate general turned up at the court to plead that the court "in its infinite wisdom be pleased not to direct release" of the prisoners. His arguments were that three of the prisoners were already convicted and were serving sentences. One had not yet been served a charge sheet and, as for the remaining 17, none of them had been "illegally detained for periods longer than the maximum terms prescribed for the offence(s) for which they could have been sentenced, if convicted".

This dangerous argument implies that anyone can be held in detention without trial for a period which could be prescribed for him if he is convicted of the charge brought against him. If someone is hauled up on the charge of murder, and if the punishment is life sentence, the government can keep him in jail for that period without bothering for an early decision to prove whether he is guilty or not. At the end of a trial, if he is proved innocent, what redress can he have for his incarceration, which becomes palpably illegal? How can the advocate general be sure that all these 17 prisoners will be convicted and sentenced to terms of imprisonment covering the period which they have undergone till now?

The West Bengal government's defence through its advocate-general—has several chinks. First, despite a Supreme Court order that charge-sheets against prisoners should be issued within two and a half years, in most of the cases of the 21 Naxalite prisoners in the state's jails, charge-sheets were issued much after the stipulated period. Secondly, none of the prisoners was produced before the

court every six months, as stipulated by the law. The last time they were brought before the court was in 1988. Further, while the advocate-general denied that these prisoners were "prosecuted for being Naxalite, extremist or for political reasons" (thus refusing to accept them as 'political prisoners'), the inspector general of prisons of the state had earlier in a statement to the court (January 31) admitted that they were Naxalites.

The hurdles that the Left Front is putting up in the tedious legal proceedings mock at the very concept of speedy justice. West Bengal's Marxist rulers quite rightly protest against the arbitrary arrests and detention of their comrades in Tripura. But they have no qualms in treating their political opponents in their own state in the same arbitrary fashion. For the hack advocates of the governments of the two states, there has never been any dearth of specious legal arguments in defence of violation of the citizen's right to liberty.

SOUTH AFRICA

ANC Forced to Get Tough

ON the basis of what in retrospect seem to have been entirely spurious claims to have initiated radical reforms towards majority rule, sedulous efforts have recently been made by a host of western governments to dignify the status of the racist South African state. Their ill-concealed enthusiasm for lifting sanctions against South Africa despite opposition from anti-apartheid groups is part of this project of securing the racist regime's place in the 'comity of nations'. This notable foreign policy success altered the domestic political equations, giving de Klerk a clear advantage in negotiations over the ANC which was increasingly being expected to retreat from previously held attitudes commensurate with the reforms initiated.

But some of the fruits of this statesmanship seem to have been squandered through an excess of cunning. The credentials of the 'authentic liberal' whom the west saw and promoted as an alternative to the ANC have been tarnished by damaging revelations of a direct official role in the ANC-Inkatha conflict and the vicious township violence. This confirms the charge that the beleaguered ANC has consistently levelled against the de Klerk government.

Nico Basson who worked for 15 years with the South African defence forces in various sensitive positions has corroborated that the township violence was engineered by Pretoria as part of an overall plan to weaken and destroy the ANC. Basson, who had participated in a similar operation in Namibia aimed

against the SWAPO, charged that the campaign was geared towards retaining white control by fostering an ethnic divide within the majority race by linking the Zulus to Inkatha and Xhosas to ANC and incorporating the former into the system as an alternative to the ANC. The government has been forced to concede the veracity of the charge to the extent of admitting that R 100 mn had been spent in the campaign against SWAPO and that a total of R 1.5 bn had been spent on secret projects over the last five years. These figures were disclosed by foreign minister RF 'Pik' Botha who also claimed he had a clear conscience. By apartheid standards there is nothing incongruous about the claim.

The turn of events has proved fortunate for the ANC which in recent months had been pushed on the defensive, making a series of concessions on armed struggle, on nationalisation, on the pace of change and so on. Compounding the problem came the township violence. To make matters worse the recently-held first national conference elected a headline national executive council, one of whom, Patrick Lekota, had in full conference denounced Nelson Mandela's authoritarian tendency to impose his will on the internal decision-making process. Caught in a trap that is by and large of his own making and forced into conceding too much ground, this is just the right opportunity for Mandela to revert to a sterner line. The ANC's new demands go beyond merely seeking the resignation of defence minister Magnus Malan and law and order minister Adrian Vlok. Mandela has called for a new government of national unity and the creation of a constituent assembly.

This hardening of ANC's attitude will further strain relations with the de Klerk government and create obstacles in the negotiation process. So long after the exposure the ministers in question continue to be part of the government while another senior minister has defended the government's manoeuvres. Even as de Klerk puts on display his various democratic virtues, his government has seen fit to take no action against those directly involved. Even if de Klerk himself is not part of the conspiracy, negotiations may still prove to be difficult since the issue is not one of intentions but of consequence. Irrespective of de Klerk's intentions it is clear that recalcitrant segments of the state repressive apparatus and apartheid hardliners are able to take steps which have serious consequences with impunity. It is perhaps just as well that the NEC of the ANC is dominated by hardliners. Suspending armed struggle without any guarantee from the state to suspend its own armed struggle is counter-productive.

TWENTY YEARS AGO

EPW, Special Number 1971

The Sino-American *détente* has obviously upset some of the basic assumptions of Indian foreign policy. It was more or less taken for granted till now that the United States would want India to be a strong and stable power in south Asia, more so in view of its impending withdrawal from its deep involvement in Vietnam. A related assumption seems to have been that, even while it disengaged itself, the United States would not wish to allow conditions to be created in any part of this region favourable to the emergence of a situation such as that which developed in Vietnam earlier. It was firmly believed for this reason that the United States would at least remain neutral regarding Bangla Desh, even if it did not play a more positive role in working for a satisfactory political settlement.

These assumptions and expectations have been falsified at least for the present. The desire of the United States to normalise its relations with China is, of course, not only understandable but to be applauded. This is what India has urged all along since the early fifties. The thaw in Sino-American relations cannot therefore by itself be a matter for concern. What was not expected was the manner in which the United States chose to open up—more particularly the cynical fashion in which it ignored the issues raised by the massive genocide in Bangla Desh and used the present government of Pakistan as its favoured intermediary at this critical stage. If anything became evident from all this, it was that neither these issues nor what was at stake for India were of any great concern to the United States.

★ ★ ★

Pakistan is perhaps the only ally of the United States in this region which has not only no misgivings about its normalising relations with China but has a great deal to gain from it now. Add to this the simple problems of logistics—finding a base from which the presidential envoy could fly non-stop to Peking and back and the fact that the use of the regular PIA service would not be noticed by anyone—the choice of Pakistan for this particular operation is not difficult to understand.

Nevertheless, would the United States be appearing to function in such open support of the present government of Pakistan if it foresaw the possibility of its being cut to size by Bangla Desh successfully breaking away or if it expected India to act more forcefully in defence of its own interests? One cannot be sure of the answer to the first part, but to the second one can offer at least a tentative answer. If the United States was certain that India would retaliate in response to the massive inflow of refugees from Bangla Desh, and that such action would find support not only from the Soviet Union but from public opinion elsewhere (including its own), one would expect it to have shown more hesitation and be less blatant in its collusive operations with Pakistan.

Success through Value Added Products

BHADRACHALAM PAPERBOARDS suffered a 3 per cent drop in production from 83,923 tonnes in 1989-90 to 81,558 tonnes in 1990-91. This was mainly due to floods which stopped operations for three days and labour unrest for almost four weeks during the year under review. As a result, capacity utilisation remained lower at 130 per cent as compared to 134 per cent in the previous year. The situation was aggravated further by powercuts and shortage of diesel due to the Gulf crisis.

Although the volume of sales declined from 84,888 tonnes to 81,212 tonnes, net sales realisation showed an increase of 11 per cent. The market which was buoyant throughout 1989 turned sluggish from October 1990 especially in the packaging segment. However, product development,

value addition and quality upgradation helped the company to increase the turnover. Several new high value products were developed through research and development to cater to emerging demands. The R and D expenditure incurred by the company at Rs 0.71 crore formed 0.60 per cent of net turnover. The quality of products gave the company a competitive edge in the international markets. As a result, the foreign exchange earnings during the year under review registered an increase from Rs 3.77 crore to Rs 6.47 crore.

Notwithstanding an increase of 9.8 per cent in raw material cost, 10.1 per cent in power and fuel cost, 5.5 per cent in labour cost, the profits before tax registered an increase of 66 per cent over the previous year. Thanks to large investments in the tax saving units of UTI, the company did

not incur any tax liability during the year under review as against Rs 1.52 crore in the previous year. As a result, profits after tax spurted by 99 per cent to Rs 15.60 crore from Rs 7.84 crore in the previous year. The company paid dividend at the rate of 37.5 per cent as against 32.5 per cent in the previous year.

In order to minimise dependence on forest based raw materials, the company used recycled fibre, both indigenous and imported. However, doubling of custom duty on waste paper from 20 per cent to 40 per cent and on pulp from 5 per cent to 10 per cent and also the stringent measures to curb imports coupled with 25 per cent higher rate of interest on borrowings to finance imports caused considerable financial strain on the company in particular and the paper industry in general. The foreign exchange outgo largely on account of recycled fibre was Rs 13.98 crore as against Rs 17.14 crore and the net outgo after setting aside the export earnings was Rs 7.51 crore against Rs 13.37 crore in the previous year.

During the year under review, the company issued fully convertible debentures worth Rs 30 crore. The long term borrowings of the company showed an increase of 55 per cent resulting in a higher debt-equity ratio of 1.781 as against 1.501 in the previous year. The improvement in operating profits provided a higher interest coverage ratio of 3.21 as against 2.65 in the previous year. A modest increase in the current ratio indicated the better working capital position resulting from increase in the loans and advances to the extent of Rs 6.50 crore.

The funds flow of the company during 1990-91 amounted to Rs 48.12 crore. Reserves and surpluses improved by Rs 11.49 crore and depreciation by Rs 6.39 crore. The internal sources accounted for 37 per cent of the funds. The major chunk of 61 per cent of the funds was utilised for tax saving investment in UTI units. As much as 19 per cent was invested in fixed assets while 14 per cent was utilised for loans and advances.

The company continued its effort to make substantial investments in modernisation towards achieving market expansion. The completion of the second phase of modernisation, further research and development, quality upgradation and widening of high value added product range are expected to give a further boost to production during current year. The company also proposes to diversify into the business of financing investment, leasing and hire purchase by setting up a subsidiary company with an investment not exceeding Rs 5 crore.

The Week's Companies

(Rs in lakh)

| Financial Indicators | Bhadrachalam Paper | | Tin Plate | | VST Industries | |
|---|--------------------|---------------|---------------|---------------|----------------|---------------|
| | 1990 March | 1991 March | 1990 March | 1991 March | 1990 March | 1991 March |
| Income/expenses/profit | | | | | | |
| 1 Net sales/main income | 10 533 | 11 727 | 15 703 | 17 796 | 9 798 | 13 985 |
| 2 Other income | 275 | 515 | 189 | 245 | 233 | 1 629 |
| 3 Raw material consumed | 4 761 | 5 727 | 10 194 | 10 144 | 5 614 | 7 432 |
| 4 Power and fuel | 1 271 | 1 400 | 927 | 1 254 | 83 | 108 |
| 5 Other manufacturing expenses | 589 | 650 | 1 202 | 1 497 | 196 | 296 |
| 6 Labour cost | 704 | 743 | 1 944 | 2 330 | 1 285 | 1 417 |
| 7 Other expenses | 971 | 1 110 | 912 | 1 084 | 1 861 | 2 509 |
| 8 Operating profits | 2 446 | 3 213 | 1 098 | 1 154 | 1 615 | 3 713 |
| 9 Interest charges | 923 | 1 002 | 543 | 479 | 243 | 268 |
| 10 Gross profits | 1 523 | 2 211 | 555 | 675 | 1 372 | 3 465 |
| 11 Depreciation | 587 | 651 | 258 | 350 | 194 | 207 |
| 12 Profits before tax | 936 | 1 560 | 297 | 325 | 1 178 | 3 258 |
| 13 Tax provision | 152 | — | 40 | 112 | 785 | 919 |
| 14 Profits after tax | 784 | 1 560 | 257 | 213 | 593 | 2 339 |
| 15 Dividends | 349 | 399 | 152 | 152 | 290 | 434 |
| Liabilities/assets | | | | | | |
| 16 Paid up capital | 1 107 | 1 057 | 1 014 | 1 014 | 965 | 965 |
| 17 Reserves and surplus | 2 444 | 3 592 | 1 216 | 1 277 | 2 957 | 4 834 |
| 18 Long term loans | 5 336 | 8 262 | 2 650 | 7 316 | 991 | 987 |
| 19 Short term loans | 1 015 | 826 | 1 409 | 577 | 1 163 | 1 258 |
| 20 Current liabilities | 2 248 | 2 586 | 4 036 | 3 946 | 2 424 | 3 325 |
| 21 Gross fixed assets | 10 231 | 11 144 | 5 368 | 5 719 | 4 712 | 1 970 |
| 22 Accumulated depreciation | 2,889 | 3 528 | 2 295 | 2 644 | 1 788 | 1 970 |
| 23 Inventory | 2 541 | 2 658 | 3 086 | 1 257 | 3 079 | 4 149 |
| 24 Receivables | 857 | 907 | 3 117 | 3 681 | 467 | 756 |
| 25 Loans and advances | 1,183 | 1 862 | 764 | 611 | 866 | 814 |
| 26 Cash and bank balance | 156 | 248 | 270 | 433 | 123 | 179 |
| 27 Investments | 42 | 2 995 | 5 | 8 | 1 031 | 2 400 |
| 28 Other assets | 29 | 37 | 7 | 10 | 10 | 6 |
| 29 Total liabilities/assets | 12,150 | 16,323 | 10 325 | 9 190 | 8 540 | 11 369 |
| Key financial ratios | | | | | | |
| 30 Turnover ratio (1/21) | 0.87 | 0.72 | 1.52 | 1.95 | 1.15 | 1.23 |
| 31 Return on sales (8/1)×100 (%) | 14.46 | 18.85 | 3.53 | 3.79 | 14.00 | 34.8 |
| 32 Return on investment (%) (8/21)×100 | — | — | — | — | — | — |
| or (22×23)% | 12.53 | 13.55 | 5.38 | 7.39 | 16.14 | 30.48 |
| 33 Return on equity (%) [(10/(10+11))×100 or (21/(10+11))×24] | 22.08 | 31.56 | 11.52 | 9.30 | 15.12 | 40.33 |
| 34 Earning per share | 7.37 | 14.73 | 2.54 | 2.10 | 7.52 | 29.68 |
| 35 Book value per share (Rs) | 31.13 | 4.99 | 22.05 | 22.61 | 49.77 | 73.58 |
| 36 Current market price (Rs) | — | 162.00 | — | 35.00 | — | 105.00 |
| 37 Price/earnings ratio | — | 11.00 | — | 16.67 | — | 3.54 |

TIN PLATE COMPANY

Profits under Pressure

TIN PLATE COMPANY, the largest producer of tin plate in the country with a market share of 68 per cent, witnessed a fall in electrolytic tin plate (ETP) production from 56,041 tonnes to 51,892 tonnes during the year ended March 1991. As a result, the capacity utilisation of the ETP plant was lower at 58 per cent than 62 per cent in 1989-90. However, 52,220 tonnes of TMBP coil were processed and the prime yield in ETP increased to 83 per cent from 78 per cent in the previous year. Production of hot dip plant (HDP) was affected due to the power crisis in the eastern region during the first half of the year. Although the year witnessed an all time high production of over one lakh tonnes of black plate/galvanised corrugated and plain sheets, capacity utilisation remained lower at 98 per cent than the 136 per cent in the previous year. The one silver lining was that the company showed an increase of 11 per cent in sales realisation during 1990-91.

The company was able to reduce the overall expenses-to-sales ratio to 0.97:1 from 1.03:1 during 1990-91 despite a substantial increase in power and fuel and also labour charges. The operating costs of the company increased only by 5 per cent from Rs 10.98 crore to Rs 11.54 crore. Interest charges on account of working capital funds was reportedly less since the company availed of a six-month supplier's credit on import of TMBP coils and the resultant financing cost was included in the raw material cost. However, the interest on term loans was higher on account of financing of HDP modernisation. As a result of fall in interest charges, the gross profits before depreciation showed an improvement of 22 per cent over the previous year. However, profits before tax moved up only by 10 per cent due to higher depreciation charges on account of addition to capital assets in the HDP. Net profits, however, fell steeply by 17 per cent due to the significantly higher tax provisions.

The company showed improvement in the profitability ratio measured in terms of gross return on sales and total capital employed during 1990-91. Assets utilisation showed improvement with the sales to assets ratio at 1.95:1 against 1.52:1 in the previous year. However, the return on shareholders' funds was lower at 9.30 per cent against 11.52 per cent in the previous year.

Technology absorption, adaptation and innovation included processing of double reduced TMBP coils for manufacture of electrolytic tin plate, development of cans fabricated from double-reduced tin plate

for providing economic packaging to canners and use of tin-free steel for edible oil and vanaspathi packaging.

Although the HDP was set to achieve a record performance, the current year may not be smooth for the ETP which depended on imports for 83 per cent of its raw material. The foreign exchange used for import of raw material during 1990-91 amounted to \$ 29.6 million against which export earnings were negligible. The devaluation of the rupee will have considerable impact on the cost structure of the company. The company has initiated steps to indigenise the source of raw materials for the ETP plant by commissioning a TMBP manufacturing facility.

VST INDUSTRIES

Puffing Profits

VST INDUSTRIES, with a market share of 11.3 per cent in cigarettes, made a significant improvement of 43 per cent in turnover during the year ended March 1991. Despite a phenomenal increase in cost of raw materials and labour charges, the company was able to bring down the expenses to sales ratio from 1.06:1 to 0.99:1 in 1990-91. Profits before tax at Rs 32.58 crore, including the net capital gains of Rs 13.62 crore arising out of disinvestment of shares in Bhadrachalam Paperboards, showed a spurt of 177 per cent over the previous year.

The physical performance of the company showed a set back compared to the previous year. Production of cigarettes fell from 11,635 million pieces to 11,253 million pieces in 1990-91 showing a fall in capacity utilisation from 35.3 per cent to 34.5 per cent. Production of paper conversion products also fell to 8.90 tonnes from 9.33 tonnes in the previous year.

Profitability ratios improved considerably during the year under review. The gross return on net sales increased from 14 per cent to 24.78 per cent while the gross return on investment spurted to 30.48 per cent from 16.14 per cent. The net return on shareholder's fund more than doubled from 15.12 per cent to 40.33 per cent. Investment to sales ratio showed improvement from 1.15:1 to 1.23:1 in 1990-91.

The company achieved a good measure of success in tobacco exports, including export of non-traditional varieties. Tobacco exports increased over seven fold to Rs 415 lakh during 1990-91. Although cigarette sales to West Asia suffered a set-back, the company seized the opportunity offered by the Russian market and increased exports significantly to Rs 157 lakh. Further, the company made a beginning by exporting agri-products worth

Rs 437 lakh to Europe and the Far East. The thrust on exports enabled the company to increase aggregate export earning to Rs 1,009 lakh as against Rs 125 lakh in the previous year.

Funds flow during the year under review was Rs 30.51 crore. The internal sources at Rs 30.51 crore formed 67 per cent of the total, while trade dues accounted for 29 per cent. This was mainly used for financing investment in UTI units which formed 45 per cent of assets formation. Financing of inventory accounted for 35 per cent while gross fixed assets accounted for 11 per cent.

The company has identified certain concrete proposals for diversifying and in particular plans to widen its agri-business which is regarded as highly profitable.

IN THE CAPITAL MARKET

Cauvery Electronics

CAUVERY ELECTRONICS, a running company belonging to the Bush group in the field of colour and B/W TV sets, will enter the capital market on August 12, with a public issue of 18.20 lakh equity shares of Rs 10 each at a premium of Rs 5 each, aggregating Rs 273 lakh. The company has an installed capacity to produce one lakh sets of black and white and colour television sets at GIDC Electronics Estate, Gandhinagar. During the 11 month period ended February 1991 the turnover of the company at Rs 11.29 crore showed a fall of 24 per cent (on annualised basis) mainly due to the general shrinking trend in the domestic market coupled with loss of production on account of restructuring of production facilities to cater to the export market in western Europe. During the year ended March 1990, the company had paid dividend at the rate of 25 per cent, amounting to Rs 60 lakh. The paid up capital of the company as at February 1991 amounted to Rs 64 lakh including preference share capital of Rs 4 lakh. Reserves and surplus stood at Rs 178 lakh. The book value per share works out at Rs 39.67. The borrowing was Rs 633 lakh. The debt equity ratio was 2.73:1. The interest coverage ratio was 2.17. The total capital employed was Rs 1,394 lakh. The gross fixed asset amounted to Rs 632 lakh and accumulated depreciation was Rs 220 lakh. The object of the present issue is to meet working capital needs of the company for ensuring smooth operation. Besides, the company also plans to use a small portion of the present issue for financing various normal capital expenditure. The object of the issue also includes listing of the share at Bombay and Ahmedabad stock exchanges. The company has haggled an export order for 50,000 TV sets and is reportedly negotiating with a number of overseas agencies to increase exports. It also plans to diversify its activities. The company operates a studio which is equipped with the most advanced Beta Cam editing facilities and computerised animation system. It also incorporates video to film conversion equipment.

Calcutta Diary

AM

There is just one uneasy thought: After all this solemn drama of wholesale capitulation in advance, suppose the Fund fails to cough up, or does not cough up to the extent New Delhi hopes it will. Who then goes where?

THOSE thirty-five economists, who wanted to say something different, cut a sorry figure. Nothing behoves this nation as conformity does. Editorial articles in the newspapers have a shrill, unifying theme. Assorted once-advisers to former prime ministers, half-a-dozen former governors of the Reserve Bank of India, superannuated politicians, superannuated *danseuses*, smugglers released on parole, sports people who had perhaps come sixth or seventh in a heat of an Olympic event a score of years ago, congregate under the canopy. It is almost as if another war is on against China or Pakistan, patriotic emotions gush. In the evening cocktails in New Delhi or Bombay, painted ladies and their consorts experience a surge of empathy with each other, is it not a throbbing historical occasion, all of them are in it together, there was no alternative to devaluation of the rupee, nor to recourse to the International Monetary Fund, the nation was living beyond its means, but Indians have that extra something in them, when the hour of crisis dawns, few amongst them are found wanting, they have proved the point, they have been unflinching in their resolution, the nation's sovereignty needed to be surrendered to the Fund and the World Bank, the country's interests demanded that this be done, servility, who does not know, is patriotism, love for the market, who does not know, is salvation.

Whoever disagrees does not quite belong. Either he is not quite there, or he must have fallen prey to some utterly stupid alien ideology. Fortunately, in stances of such waywardness are few and far between. When the crunch comes, even the parties in the opposition realise instinctively that they have to be on their best behaviour, one or two *in camera* sessions with the prime minister and the finance minister, the opposition leaders look suitably grave as they emerge from these sessions, it is not done to rock the boat at this critical juncture of the nation's life, politicians, the occasion demands, must behave like statesmen, the country is facing the direst peril, do not ask what the government can do for the opposition, ask what the opposition can do for the government. It would have been nice if

there were prior consultations with them, it would have been nice if the IMF conditionalities were divulged to them, you can not however accuse the country's loyal opposition of being bereft of either maturity or patriotism. The poor finance minister himself has perhaps not been informed fully about these conditions, they are unending. Be that as it may, the nation must be in it together, one or two amongst the members of the opposition even deem it proper to call on the lady with the dark glasses at number 10, Jan Path.

Whoever is not with us is against us. There cannot be any joining of issues, consensus has already decided the matter, devaluation was unavoidable, going to the Fund was equally unavoidable. The living beyond the means phase in the nation's life must end, each one of us has now to strive for the economy attaining the highest level of efficiency. The newest adjective to make the grade is 'vibrant'. Whoever questions the devaluation and the capitulation to the Fund conditionalities is *ipso facto* against a vibrant economy. Such a person is, by consensus, an enemy of the nation. Liquidate him, either for his bad economics or his bad verse.

In this cacophony, the essential point is missed. Perhaps it was always the intention that the point be missed. Running to the Fund and the World Bank and signing on the dotted line do not signify self-abnegation, but precisely its reverse. Those who matter in this nation are determined to eschew the path of independent economic development. They cannot do without foreign goodies, they will not economise on the use of foreign exchange. A default in servicing outstanding obligations on account of past debts would have endangered the uninterrupted flow of foreign exchange. That peril had to be avoided at all cost. Ladies in the cocktail circuit have nothing to worry about. The IMF conditionalities will not inconvenience them. Swings and roundabouts. Their fathers and husbands and paramours will extract fabulous premiums from the sale of exim scrips in the open market, the demise of CCS is more than bearable. The foreigners who will henceforth take charge of our destiny are a full of exciting no-

tions; they will teach us to accept the quintessential reality of the market, of what we called till yesterday the black market, which brings supply and demand into equilibrium, equilibrium is tranquillity, it is Euler's Theorem eliminating the scope of factor exploitation.

The fallacy has a class bias. It is simply not true that the nation as a whole has been living beyond its means. It is only a minor segment of the nation, the top-most decile, which has lived it up since that egregious doctrine of borrow and spend, borrow again and spend again, became official policy in the eighties. The forthcoming ceremony of tightening the belt, promised to be as impressive a spectacle as trooping the colour outside of Buckingham Palace one particular day in the year, will not however affect the rich. Because the government they control have delivered the country to the Fund and the Bank, they will be let off. True, the increase in the rupee cost of imports consequent to devaluation will hurt some of them at some places, there will however be compensations elsewhere. Food and fertilisers subsidies, both of which add to the coffers of big farmers and rich peasants, can be expected to be kept out of harm's way. And already there is talk of some of the export subsidy being exempted from the ambit of the new trade policy. Since the Five Year Plan is to be shelved, and only an apology of an Annual Plan will do duty, development outlays can be pruned on the quiet to the extent of two thousand five hundred to three thousand crore of rupees. Additional revenue of around a couple of thousand rupees can be raised by excise imposts on essential articles and key intermediates. Scaling down the fiscal deficit to this extent should for the present propitiate the foreign masters. It could be explained to them that given the susceptibilities of international armament merchants and commission agents, it would be unwise to reduce defence spending that would also not go down well with the Vishwa Hindu Parishad brigands, who have to be kept in good humour. The inextricable interrelationship between defence preparedness and internal security cannot be ignored either. The nuclear lobby too will heave a sigh of relief.

The economising will mostly target on outlays intended to provide relief to the poor and middle classes. Employment creating rural works will be mercilessly slashed, the midday meal and similar other nutritional schemes will be pruned, the public distribution system catering to the working class and the urban poor will be rationalised, literacy and educational programmes will receive a heavy battering.

Power rates for non-bulk consumers will be raised, and subsidised public transport, a scandalous luxury the indigent sections had been privileged to enjoy so long, will be brought to an end. A fair number of public sector units, assiduously built over the period when *Izvestia* was not yet aware of the facts of life, will be dismantled, if not, a sizeable chunk of their shares will be disposed of in the open market. Either stratagem will help to narrow the fiscal gap. The banks and financial institutions will be put up for part sale, thereby fetching some more money for closing the income expenditure hiatus in government accounts.

The Fund and the Bank are agreed that no direct taxes be imposed on the affluent classes. The latter will therefore be left free to enjoy their foreign exchange allotments. Ambrosia for the gods, dollars and deutsche marks for India's indolent set. A few import based and small scale units they manage will go to the wall, but the expansion of the comprador sector now that private foreign investments are, according to the finance minister, to pour in, will hopefully make up for all that. For since Indians too are going to be market loving, and all ceilings and regulations will be eliminated, there is little reason why the transnational corporations will not begin to feel comfortable here. Confident predictions have already been forthcoming from the most wise quarters: two to three billion dollars worth of foreign private investment might start flowing in each year. If such predictions are slightly off beam, it is because of the excitement of the season. The current annual intake of private foreign capital is less than one hundred million dollars. Even were New Delhi to deregulate all controls, scrap MRTPA and IDRA and FERA, meekly give up on the issue of patents and intellectual property rights, a twenty or thirty fold increase overnight in private foreign capital inflow could still be a pipedream. Investors from rich foreign lands are wont to consider the political and cultural ambience of the countries that invite them to go in. They are not ignoramuses. They will get to know about Punjab, Kashmir and Assam, about the Swedish engineer, the Israeli tourist, and Sergei Gritschenko. They will also, rest assured, be informed about the riots likely to occur across the length and breadth of the country following the hike in prices of essential consumer articles and key intermediate products so as to satisfy the Fund conditionalities. Devaluation in any event will steeply raise the rupee cost of all imports, and the latter will go up in volume because that is one of the things

the Fund and the Bank have been insisting upon. The double-digit inflation will therefore assume a runaway form. As the finance minister has forewarned, unemployment will increase once outlays are cut back. Stiff anti trade union laws, to be placed on the anvil in accordance with Fund Bank wishes, will additionally contribute to the fun.

In the quarter of a century since 1966, the Indian rupee has depreciated to the extent of at least three hundred per cent. Exports as a proportion either of the country's national income or of the total volume of global trade have hardly showed any improvement though. An occasional spurt in exports in individual years has been on account of special circumstances, the depreciating rupee has had little to do with it. Many brave words were spoken in 1966, the same words are being repeated now by officialdom, but the confidence behind the words seems to be wavering, and for good reason. Conformity is not by itself enough. Prices have already started to rise on a wide front. Export optimism in this situation is of as little relevance as a nonagenarian's carnal desires. Assuming the Fund releases the eagerly sought foreign exchange, that will go to meet the servicing burden of past debts and to foot the bill of liberalised imports. The Indian ruling class will temporarily re-experience the bonanza of the mid eighties. The more things change, the more however they will remain the same. The stock of foreign exchange will once more be run through in three to four years' time. By then, the internal political crisis will deepen. At that stage, alongside importuning further foreign exchange, the nation's ruling class will also perhaps beseech the induction of foreign troops without which it will be impossible to put down the insurgencies rearing their head one after another.

For the past several decades, the whole of Latin America has been the exclusive theatre of operations for the Fund and the Bank. There is not one success story they can quote for each and every Latin American nation, the debt crisis has grown more and more intractable. And since Fund Bank prescriptions do not change, the poor are being squeezed out of existence. The rich set however survive and prosper. There are also other victories notched up. Even Nicaragua has been salvaged in the nick of time. Fidel Castro's day are numbered, you only have to read *Izvestia* which these days contains all the news.

So what, it is an impressive coup the Fund Bank establishment and their native collaborators have pulled off. Chandra

Shekhar had his life's ambition fulfilled, he and his finance minister did not have a clue what their appointees were plotting, the latter did not feel the necessity to tell them, they had, like the chief election commissioner, a direct line to Rashtrapati Bhavan. The new government is in a minority, so what, none will dare to vote it out. Besides, no risk is being taken, the Lok Sabha will be presented with a series of *fait accompli*. A subjugated nation cannot afford the luxury of democratic pretensions. Please do not ask the pointless question whether no alternative was available to the nation, whether curtailing imports to the extent of around 4 per cent of national income and restructuring the economy on the basis of domestic technology, domestic resources and domestic market demand are non feasible propositions. The alternative available to the nation was not acceptable to the ruling class, period. Self reliance is an impractical word, it goes against class interests. We must globalise, and must learn to be market loving. The loss of freedom is a small price to pay for that glorious thralldom. The loss of freedom does not hurt the top decile, it hurts only the poor.

The budget says it all or nearly all. There is just one uneasy thought. After this solemn drama of wholesale capitulation in advance, suppose the Fund fails to cough up, or does not cough up to the extent New Delhi hopes it will? Who then goes where?

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Two of the Three Faces of Capitalism

Arun Ghosh

How does one provide employment and a minimum income to every adult member of the workforce? That is the most important problem to which our policies must be directed in the coming years

ONE has to take one's hat off to the functioning of the democratic system—as far as the media are concerned—in the USA. There still exist papers and journals which are no respectors of personalities, the imposing facades of the so called institutions upholding democratic traditions (in particular, the law enforcing machinery) or the working of the corporate system and the functioning of the economy. Take but two samples. The *Business Week* (McGraw Hill, New York) datelined February 25, 1991, has this to say about 'the Gulf War and on the US government plans for a reduction in the consumption of fossil fuels. "The Gulf War is in large measure about access to oil. And volatile energy prices have taken motorists on a six month roller coaster ride and pushed some US airlines into bankruptcy. For the most part Bush simply wants markets to control energy price and supply. And as long as prices are relatively low and supplies plentiful that seems to suit voters. 'Americans regard cheap gasoline as a birth right' says Robert Lbel vice president at Dallas energy company Enserch Corp.

Nobody would accuse the *Business Week* of being a radical paper, but you have the above piece from a team of four experts, Peter Hong and Howard Gleekman; with Tim Stewart, in Washington and Robert Buder in New York. They have, well after the Gulf War was won resoundingly (at little cost to the US taxpayer, and with considerable gain to the US armaments industry), blown the lid about the rationale behind the US intervention in west Asia late last year. Several writers in India have also made bold to say so, but have been accused of being anti-American by persuasion. I am merely quoting four Americans writing in an otherwise conventional American journal.

The sad fact is that after the Gulf War was won, and oil prices plummeted, the energy conservation measures (in the US) which had been proposed earlier—again I quote from the same article in the *Business Week* of February 25—and which are now in dispute are—Mandating a 40 per cent rise in corporate

average fuel economy standards for car makers (estimated savings 2.5 million barrels of oil a day by 2005)

—Establishing an energy conservation standard for electric lights (estimated savings Approximately \$ 800 million per year)

Exempting energy efficiency rebates given by public utilities from taxation (estimated savings 7 billion to 10 billion kilowatt hours per year)

Granting tax credits for electricity produced by such renewable sources as solar thermal, geo thermal, wind, photo voltaic or biomass methods (estimated savings 630 000 barrels of oil per day by 2000)

Creating a fund to finance energy efficiency programme for federal facilities (estimated savings \$ 1.5 billion over 10 years)

(Source: Data Energy Department Alliance to Save Energy, BW)

Of course we in India ought to have woken up to the need for energy conservation long ago and the sad fact is that for quite some time the government at the centre has been concerned not with national priorities but the immediate task of its own survival. However that is a separate matter and we are at the moment discussing a world issue, not an issue of importance to the Indian economy.

And now the second sample. In two issues (datelined July 17 and July 24, 1989), the *New Yorker* has published an account from A Reporter at Large on 'Big Sugar', the report being filed by Alec Wilkinson. The condition of the workers on the plantations of the United States Sugar Corporation (at Azucar and Clewiston, Florida) are what can only be described in our terminology as those of 'bonded labour', drawn from as far as Alabama, Mississippi, and emigrants from Haiti and Jamaica. Let me cite the fate of just one worker (Allen Slayton of Tuscaloosa, Alabama) as reported by Wilkinson (this happened in 1941, but the same story has been repeated in the 1980s).

A man from the sugar company told Slayton he would make thirty dollars a week in the cane fields. He left Tuscaloosa with other recruits in a truck provided by the company at two in the afternoon. They were given their first food the next evening. The following night they got more. The next afternoon, they arrived at Clewiston where they were told that each of them owed the company eight dollars for the ride. In addition, each was charged seventy five cents for a blanket, fifty for a cane knife, and thirty for a file. Mornings they were rounded at three thirty given a small breakfast and taken to the fields at four thirty. At eleven thirty they were given a short break then worked until dark. Slayton was paid a dollar eighty for his first few days then two dollars for a couple of days then a dollar twenty. The water supplied in the fields was dirty. For fresh water the cutters paid the company five cents a gallon. They worked every day of the next several weeks. Wind passed among them.

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that they would be killed if they were caught trying to escape and that if they made it to the road they would be arrested for vagrancy and put into jail. Slayton asked the supervisor if he could leave. The supervisor tried to discourage him. Slayton was bitten on the hand by a snake or a spider and became infected. For four days he asked to see a doctor but was ignored. His hands were swollen and he could not work. Another cutter trying to treat him cut open one of his hands and Slayton was then taken to a doctor. Slayton's sister drove from Tuscaloosa to get him. Slayton asked again if he could leave. The supervisor asked if he planned to leave all this free doctoring behind and then said he could go. Nine other cutters slipped out through one of the fields and joined Slayton and his sister in her car.

This was in 1941. But story after story, down to the 1980s—the last story is datelined 1983—the story remains much the same but for the increase in wage rates except that though the workers are supposed to be paid by the day, actually they are given piece rates, and the untrained US workers get much less than they are promised and are sacked without any notice as soon as a trained Jamaican is available to replace him. Let me end with another quotation from Wilkinson indicating the present state of affairs.

When the cutters leave the bus for the fields in the morning the stars are out. Fog blankets the fields and the headlands, the road ahead and behind and the ditches. It looks like mist rising from the surface of a lake and it looks as if the fields were steaming. It is too early for birds. The only sounds are the ones the cutters make. Sweat rise from their shoulders and backs like vapour from the back of a horse. The pusher shouts. Cut that stubble pile that cane good. Too much stubble. Get that stubble man. Do good work. Cut that top man. It get you warm in a minute. Yeah yeah yeah. As they move down the rows they first become shadows then disappear into the mist.

It is a little surprising that the above situation continues in the US even today, perhaps such labour is cheaper than the use of a combine harvester. Or perhaps a combine harvester cannot be used in the otherwise wet sugar fields. Anyhow, the conditions of coal miners in west Virginia are not much better though they are probably better paid (when they can get work).

I have given a fairly extensive quotation because reading Wilkinson's description one is reminded of the human wreckage of the 19th century Britain immortalised in the works of Dickens. It is for this system that Gorbachev appears to have opted to improve the productivity of labour in the USSR, in place of the Khrushchev type reform of the system attempted in the 1950s. It is for this system that the World Bank and the IMF appear

to be pushing the idea of trade reform in India. The only trouble is that the US—which is supposed to be the bastion of both capitalism and democracy—does not believe in free trade, except in items in which it has a competitive edge. It has a well established policy of allowing selective quotas for sugar imports—and the basis for allocating these quotas is partly political and partly which lobby pays more to the decision-makers—and it has never agreed to free trade in textiles and garments, for which again it has a system of quotas. The same applies to Japanese motor vehicles, and a lot of other products.

Productivity of labour is, hereafter, going to be very difficult to measure because with scientific progress, very soon robots can perform all difficult manual operations, and genetic mutations can alter productivity of the farm in a manner which will totally divorce output from human labour. The Marxian ideal of plenty in regard to material output is likely to be achieved by the capitalist system in the not too-distant future. But has the system found an answer to the problem of distribution of that output? Also, of getting over the problem of exhaustion of the finite (exhaustible) natural resources of this planet? Maybe science can find an answer to that also but it is yet to focus its attention on the problem of the degradation of the environment, the destruction of the ecology in large parts of the world, the sub human condition under which some two thirds (or more) of the world's population lives. It is easy for us to condemn the destruction of rain forests in Brazil, but people in Brazil also must eat, and they need new farmland.

The failure of socialism in eastern Europe can be traced to *bureaucratisation* of the system. The protagonists of capitalism are happy, but unfortunately the Adam Smithian 'invisible hand' which is what the supporters of the system praise is nowhere in evidence today. There is really little or no genuine competition, and increasingly, there is a distancing of production operations from the population at large. And since free movement of labour across countries—and now, unfortunately, even within the country—is now a distant dream, one has to sit down and think how does one provide employment and a minimum income to every adult member of the workforce?

That may not be a problem in a highly developed society with a social security system though the article in the *New Yorker* does not seem to suggest that such is the case. But in India, that is the most important problem (and, regrettably, even

in developed countries like the US, though for a small part of the population). Every citizen of this country has a right to have a home, education, good health, a decent income. It is *this* priority which must inform our policy in the coming years, and not a policy that may have worked to the advantage of some country, somewhere in the world. I need hardly repeat myself on how precisely we can set about achieving the goal that we must set ourselves.

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Workers against Privatisation

Mukul

The manner in which the ownership of the UP State Cement Corporation with vast assets has been transferred to the Dalmia Industries and the subsequent firing on workers protesting the move at the Dalla plant may well become the focal point for labour unions to organise against the trend towards privatisation.

THE privatisation of the U P State Cement Corporation with factories at Dalla, Churk and Chunar and the subsequent firing at Dalla on June 2, 1991, have become topics of debate nation-wide. It is perhaps for the first time in the industrial history of independent India that at least a dozen workers were killed and many more seriously injured while protesting against the forcible take over of a government factory by a private industrial concern. A large number of workers and their families have still not returned to their colonies, fearing arrests, government oppression and other suppressive measures. This is one of the reasons why the exact number of workers killed is not yet known.

After the police firing outside Dalla cement factory on June 2, the work at all the three factories have come to a standstill. The workers and officials of Dalla factory are on strike and those of Churk have stopped coming to work. And since the Chunar factory is a supplementary unit of Dalla and Churk, involved with grinding of the products manufactured, the work here has also stopped. The cement factory complexes of Dalla and Churk have virtually become police barracks. Workers' colonies wear a deserted look with locked homes and the constant PAC vigilance has created an atmosphere of fear. The local administration and police have issued warrants for the arrests of a large number of workers. On the other hand, Sanjay Dalmia Industries, which now controls the closed factory, is making all out efforts, including threatening workers and attempting to bribe them with the help of the local police administration, to restart work at the factory. The firing at Dalla, has spurred the workers of the corporation and a joint action committee has been formed of most of the cement workers unions. A new situation of confrontation seems to be developing now.

The U P State Cement Corporation (UPSCCL) is the only state sector company operating large cement plants, in

India. Cement factories are located at Dalla, Churk and Chunar. Dalla and Churk are in the newly constituted district of Sonbhadra and Chunar is in Mirzapur district. The first factory was established at Churk in 1954 and the second at Dalla in 1962. The corporation was formed in 1972 and registered as a public limited company in March. It took over the two state government cement factories at Churk and Dalla. These are composite units based on the obsolete wet process technology. The Kajarhat Chunar cement project (based on new dry process technology) taken up by the corporation after its formation, is a split location plant, having its clinker production kilns at Kajarhat (Dalla) and cement grinding unit of Chunar. Viewed in terms of installed capacity, the corporation is the third largest cement manufacturer in the country after ACC and CCI.

According to official figures, the number of workers in Churk, Dalla and Chunar factories is respectively 1,313, 2,043 and 1,107. But a large number of workers, around 3,000, are on the muster roll or are casuals.

The UPSCCL has incurred heavy losses, of the order of Rs 155 crore *vis-a-vis* an equity of Rs 1 crore during the past seven years. The reasons for this dismal performance have been many but the main one is the very poor utilisation of capacity which in 1990-91 was a mere 30 to 35 per cent. This is against the capacity utilisation ranging from 90 to 110 per cent in new cement plants and the national average being 74 to 78 per cent. The total liability of the corporation on account of repayment of loans and payment of interest to the financial institutions and banks was of the order of Rs 115 crore. Besides, the corporation had net current liabilities of Rs 35 crore, of which the major portion was government dues on account of sales tax, railway freight, power, coal, slag, cement reclamation account etc.

Mirzapur, it must be mentioned here

has abundant mineral resources as well raw materials required for the cement factory—limestone and coal. Limestone, coal and the main raw material in the form of slag (which basically contains iron) are available at a much cheaper rate here than in other regions. There are no problems in the supply of electricity. Similarly there is no dearth of a market for cement.

There are surprisingly, no official facts about the heavy losses incurred by the corporation. In spite of a long history of loss, the U P government has never felt the need to constitute a committee to look into and analyse the various reasons for the loss.

ACCOUNTING FOR LOSSES

The factory at Churk uses only the obsolete wet process technology for the manufacture of cement. Dalla has plants which use both the wet and dry process technology. The wet process not only leads to more consumption of coal, electricity and raw materials thus raising the production cost, but also limits the production capacity. Most cement factories in the country have discarded the obsolete wet process in favour of the dry process technology. Because of numerous technical faults the dry plant in Dalla started in 1984 could never exceed 50 per cent of its rated capacity. Senior scientists and technicians of the factory allege that not even a trial run has been done at maximum capacity. Moreover, in both dry and wet process, the last stage of cement production requires the use of fast cooling system technology. If the cooling system is not efficient, the quality and output of cement is reduced. Cement factories of both Dalla and Churk have inefficient cooling systems.

Similarly, the decision of the corporation to install a wet process technology plant at Dalla under the Kajarhat Chunar cement project and a grinding plant at Chunar, is said to have been unsound. This split location project is such that the raw material prepared at Dalla and Churk is sent to Chunar which is about 75 km and 90 km away from the two places respectively only for the grinding purpose. This increases the production cost greatly and also leads to a number of technological problems. Sources at the factory reveal that during the Congress reign, pressure from local political levels lead to the establishment of the grinding unit at Chunar which otherwise would have been constructed along with Dalla and Churk factories.

Poor management and corruption at the top level are also responsible for the loss. Out of 15 directors on the board, five are nominated by the governor, two by financial institutions and eight are elected by the board/shareholders. None of them are full time functional directors with professional qualification and relevant expertise. For example, one officer of IPS cadre was working as director (marketing) in addition to his wholetime appointment as CMD of U.P. State Minerals Development Corporation. It is also widely alleged that the top level is always dominated by the IAS who have been unskilled and inefficient from the technical point of view and have also been corrupt.

It is significant in this context that labour unions of the corporation, have been highlighting corruption and irregularities of the officials, and have clearly demanded action against some officials. The documents and memoranda of the labour unions also reveal irregularities in the corporation. For example, a project to install a mini cement plant in Dehradun was started and after incurring heavy expenditure, was shelved. No action has been taken against those responsible for the failure of the project. Similarly lakhs of rupees were spent on a proposed central office at Varanasi, which is yet to be opened. There have been numerous other irregularities and clear instances of rampant corruption. An advance payment of Rs 2,80,000 (all of it as commission) was made for the purchase of a wagon tipper at Chunar which cost Rs 14 crore. But even before the tipper was installed, the corporation had started procedures to sell it, because apparently it had no use for the same. Thousands of tons of clinker have been sold illegally to private industries. Cement worth Rs 1 crore was supplied to a private company without any advance payment and lakhs of rupees have been given as commission. There have been large scale irregularities in electricity consumption and payment of electricity bills. Maintenance and repair of the plant machines has been neglected as a result of which there have been a number of industrial accidents. Nor has there been any attempt to replace worn out machines which make for low production. Interestingly, the state government consumes 80 per cent of the production of the corporation, buying it at prices considerably lower than the market price. No attempt has been made by the government to look at these irregularities and anomalies, or bring corrupt officials to book.

PRIVATISATION OF CORPORATION

Workers of the corporation came to know of the privatisation plans only when

the government issued a press release inviting private companies to come forward. Till date there have been no consultations on this issue with the workers, officers or the unions. The state government press release on May 1, 1990 invited desirous entrepreneurs for discussions on privatisation of the corporation. A few proposals came including one from the employees to run the corporation as an employees co-operative as well as offers from central government owned Cement Corporation of India and other private industrialists like ACC, Gujarat Ambuja, Modi Cement and Dalmia Industries. After examining the various proposals the government decided to accept the proposal from Sanjay Dalmia Industries, and an MOU was signed between the state government and Dalmia Industries in February 1991.

The main feature of the MOU are Dalmias will take over the management of the corporation on 'as is where is' basis, the joint venture between state government and Dalmia Industries will be in the ratio of 49:51, 51 per cent shares of the corporation with a face value of Rs 100 per share were offered to the Dalmia Industries and 12 other companies under the management of the Dalmias at an actual price of Rs 75 per share, totalling Rs 25.12 crore. The payment terms by the Dalmia Industries were as under: at the time of signing the agreement Rs 1 crore, after three months Rs 2 crore, after six months Rs 2 crore, the balance amount as mentioned above will be reinvested by the state government in the UPSCC in loans/debentures carrying interest at 12 per cent per annum to be redeemed in five years in equal instalments, whenever the state government wishes to disinvest the balance 49 per cent share in the joint venture, the Dalmias will have the first right to purchase at an agreed price at that time. Further all employees of the UPSCC will be taken over by the joint venture on 'as is where is' basis, the state government will appoint the chairman and three other directors while Dalmia industries will appoint a managing director and four other directors, the Dalmias will run the plant as a cement unit for a minimum period of five years, internal and external auditors of the joint venture will be appointed in consultation with the state government, the joint venture will have sales tax deferment for five years which will be paid in five equal annual instalments after a three year holiday, all liabilities due to the state government agencies, exceeding Rs 2 crore, for a total sum of Rs 25 crore are to be rescheduled with a moratorium of three years followed by repayment in five years carrying interest at 12 per cent per annum, a rebate of 3

per cent will be given for timely payment; contingent liabilities of Rs 1.4 crore to the sales tax department and Rs 11 lakh towards stamp duty shall be waived; all sales tax cases of the past will be dropped, all other contingent liabilities will be paid by the state government; financial institutions and banks having stake in the UPSCC will be requested to provide all facilities of a sick company to the joint venture.

The main physical assets of the corporation are land, building and machines. Firstly, Dalmia Industries gets a plant of installed capacity of 16.80 lakh MT for clinker and 25.60 lakh MT for cement at a total cost of Rs 26.12 crore, which will otherwise cost nearly Rs 500 crore (assuming capital cost Rs 2,000 per MT at current prices). Dalmias gets 13.5 sq km of land estimated at Rs 135 crore at the rate of Rs 100 per square metre. There are 5,000 residential units at Rs 55 crore. There are three limestone mines covering an area of 30 sq km with mining rights for another 40 years. Average production of limestone is 2 lakh MT per month. The joint venture has a long term contract for slag with Bokaro Steels for 20 years from 1984 at prices prevailing in 1984.

Besides these visible assets, there are many invisible assets in the form of concession offered by the government. In this context a study by the economist Dalip S. Swamy is significant. According to this study, the current sales tax is about Rs 35


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crore. Assuming that the sales tax remains at the level of Rs 35 crore for two years and then goes up to Rs 40 crore as production increases, the present discounted value of interest benefit of this deferment is estimated at Rs 194.33 crore. Further, "the value of the corporation in visible and invisible assets comes to Rs 421 crore. This amount is made up of Rs 135 crore for land, Rs 55 crore for buildings, Rs 24.83 crore for mining rights, Rs 194.33 crore for sales tax deferment benefit, Rs 7.2 crore for moratorium on liabilities to government agencies, Rs 3.65 crore for interest benefit on instalment payments, Rs 1.40 crore for waiver of sales tax, and Rs 0.11 crore for waiver of stamp duty. It should be emphasised that this is the minimum value of the corporation's assets, because many other assets like machines and furniture are excluded from the calculation and the sales tax deferment benefit is estimated at conservative levels of production. The corporation's total liabilities on account of repayment of interest to the financial institutions and banks is Rs 115 crore. This amount should obviously be deducted from the current market value of assets. Following this procedure, one gets the corporation's net assets value at Rs 306 crore. This is the market value of the UPSCC at which it should have been privatised. But the valuation of the UPSCC's assets is based on the paid up capital (book value) of the corporation, which is shown in the books as Rs 68.28 crore, a sum presumably initially contributed by the state government in 1972. This amount is adjusted downward by 75 per cent to Rs 51.21 crore in view of the depreciation of the corporation's fixed assets. The Dalmia's 51 per cent share is then estimated at Rs 26.12 crore.

It is also significant that a share valuation report was prepared for the company's employees by S. K. Ahuja and Associates, Kanpur, recognised by IDBI and government of India. The value of each share of Rs 100 comes to Rs 288. According to Churk Adhikari Kalyan Samiti various concessions and facilities have been provided to Dalmias at a cost of Rs 55.00 only per share, whereas the value of facilities provided actually come to Rs 270 crore, which would come to about Rs 200 per share. Thus each share of Rs 100 has a market value of Rs 488.00 (Rs 288 + Rs 200).

Soon after the privatisation moves became public labour unions in the corporation—there are nine in all of which AITUC, BMS, HMS, and CITU are prominent—independently started organising protest, distributing a series of pamphlets, posters, and memorandums, and

holding dharnas, demonstrations, etc. Simultaneously they also filed a writ petition against the privatisation move in the Allahabad High Court.

It is interesting to take a look at the order of the court against the privatisation and the response of the government, local administration and Dalmia Industries. The high court gave a stay order on October 16, 1990 stating, "...until further orders, the final implementation of the decision to hand over the factories run by the corporation shall remain stayed during pendency of the writ petition. However, in the meantime other formalities may be completed." But the UP state government under the leadership of Mulayam Singh Yadav was interested in going ahead with privatisation quickly and proceeded to do so. After signing the MoU with Sanjay Dalmia Industries in May 1990, the government even issued orders to induct five nominees of Dalmia Industries on the board of directors of the corporation, one of whom was also to be appointed the managing director. The Allahabad High Court had initiated contempt proceedings against D. K. Mittal, special secretary, ministry of industries, government of UP and against S. C. Gupta, company secretary of the UP State Cement Corporation.

During this time, the officers' association of the company also filed a writ petition challenging the government orders. The high court clubbed together both the writ petitions and the hearing started before a bench comprising chief justice B. P. Jeevan Reddy and justice R. B. Mehrotra on April 30, 1990. The high court obtained the views of the Industrial Development Bank of India, the State Bank of India and the Allahabad Bank as to whether their approvals mandatorily required were taken prior to the settlement. The next hearings were fixed for May 21 and 22. But after the May 21 hearing, further hearing remained suspended due to the assassination of Rajiv Gandhi and the high court went on summer vacation after May 24. In view of the urgency of the case, on May 24 the high court ordered that further hearing would commence on or after July 6 on which date the high court was to reopen.

On May 24, 1991, the high court also issued a clarification which ultimately created the way for government action and the police firing. The court order states:

We do not wish to express any opinion on the merits of the several contentions raised before us today at the hearing of this application. Our limited concern at this stage is that the corporation be allowed to run on proper lines till the disposal of these writ petitions. It is with that view that the following clarifications of the aforesaid interim orders are made:

(1) The registrar of companies, Kanpur shall verify whether transfer of 49 per cent of shares of UP Cement Corporation has been effected in favour of Dalmia Industries or their nominees, as the case may be, as on today, i.e. 24.5.91. On such verification, if he is satisfied that such a transfer has taken place, he shall issue a certificate to that effect both to the government of UP Cement Corporation and Mr. Gupta, senior advocate appearing for the petitioners.

(2) If the certificate is issued by the Registrar of companies affirming transfer of shares as contemplated by clause (i) above, the present board of directors will be allowed to manage the affairs of the corporation pending disposal of these writ petitions and subject to such further orders or directions as may be issued by this court in these matters.

(3) That the employees and officers of the corporation shall co-operate with the present management for a better running of the corporation. They shall act subject to the control and directions of the present board of directors. However, the officers and employees shall not be disturbed or shifted from their respective places of posting held by them as on today.

It remains controversial as to whether the concerned department of the UP government implemented and abided by this clarification of the Allahabad High Court. Many questions and doubts remain.

The assistant registrar of companies, Kanpur, A. W. Ansari, issued a certificate on May 27, 1991 to secretary department of heavy industries, UP, UP State Cement Corporation and Gupta, senior advocate. The language of the certificate in itself is serious. "In view of the above noted facts it is certified that 33,45,720 shares of UP State Cement Corporation, as mentioned above stated to have been transferred in the names of above noted transferees by the Hon'ble governor of UP through D. K. Mittal, secretary, industry department, UP government." (No. 20/05524/PC/955). But after the firing at Dalli, on June 7, 1991, the same assistant registrar wrote a letter to secretary, department of heavy industries, UP and UP State Cement Corporation asking for information in the name of governor about the total number of shares and the number of shares transferred to Dalmia Industries and their nominees, as well as details of the government order regarding share transfer (No. 20-03524/PC/500). It is natural to question the relevance of the letter issued by the assistant registrar on May 27, 1991. It is alleged that due to political and other pressures, the assistant registrar issued a certificate regarding the share transfer without verifying the facts. This allegation is further strengthened by the information that after some days the registrar himself issued a notice to assistant registrar to seek reasons and the basis

for issuing a certificate regarding share transfer

However, Dalmia Industries, the state government and the local administration interpreted a part of the court's decision in their favour and used it to give a concrete shape to privatisation. A conspiracy to go ahead with privatisation to its ultimate end was worked out

FIRING AT DALLA

Dalmia Industries clearly wanted to grab control and capture the management of the corporation before a new government took over in the state and the state government wanted the new management to take control of the corporation as soon as possible. And thus the Dalmia management, the government, the local administration and police together worked in this conspiracy. This was the background for the Dalla firing.

The government and the Dalmia management conveniently, reinterpreted a part of the decision of the court and used this as their armour. For example, agreement of financial arrangement clearly states

15) While UP government has decided to sell 51 per cent shares of the corporation as mentioned above to Dalmia and others, due to pending stay of Allahabad High Court, only 49 per cent shares will be transferred at present. Balance 2 per cent shares will be transferred only after the stay is vacated.

This document is signed by Pravin Kumar, managing director, Dalmia Industries and Ajay Vikram Singh, secretary, UP government. Another letter of joint secretary of UP administration, Alok Tandon, dated February 23, 1991, addressed to the president of Churk factory (No 489 18 13 91) reveals the same interpretation. "According to the view of the court, if 49 per cent of the shares are transferred at present then there will be no disregard of the high court's order, since the nature of the company will remain that of a public company."

On May 29, before the firing at Dalla on June 2, a similar incident had been averted at the cement factories of Churk and Dalla. Then the local administration with a large force invaded both the factories and sealed the cash room. According to district magistrate K P Singh and police superintendent K N D Dwivedi, the officers of the factory had illegally kept the government money of the corporation in the factory, instead of depositing it. With a view to protecting this government money, the case was registered under the Indian Penal Code and hence the move to seal the cash room. But the workers of these factories considered this act to be a mere pretext, with the actual aim being

to occupy the factory. Angered the workers came out on the streets and started protesting outside the factory. But then the initiative of the workers' leaders and the constraint followed by the local administration averted any firing. In reaction to this the workers at Dalla stopped work on May 30.

However, with this attitude of the local administration, police and representatives of the Dalmias, a rumour began to spread among the workers of Dalla and Churk that the work and organisation of the factory would be usurped by force in the near future. The workers began an intensive 'dharna' outside the gates of the factory. The rumours proved correct—on June 2 at 11 00 a.m., the local police with a large force, representatives of the Dalmia group and some outsiders brought by them surrounded the factory, workers were pushed out and the Dalmia management established its control over it. The workers continued with the 'dharna'. News about the incident at Churk reached Dalla and a number of workers on 'dharna' outside the factory swelled with other citizens and students also gathering there in large numbers. A number of UP government officers and the management personnel of the Dalmia group of industries arrived at the factory premises under heavy police security for acquiring physical possession of the factory for the Dalmia. By 3 p.m. around 650-700 workers, students and political activists were on the road in front of the factory on 'dharna' protesting against the forcible occupation and privatisation of the factory. The 'dharna' was peaceful and because of the large numbers of people got converted into a meeting and a protest march inevitably disrupting traffic. About half an hour later, i.e., at about 3 30 p.m., the police suddenly resorted to a lathi-charge without any provocation, notice or without any call to lift the 'dharna'. The lathi charge was almost immediately followed by teargas firing, again without warning. The workers were taken aback by the police attack and started running away.

The firing was first resorted to allegedly by the Dalmia personnel with their private pistols. The police then started firing on the fleeing workers at random. As some stopped to pick up the dead and injured workers the police fired at them from point blank range killing them on the spot. Some of the fleeing workers picked up stones and threw them at the police. The police chased the workers to distant places, into the forest, the hilly ranges in the vicinity and inside the residential colonies firing at random above the waistline all through

hours, i.e., up to 5.30 p.m. It was then that the police along with some anti-socials, hired by the Dalmia management, set fire to several vehicles, public buses and shops and later accused the workers for acts of arson. Curfew was imposed the same night and the next morning. It is alleged that quite a number of dead bodies were taken away by the police and burnt beyond recognition. It was reported that at least 40 persons were killed and about 60 injured. On June 3 and 4, the police forcibly entered the residences of the workers, beat them up severely, misbehaved with the women and looted their properties. A large number of workers, reportedly about 100, had already been arrested and cases were framed against them. The general manager of the Dalla factory, Dharam Vir Khushwaha, was arrested for allegedly supporting the workers against privatisation and charged under various sections and later, under the National Security Act. The other two general managers of Churk and Chunar managed to escape, but the things in their houses been taken into police custody.

The district magistrate of Sonbhadra at Churk, K P Singh and superintendent of police K N D Dwivedi state that they functioned according to strict government orders to get control over the factory. According to district administration, the workers at Dalla had openly revolted on June 2. They had made war-like preparations by blocking the roads with big stones and had planned an armed attack on the police. The workers started burning, attacking and looting property. Only then did the police resort to firing because of which nine workers were killed. As compensation, one lakh rupees would be given to the relatives of each of the dead as well as jobs to one member of each of their families and the injured would be given Rs. 10,000 each.

But a survey of the accident site at Dalla clearly reveals the hollowness of this version of the administration regarding the revolt and the attack. In the whole region, leaving aside one or two big pieces of stones there is no evidence of any blockade. And 'war-like preparations' by the workers in the nearby regions of the factory are practically impossible. Not only the factory workers but other citizens, journalists and political activists at Dalla are unani-

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mous in their account of the police oppression that day. The workers are yet to receive even the declared compensation.

Clearly the local administration and the police blindly supported the Dalmias and in the name of obeying government orders made attempts to break the morale of the workers opposing the privatisation of the corporation.

AFTER THE FIRING

The firing at Dalla proved to be a turning point. The incident not only shook the workers and officers of the corporation and forced them to work out new equations in a united manner, it also created a new mobilisation process at Dalla, Churk and Chunar. The labour movement in the whole of eastern Uttar Pradesh saw a new awakening. Questions were now being raised not only about privatisation but also about the firing incident.

After the firing, a joint action committee of all the nine unions of UP Cement Corporation was formed and began the process of uniting the workers. In this region, also known as 'Ujjanchal', the workers of the UP Electricity Board's Obra and Anpara thermal power stations went on a last strike for 24 hours. In all of eastern Uttar Pradesh, at Allahabad, Varanasi, Mirzapur, Obra, Anpara, Pratapgarh, Rohitganj etc. a series of protest demonstrations and marches were held by workers and employees.

The police suppression after the killing of workers in the firing, the general disruption of normal life in the area, etc., has made privatisation an issue in the whole region. And thus various political parties of the region also jointly planned protest programmes and certain common demands emerged out of these protest programmes: (1) An impartial inquiry be conducted regarding the firing at Dalla, (2) The district magistrate and superintendent of police of Sonbhadra district be immediately suspended, (3) Relatives of every dead worker be given Rs two lakh and the injured Rs 50,000 as compensation, (4) All the arrested workers be released immediately and cases against them be withdrawn, (5) The decisions to give the cement corporation to the joint sector be withdrawn, and (6) An intensive inquiry be conducted into the loss and corruption prevalent in UP Cement Corporation and concerned officials be punished. A call for an indefinite industrial strike was given in the Sonbhadra district and the unions at Obra and Anpara thermal power stations also gave a call for indefinite strike from June 24. But the main current of the protest movement preferred to wait for the end of the Mulayam Singh Yadav govern-

ment and the formation of a new one. The workers of the corporation and other protestors felt that they had no hope of justice from the Mulayam government and instead of beating their head against a wall, they should wait for a more responsive government. Thus the programme for indefinite strike was postponed.

In the context of privatisation of UP Cement Corporation, two things regarding the local labour movement are extremely significant. First, the role of the union affiliated to Bharatiya Mazdoor Sangh (BMS) in the corporation. The BMS union (affiliated to BJP) had been regularly highlighting the corruption and irregularities at the corporation and appeared to be against its privatisation. But in the decisive stage of privatisation of the corporation and after the firing at Dalla, the BMS union started supporting the handing over of the corporation to the Dalmias. The union called back its representatives from the joint action committee of workers' unions though two of its representatives defied the decision and continued to work in the committee. The local leaders of BMS at Churk openly state that while government may have the control of the corporation, it should be run by the Dalmias. These leaders have sidelined the questions regarding the procedure of privatisation and the firing incident. And their demands have got limited to giving compensation to dead workers, stoppage of retrenchment, lay off of workers in the private sector and protection of pension/gratuity, etc.

This attitude of BMS has angered the workers, citizens and students of the region and allegations of corruption are flung at it. While the BJP MLA from Robertsganj, Tirth Raj Singh stated in a conversation with me that "the BMS workers' movement should come along with movement against privatisation. But the attitude of BMS leaders is not correct. Action should be taken against them", clearly the local BMS leaders do not agree with this stand. The attitude of the BMS is particularly suspect because the Vishwa Hindu Parishad leader Vishnu Hari Dalmia is known to have family connections with Sanjay Dalmia.

There are a number of interrelated streams in the movement against privatisation. It is true that the fight against privatisation and the firing incident have made the officials of the corporation and labour unions ride on the same boat. An organisation of officers, the 'Churk Cement Officer's Welfare Association' has played a positive role in organising the fight against privatisation of the corporation in the court and regarding disinforma-

tion. But the response of the officers and that of the workers to the privatisation move are vastly different. The workers of the corporation are as much against corrupt officers, their irregularities and luxuries as they are against the UP government and the Dalmia group. They say that it is precisely the misdeeds of these officers which have led to such a situation and they are being made to pay the price for it.

After the formation of BJP government in UP, all eyes have turned to the issue of privatisation of the corporation. The government led by Kalyan Singh has declared that all matters relating to privatisation of public sector enterprises taken by the Mulayam government would be looked into but there is no specific mention of privatisation of the UP State Cement Corporation. On the other hand, the Dalmia management at Churk is openly saying that due to the formation of BJP government, nobody can now touch them. On this basis, an attempt is being made to destroy the unity and confidence of the workers. After the firing at Dalla, the UP workers' unions, the all India workers' unions (CITU, AITUC, BMS, etc.), organisation of public sector unions, etc., have indicated the possibility of seeing this as a test-case and thus might become a focal point for labour unions to organise their protest against privatisation.

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Enigma of ULFA

Kamaroopi

Why has ULFA been able to gather such significant support from a people who have everything to lose and little to gain if the strategic objective of ULFA of Swadhin Asom were ever to be realised, or even pursued in an uncompromising manner?

WHILE it is true that the United Liberation Front of Asom (ULFA) has again and again been able to secure the fulfilment of even the most impossible of its demands by simply holding out unacceptable threats and tellingly demonstrating its ruthless readiness to execute these threats, this by itself cannot explain the failure of the authorities to meet ULFA's challenge. The other side of the determined coerciveness of ULFA is the substantial support it enjoys both in the countryside and in the cities of Assam, especially, though not only, in the Brahmaputra valley. ULFA's social base is not, as has generally been assumed, confined to small sections of the Assamese-speaking people, overwhelmingly upper caste Hindus and Ahoms, though such may have been the case at one time. It now encompasses a much broader spectrum of the 'people of Assam', and not merely of the 'Assamese people'.

The yet to be resolved hostage crisis in Assam is a case in point. By any account, the actions of ULFA should have caused the deepest dismay among the people of the state. Consider the facts. Less than 24 hours after the new government assumed office in Assam, 14 persons are spirited away in a series of co-ordinated actions from Guwahati, Mangaldai, Jorhat, Sibsagar, Nazira and Margherita. Barring the action in Margherita where the Soviet technician employed by Coal India, Sergei Gritchenko, and his companions tried to put up a struggle, every one of these actions is executed without a hitch. After keeping quiet about the action for nearly 48 hours, during which period the captives were all transferred and housed in several safe locations, a series of press statements issued under the signature of ULFA's chief publicity secretary, Siddhartha Phukan, follow, each more uncompromising and threatening than the other, proposing to exchange, in phasewise instalments and over a prolonged period, ULFA's specified number of militants in prison for the hostages. The first phase of this exchange, dictated by ULFA, envisages the release of two hostages, Sergei Gritchenko and the chief geophysicist of the Oil and Natural Gas Commission, Bholanath Jaiswal, both whom were described as

'foreign' technicians, in return for the release of six of its 'specified' militants whose names (and aliases) and the districts they hail from are mentioned. As if there could be any doubts on this score, ULFA also adds that unless its demands are met by the deadline set by the organisation (6 pm of July 9), which would "under no circumstances be extended", the two 'foreign' technicians it is holding as hostages would be killed.

Hoping to score a tactical and propaganda victory over ULFA, Hiteswar Saikia announces, apparently after securing the clearance of the prime minister, a 'general amnesty' which to all appearances (and indeed by definition) is unconditional and which, according to the provisions of the constitution (Articles 161 and 72), cannot anyway be granted by a chief minister. Though the announcement had the predictable face-saving provision that the 'general amnesty' would not cover those militants against whom there were 'serious charges', all the six militants specified by ULFA, every one of whom had several serious charges pending against him, are released well before the deadline set by ULFA.

About five hours after the six specified ULFA militants had been set free from the Guwahati jail, the Guwahati medical college hospital and the Silchar jail, another communication under the signature of Siddhartha Phukan is delivered to newspaper offices. The statement, dated July 7 and delivered on the night of July 9, tersely discloses that the Soviet technician had been killed in an 'encounter' that followed an abortive bid on his part to escape; and that one of ULFA's own soldiers, Bidyut Gohain, was also killed in the incident. As far as ULFA was concerned, that was the end of the matter; and 24 hours later, the organisation releases the ONGC geophysicist, claiming that since the other person it had promised to release had embraced 'a self-provoked death', it had fulfilled its part of the bargain by releasing Jaiswal.

A second proposal, this time offering three hostages in return for the release of 24 'specified' militants; the same conditions, the same threats. The state government once again concedes; and more than

24 hours after the 'specified' militants are set free (the government has to go through the motions of filing applications before the designated courts to secure orders for their 'release on discharge'), the three hostages are set free.

Yet another pause, yet another demand: this time for the release of 'all members and sympathisers' (no names or numbers) of ULFA in return for the release of two hostages by 6 pm of July 26. Unlike on the two previous occasions, this time the deadline is eleven days ahead in the future, later extended by another five days. Even after this demand is met, ULFA will be holding five more hostages (six, if one were to include the driver of the car of S K Tewari, commissioner and secretary, government of Assam, kidnapped from Guwahati) for nearly a month and will be in a position to make further, for the present unforeseeable, demands.

All the while, one is not even clear exactly what ULFA wants, apart from its strategic objective of Swadhin Asom which even ULFA cannot be planning to secure by simply holding some persons as hostages. Indeed, ULFA has not even bothered to address any of its communications to what it sneeringly refers to as 'India government' (it never deigns to mention the government of Assam). Hiteswar Saikia's apparently reasonable appeals to the organisation to hold talks are met with a peremptory declaration that ULFA will 'consider' holding talks with 'India government' if the agenda for such talks has at the top the question of the restoration of the lost sovereignty of the Asom People of Asom, whose unchallenged and sole representative, in ULFA's view, is naturally the organisation itself.

In any other situation, such a sequence of events would have been viewed as simply an intolerable imposition. But the reality in Assam is that at the 'popular' level, especially at the level of the youth and the middle classes, none of the actions of ULFA beginning with the kidnapping is being viewed as especially offensive or gruesome. Indeed, quite the contrary. No doubt there has been some editorial indignation and hand-wringing; but one is sceptical about their impact.

So one goes back to the point made at the outset about the all-encompassing social base of ULFA, and the legitimacy and social sanction that even its most impossible, even cruel, actions have acquired. Fear of reprisal by ULFA might explain some of the passive indifference at the level of the ordinary mass of the people; but fear alone cannot explain the active social legitimacy that these actions have acquired, the elaborate and clever defences in newspaper columns and the 'radical' rationalisations for the kidnapping and murder.

There are two aspects to this social base.

able to establish some roots. The organisation has been able to pull off many daring 'actions' because of the strong network of shelter and support it has been able to build, consequent upon its well-publicised 'constructive' activities and rather more telling interventions as the custodian of the morals of the community in the countryside. This network, for a long limited to some identifiable areas, has been expanding.

Two, these activities, especially 'non-combatant' activities like liaison with the media, communication and propaganda, have been sustained also because of the support ULFA enjoys among crucial sections of the broad middle classes—the professionals, the bureaucracy, especially the state's security apparatus, and the intelligentsia and women. The most remarkable aspect of this support is that none of these as a category or as a class

objective of Swadhin Asom quite simply because they realise only too well not merely the impossibility of achieving that objective even if society were to be prepared to pay immense (and finally quite wasteful) costs, but also the dangerous implications to themselves if Swadhin Asom were ever to be realised, given the geographical, demographic and historical realities.

It is time policy-makers as well as critics (and sympathisers, too) of ULFA addressed themselves to these basic questions, especially why ULFA has been able to gather such significant support from a people who have everything to lose and little to gain if the strategic objective of ULFA were ever to be realised, or even pursued in an uncompromising manner, instead of merely making disapproving noises or blindly supporting the organisation.

MAHARASHTRA

Boom in Teaching-Shops

J V Deshpande

With the rewards of private enterprise in technical education in Maharashtra so blatantly manifest, it was only a matter of time before the same system spread its tentacles into other areas of education as well.

THE extent to which the institutions of higher learning in Maharashtra have been turned into mere profit-making outfits was once again brought out forcefully in the state assembly recently. The state minister for education admitted on the floor of the house that four of the dozens of private engineering colleges opened in the last few years do not have a single student from Maharashtra on their rolls. Each of these colleges is run by either a minister or an influential functionary of the ruling party.

Nor is the position much different in the other private engineering and medical colleges which have mushroomed all over the state ever since the Vasantdada Patil ministry, in the eighties, threw the field of technical education wide open to the influence-peddlers and go-getters on the specious plea that these facilities needed to be expanded rapidly so that local students are not deprived of opportunities for higher education. A few medical colleges were also started about the same time in non-metropolitan areas, ostensibly to benefit rural youth. It is now revealed that in these colleges also, almost all the students are from the major urban areas in the country, including Maharashtra, and even from NRI families. Many of these students are the wards of successful

doctors in the cities.

When these colleges were first opened without any government grant, it was stipulated that 90 per cent of the seats must be given to students on merit, as per the norms of the government. These colleges not only charged high fees (about 10 times the fees charged in government-aided colleges) but also were allowed to hawk the remaining 10 per cent seats to the highest donors. It was expected that this will make up for the initial outlay of the 'promoters' of these institutes. As is now clear, even the fig-leaf of the guidelines of the education department has been discarded by these institutions.

It is naively assumed by many that even if private groups are allowed to open new donation-based colleges, since the courses, terms, examinations are all decided by the university, ultimately they will stand or fall by the standards set by the university. In practice, the situation is far more unpleasant. The structure of universities in Maharashtra is such that almost every new college and its management also acquires at least one vote in the university senate, board of studies and other decision-making bodies. In Poona University, for example, there are only one government-aided engineering college and two medical colleges, against scores of donation-

based, admissions-peddling colleges. One can well imagine how these bodies will go about enforcing educational or academic rectitude. To no one's surprise, both these faculties have been repeatedly rocked by scandals in the past few years in almost all the universities in Maharashtra.

It is also fondly believed by many that anyway higher education is the monopoly of the elitists and why not soak the elites for the benefits they extract from society. The basic fact is that by not expanding the aided facilities for higher education in the last 25 years or more, such education has been effectively turned into a private preserve of the same elites, with hardly any chance for the vast number of first-generation learners to get into it.

With the rewards of private enterprise in technical education so blatantly manifest, it was only a matter of time that the same system spread its tentacles in other directions also. In Maharashtra, already many colleges of business management, computer applications and, more distressingly, teacher education have sprung up on no-grant donation-funding basis, almost all of them under the patronage of some political leader or the other.

In view of the urgent need for rapid expansion of school education, it is hardly necessary to emphasise the need for a widespread and expanding network of institutes of teacher education. But, once again, by withdrawing from it, the state government has left the field wide open to 'educational promoters'. Admittedly, a seat in a BEd college is not as fetching as one in a medical college, but presumably the bulk makes up for the low per-head return in this case. Anyway, there is no dearth of privately-sponsored colleges of education in the state even as there has been no expansion of government-aided colleges for a long time.

What is urgently needed today is a modicum of perspective planning in the field of education. Not only has the government to anticipate job openings in various walks of life in the years to come and tailor the educational strategy accordingly, but it also has to plan for a normal increase in government-aided facilities to cope with the natural increase in the student population, so as not to build up pent-up frustration in youth. Above all, what is urgently needed is a fresh look at the outmoded grant-in-aid code for educational institutes that is being followed. A new grant-in-aid code has to be evolved, which will also streamline the present policy of reserved seats. However, the fact of the matter is that education in the state is being shaped by the very persons and parties who have done well out of the prevailing system. It would be unrealistic to expect any changes for the better so long as this situation continues.

Needle, Thread and Drudgery

Vimal Balasubrahmanyam

There is a very definite difference between promoting traditionally non-commercial crafts for commercial purposes and the Gandhian principle of not allowing machines to deprive professional craftspeople of their means of sustenance.

NO one who has studied in a girl's school run by nuns is likely to have very happy memories of learning needlework. Of course, I'm grateful now, though I hated it then, that the sisters at my school taught me to do cross-stitch, stem-stitch, feather-stitch and satin-stitch, not to mention basic knitting and how to use a sewing machine, because subsequently I've done quite a bit of creative embroidery and utility garment-making for my home and family. But at no point of time would I have jumped at the thought of earning a living by this acquired skill with needle and thread.

Whenever I come across a write-up eulogising some form of traditional embroidery which is said to have immense income-generating and export-earning potential, I squirm at the thought of the large numbers of women who are going to be 'organised' (rounded-up, might be a more accurate phrase) to produce exquisite handicraft items which will be sold at fancy prices but will enable the embroiderers themselves to just about survive.

Fine and intricate embroidery, when done at a moderate pace as a means of self-expression and for the adornment of one's home or for the personal use of one's small family circle, need not be a strain. If one can manage to adopt a Zen attitude to one's work, it could even be a joy. But as a means of livelihood, it is justifiable only if the work can be done at the same comfortable pace as when one does it for one's own pleasure. What's more, payment should, in all fairness, be determined by the time needed for completion, and the degree of skill involved, rather than on a piece-rate basis.

However, if the needleworker is to be paid on such terms, then inevitably the embroidered product will be astronomically priced and could be bought only as a sort of collector's item. In contrast, the piece-rate payment system brings the embroidered item within the buying capacity of a middle-class and rich clientele, foreign tourists and foreign importers. But at whose cost?

The real price in terms of sweated labour, aching backs and ruined eyesight is paid by the needleworkers. For, even to earn a pittance, they would have to work almost round-the-clock, besides fitting in all the other household tasks in between.

Last December, the Kutch Mahila Vikas Sanghathan (KMVS) had organised in

Delhi a display-sale of embroidered quilts produced by women artisans of Kutch. A group of these Kutchi women, many of whom had never stepped out of their villages before, had come all the way to the capital with their wares and an illustrated panel exhibition which told the story of their life and work.

The main theme of their narrative was to show how middlemen corner the major part of the earnings from handicraft. For an embroidered skirt, which might take more than two weeks to complete, the artisan is paid Rs 40. The middleman sells it to a boutique in the big city for Rs 100, earning a 25 per cent profit after deducting raw material cost. The final consumer pays a hefty Rs 400 for the garment, with the boutique owner effortlessly raking in a 300 per cent profit. A woman in one of the panels is shown asking: "Am I a 'majoor' (wage labourer) or a skilled artisan?" In effect she has indeed been reduced to performing wage labour. But if she were to throw away her needle and thread and instead do unskilled work on a construction site, she'd be able to earn the relatively princely daily wage of Rs 18 while now her income barely amounts to Rs 3-4 per day.

A recent study on women in Delhi's garment industry by Vijaya Rukmini Rao and Sabha Husain contains some startling figures. Average daily earnings for cut-work is Rs 6 for an 8-hour day and for crochet it is less than Rs 3. For intricate embroidery which requires more time and skill, average daily earnings amount to less than Rs 5 for a six and a half hour-day, even though the rate is Rs 15 'per piece' (see *Indian Women in Changing Industrial Scenario*, edited by Nirmala Banerjee, Sage, 1991).

The study points out that the industry is not aiming at production of large-scale standardised goods but at the "more exclusive smaller but expensive section of it". For this, embroidery, especially *hand* embroidery, is the special selling point. "In order to execute this labour-intensive task cheaply, the work is put out to home-based women workers." Interestingly, the researchers show that women's earnings from hand embroidery, which has a high market value, is less than that of machine embroiderers who are all men!

Whether it is 'chikan' work in Lucknow, lace-making in Narsapur, or the gorgeous mirror-work done by the women of Kutch, the pattern is the same. True, when volun-

tary agencies step in and organise the needleworkers to become more visible and vocal, and get better prices for their work, the situation may improve. But it seems to be a mistake to look upon this as anything more than an intermediate phase.

Hand embroidery as a means of livelihood cannot be totally freed from the constraints I described earlier. To maintain the health of the needleworker, production ought to be suitably restricted. But then prices would have to be kept exorbitantly high. Which means that only a limited number of buyers could afford the product, and so it can never be a viable 'business'. Surely the long-term goal ought to be the creation of alternative means of employment rather than getting bogged down in a sentimental glorification of ancient handicrafts.

As writers on Indian folk art and craft have pointed out, most of the traditional crafts at which women of different regions are experts have always had a domestic and ritualistic function rather than a commercial one. There is a clear distinction between crafts which are 'professionally' engaged in for a living and those which are symbols and expressions of an ethnic culture and identity. During better times the women of Kutch did their beautiful embroidery mainly to adorn themselves. Successive years of drought, increasing salinity of the soil and other ecological factors have reduced the community to a state of such desperation that the selling of their handicraft is the only option left for survival.

When a large volume of a time-consuming handicraft has to be speedily produced so as to earn some sort of income, however inadequate, not only does it affect the quality of the work, it imposes a terrible physical strain on the needleworkers and cruelly affects their health and eyesight. I don't deny that the KMVS does have a point in stressing the need for the artisans to get a better share in the profit. But the really significant item in its list of objectives is the reference to exploring land/cattle-based activities which will generate alternative sources of income.

Recently the Saturday features page of a national daily carried a glossily illustrated report on the revival of 'kantha', an exquisite form of patchwork embroidery done traditionally by women in Bengal. The article, with very good intentions no doubt, predictably highlights the income-generating scope of this craft and calls for its promotion so as to help rural women. Looking up 'kantha' in a book on folk art, I find among other things the following: "A work of this kind could be completed by one woman in about six months. However, a 'kantha' might be so richly embroidered as to occupy the female members of a family for the space of three generations." No further comment is needed, I'm sure.

Let me acknowledge at this point that

I'm aware that what I'm raising is a vexed question. Even if rapacious middlemen are eliminated it's hard to see how women doing hand embroidery can ever get time-rate payments, even when voluntary agencies, government departments and lovers of handicraft come to their rescue. I've no idea what those who have sincerely devoted their lives to the preservation of traditional embroidery-related crafts and the betterment of the conditions of crafts-women feel about the uncomfortable contradictions inherent in this issue. I know that I'd personally feel very sad if these beautiful crafts and intricate skills were to gradually die out. But then, all countries in the past must have had their own lovely handicrafts which at one time must have had an intimate place in the daily lives of their people. With industrialisation and changes in the methods of production, inevitably handicrafts have declined the world over. If today in India and elsewhere efforts are made to preserve these skills, surely they can be retained and admired only as museum pieces? Or indulged in as leisure-time activities by those who are fortunate enough to enjoy leisure time? What is the justification in clinging to them as a means of generating employment if the livelihood is going to be so exploitative?

There is a very definite difference between promoting traditionally non-commercial crafts for commercial purposes and the Gandhian principle of not allowing machines to deprive professional crafts-persons of their means of sustenance.

Of course, it may be argued, and rightly, that until alternative avenues of employment are created, this is surely better than nothing. True. But the present trend appears to be towards retaining and perpetuating the process rather than replacing it, all because of its export earning potential. As the study on Delhi's garment workers points out, though the garment export industry is subsidised in various ways by the government, the benefits don't reach the needleworkers. What is really being subsidised is 'unstable employment and poor working conditions'.

Tailpiece Curious to find out what the corresponding situation might have been in the west before full industrialisation, I came across an account of the conditions of women in England around the middle of the 19th century which says "In spite of the bad conditions, the factory girl was better-off than the so-called apprentices to the dress-making and allied trades which employed a very great number of women." This was before the invention of the sewing machine and the report describes cases of blindness among girls who sometimes had to execute, at short notice, large orders for 'fashionable mourning'. Sir James Clark, physician to Queen Victoria, is quoted as declaring: "The worst regulated factory is not so destructive of health as the life of a young dress-

maker."

The drudgery of women wielding needle and thread to earn a living appears to be part of a historical process in every country during its stage of industrial transi-

tion. But in our country it appears as if this phase is being deliberately and immovably frozen for large numbers of women, so as to enable the rest to march forward prosperously into the 21st century.

TEA INDUSTRY

Small Growers to Prop up Large Plantations

Sharit K Bhowmik

The Tea Board's formula for increasing area under tea is indeed ironic—it proposes to encourage landless labourers and unemployed youth to take up tea growing in areas on the periphery of large estates under an arrangement which will only benefit the latter.

THE tea industry in India is in a crisis. This is reflected in the abnormal increase in tea prices during the past three years with the prices having doubled in the past year. This situation is a result of the sluggish increase in production which is unable to meet the growing demand in the internal market. Tea exports have been curtailed because any increase here will accelerate the price rise in the domestic market. Exports have thus remained static at around 200 million kg for the last five years. The industry's performance during the Seventh Plan (1985-90) shows that this industry, which is almost exclusively controlled by tea companies owning large plantations, has been unable to meet any of its growth targets.

The rapid increase in domestic consumption underlines the urgency for higher levels of tea production. The Tea Board [1989 2] has assessed that while in 1957 only 36.3 per cent of the total production was consumed in the internal market this proportion increased to 67 per cent by 1987. An estimate made by V N Reddy (*Demand for Tea*, IIM, Calcutta) which has been accepted by Tea Board, shows that the annual increase in domestic consumption since 1984 is between 15 and 16 million kg. The consumption figures for the Seventh Plan period show that the actual annual consumption has been around 20 to 25 million kg higher than estimated. At the same time the anticipated increase in production was well below their targets. The situation therefore is quite gloomy and is likely to remain so unless production increases.

The Tea Board's approach paper on the Eighth Plan however gives quite another picture. While reviewing the achievements of the Seventh Plan it notes that "the production target set was more or less realistic". And that there was "an increasing trend in production". How the Board could come to such a conclusion is a mystery because on the same page of the

report the figures for production show that they are well below the target. The Seventh Plan envisaged an additional production of 140.6 million kg whereas the actual increase has been only 110 million kg. At the same time the envisaged additional production was based on estimates of increase in domestic consumption which were well below the actual consumption during this period.

The Tea Board attributes the failure to meet production targets to "adverse weather conditions" (meaning drought or low rainfall). In other words, production could increase if the weather was favourable. This again is not totally correct because along with good weather the industry also requires healthy bushes for increasing production. Till the end of 1987 [Tea Board 1989A 27] 44 per cent of the area under tea (viz. 1,71,408 ha of the total of 3,90,431 ha) had bushes which had crossed the economic age of 50 years. The industry has clearly shown no inclination to rectify the situation—only 6.3 per cent of the total area (24,568 ha) had new bushes less than five years old (see *EPW*, April 14, 1990).

In spite of these indications the Tea Board seems to believe that the large plantations are the only means of improving production. In the past the Board had spent all its resources in trying to mobilise these plantations to increase production or expand area under tea. Most of its efforts have borne little results. Even with the infusion of liberal doses of public money there has been only marginal increase in production and in the industry's health. The achievements of the Sixth and Seventh Plans show that the schemes for replacement of old bushes and extension of area under tea have achieved less than 30 per cent of their targets. Moreover, during the Seventh Plan, expenditure on items such as tea plantation finance scheme and tea machinery hire purchase scheme which

are utilised only by the large plantations have been higher than the allocated amounts [Tea Board 1989: Annexure 11]. On the other hand the allocation of Rs 20 lakhs as loans for co-operative tea factories (formed by small growers) has remained totally unspent.

SCHEME FOR SMALL GROWERS

One is therefore pleasantly surprised to find in the Draft Eighth Plan that the Board has laid some emphasis on promotion of small growers. It has decided on this scheme because all other attempts to increase area under tea have failed. Attempts to extend tea cultivation in non-traditional areas have not met with much success while in the traditional areas the large plantation do not seem interested in increasing their area. The Board has estimated that "about 40,000 hectares of additional land of which 25,000 hectares in North Indian gardens and 15,000 hectares in South Indian gardens are available for tea planting". It therefore proposes to encourage landless labourers and unemployed youth to take to cultivation of this land. The small growers will be located in the periphery of the large estates. This will enable them to have a tie-up arrangement with the large estates for technical know-how and sale of green leaves. The small grower will be 'adopted' by the nucleus tea estate and this arrangement will continue for at least 10 years.

The holding size of each small grower will vary between the minimum of 1.5 hectares and a maximum of 10.12 hectares. The nucleus tea estate will have to pay each of its adopted grower a subsistence allowance of Rs 400 per month for the first three years (36 months) and will provide technical assistance which the latter must accept. The estate will supply inputs such as planting material, fertilisers, weedicides, pesticides, etc, which will be bought by the grower. The small grower will have to sell his entire produce to the nucleus estate during the period of the agreement at a minimum price of Rs 3.50 per kg.

A tea bush takes around five years to mature though it starts bearing its initial yield of green leaves after three years. The planting costs are spread over the first four years with the major investment in the first year. The Board has estimated the planting costs for one hectare to be Rs 52,000. The small grower will be provided Rs 31,800 by commercial banks with 3 per cent subsidy in the interest rate while the Board will provide a subsidy of Rs 15,000. The grower will have to provide the margin money of Rs 5,200. During the first year Rs 18,000 will be provided as bank loan while the Board will provide a subsidy of Rs 6,500. During the next four years the bank loan will be Rs 4,600 per annum while the subsidy will be Rs 6,000, Rs 1,500 and Rs 1,000

respectively.

The draft plan ostensibly makes an attempt to create a core of small growers to boost tea output. However these growers will mainly help the large estates to produce more rather than emerge as independent producers. In fact on close examination this scheme looks like another ruse to favour the large growers. It will help them increase their output (and of course, their profits) at minimum costs. For instance, for cultivating one hectare of tea land an estate would have to employ at least two full-time workers, apart from the cultivation cost of Rs 52,000. The labour (which includes wages and other subsidies) at the current rate will come to around Rs 900 per month for two workers. This amounts to Rs 32,400 for 36 months. The workers will also need to be covered under the Plantation Labour Act which includes free housing, medical facilities, primary education for their children, etc. Under the new scheme the estate will have to spend only Rs 14,400 for 36 months as the stipend and all other expenses will be borne by the 'small' grower. This paltry investment will enable the nucleus estate to claim the entire produce of the grower for the following seven years.

Apart from being lucrative for the large estates this scheme will also result in exploiting the small grower. The grower is bound to sell his entire crop to the estate at the rate of Rs 3.50 per kg. The current rate for green leaves in West Bengal and Assam is between Rs 5 and Rs 6 per kg and is likely to increase with the rise in tea prices. The rate fixed by the Tea Board is too low but the growers will have to accept it because they will have the right neither to negotiate with other buyers nor to demand a higher price from the nucleus estate. The proposed agreement enables the nucleus tea estate to "purchase green leaf at a minimum price of Rs 3.50 or such enhanced price as may be fixed in consultation with *Tea Board/TRA/UPASI from time to time*" (Clause 4(a)(iv), emphasis added). Of the three organisations mentioned, the Tea Research Association (TRA) is subsidised by the Indian Tea Association while the United Planters Association of South India (UPASI) represents mainly the large growers. Can anyone expect small growers to get a fair price under such a set up?

The crisis in the tea industry can be eased only if new types of production organisations and ownership structures are promoted. The present domination of large estates owned by private sector tea companies has been largely responsible for the state of affairs. Encouragement of small growers will help in extending the area under tea and in boosting production. However, the Tea Board's approach is coloured by its bias towards the large growers. It has propagated the interests of the tea companies, spent public money in rehabilitating them even when most of

these companies have shown little commitment towards development of the industry and its workers. Hence its new plan of encouraging small growers is mainly centred around how they can help the large-scale private sector. Such an approach will help neither the small growers nor the industry.

It is therefore absolutely necessary that small growers be independent of the large growers. The experiences of small growers in the Nilgiri district of Tamil Nadu are very relevant in this regard. This district has nearly 30,000 small growers whose average holding is a little less than one hectare. Till the 1950s small growers there were dependent on the large estates for the sale of their green leaves. The Tea Enquiry Committee of 1958 (Menon Committee) had observed that this type of relationship would not benefit the small growers in the long run. It recommended that in order to be independent of the large growers, small growers should set up co-operative tea factories for processing their green leaves. The district has at present 13 co-operative factories which together have over 10,000 members. The co-operative factories have collectively emerged as the largest tea producers in the district (see *EPW*, August 26, 1989, Review of Agriculture).

The Tea Board's contribution has unfortunately been minimal in the development of co-operative factories in the Nilgiris. It had refused to grant any financial aid or loan for setting up these factories. The earlier factories (those which were formed in the 1960s) had to start with loans from commercial banks at high rates of interest. The later factories got assistance from the National Co-operative Development Council. The Tea Board, on the other hand has not even disbursed the amount sanctioned as loans for co-operative factories. Even in helping individual small growers it has been indifferent. The Board has schemes for providing subsidies to small growers for replantation, pruning and replacement. Only a handful of small growers in the district have been able to get these facilities.

Though the growth of small growers is a necessary step to increase tea production, the Tea Board is hardly the appropriate authority to undertake this venture. It could be given to rural development agencies which would be more sympathetic to the problems of small farmers. At the same time co-operative tea factories must be started in these areas to ensure that the small growers are not exploited by the neighbouring large estates.

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Looking Back

A K Banerjee

Raj Thapar's memoirs recapture vividly the atmosphere of Bombay of the immediate post-war years. A personal response.

ALL These Years is the title of Raj Thapar's memoir which has been widely acclaimed. I want to talk about all the years that I knew Raj and Romesh, dearest friends—over 40 years, which is the span of the book.

When I read the book, I felt that Raj was talking to me, and that I was re-living my life. The story begins in June 1945, when Raj got married and came to live in Bombay in Mafatlal Park by the sea as my friend and neighbour. I was just beginning to know her then—I had known Romesh earlier—but she was already beginning to stand out in my estimation. Romesh had a magnetic personality and was much sought after. Raj was quieter but with a mind of her own, and was the humanising influence whenever Romesh was tempted to behave like a bull in a china shop. Once, early in their married life, Romesh flung the breakfast plate away because he did not like the way it was made. Raj could not stop giggling; she thought it funny that a grown-up man should behave like that. Romesh saw the point, felt small and foolish, and never tried that gambit again.

Raj recaptures vividly the atmosphere in Bombay at the time. The devastating war in Europe had ended, but the two atom bombs still waited to be dropped. There was universal relief, and hope of a new world arising out of the ashes of the old. Churchill, at the peak of his fame and power, had decided to go in for immediate general elections on the advice of his trusted and astute friend, Beaverbrook, who had assured him of victory by a majority of at least 100 seats in the House of Commons. But Clementine knew better and had told Lord Moran, Winston's personal physician, that her husband had no idea how the rest of the world lived, never having travelled by bus and having hardly been inside a tube station. As the election results started pouring in from London, we sat glued to the radio and hailed with joy the news of the landslide victory for Labour, from whom we expected much at the time after the lessons of the war. The voter was not ungrateful to Churchill for his war leadership, but did not have faith in his capacity to rebuild a new world.

It was during their brief stay at Mafatlal Park that Raj and Romesh came to know Rajani Palme Dutt, the leading theoretician and intellectual of the British Communist Party, who stayed with them for a month during his first and last 'permitted' visit to India. Two photographs adorned the office desk of Raj and

Romesh—one of Palme Dutt, who had displaced Nehru after the latter had let down the RIN mutineers in February 1946, and the other of Sachin Chaudhuri, founder-editor of the *Economic Weekly* and of its successor, *Economic and Political Weekly*.

With the coming into power of the Labour Party in Britain, the approach of Indian independence became visible and exciting, but was mixed with foreboding over the danger of partition. We 'sleepwalked' into it (as Raj did into Marxism) without realising its grave long-term consequences and that it was a crime against humanity. The original date set for the transfer of power was June 30, 1948 and it would have given us more time to think, but Mountbatten changed all that, having made up his mind in favour of partition even before leaving England. He arrived in India in March 1947 and stampeded the complex transfer of power based on division of territory in a few months. The argument was that civil war would have broken out otherwise; no one had the clarity to foresee that wars between nations are far worse. They thought that friendship would be born overnight out of the ashes of hatred and violence fanned into flames for years. A kind of political madness had seized the country at the time, to allow such a monstrous calamity to take place. 'Over my dead body', both Gandhi and Nehru had said.

So it was with joy and sorrow that all of us celebrated the first independence day in London on August 15, 1947. It was wonderful to feel free at last and be looked upon as equals after years of struggle and sacrifice. How much we owed to the previous generation for giving up so much, their own lives not excluded, for a great cause which inspired them. It is this inspiration which is missing now. Apparently, the cause of building the country from bottom up, on the basis of social justice, does not carry the same inspiration.

When Raj and Romesh were at the crossroads of their life in 1959, *Seminar* came as a saviour to change their destiny. This is the crucial paragraph in the book: "*Seminar* came out looking beautiful. Handling it that evening at the bang-up celebration, I knew it was there to stay, healthy from the start. We had managed every little part of the operation with the minimum of expenses from the start, and that was the secret of survival in India if you wanted to preserve the quality of what you were doing as well as your own

integrity. *Seminar* had made us, in some inexplicable way, suddenly free. We were doing our own thing which depended on nothing but ourselves and this gave us joy which brought purpose and confidence and optimism surging back, everything falling into place, the communist nightmare having fled leaving behind lessons we had learnt, hopefully not to be forgotten."

Seminar is still being run by Raj's daughter, Malvika, and comes out on the dot on the first of every month. It makes us feel the continued presence of Raj and Romesh.

Raj completed this memoir on her deathbed. It was meant to be a legacy for posterity and the last chapter was unfinished. Would she have published it in her lifetime? I do not think so. This could be a point of criticism, but does not affect the outstanding quality of the book which will be read avidly. It is meant to be revealing, thought-provoking, not to answer questions, for that the search must go on. The book begins with the political madness that led to partition, and ends with the political madness that led to Operation Bluestar and the subsequent assassination of Indira Gandhi. We are not yet out of the mad-house.

Raj used to say that not for a moment did she regret having married Romesh. And when she passed away, Romesh had no one to talk to and check his opinions with, so he too passed away in a few months, leaving behind an imperishable legacy, *All These Years*.

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London Economic Summit

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The developing world is losing the initiative in the formulation of its policies—and the views of the Group of Seven will matter more and more in the shaping of its destiny

THE leaders of the seven largest market economies in the world—Britain, Canada, France, Germany, Italy, Japan and the United States—have just concluded their meeting in London. In many ways it was a historic meeting. The leaders met in the after glow of having tackled the Gulf crisis successfully. The summit received Gorbachev as a supplicant, and heard him seek assistance in the Soviet Union's movement towards a market economy. This is the first western economic summit in which united Germany has participated, though with slightly different economic and political concerns.

The G-7 leaders clearly sense that they are on the verge of a new world order and that they must use their immense economic and political power to steer it in the directions they want. But what kind of world do they wish to see emerge? In very blunt terms, they would wish to see:

- a UN Security Council with enhanced powers to intervene militarily, *a la* the Gulf crisis,
 - reduced military capability on the part of the Soviet Union,
 - a demilitarised third world
 - enough political and economic stability in the Soviet Union and eastern Europe, to prevent an exodus of refugees to western Europe and the other rich countries,
 - the spread of market economy and the creation of property rights in all communist countries
 - a third world which is essentially dependent on the G-7, but making enough progress to prevent the spread of poverty and famines and controlling population growth, and
 - more action on environment and better supervision of nuclear safety standards.
- Such are the broad aims of the G-7.

But Gorbachev came to the meeting expecting largesse. His country is undergoing severe economic disruption. Soviet GDP fell by 10 per cent in the first half of 1991. Imports this year are running at nearly half the level of the previous year. Oil output is shrinking. Gorbachev wanted credits and loans. He may be looking for assistance of the order of \$150 billion over the next five to six years. The G-7, however, has been least obliging and there are deep divisions within the group on how much money it can make available.

Germany—which is most interested in

giving aid to the Soviet Union, because it fears refugees and because it stands to gain the most from a prosperous Soviet Union and eastern Europe—is already burdened with an annual bill of nearly \$80 billion in rehabilitating eastern Germany. Japan is sick of being asked to put up money, without at the same time being given a commensurate status at the G-7 table. Two of the traditional surplus countries have little money to give. The US feels that its budget crisis leaves little room for efforts of this kind. Britain is going through a large balance of payments deficit. Overall, little money is forthcoming.

But the G-7 is concerned lest Gorbachev lose face. It is also concerned that a break up of the Soviet Union could be chaotic, not least because of the uncertainty regarding the parcelisation of control over nuclear bombs and facilities. So a deal is struck. There is to be technical assistance of all kinds to prepare the Soviet economy for market processes by granting it an associate status with the IMF and the World Bank to rehabilitate and upgrade oil production (better supply of oil would benefit the industrial countries also, by keeping a downward pressure on oil prices) to convert the defence industry for civilian output, to improve food distribution. The G-7 has also promised further efforts to promote Soviet trade with eastern Europe.

What does this leave the Soviet Union? Gorbachev has committed himself to a market economy and any going back on that will mean a drying up of all western support. The conservatives in the Soviet Union would need to think twice before taking any such action. And as the republics gain autonomy in economic affairs, there is likely to be severe disruption and possible shortages of food. There is a vague hint that food assistance might be forthcoming from the G-7 should conditions deteriorate, but there is nothing firm on the agenda.

The Soviet Union, however, must agree to cut its armaments and it is not a coincidence that agreement has been reached on the START treaty. The technical assistance promised to convert defence industries for civilian output should also enable the G-7 to ascertain how quickly the Soviet military establishment can be wound back.

One thing is clear: the third world can no longer look to the Soviet Union for

support in any dispute with the west.

The G-7 also paid some attention to eastern Europe, as part of its concern over the economic and political stability in that part of the world. It noted that nearly \$31 billion had been mobilised as bilateral aid by the industrialised countries (with nearly 40 per cent of it contributed, according to Germany, by it). And it promised to open up trade opportunities, particularly with the EC, in steel, textiles and agriculture. It foresees special associate relationships between the EC and eastern Europe as part of this process. This raises the possibility that west Europe may throw open trade opportunities to east Europe at the expense of other parts of the world, including the developing countries.

What of the developing world? Its concerns did not seem to figure prominently in the discussions. John Major, when he was the chancellor of exchequer, had proposed in 1990 fairly significant measures for relief on the bilateral official debt of low income countries in Africa and elsewhere. He was hoping to secure G-7 endorsement for this. But apparently Japan and the US were both less than enthusiastic. So a decision has been postponed.

This is not to say that the G-7 has not acted boldly in the past where its interests seemed to be involved. It was able to agree on substantial debt write-offs for Poland and Egypt early this year. Lest the other developing countries should entertain expectations of similar help, the G-7 has now made it clear that the Polish and Egyptian deals should be treated as exceptional.

But the G-7 is concerned about the military capability of the third world and the nuisance this could become. It has also realised that the competition among its own member countries to secure arms sales abets this process. This is not easy to control. Proposals have been made to develop a central registry process under the aegis of the UN to bring the arms trade out into the open. And, clearly, pressure will be put on countries outside the G-7 grouping—China, Brazil, Chile, Israel and South Africa, for example—to fall in line.

There will be pressures on developing countries to cut their military expenditures. Negotiations with the IMF and the World Bank for structural adjustment loans provide an opportunity for the G-7 to press for cuts in military expenditures as part of loan conditionality. While this has not yet become open, clearly these institutions are groping for a technical basis for doing so. The G-7 concern about environment has already become part of conditionality, in future, there will be even more emphasis on it.

But what of the G-7 member-countries' own internal economic management? The

Industrialised countries are going through a recession and unemployment has assumed major proportions. The US is clearly worried and it was known that it wished to see lower interest rates. There is also some concern at the failure to conclude the Uruguay round of trade negotiations. The G-7, however, seems to have made only modest progress in reaching understanding on these matters. It noted that there are increasing signs of economic recovery, and left it at that. On the Uruguay round, there seems to be greater determination to reach agreement; and the G-7 leaders committed themselves to talking to each other should difficulties arise. But by implicitly linking agriculture, the thorniest of issues, to other areas (services,

intellectual property rights) they have managed to deflect attention from it somewhat. It is anybody's guess whether there would now be a breakthrough in the negotiations on agriculture.

The developing countries should increasingly prepare themselves for a world in which their position is marginalised. There will be less sympathy for their problems. They should be prepared to invite foreign investment, liberalise trade and cut military expenditure. Some of that could do good to their economies. But the fact of the matter is that they are losing the initiative in the formulation of their policies—and the views of the G-7 will matter more and more in the shaping of their destinies.

MALAYSIA

Role for Non-Malays in Economy

M G G Pillai

Malaysia's new development plan outlines a significant role for non-Malay communities, while ensuring that the Malays continue to control a third of the economy.

MALAYSIA's new 10-year development plan—the Second Outline Perspective Plan (OPP)—passed by Parliament earlier this month with its emphasis on multiracial involvement for an industrialised society reflects the confidence with which the Malay and 'bumiputra' community view their role. The OPP outlines an important role for the non-Malay communities amidst a continuous push to ensure the Malays and the 'bumiputras' achieved their target of controlling 30 per cent of the economy. Its more liberal outlook of the country's developmental growth comes as Dato' Seri Mahathir's view of an industrialised Malaysia by 2020 takes shape. It reflects changing perspectives in government on the business community, and the growing confidence with which national issues are decided upon. That the Malay community has not reacted against it, as it would have only 10 years ago, reflects the changing mood, and the realisation among them that there is a place for everybody under the Malaysian sun.

This contrasts sharply with the deliberate pressure on non-Malays under the New Economic Policy (NEP), which ended last year, when implementing policies that on paper, could not be faulted. This during the 1969 racial riots, led to flight of capital and a steady migration of those with essential skills to Australia, Canada, Singapore and other countries which was probably a panic reaction. Many migrants now return, partly as the economic recession begins to bite in those countries, especially in Australia, and partly because

of the more enlightened view in Malaysia of the role they could play in the country's development. The civil service and political view had also changed in the meanwhile. There is, for instance, a conscious attempt to persuade Hong Kong and Taiwanese businesses to invest in Malaysia, something that would have been unheard of only a decade ago.

That is clear in the OPP: only a politically and economically confident Malay community can address itself to the problems of the other communities. The OPP aims for development in tandem at all levels of society: high-speed economic growth at one end and social and cultural development at the other. But with the best of intentions, the disparities and difficulties would remain, as they do in the most developed of countries.

In 1989, a year before the NEP was to run its 20-year course, the government appointed a National Economic Consultative to review it and suggest how a new plan could replace it. As it happened, there was no unanimity in its recommendations and the government did not accept all the recommendations. The NECC report has yet to be released, but some of the recommendations have been incorporated in the OPP, and the National Development Plan (NDP), from which the OPP will take its guidance. An indication of how the NDP will fit in would be known when Dato' Seri Mahathir announces the Sixth Five-Year Development Plan next year.

The NEP was initiated in the aftermath of the worst racial riots in Malaysian

history; and it was implemented by racially-committed Malay civil servants. The Chinese community, especially, bore the brunt of official attempts to ensure that the Malay business interests had a niche in the Malaysian economy. It was viewed overseas as an officially-inspired affirmative action programme in favour of the Malay community. The Chinese and the foreign investors saw it as a deliberate attempt to channel the pace of development and business to benefit the Malays. This is not denied.

The underlying basis of the policy then was to ensure that the Malays, who had political power, also had a stake in the economy. This was emphasised from the early days of independence when UMNO, in negotiating a concord with the Chinese and the Indians, it promised citizenship to more than one million citizens in return for bringing Malays into business. But that was not to be. The Malays kept their side of the bargain, but the Chinese business community did not or would not. The continual carping between the two communities within the ruling alliance coalition, often hidden from public view, laid the groundwork for a racial tension which sparked off racial riots on May 13, 1969.

The twin focus of the NEP was to ensure Malay control of 30 per cent of the economy and to reduce poverty levels. In that it succeeded. But despite the carping of the Chinese community, it did well. Not so the Indians, who retained the same 1 per cent of the economy as they had in 1970. The Malay share rose sharply from 2.4 per cent to 20.3 per cent. The Malays have certainly come out on top in this exercise. The other two communities, Chinese and Indian, grossly and criminally mismanaging their business conglomerates. Several key politicians, including the then president and the youth leader of the Malaysian Chinese Association (MCA), went to jail for cheating its members and ran the organisations to the ground; gross mismanagement underlines the troubles at the Malaysian Indian Congress' investment arm, Maika Holdings. The directors, in short, stole or mismanaged the money left in their trust. The Malays did not.

The Malays, therefore, view the situation from a high moral ground. The government looks at every request for help from the Chinese and Indian community, especially in business, with a wary eye, something it perhaps would not do to a similar request from the Malay community. What is perhaps more significant is that in the 20 years of the NEP, it was an axiom of business in Malaysia that no non-Malay succeeded without Malay partners. The Chinese progressed, however one looks at it, with Malay partners.

The Chinese share rose from 33.3 per cent to 44.9 per cent. Other Malaysian groups rose from almost nothing to 0.3 per cent. The gains were at the expense of the foreigner, whose share dropped sharply from 63.3 per cent to 25.1 per cent.

Contentious as the NEP was, its success lay in reducing poverty levels and the confidence it gave the Malay and 'bumiputra' community in business. Under the OPP, the inevitable extremes in wealth will remain, as they do in every other country and society. The policy concentrates on growth through private enterprise, with less and less emphasis on government aid, and a drastic reduction of subsidies. The NEP looked at growth primarily from ensuring that the Malays were given a stake in a massive restructuring exercise, and in active government involvement in industry, aided by heavy subsidies and grants. Tun Razak, the late prime minister, had looked at India's government involvement in business, and the use of policy to rein in business, and accepted it.

But that laid an overly heavy dependence on official handouts or clout by Malay business men when they found themselves outmanoeuvred by their non-Malay, mainly Chinese, partners. Dato' Seri Mahathir is moving the community away from a narrow, parochial outlook. But he could not have succeeded if the Malays had not been comfortable about their political and economic position. In any case, Malaysia could not have survived with the main political group deprived economically.

The OPP, like the NDP, underlines Dato' Seri Mahathir's desire to move into the industrial age and for Malaysia to be among the industrialised countries of the world. Unfortunately, it was thought in haste and in secret and foisted upon a Malaysian public—everyone talks about it, pays lip-service to it, but there is an official reluctance to accept contending views, especially from the opposition. Besides, without major restructuring of the administrative and economic structure, policies can only make cosmetic changes.

That aside, the initial steps have been taken. The move to heavy industry, especially the development of a Malaysian motor car and of a steel industry, have already begun. The initial concerns have given way to a more pragmatic view, even among the critics. There would, inevitably, be more heavy industrial projects. The government figured, rightly, that the Malay community could not move into heavy industry without active coercion and control of heavy industry. That has begun to pay dividends. But it is also equally true that non-Malay support is also needed.

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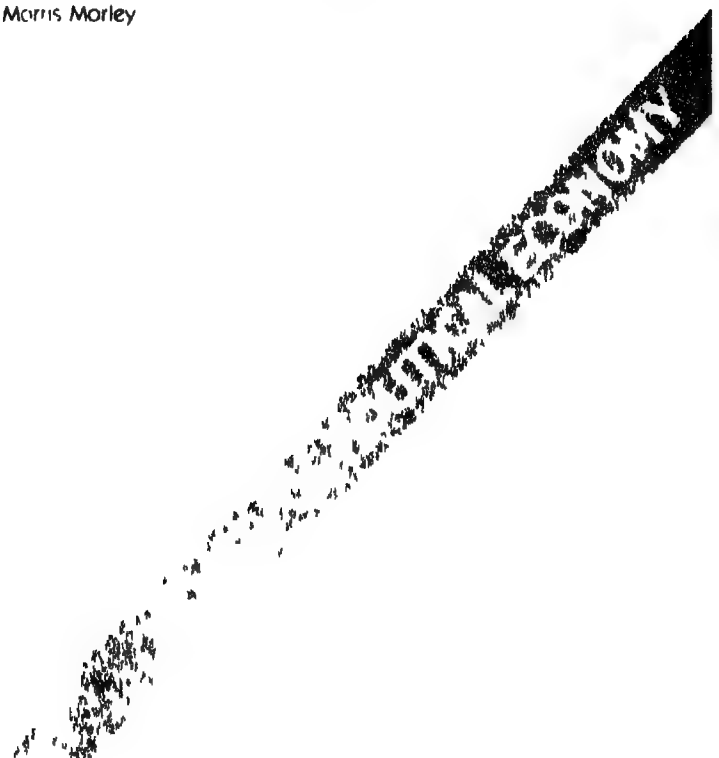
Growth Theories and Development Strategies: Lessons from Indian Experience
Pronab Sen

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Growth Theories and Development Strategies

Lessons from Indian Experience

Pronab Sen

The objective of this study is two-fold: (a) to re-establish the macro-economic foundations of development strategy; and (b) to reiterate and re-emphasise a conventional, and now largely ignored, wisdom—that policy formulation in developing countries, even for meeting short-run shocks, must be based on an awareness of longer-run consequences.

Outlining the broad contours of the evolution of the Indian economy based on existing literature, the author indicates the organic linkage between the development process, conduct of policies and the nature of the binding constraints on growth. It is from this that an argument for a complete re-evaluation of Indian development policies is developed and an alternative strategy for development proposed.

I Introduction

THE history of economic thought and practice relating to the less developed countries of the world during this latter half of the 20th century can be classified into two distinct and equal segments or, in the words of A. K. Dasgupta, epochs.

The 1950s and 1960s were the era of decolonisation, and the process of transition of the newly emergent nations from passive victims of external exploitation to active arbiters of their own destiny was fertile ground for the emergence of development economics as a field of enquiry in its own right. Development economics branched off in two distinct directions. On one hand there were the microeconomic issues which arose from the institutional differences between developing and industrial economies. On the other hand were the more macroeconomic problems of generating rapid and sustained growth in economies which had only the rudiments of an industrial sector.

Issues of growth and development strategy were central to many of the great debates of this era. The economic histories of already industrialised countries were disinterred and re-examined with much greater analytical rigour than ever before in order to identify the sources of growth. The stages of growth 'take off into self sustained growth', the Kuznetsian U-curve, balanced and unbalanced growth, the dual economy 'heavy vs light industrialisation'—all were products of this incredibly fertile epoch of economic thought.

Hand in hand with the conceptual and empirical evolution of development economics, there were tremendous advances made in growth theory. The rather primitive, though most insightful, growth models of Harrod and Domar were supplemented by a whole host of new models and concepts. The Solow-Swan, Kaldor-Pasinetti and the 'two sector models, the 'turnpike' and optimal control are only a few of the instances. These models to a large extent drew their inspiration from the burning issues of development economics and in turn, provided the theoretical foundations for much of the development strategy literature.

This symbiotic relationship between

development economics and growth theory was most significant in that it led to a more or less constant awareness of medium and long run issues in the formulation of development policies. There were no doubt any number of aberrations arising out of social, political and administrative compulsions, but conceptual myopia was seldom the cause.

The idealism and the concern about global growth that had characterised the 1950s and 1960s all but vanished in the economically more turbulent 1970s and 1980s. The oil price shocks of 1973-74 and 1979-80, the global recession of the early 1980s and the 'debt crisis' of the mid to late 1980s shifted the attention of policy makers from long run strategic issues to very short run fire fighting. In the developed 'north', global idealism was seen to be an unaffordable luxury and battle front terms such as 'economic triage' came into currency.

Academic economics kept pace with this attitudinal shift, with 'growth and development' giving way to 'stabilisation and adjustment' as the catch words for the profession.¹ The shift away from macro dynamics to macro statics led inevitably to a certain pauperisation of development theory. For the most part, the structure of and the analytical techniques used in macro statics were well known, and little new was added. The most significant development in the field was in the area of Computable General Equilibrium' (CGE) models, which more or less displaced planning and optimisation models from the forefront of academic and policy discourses.

On the other hand, the new found emphasis on 'efficiency' gave an added fillip to the micro economics stream of development economics, which had been relatively low profile during the earlier era. This field grew to such good effect that today development is seen more as a process of getting each sectoral parameter and institution right rather than how they fit into the overall scheme of things. There is no doubt that this burst of research on micro economic issues was necessary, and it has contributed considerably to the understanding of the differences between the development experiences of different countries. But sectoral optima should be contingent upon

macro-economic conditions and not the other way around.

The biggest casualty of this era of intellectual retreat on the macro economic front was policy formulation in developing countries. The new challenges thrown up by the turbulence of the period could not be met by the application of new theories and perspectives. As a result these countries were forced to employ orthodox (i.e. DMEC based) short run macroeconomic management policies with very little idea of the longer run consequences.² In this vacuum, the rather doctrinaire policy recommendations of the multilateral aid agencies led by the IMI held sway.

What is perhaps worse, the dominant growth and development prescription available today—the World Bank's structural adjustment' package—seems to be based more on ideology than on any clear and rigorous analysis of developmental processes. The emphasis, or rather almost total reliance on market forces which characterises this approach appears to ignore much of history and all the various distortions present in developing countries which call for at least judicious government interventions. This is perhaps an inevitable consequence of the emerging dominance of micro economic development theory and de-emphasis of macro-economic issues. Since most arguments for government intervention arise out of macro conditions, almost any overtly micro economic approach will invariably require the minimisation of the government's role and expansion of untrammelled market forces, no matter how inappropriate it may be given the imperatives of social and political factors.

The objective of this study then is two-fold: (a) to re-establish the macro-economic foundations of development strategy, and (b) to reiterate and re-emphasise a conventional, and now largely ignored, wisdom—policy formulation in developing countries, even for meeting short run shocks, must be based on an awareness of longer-run consequences. This has become even more imperative now than earlier, since the complexity of growth processes has increased substantially, at least in their theoretical recognition.⁴ Much of what is presented in this paper is well known, but little has been

done to integrate these commonly available insights into a development policy perspective. The primary objectives of this study will be to try and fill this lacuna in its small way

II Constraints to Growth and Development Policy

GROWTH CONSTRAINTS: AN INTRODUCTION

Like most of economics, growth theory is concerned with maximising an objective function (the rate of growth of GDP $g(y)$ in this instance) subject to the limitations placed by certain exogenous constraints. In its simplest and most commonly used form, the growth rate is specified as a function of the rate of capital accumulation or investments

$$g(y) = i/v \quad (1)$$

where i = the investment rate (investment/GDP)

v = incremental capital output ratio (ICOR)

In the earliest growth models it was believed that the primary constraint on accumulation was the availability of savings which was determined by the savings behaviour of the economy. This gave the famous Harrod-Domar warranted growth path

$$g(y) = s/v \quad (2)$$

where s = marginal propensity to save

Initially both ' s ' and ' v ' were treated as parameters so that the maximal attainable growth rate was seen to be outside the control of the policy makers. The policy problem then was to attain and maintain the warranted growth rate, which was complicated by the 'saddle point' nature of the growth path whereby even minor deviations from the path would lead to instability.⁵ It was however quickly realised by development theorists and planners that neither of the arguments could be treated as parameters. Three main lines of generalisation emerged—(a) effect of income distribution on ' s ' (Pasinetti), (b) technological change (Kaldor), and (c) effect of the economic structure on ' s ' and ' v ' (Mahalanobis-Feldman)

Although these developments led to a considerable increase in the sophistication of growth models, the essential problem remained simple—a single constraint. The real importance of these researches lay elsewhere. It was in the recognition that policies could be directed not only towards attaining the maximal growth rate for a parametrically given constraint, but they could also be directed toward relaxing the constraint itself.⁶ There were also the first stirrings of dissatisfaction with the single constraint model. This was most often articulated by applied economists and planners in terms of the 'absorptive capacity' of an economy, or the ability of an economic system to utilise productively the possible investments

The first major complication was introduced by Chenery in his 'Two-Gap' model, which explicitly recognised the role of imports in the creation and effective utilisation of productive capacity. The 'Savings constraint' of the earlier models was therefore supplemented by a 'Foreign Exchange constraint'. As it happened, the full significance of the 'Two-Gap' model was not realised until much later. In the early versions, the classical assumption of a savings constrained investment function continued to be made. This had a serendipitous effect on the relationship between the two constraints. The inflow of foreign exchange in the form of foreign savings (either aid or debt) would augment the availability of both foreign exchange and investible resources. Likewise efforts at relaxing the domestic savings constraint would also tend to relax the foreign exchange constraint. Thus there was apparently no real conflict between the two.

The most valuable contribution of the 'Two-Gap' model was in opening up the closed economy structure of the earlier models. This added an entirely new dimension to development policy and planning. In particular it laid emphasis on the trade off between current production and capacity creation, and its sensitivity to the allocation of imports between capital goods and intermediates. Perhaps equally importantly, it implicitly raised the likelihood of capacity under utilisation which was assumed away in earlier models. In practical terms, it also provided the most compelling justification for development aid and the continuing expansion of the multilateral aid agencies.

This model has been the most durable in so far as its influence on policy recommendations are concerned. This is not the least because it provides the intellectual *raison d'être* for the multilateral aid agencies who are now the dominant purveyors of development advice in the world.⁸ But this is of course not all. This model is, if properly utilised, a very powerful one and sheds light on a number of important policy decisions such as whether to follow an export led strategy or an import substituting one, when and how much to borrow on the international money markets, whether and on what terms to allow foreign direct investments etc. Its place in the tool kit of the development theorists is unquestionable.

The next important conceptual development in this field was the introduction of the 'Agricultural constraint' to growth. This was uniquely an Indian contribution and arose out of the development experiences of the country.⁹ But its application range is very much wider. Unfortunately it came at a time when development and growth theory were already in retreat and, as a result, had much less impact than it deserves.¹⁰ The basic argument of this theory is that in a poor and primarily agricultural country, slow growth of the agricultural sector places a limit on the maximum *non inflationary*

rate of GDP growth which may be very different from the savings- or the foreign exchange-constrained rates. The simplest version of this relationship is as follows:¹¹

$$g(y) = n + [g(a) - n]/L \quad (3)$$

where $g(a)$ = exogenously given growth rate of agriculture

n = growth rate of population

L = income elasticity of demand for agricultural output

Simple though the above expression may be, this theory is of a considerably higher degree of sophistication than its precursors. In the first instance, it recognises that growth and development are not synonymous terms and that development policies have objectives (in this case, inflation) beyond the maximisation of the GDP growth rate. Second, it emphasises the importance of the sectoral break up of developing countries in terms of the relative efficiencies of investment and their amenability to policy influences. Third, and perhaps most importantly, it brings out starkly the interaction between the growth constraints, and the need to be aware not only of the immediately binding constraint, but also the extent of slack available in the others.¹

The 'dual economy' models of Lewis, Jorgensen etc capture only a part of the implications of the agricultural constraint model, and are really the building blocks for it. In order to do full justice to poor, dominantly agricultural economies, the 'wage goods' constraint has to be married to the macro economic issues of income distribution, inflation, balance of payments, etc. which this theory seeks to do.

The latest addition to the family of growth constraints is the 'Fiscal constraint', which has originated in the Latin American Neo-Structuralist school.¹² This constraint is based on the insight that productive utilisation of production capacities requires a corresponding input of certain key infrastructural facilities. In most developing countries, infrastructural investments are and can be carried out almost entirely by the government or the parastatals. If in such a situation the government is unable to raise the necessary resources in a non inflationary manner, either capacity utilisation will fall or fresh private investments will not be made.¹³ In either case, the growth rate of GDP will be adversely affected and may well fall short of the rates permitted by the savings or the foreign exchange constraints.

Like the agricultural constraint, this one too recognises the peculiarities and the imperatives that guide policy making in developing countries. It also brings to the forefront the need for having an active public sector. Market forces clearly cannot be relied upon to provide all the necessary inputs for growth and development. It also explicitly highlights capacity utilisation as an important adjustment variable, which had only been implicit in the earlier models.¹⁴ This model has an important dimension which is missing in all the others—it draws a well

defined distinction between the real and the financial sectors. All the earlier models were in essence real in nature, and discussions of monetary and financial issues were more in the nature of qualifications. It is this dimension that highlights the importance of the type and the recipients of foreign capital inflows—a feature which should have been central to the two-gap models, but was not.

At present, therefore, there are four distinct constraints to growth which have been identified in the literature and have been analysed to a greater or lesser extent. However, these are not all that there is to development strategy formulation. As has been mentioned, there is more to development than merely attaining high rates of GDP growth even on a sustained basis. Each country has a set of minimum socially necessary conditions that economic policy has to address. Inflation has already been mentioned in this context. There can be a number of others. A few which are of relevance to India, for instance, may be mentioned—a minimum rate of employment growth, poverty alleviation, and balanced regional development. Any formulation of development policies has to retain awareness of these conditions and how they limit attainment of feasible growth targets.

CONCEPTUAL ISSUES IN DEVELOPMENT STRATEGY FORMULATION

It should be apparent that the emergence or recognition of additional constraints to growth has rendered simplistic the view that accumulation and efficient use of capital is the sole or even primary basis of growth which underlay virtually all of development planning and policy in the earlier years. While it remains true that sustained growth is impossible without accumulation, there is need to retain awareness of the nature and interrelationship of all the constraints if the sacrifices made in current consumption and well being implied by savings are not to be rendered infructuous.

Of the four growth constraints identified in the previous section, three—namely, foreign exchange, agriculture and fiscal—are considered as 'structural' constraints, in the sense that they originate from rigidities in specific sectors. This is in contrast to the general demand supply indication given by the savings constraint. This distinction between the structural constraints and the savings constraint has a crucial bearing on the conduct of policy.

In a structurally-constrained economy, the very fact that the saving constrained growth rate is greater than the attainable implies that the investment necessary to attain the maximum constrained growth must be less than the *ex ante* savings. This is not a serious problem in centrally planned economies where either consumption or planned investments in long gestation projects can be easily adjusted, but it creates complications in a market or a mixed economy where

private investments are large. Regardless of the nature of the investment demand function, if private investors are not willing to tolerate increasing capacity under-utilisation, *ex-ante* private investment demand is likely to fall considerably short of *ex-ante* savings. Thus a generalised aggregate demand problem arises whereby the actual demand-constrained growth rate falls short of even the structurally-constrained one. Moreover, depending upon the specification of the investment demand function, the system may well become unstable or, at the very least, display large cyclical swings around a low trend growth rate.¹⁶

This problem is precisely analogous to the well known instability problem in growth theory which arises when the Harrodian 'warranted' rate exceeds the 'natural' rate. In such a scenario, public expenditure becomes crucial in order to avoid problems of current demand. The issue is the necessary level of public expenditure. Let the savings-constrained growth rate be approximated by the Harrodian 'warranted' rate as given in equation (3). If the structurally constrained rate is 'g', then 'v g' is the growth in capacity required to maintain the constrained rate. If the private sector left to itself increased capacity at the rate 'i' then the government must spend at a rate of $[v g - i]$ in creating capacity and at $[s - v g - i]$, where 'i' is the marginal propensity to tax, on non-capacity creating expenditure on domestic goods and services in order to avoid aggregate demand problems and the resulting instability.¹⁷

This emphasis on non-capacity creating expenditures by the government is most important and is totally ignored in virtually all of mainstream economics literature.¹⁸ There is a general feeling among most economists and laymen that non investment expenditures of the government are a dead loss to the system and should be held to a minimum. This is simply not correct. Under certain circumstances, over investment can be almost as bad as under-investment, and this must be borne in mind. Therefore, in a situation where the binding constraint to growth is other than the savings constraint, the government not only has to decide on the total level of public expenditures but also its break up into investment and consumption on the grounds of macro economic stability. This also has to be seen against the backdrop of claims on government finances on the grounds of socially necessary objectives.

Monitoring the necessary level of government expenditures, although theoretically determinate, is not easy since the parameters are likely to change over time.¹⁹ However, in a predominantly agricultural economy, a rise in aggregate demand will, *ceteris paribus*, raise the prices of agricultural goods relative to those of other sectors. This of course does not apply to sectors which have administered prices. Thus a convenient rule of thumb for judging the adequacy of public expenditures

is provided by the agricultural commodity terms of trade. So long as this figure, on a trend basis, does not move against agriculture, public expenditure levels may be deemed to be adequate.²⁰

In general, this sort of expansionary government behaviour contains a danger of inflation. If there is a downward rigidity of non-agricultural prices because of mark-up pricing and a ratchet effect in wage formation, an improvement in agricultural terms of trade can come about only through an inflationary process. This, however, is a necessary cost of maintaining growth levels under uncertainty, and should not be a cause for concern unless indexation is so prevalent in the system as to make any inflationary pressure explosive.²¹ In such cases the solution is not to permit the emergence of a demand squeeze based recession, the dangers of which have already been discussed, but to reduce the extent of indexation through political processes. Unfortunately, the standard prescription for inflation are all based on a savings constrained view of the economy. As a result the knee jerk reaction is to prescribe a dose of monetary and fiscal contraction.

When the fiscal constraint is in operation, however, the danger is much more serious. Since by definition the government is unable to raise the required resources for bridging the gap between *ex ante* savings and investments through non inflationary means, monetary expansion is the most likely result. In the short run under normal conditions and with widely dispersed holdings of cash balances, nothing much may happen. If, on the other hand the cash balances are held by a few or if the economy is disturbed by exogenous shocks which lead to a switch in portfolios from money balances to speculative real commodity stocks, an inflationary cycle may be triggered off. In the longer run, however if the fiscal problem is not solved, any adequate and steady rate of growth will inevitably be associated with accelerating inflation.

In addition to the general problem discussed above, there are a number of other differences that arise in policy making under different operative constraints. First, issues of resource generation and allocative efficiency are much less important for structurally constrained economies than for savings constrained ones. The primary objectives of medium and long-run policy making for the former should be to stabilise the constraining sector and then to maximise the growth of the other sectors within the limits set by either the acceptable level of inflation or by the balance of payments as the case may be. If doing so requires that allocative efficiency be sacrificed, it must necessarily be accepted.²²

In this context mention must be made of the large volume of literature that has been developed in recent years on the 'rent seeking' or 'directly unproductive' (DUP) activities that are created by import restrictions in general, and quotas in particular.

The argument is that in such restrictive regimes real productive factors are used not for production but for cornering scarcity rents. This represents a net loss to the economy. It should be remembered, however, that this argument applies only when the resources used in the DUP activity are the constraining factors. For the most part, such resources are capital and not agricultural goods or foreign exchange. Thus the argument applies mostly to savings-constrained economies and not to the structurally-constrained ones—a distinction not drawn by the proponents of this theory, although it is obviously crucial. In the case of the fiscal constraint, it may be argued that tax evasion is a major source of such funds and therefore compounds the problem. However, it seems to be a little far-fetched to claim that tax evasion is resorted to for generating 'slush funds'—the implication is a very peculiar form of the 'Laffer curve' indeed.²⁴

Second, the effects of one-off aid and foreign borrowing are very different under the various constraints. With the savings and the fiscal constraints, foreign resource inflows do not cause output to be higher in the short to medium run, but allow extra capacities to be installed for higher output in later years. With the other two constraints, however, foreign funds can have a more immediate impact by allowing the import of constraining goods, if the resources are so used. These 'windfall' foreign exchange receipts, therefore, cause only step changes in output levels under the agriculture and foreign exchange constraints with very little growth effects, but have the potential for a more sustained growth-raising effect under the savings and the fiscal constraints.

Sustained inflows of aid or debt receipts, on the other hand, have the potential of raising growth rates in all cases. The magnitude of these effects, however, is very different between the different structural constraints. The output response of the economy to additions in import-capacity in any year depends upon the foreign exchange multiplier. With the foreign exchange constraint, imports are required only for the 'non-competitive' forms of imported goods. With the agricultural and the fiscal constraints, however, marginal requirements of agricultural goods or competitive imports of infrastructural capital goods also have to be provided. As a result, the foreign exchange multiplier in any given country and at a given constrained level of output is always less in agriculture- or fiscal-constrained scenarios than in a foreign exchange-constrained one.

Third, domestic income policies which attempt to bring out desired income distributions also have very different effects depending upon the operative constraint. With the savings constraint, if marginal propensity to save is positively related to real income levels, all other considerations apart, greater (lesser) inequality of incomes will *ceteris paribus* result in a higher (lower) rate of growth. In the short run, however, the ef-

fects are asymmetric, in that increased savings may well result in the demand constraint becoming effective such that the level of current output falls, whereas decreased savings will have no output expanding effect since the problem is one of an overall supply constraint. The most likely outcome in such a case will be a deterioration of the balance of payments and a tightening of the foreign exchange constraint.

With the foreign exchange constraint, where the bottleneck is a shortage of producer goods or relative luxuries, both of which are demanded more out of non-wage incomes than wages, a more (less) egalitarian incomes policy will increase (decrease) the constrained growth rate. In case of the agricultural constraint, however, where the bottleneck is in necessities which are primarily wage goods, increased egalitarianism will tend to reduce the rate of growth. The fiscal constraint, unlike the others, places a direct limitation on the conduct of an incomes policy. Since taxes are assumed to be rigid, any fiscal redistribution necessarily implies a reduction in public investments in favour of higher current expenditures. This will almost always lead to a reduction in the growth rate. The problem gets further compounded if the tax system is truly progressive. In such cases, income redistribution will lead to a reduction in tax receipts and hence to a further tightening of the fiscal constraint.

SHORT-RUN POLICY-MAKING IN DEVELOPING COUNTRIES

The points made above relate to the longer-run considerations that must underlie the formulation of any development strategy. A distinction is often drawn between development strategy and short-run policy-making for meeting exogenous shocks. This is wrong. It should be remembered that all economic shocks affect each of the constraints to a greater or lesser extent. The policy response should therefore be based on an awareness of which constraint bites post-shock and the extent of slack available in the others. Proximate indicators may well lead to inoptimal policy responses.

A major source of short-run fluctuations in developing countries is weather-related agricultural failure. In most cases this is a transient shock and does not affect the long-run position of the various constraints in any significant manner. It is therefore unnecessary to take any steps which would lead to irreversible changes in the economic structure. The immediate outcome of such shocks is some degree of inflation. It is, however, important to bear in mind the fact that with an oligopolistic industrial structure, relative price adjustments can take place only with some inflation. Such inflation, therefore, should be viewed not as a disequilibrium, but as an adjustment phase in which relative prices are adjusting to changed supply conditions within a 'competitive' market framework.²⁵

Efforts at curbing such inflation by contractionary means are distinctly counter-productive. In the first instance, it can be achieved only by reducing non-agricultural output—which simply means adding output contraction to output contraction. Moreover, the massive reduction in the income terms of trade of the agricultural sector caused by this may trigger off hardship selling of assets, and consequently lead to an unalterable structural change within the sector. This will almost certainly have longer-run consequences on the position of the various constraints and on the attainment of socially necessary objectives.

The alternatives to contraction are either to impose a wage-price freeze on the non-agricultural sector as a whole, which reduces non-agricultural real incomes at a given output level, or simply to allow inflation to continue and make what adjustments are required. The first option in general will imply a tightening of the savings, fiscal and agricultural constraints, and a relaxation of the foreign exchange one. Thus, other than the political and administrative problems involved, this option is credible only when the foreign exchange constraint is binding and slack is available in the others.

As far as the second option is concerned, the major problem lies in the balance of payments implications. The rise in the domestic price level will *ceteris paribus* lead to increased non-competitiveness of domestic products *vis-a-vis* foreign ones, and thereby to a deterioration of the trade balance. The subsequent price decline which will occur with the recovery of agricultural output does not in itself solve the problem since non-agricultural prices would have settled at a permanently higher level. Financing the increased trade gap by drawing down reserves or by borrowing is a temporary measure which is permitted only if the foreign exchange constraint is non-binding. In all other cases, some form of real effective exchange rate adjustment must be implemented.

The other major source of exogenous shocks is international developments such as the oil price shocks or world recession. If the shock is a transient one, and the foreign exchange constraint is not binding, financing the increased trade gap or minor reallocation of imports is usually sufficient. If, on the other hand, the foreign exchange constraint is binding, some reduction in short-run growth performance is inevitable. This may be achieved by an appropriate reduction in the import-intensive components of government expenditure, such as public investments. It should be noted, however, that in such a situation there is a strong danger of a generalised demand problem arising which will drive down the growth rate to below that warranted by the foreign exchange constraint. Therefore, care must be taken to ensure that the cut-back in import-intensive government expenditure is matched by an increase in domestic

resource-intensive forms of government expenditures²⁶

In the case of more permanent international shocks, which involve a shift not only in the intercept of the foreign exchange constraint function but also in the slope, an entire reappraisal has to be made of the constraints scenario. If the foreign exchange constraint remains non-binding, nothing much needs to be done except for some reallocation of imports for ensuring that the reduction in the slack falls only on non-essential imports and not on essential ones. If, however, the foreign exchange constraint replaces some other as the binding constraint, the entire policy framework will have to be re-evaluated in order to accommodate this new reality. Failure to do so will involve large and totally avoidable costs.

The confusion between the short run and the long run is rampant. Most often it involves treating short term transient changes as if they are permanent. Sometimes, however, it works in the opposite direction as well. A classic example of this is the paradox that has been observed of efforts at increasing urban employment in developing countries actually leading to even greater urban unemployment in the medium to long run. This phenomenon, which has received considerable attention in the development literature, strongly suggests the existence of adjustment mechanisms which are usually not present in developed countries and which argue for an entirely different macro-economics for developing countries. Unfortunately, such an integration of the micro-economic phenomenon with the development strategy framework is as yet not available.

Another such instance relates to the advice that is frequently given to developing countries which have chronic balance of payments problems to allow large inflows of direct foreign investment. Although the motivation is more often than not ideological, the arguments are usually couched in terms of short run positive BOP effects. It can be shown, however, that in developing countries such inflows will almost invariably be associated with a negative BOP effect in the short run.²⁷ Thus if any argument in favour of such a policy is to be advanced, it must be made in long run terms and incorporated into a wider policy framework.

III

Indian Experience

BACKGROUND

The first, and possibly only, comprehensively articulated development strategy for India is to be found in the First and Second Five-Year Plans and in the Industrial Policy Resolution (IPR) of 1956.²⁸ The imperatives of fulfilling the aspirations of the people of the newly-emergent nation state dictated a sharp and decisive break from the colonial economic structure imposed upon

the country in the past. This threw up a challenge to Indian economists and planners, who had little to go on by way of past experience in either India or abroad, to chart the course of development from a poor, agricultural economy to a powerful and self-reliant industrial power.²⁹ The Planning Commission, established in 1950 under the stewardship of P C Mahalanobis, was more than equal to the challenge. The early planning framework established by these pioneers has gone down in the history of economic thought as an outstanding example of vision coupled with technical excellence.

The subsequent economic history of India, on the other hand, shows a relatively dismal record of awareness and creativity in economic management. It illustrates the extent of inertia in Indian planning and policy-making, and its insensitivity to structural issues. It is not as if new challenges did not come up during this period. Indeed, the past three decades of Indian economic history, if properly analysed, presents an interesting case study of how the binding constraints to growth can change in response to not only various exogenous shocks but also to development strategies and short run macro management policies.

The lacuna was elsewhere. It lay in the steady increase in the powers of functional ministries, and the consequent marginalisation of the Planning Commission in economic decision making in the country. As a result, policy making no longer emanated from an overall macro-economic perspective, but got fragmented into sectoral domains. This led to the loss of a long term system wide vision, which precluded not only any substantive course correction but also any recognition of such a need. The fact that incremental short run policy changes can have substantial cumulative effects has not been adequately appreciated. Indian economic history is a testament to this.

It is not within the scope of this paper to provide a detailed exegesis or rigorous analysis of these developments. Therefore, what follows is more in the nature of laying down some of the broad contours of the evolution of the Indian economy based on existing literature. The objective of this historical detour is to indicate the organic linkage between the development process, conduct of policies and the nature of the binding constraints to growth. It is from this that an argument for a complete re-evaluation of Indian development policies is developed and an alternative strategy for development proposed.

NEHRU ERA

At the time that the Planning Commission led by Mahalanobis began formulation of the development strategy for India, growth theory was still in its infancy. It was believed that the only requirement for growth was capital accumulation. The theoretical underpinning for such growth

processes was provided by what is now known as the Harrod-Domar model. It may be recalled that the Harrod-Domar model hinged on three critical parameters—the marginal propensity to save (*s*); the incremental capital-output ratio (*v*), and the rate of growth of population (*n*). These were assumed to be exogenously given and constant for the period of analysis.

It is not surprising therefore that the Indian planners explicitly identified the availability of investible resources or savings as the primary constraint to growth in the Indian context. But they did not stop there. Borrowing from the Soviet experiment, they believed that neither '*s*' nor '*v*' should be treated as exogenously given parameters. This recognition resulted in formal articulation of the so called 'Feldman Mahalanobis' model which stressed the role of heavy industries in increasing the savings rate of the economy.³⁰

The innovativeness of Indian planners did not stop there. Foreign exchange was also perceived to be a serious problem, and it was felt that the pattern of growth should be such that it could be sustained even without large inflows of foreign capital. Although this view was never formalised in a specific model, there is no doubt that the Indian planners had to a very large extent anticipated the 'Two Gap' model that dominated growth theory in the mid 1960s.

But these conceptual innovations were not enough. The ground realities had also to be taken into account. It was recognised that the nature of Indian exportables was such that it would not be possible to increase their output rapidly enough for meeting the import requirements.³¹ It was also believed that the new industries that were to be established would not be able to achieve very much in the way of exports until at least a fair amount of learning by doing experience had been gained.³² Moreover, an overriding consideration of the political cohesion of the young Indian state required that development and growth had to be regionally balanced. This had the implication that pure economic considerations, which are the *sine qua non* of any export oriented strategy, could not necessarily govern the establishment of industries. Thus the strategy of import substitution behind a high protective wall was born.

Given the perception of a binding savings constraint, the development strategy had to be aimed at utilising the available investible resources most productively and in a regionally dispersed manner. In order to ensure that the available resources were not wasted through unnecessary duplication of capacities, an administrative device—industrial licensing—was evolved. The objective of this device was to establish a mechanism by which the sectoral and regional capacity allocations made by the Planning Commission could be effectively implemented and monitored. Further teeth were added by the establishment of the Direc-

torate General of Technical Development (DGTD), which was charged with the function of ensuring that the technologies used in various investments were optimal for the country, not only in terms of the state-of-the-art but also in terms of indigenous availability of the requisite capital goods.

The strategy of heavy industrialisation and the need for regional dispersal could not rely entirely on private sector initiatives. The then-nascent Indian capitalist class had neither the resources to meet the heavy capital costs involved in long gestation projects nor the inclination to invest in uneconomic locations. This, coupled with an ideological desire to have a 'socialist' form of development, led to an emphasis on the role of the public sector in industrial growth.¹¹

Therefore, the development strategy formulated by the Indian planners held together as an integrated system which met the imperatives arising out of not only economics, but also political and social ideology and administrative needs. There is no doubt at all that the strategy worked very well indeed. Given the constraints faced by the economy, an average annual growth of 3.4 per cent was most commendable. Equally importantly, the savings rate of the country increased steadily by about 0.5 percentage points per year, implying a marginal propensity to save of about 19 per cent—which is remarkable by any standard.¹² The rapid diversification and regional spread of the industrial base of the country too was commendable, particularly in view of the limited resources and the narrow infrastructural base.

EMERGENCE OF AGRICULTURAL CONSTRAINT

In the euphoria of these remarkable achievements what was not recognised was the fact that the agricultural sector was growing at a rate (2.6 per cent) only marginally higher than the rate of population growth (2.4 per cent). As a result, while the savings constraint was being relaxed at a steady and a fairly rapid pace, the agricultural constraint to growth was becoming more binding.¹³ In order to sustain whatever agricultural slack that existed in the early-1950s at a GDP growth rate of 3.4 per cent and an income elasticity of demand of about 0.7, the necessary growth rate of the agricultural sector was 3.1 per annum.¹⁴ Thus, the agricultural slack was being eroded at a rate of 0.5 percentage points per year—which is very rapid indeed.

It is fairly clear that the savings constraint was dominated quite quickly by the agricultural constraint. There is no precise estimate of when this happened. In the most detailed and comprehensive study of this issue, Sen (1981) indicates that the agricultural constraint certainly was fully in operation by 1960. There was, however, no major shift in the policy regime as international food aid was fairly liberal until 1965. In the aftermath of the disastrous

famine of 1965-66 and the Indo-Pakistan war of 1965, it was realised that aid could not be relied upon and self-sufficiency in food had to be achieved at all costs. This led to an increased emphasis being placed on agricultural growth and the consequent advent and spread of the 'Green Revolution' in India.

Although the green revolution worked to some extent—the growth rate of agriculture rising to about 2.8 to 3 per cent—it had no significant effect on the rate of growth of the economy. From the agricultural constraint, equation (1), it can again be calculated that with $g(a) = 2.8$ per cent, $n = 2.2$ per cent and $k = 0.5$, the constrained rate of growth of GDP, $g(y) = 3.4$ per cent—roughly the actual growth rate over the period (which was about 3.1 per cent).¹⁷ Thus, by chance or design, the growth performance of the economy during the 1960s was more or less at the constrained level even when the development strategy and policies continued to be determined on the basis of a wrongly perceived savings constraint.

But the strategy should have been changed. A non-binding savings constraint implies a domestic resource slack which can be used for relaxing the binding constraint. The agricultural constraint could have been relaxed by larger imports of foodgrains and by increasing even further the investments in agriculture, particularly those of the longer gestation type. The first would require additional foreign exchange which could be obtained partly from reorienting the import basket (to take advantage of the foreign exchange slack) and partly from increasing exports by instituting a more attractive export incentive system. Although this was done to a small extent, over reliance on the import substituting strategy prevented any major change in the policy framework. As a result, although exports grew, the additional foreign exchange earned continued to be spent primarily on imports of industrial capital goods and intermediates. Thus the agricultural constraint remained binding at a fairly low level of GDP growth.

TURBULENT YEARS

The 1970s were a period of great turbulence not only for the Indian economy, but for the world. The major events of this period were:

- (1) The prolonged agricultural failure of 1970 to 1973
- (2) The Bangladesh war of 1971
- (3) The first oil price shock of 1973-74
- (4) The Emergency of 1975-77
- (5) The first Janata government of 1977-79
- (6) Return of the Congress(I) government in 1979
- (7) Start of the second oil price shock in 1979

Despite all of these, the growth rate of the Indian economy rose to 4.8 per cent during this period. Although this was well above the 'Hindu rate of growth' of 3.4 per cent of the previous two decades, it was well below the

attainable. The real negative effects of the mismatch between the perceived and the actual constraints were brought to the fore in 1973-74, when the economy was subjected to the dual shocks of an agricultural failure and the first oil price shock. This period has been extensively studied in Sen (1986b), Sen (1987) and Sen (1988). The basic argument made in these studies is that the government over-reacted to the shocks and instituted a number of severely contractionary stabilisation measures which had the effect of triggering off substantial income and asset redistributions.¹⁸ These stabilisation policies, which were very much of the orthodox IMF type, were appropriate for a savings constrained economy but not for an agriculturally constrained one.

These distributional changes had a number of major effects. First, consumption shifted towards non agricultural products, thereby lowering the aggregate income elasticity of demand for agricultural goods from 0.5 to 0.29. This combined with a high growth performance of agriculture of 4.1 per cent per annum between 1974 and 1979, would have permitted an agriculturally constrained growth rate of 7.1 per cent on average. Second, the savings rate of the economy rose very sharply indeed from 16 per cent in 1973 to 23 per cent in 1979. This implies that the marginal propensity to save went up from 19 per cent in the late 1960s to about 35 per cent by 1979-80.¹⁹ Such a savings propensity would permit a savings constrained growth rate of about 9 per cent. Foreign exchange too was not a problem, since a fairly liberal aid regime, rapid growth of exports and increasing remittances from Indian workers led to a balance of payments surplus by 1970.

The conclusion is inescapable that the Indian economy during this period was not constrained by any supply side constraint but by demand.²⁰ This should never have happened. The costs borne by the Indian economy in terms of the deterioration of the income distribution were not compensated by the growth that had been made possible. There is no doubt that the rigidity of the licensing system was very largely responsible for the missed growth opportunities of the mid 1970s and for the emergence of the large 'black economy'.²¹ The utility of the licensing regime had been over for some time, and this episode simply highlighted the costs of the anachronism. But this lesson still remains to be learned.

'LIBERALISATION' PHASE

The next landmark was in 1979-80, when the second oil price shock occurred and the world economy went into recession shortly thereafter. It was by now clear that the foreign exchange constraint was in operation. The income redistribution of the 1970s and the consequent sharp fall in the income elasticity of demand for agricultural goods had introduced a large slack in the agricultural constraint which expressed itself in

the form of huge government holdings of agricultural stocks.

Although the government had learned some lessons from the past and correctly diagnosed the dangers, consequently stepping up investments in both the public and the private sectors, the latter did not rise sufficiently.⁴² To a large extent this continued to be due to the fact that the licensing regime still had not adapted to the sudden increase in investible resources. As a result, government expenditures had to increase more than was desirable in order to prevent yet another round of missed opportunities and a demand based recession.

It is interesting to note that despite the oil price shock and the resulting balance of payments difficulties, the government did not resort to contractionary measures. It preferred to finance the deficit. This had an important consequence. The rapid structural transformation that was taking place in the 1970s was arrested and the economy settled down to a new sectoral configuration. In particular, the share of the agricultural sector in GDP, which had declined from 47 per cent in 1970 to a mere 32 per cent in 1979 stabilised at that level. This was accomplished primarily by reversing the secular downward trend in the agricultural terms of trade that had characterised the earlier period.

On the negative side, the rapid increase in the savings rate of the 1970s too was reversed. After reaching a high of 23 per cent in 1979-80, it declined to 20 per cent by 1982-83 and stagnated at that level till 1984-85. This behaviour can also be traced to the stabilisation of the economy in the 1980s. A sudden and regressive change in the income distribution, particularly in the presence of 'permanent income' type consumption behaviour, will drive up the marginal propensity to save (MPS) to abnormal levels in the short run.⁴³ Once the distribution stabilises, the MPS settles down to its long-run value and may even dip for a short period as excess savings are adjusted. Since 1985, the savings rate has started increasing again, although at a slower pace of about 0.35 percentage points per year. This indicates a long-run MPS of 27 per cent—which is considerably higher than the 19 per cent which prevailed during the 1950s and 1960s.

While increases in public investments though excessive, were in the right direction the same cannot be said of the import liberalisation that took place since 1979, and more particularly after 1984. It appears that the gainers from the 1970s redistribution—urban capitalists, bourgeoisie and the emergent industrial and rural middle-classes—demanded a consumption pattern which could not be met without the inflow of imported capital and intermediate goods, which had been restricted earlier.⁴⁴ The liberalisation was an outcome of pressures exerted by these groups and partly of the pressures of the multilateral aid agencies, although the ostensible argument was in

terms of increasing the competitiveness of the Indian economy.

In view of the foreign exchange constraint, the proper reaction would have been to step up export efforts substantially and to come down even harder on unnecessary imports. The effect of the liberalisation was almost the opposite. The import intensity of domestic production, which had more or less remained constant between 1968 and 1980, rose by more than 50 per cent between 1980 and 1989. Import substitution became even more attractive than before with large and entirely unjustified increases in the effective rates of protection, and exports more or less remained where they were.⁴⁵ It has been estimated that the effective protection enjoyed by import-substitutes is more than twice that given to exporters.

This liberalisation, in the context of a foreign exchange constraint, had the effect of not only forcing the economy to borrow in foreign capital markets for financing current consumption, but also of widening the gap between the foreign exchange constraint and the savings constraint. This meant that government expenditures had to go up even higher in order to preserve demand stability. This set off a double helix of public borrowing—on the international markets for the necessary foreign exchange and in the domestic market to finance the burgeoning budgetary gap.

By 1989 the process was complete. In a rigorous analysis of the constraints to growth in the 1980s, Sen and Sen (1990) found that by 1989 the binding constraint to Indian growth was not the foreign exchange one, but the fiscal. It was estimated that if present trends were to be continued the fiscal position would become so acute by 1995 that the maximum supportable non-inflationary growth rate would be only 2.5 per cent. The Gulf war has of course complicated matters to some extent, and the foreign exchange constraint seems to be back in operation. But it should be recognised that the fiscal constraint is not too far off at all, and neither for that matter is the agricultural constraint.⁴⁶ Any easing of the oil situation will almost certainly have the fiscal constraint back in full operation. Development strategy and policy formulation must take this possibility into account if the mistakes of the past are not to be repeated.

IV

Development Strategy for '90s

NEED FOR NEW STRATEGY

It should be clear from the preceding sections that the objective conditions of the Indian economy are very different today from what they were in the mid-1950s. It does not seem reasonable therefore to expect that a strategy which was valid then will continue to be valid now. However, in the intervening three decades there has been no significant change in the strategy and in the

policy regime that supports it. All that has been done is periodic marginal adjustments to certain policy parameters for addressing specific short-run problems. Such patchwork tinkering will no longer suffice. In any case the Indian economy has suffered considerably over the years for the lack of a shift in development perspectives. The situation today is so acute that any delay in altering the development strategy and the supporting policies will have unbearably large adverse consequences.

The single most important point to bear in mind while formulating an alternative development strategy for India is that the savings constraint is not, and has not been for a long time, the dominant constraint. At an estimated marginal propensity to save of 27 per cent and a capacity utilisation-corrected incremental capital-output ratio of 4, the 'warranted' growth rate of the Indian economy is 6.75 per cent per annum, which is substantially higher than the actual.⁴⁷ Thus there is considerable domestic savings slack in the economy. Any development strategy must take this factor into account in order to ensure that distortions are not introduced for reasons which are no longer valid.

IMPLICATIONS OF NON-BINDING SAVINGS CONSTRAINT

The recognition that savings is no longer the binding constraint to the Indian economy has a number of implications. First, policy measures aimed at restricting and directing the use of domestic investible resources in order to prevent duplication of capacities and other forms of wastage are not only unnecessary, but have become counter-productive. They have not only stifled the emergence of internal competition, but have also prevented the economy from taking full advantage of the opportunities that became available. In order to prevent such situations from occurring again, it is imperative that the entire industrial licensing regime be dismantled. There is more than enough savings slack in the economy to absorb fairly substantial 'wastage' of investible resources.⁴⁸ It makes much more sense today to allow the financial institutions to determine investment allocations.

Second, the anti-'luxury' bias and heavy-industrialisation approach designed to increase the savings rate of the economy are of much lesser relevance today. The distributional shifts that took place in the mid-1970s were most unfortunate to say the least. But they are today a *fait-accompli*. It is much more important to ensure that the production structure of the economy is consistent with the demand patterns generated by the existing income distribution and export possibilities. This is achieved better by market forces than by inaccurate demand forecasts. Efforts at imposing a specific consumption pattern are doomed to failure as the experience of the USSR and east Europe

have shown. Increased consumption of 'luxuries' may have a mildly depressive effect on the savings rate in the short run, most of which has already occurred and is now in the past, but much more positive results are likely to arise by drawing black incomes into productive use.

Third, since the growth rate of the economy is constrained by some other constraint, and is well below the 'warranted' rate, the danger of a generalised aggregate demand problem and the resulting instability will always be there. This places an enormous responsibility on the government for not only monitoring the adequacy of aggregate demand, but also for taking corrective action. At present there is no system in place which can undertake this function on a regular basis. Individual administrative ministries do keep track of demand for their specific sectors, but there is no macro-economic evaluation. Such a mechanism has to be evolved if a flexible and sensitive macro policy environment is to exist.

FOREIGN TRADE REGIME

As has been mentioned, it appears that at present the binding constraint is foreign exchange, but the fiscal constraint is very close indeed. There is thus an imperative need to step up exports rapidly, and in such a way that direct fiscal involvement of the government is not required. The first and the most obvious instrument for achieving this objective is exchange rate management. During the 1980s the government had followed a policy of allowing the real effective exchange rate of the rupee to depreciate steadily. This policy will have to be continued in the future as well, at least until the foreign exchange barrier is overcome.

But this is not enough. Governmental decision making is seldom responsive enough to meet the fairly rapid change that are required by market conditions. Moreover, the present lack of linkage between export earnings and import entitlement permits the balance of payment to go out of control. Most important, however, exchange rate adjustment does not change the relative levels of protection enjoyed by exporters and import substitutes. At present Indian exporters get less than half the protection afforded to import substitutes. This must change. One way to overcome all these problems is to effect a wholesale change in the import-export policies such that a direct link is drawn between export activity and imports.

At present the government intermediates between the two activities in the sense that the foreign exchange earned by the exporter is turned over to the government, which in turn makes available the foreign exchange to the importer. Similarly, the government collects tariff revenues from the importer and gives export subsidies to the exporter.²² There is only a small component, the Import Replenishment (REP) scheme, in which the exporter and importer interact

directly. The REPs are tradeable import licences which are issued as a given percentage of export earnings. The REP premium represents the transfer of 'windfall' profits from importers to exporters. Currently imports against REPs are only about 7 per cent of total imports.

This scheme can be easily extended to cover at least 40 per cent of all imports. In the present import basket, roughly 40 per cent is composed of petroleum and petroleum products and edible oils, all on the government account. Imports of other intermediates and private sector capital goods from hard currency areas account again for roughly 40 per cent.²³ It is this component which can be covered by the extended REP scheme. A REP entitlement of 100 per cent of export value coupled with allowing non-governmental imports only against REPs or with special licences will serve the purpose. In order to make the scheme meaningful, access to free foreign exchange by importers has to be restricted; otherwise the premium on the REPs will be virtually non-existent, thereby rendering the incentive component negligible.

It is recognised of course that the above scheme will in effect roll back some of the import liberalisation that has taken place in the past. But in view of the foreign exchange constraint, import liberalisation is a luxury that India can ill afford. It is often claimed that import liberalisation is a necessary step towards achieving production and allocative efficiency improvements. However, with a structural constraint, this factor is not an imperative. More importantly, the experience of other countries clearly shows that import-based competition is not essential for efficiency. Just as good results can be obtained through domestic competition, the internal liberalisation proposed through domestic competition with the licensing system should more than take care of the problem.

Even with these changes, one problem will remain. This involves the deployment of foreign exchange between capacity creation and increased capacity utilisation. The growth rate of GDP can be broken into two components: increase in capacity at constant capacity utilisation, and the effect of increased capacity utilisation. It has been noted in Sen and Sen (1990) that in the present Indian context, with capacity utilisation in the non-agricultural sectors of 86 per cent or less, the latter effect requires less foreign exchange than the former to attain the same rate of GDP growth. This is of course possible only for a limited period of time, but advantage should be taken of it while possible. In order to do so, however, the change in the import-export mechanism outlined above cannot be complete. The government needs to retain enough control to direct the allocation of foreign exchange between capital goods and intermediates as dictated by the macroeconomic requirements of the system. This consideration lends additional support for only a partial implementation of the above proposal as has been suggested.

The complete switch over may be effected when capacity utilisation is sufficiently high. In order to make this choice effectively, the government will have to set up an appropriate monitoring and implementing mechanism. The Planning Commission can possibly take up this role.

REDUCING FISCAL BURDEN

Given the uncertainty regarding the fiscal constraint, immediate steps need to be taken to increase revenues and reorient the pattern of government expenditure. It needs to be stressed again that the wide gap between the saving and the fiscal constraints implies that the availability of investible resources is not the problem, but the government's access to such funds. It would be trite to assert that the government should increase its tax revenue; it would already have done so if the political and administrative climate had permitted. This course does not preclude coming up with more imaginative ways of raising tax revenues, particularly from direct taxes.

A more meaningful approach would be to look for alternative methods of not only raising funds, but also of passing up part of the fiscal burden on to the private sector, which has the necessary resources. In this context, the import-export scheme outlined above will contribute, hopefully, to a substantial extent. It not only reduces the government's revenue account liabilities in terms of export subsidies, but the increased import capacity that will be permitted by larger export earnings should help generate more revenues by way of import duties. In addition, the import-export system has characterised production controls should give way to uniform standards as a major source of revenue. This represents a much more flexible and no-idea-based approach to capacity creation.

On the expenditure side, it is clear that in the Indian context, effective utilisation of existing capacities and hence the investment behaviour of the private sector operate through and are inhibited by structural development. The clear-cut essential that the government withdraws from non-infrastructure investment and concentrates its resources on rapidly building up infrastructure facilities, the private sector can also be involved to the extent possible for taking some of the burden off. There is enough administrative experience with operating administered prices to ensure that such involvement does not lead to undue concentration of economic power.

This will, of course, have an effect on the expansion of the PSUs. However, it is to be noted that the economic development function of the PSU can be more effectively executed by improving the infrastructural attributes of backward areas. The growth of the PSU should therefore be determined more by considerations of resource availability and monopoly control than by ideological considerations. Even the control

of monopoly powers is better served by determining an optimal ratio between public and private sector capacities than by reserving areas purely for public sector investments

POVERTY AND EMPLOYMENT

Apart from the technical issues involved in maximising growth under the operative constraint, any development strategy must address the minimum socially necessary objectives. In the Indian context there are at least two which are of great urgency—poverty alleviation and a growth rate of employment of at least 2.8 per cent per annum.⁴¹ The two are of course intimately linked and have to be discussed together.

By and large, poverty in India is a rural phenomenon, although the incidence of urban poverty is very much in evidence. The most striking feature of the employment pattern in India in the last decade is that the agricultural sector, which traditionally absorbed the largest number of workers, has shown virtually zero growth in employment. The roots of this problem can be traced back to the distributional changes of the 1970s. There is clear evidence that during the 1974-1979 period, substantial asset (land) redistribution occurred from the small and marginal farmers and tenants towards middle peasants and the landlord/trader class.⁴² This 'kulakisation' of Indian agriculture has had a number of implications.

First, it has led to the emergence and consolidation of capitalist farming in India. As a result, the substitution of capital and other industrially-produced inputs in place of labour is well on its way. It is this factor which is probably responsible for the almost zero employment elasticity of this sector over the last few years. The process has been given an added boost by the subsidisation, both implicit and explicit, of these non labour inputs by the government. This has led not only to the substitution behaviour, but also to the increasing fiscal burden on the government.

Second, the growing political power of the large/middle farmers has expressed itself in the form of the agricultural price support system becoming more credible in the sense that the procurement price is now very close to the farm gate price.⁴³ This has led to a situation where the benefits to the surplus producing farmers has increased at the cost of all net purchasers of food, such as the marginal farmers and landless labour—the real poverty groups in the rural areas.⁴⁴ The other effect has been that the price support system provides a safety net to private speculative holdings of real agricultural stocks. It is little wonder then that private stocks of agricultural goods, which had virtually disappeared by the late 1970s, have again gone up in recent years.

In addition, the cost formula used today for determining the procurement price has a very large industrial input content. This has introduced a direct link from non-agricultural to agricultural prices and a

degree of indexation which did not exist earlier. The possibility of sustained inflation, and its well known implications for the poor, has thus been enhanced and will continue to become more so over time as the reliance on non-farm inputs spreads.

Third, the inability or unwillingness of the agricultural sector to absorb more labour has forced the government to rapidly increase its rural non-agricultural employment schemes. This has resulted in a huge burden on the public exchequer, which is becoming increasingly difficult to accommodate in the current fiscal-constrained scenario.

Much of these developments has possibly arisen out of some valuable conventional wisdom being ignored or overlooked. In the 1960s, a large and very persuasive literature had come up on the issue of land-holding size and productivity, where it was convincingly demonstrated that the two were inversely related. It was also shown that the employment-to land ratio was inversely related to the size of the holdings. Therefore, the nation would have been much better served if the land ceiling laws that exist on the books had been invoked after the rural asset redistributions of the 1970s. It would have required much less fiscal involvement of the government, in terms of agricultural subsidies, rural employment schemes and finances locked into huge agricultural stocks, for getting at least comparable agricultural output growth. In any case, it is not too late even now.

The other dimension of the employment problem is the lack of jobs being created in the organised industrial sector despite a rapid growth in output.⁴⁵ Indeed, in recent years this sector has shown negative employment growth. This implies that the shift from relatively labour intensive to capital intensive technologies in this sector is not confined to new units, but that retro fitting of existing capacities is also taking place. On the other hand, the unorganised sector has shown fairly rapid and sustained growth in employment. The conclusion drawn from this differential behaviour is that there should be deliberate propagation of the unorganised sector through government policies such as reservations and subsidies.

The above conclusion does not necessarily follow. It should be realised that the substantial differences in wages and wage formation between the two sectors, which led to this observed difference in employment behaviour, are primarily the result of government policies and legislations. It appears that the over protection of organised sector labour and the under-protection of the rest has led to the creation of a dualistic economy even within the urban sector itself. As it happens, organised labour is protected not only by the strength of its trade unions, but also by a host of legislations. Unorganised labour, on the other hand, has neither. It would seem logical to have less legislations protecting organised labour and more protecting the unorganised. Thus, a much more sensible system would be to have a common, and somewhat lower, level of protection for

all labour which would be consistent with the country's resource endowments, such that technology choices would be based on rational economic considerations rather than on grossly distorted wage rates.

Notes

- 1 Indeed today 'growth theory' is considered to be a 'dead' subject and research students are encouraged to stay away from it.
- 2 Oddly enough, the only new developmental perspective to emerge during this era—the 'Dutch disease'—was applicable only to the newly-rich oil exporting countries. The oil-importing developing countries, who were affected most adversely, were by and large ignored.
- 3 DMEC stands for 'developed market economy countries' in the new jargon.
- 4 The reality of growth and development is probably not much more complicated than before, but theoretical recognition of additional complications emphasises the need for even greater care in policy formulation if past mistakes are not to be repeated.
- 5 This problem arises when the 'natural' growth rate (determined by the growth rate of the labour force) is below the 'warranted' growth rate.
- 6 Interestingly, the expansion of the role of policies also led to the recognition of trade offs. For instance, when Mahalanobis identified the relationship between the lack of capital goods production and low domestic savings, it was also realised that a capital goods sector would lead to an increase in v (see Chakravarty, 1989).
- 7 This arises directly from the national accounts identity which equates the balance of payments position with the saving-investment gap.
- 8 In the 1950s and 1960s there were a number of academically based organisations which gave relatively unbiased advice on development strategy and policies, such as the Harvard Group.
- 9 Although the agricultural constraint has been implicit in much of the development literature in India for quite some time, its most formal and rigorous expression is in Sen (1981).
- 10 The lack of impact of this theory was as much in India as it was internationally. Otherwise things may have been very different in India and a number of African countries during the 1970s and 1980s.
- 11 This expression is similar to the one used by Kalecki for characterising the consumption goods sector of mixed economies.
- 12 For instance, suppose the agricultural constraint is sought to be relaxed by imports of agricultural goods, the immediate effect would be to make the foreign exchange constraint more stringent. In addition, the terms of trade effects of easier availability of agricultural goods would undoubtedly affect income distribution and thereby demand patterns. This would have the effect of shifting all three constraints through changes in s , E and the marginal propensity to import. It is not at all obvious what the final outcome would be.
- 13 See Bacha (1988) and Taylor (1988) for details. Some hints of this are also to be found in the Indian literature.
- 14 This behaviour is referred to as the

- 'crowding-in' phenomenon, as opposed to the 'crowding-out' hypothesis proposed in the monetarist counter-revolution literature.
- 5 Capacity under-utilisation is inherent in both the foreign exchange and agricultural constraint models as the natural adjustment mechanism, but has not been used as explicitly as in the fiscal constraint models.
 - 6 Whether the process is completely unstable or shows cyclicity depends upon whether the savings rate falls faster or slower than the investment rate with decreases in real output.
 - 7 The case of the 'fiscal' constraint is a little more complicated since 'i' will become a function of government investments.
 - 8 The nearest one comes to such a recognition is the treatment of non-productive investments and *pollutch* in Rakshit.
 - 9 See note 12.
 - 10 Some corrections would of course have to be made for the effects of world inflation, exchange rate changes and changes in the interest rate.
 - 11 The Latin American hyper-inflation stories have this sort of a problem at their root. See Sunkel (1960) and Cardoso (1981).
 - 12 This may be one possible explanation of the vertical Phillip's curve which has been the corner-stone of the monetarist attack on Keynesianism. This explanation, however, has not been discussed in the literature, and it has little to do with either monetarism or rational expectations. In fact, the solution to this problem is a structural one.
 - 13 It may be argued, as is apparently done by Little, Scitovsky and Scott and implicitly by Bhagwati and Srinivasan (1975), that an increase in allocative efficiency through a more liberal trade policy would lead to a sufficiently high growth of exports so that the structural constraint barriers may be crossed and the savings constrained rate attained. For this to happen, however, a rather extreme form of export optimism has to obtain. A more likely outcome of such efforts is that the economy will grow at a rate lower than the structurally-constrained one, and with a much larger requirement of foreign investible resources during the adjustment phase, which may be prolonged.
 - 14 In this case it has to be argued that a reduction in trade barriers, such as the import duty, will lead to increased tax collection from other sources.
 - 15 It is being assumed of course that destabilising commodity speculation does not occur. If it does, necessary steps will have to be taken.
 - 16 Note that such an increase is permitted by the fact that the fiscal constraint is assumed not to bite.
 - 17 See Sen (1990) for details.
 - 18 The initial attempts at developing such a perspective was through the formation of the National Planning Committee by the Indian National Congress in 1938.
 - 19 The post-revolution USSR was the only available model for study and emulation.
 - 20 The long-run viability of the heavy industrialisation strategy, despite its leading to an increase in 'v' in the medium run, gained theoretical legitimacy from the 'turn-pike' analysis of the 1960s.
 - 21 The bulk of Indian exports were primary goods whose output, unlike that of industrial goods, could be expanded only slowly.
 - 22 The 'infant industry' argument had already been developed by then.
 - 23 Pandit Nehru strongly believed that "... defects are not due to industrialism as such but to the capitalistic system which is based on the exploitation of others..." [Quoted in *PPST Bulletin*, May 1983.]
 - 24 This figure for the mps can be calculated from the following formula:

$$mps = \frac{\Delta y}{y} + \frac{\Delta \text{aps}}{\Delta y}$$
 where y = real national income.
 The same figure of 19 per cent has also been estimated by Krishnamurthy and Saibaba (1981) and Madhur (1984).
 - 25 The agricultural constraint is defined with respect to the maximum *non-inflationary* GDP growth rate permitted by the growth rate of the agricultural sector.
 - 26 This figure may be calculated from equation (3) by putting $g(y) = 0.034$; $n = 0.024$; $E = 0.7$; and solving for $g(a)$.
 - 27 The fall in E from 0.7 in the mid-1950s to 0.5 in 1970 was due to the normal operation of the Engel curve for agricultural goods.
 - 28 The details of these redistributions and the causal factors are given in Sen (1986b).
 - 29 The latter period figure of 35 per cent has been computed in Sen (1987).
 - 30 The emergence of the demand constraint during the mid-1970s is supported by the fact that the terms of trade moved against agriculture more or less steadily over the period 1974 to 1981.
 - 31 The rapid growth of private savings in the 1970s was faced with a situation where adequate investment opportunities were not available in the productive sectors of the economy. The surplus resources leaked into the black sectors, and set off a speculative bubble which continued to attract resources well into the 1980s because of the high prospective capital gains. See Sen (1977).
 - 32 By 1980-81 the investment rate was up to 24 per cent as compared to 18 per cent in 1970-71 and remained more or less steady at that level. More importantly, the share of the government and the parastatals in total investments rose from 38 per cent in 1980-81 to 47 per cent in 1988-89.
 - 33 The existence of permanent income type behaviour in the Indian economy has been confirmed by Madhur (1984).
 - 34 This point has also been mentioned in Chakravarty (1989).
 - 35 The liberalisation of imports took place only at the level of capital goods and intermediates and not for finished goods. As a result, the effective protection on inputs declined whereas that on finished products went up substantially.
 - 36 In the present situation, with the agricultural growth rate $g(a)$ at 2.8 per cent, population growth (n) at 2.1 per cent and E at 0.29, the maximum sustainable rate of growth of GDP which will preserve the existing agricultural slack is 4.5 per cent per annum. Any $g(y)$ above this figure will erode the slack and make the agricultural constraint more binding. This assumes that the regressive income distribution changes that occurred in the 1970s will not be reversed and the poverty alleviation programmes, such as the Integrated Rural Development Programme (IRDP) and the Jawahar Rojgar Yojana (JRY), will have no effect. If they do, the value of E will certainly rise and push down the sustainable value of $g(y)$.
 - 37 This figure has been computed on the basis of the well known Harrod-Domar equation for the warranted growth rate:

$$g(y) = s/v$$
 where: s = marginal propensity to save; v = IC/OR .
 - 38 It is not as if such wastage is not taking place today, as the figures on industrial sickness indicate. The point is that the licensing mechanism prevents new capacities from coming in when and where required.
 - 39 It should be noted that the Duty Drawback (DD) and a component of the Cash Compensatory Support (CCS) are, not really export subsidies since they merely reimburse to the exporter taxes and duties already paid.
 - 40 The remaining 20 per cent is capital goods on government account and non-oil imports from the rupee payment areas (RPA).
 - 41 Although this choice was implicit in the 'Two-Gap' model, and Indian planners have been aware of it for some time, it has not found any explicit reflection in the Indian planning process. With the foreign exchange constraint binding, this seems to be the most important function of the planning system today.
 - 42 An extension of the Essential Commodities Act and a strengthening of the Bureau of Industrial Costs and Prices (BICP) should be sufficient for this purpose.
 - 43 This is the minimum rate of employment growth which will hold the current unemployment rate steady.
 - 44 See Sen (1986b) for details.
 - 45 Earlier the procurement price used to be substantially below the farm-gate price in normal years. The two actually came close only in bumper years, which was the objective of the support-price system.
 - 46 This would not be so bad if the public distribution system (PDS) had a wide coverage in rural areas. But this is not the

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case. The PDS even today is effective only in the urban areas
7 See Papola (1988)

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Colonial Capitalism and Agrarian Social Structure

Palestine: A Case Study

Nahla Abdo

While the dialectical relationship of domination and subordination can be attributed to all social formations experiencing capitalist development through a colonial power, the Palestinian experience remains historically specific. The economic subordination of the indigenous Palestinian working classes to the European capitalist economy formed only one aspect of the developing economic structure; the other aspect was the exclusion of the indigenous working classes from the dominant capitalist economy and the ruination of their 'natural' economy resulting in the expropriation of their lands. In addition the Zionist racist-nationalistic policies prevented them from having access to their land even as wage labourers. It was this apparently contradictory relationship of exploitation/exclusion which characterised the Zionist colonial movement in Palestine.

WHILE Marxists generally agree that in order for capitalism to predominate agriculture both the forces and relations of production must change and acquire capitalistic features, they differ in terms of the emphasis they place on the components of the capitalist mode of production. One approach, found particularly within the discipline of economics, places a special emphasis on the level of development attained by the forces of production [Bagchi, 1982, Szentes, 1976]. Political economists on the other hand insist that the capitalist mode of production is composed of a totality of relations and forces of production. In this view, attention is drawn to the importance of production relations in indicating the character of the mode of production [Lenin, 1960, Murrey and Post, 1983, Patnaik, 1983].

Both camps agree that certain changes must occur in order for capitalism to predominate in agricultural production. These are (1) capital investment in agriculture, (2) mechanisation of agricultural production, (3) development of intensive agriculture, (4) production of commercial and industrial crops, (5) consequent replacement of small scale agricultural production with large-scale industrial production, and finally, hired or wage labour must be the main source of surplus value in capitalist agriculture [Lenin, 1960, 1979, Kautsky, 1976, Patnaik, 1983, Saleh, 1979].

Changes within Palestine's agricultural economy strongly suggest that capitalism was rapidly replacing pre capitalist forms of agricultural production. This tendency, it will be shown, was prevalent in varying degrees in all forms of agricultural production. Within the European Jewish economy capitalism was not only characteristic of the private settlements but was also a significant force within the economy of the agricultural co-operatives. In fact, the kibbutz, as will be shown in this paper, was itself an integral part of the capitalist mode of production.

The literature which presents the kibbutz as a 'socialist' or 'communist' form of production, it will be demonstrated, is the result of an ideological stand on the part of its

authors rather than any objective scientific approach. The kibbutz, it will be argued, was a much more complex phenomenon. Similar to the Histadrut—discussed elsewhere—the kibbutz symbolised the core of contradictions and antagonisms embedded in the Zionist colonial movement [Abdo 1989]. The dilemma which will be addressed in this regard concerns the important political question (why the kibbutz) and the economic antithesis of this question, i.e., the economic inefficiency of this form of labour organisation.

Here again, it will be emphasised that the government role in advancing capitalist production was crucial. This role which took the form of economic, political, and legal assistance to the developing European Jewish capitalist economy hastened the contradictions between the indigenous rural economy and the Zionist settler one. In the process, the European (Jewish) economy was developing and expanding while the indigenous Palestinian economy was being destroyed. The social and economic burden which fell on the indigenous Palestinian producers as a result of capitalist development of agriculture will also be stressed in this paper.

CAPITALIST INVESTMENT IN AGRICULTURE

One of the main characteristics of European Jewish agriculture during the British period was the investment of capital. The influx of capital from actual settlers, intended settlers (some of whom never settled in Palestine) and other sources was tremendous during this period. Between 1919-1937 about 90-95 million Palestinian lira (i.e., equivalent to 30-95 million English pounds) generated in Europe were invested in Palestine's Jewish economy. Of this amount, PL 10-12 million were used for public purposes by institutions and individuals and PL 80-85 million were invested by private corporations in private enterprises [Himadeh, 1937 228]. About half of this capital, estimated at PL 44 million, was

brought during 1919-1933, while the other half was brought in a period of just four years, between 1933-1937 [Himadeh, 1937 229].

Furthermore, an enquiry by the Jewish Agency revealed that between 1926 and 1932, 553 Jewish families who immigrated to Palestine brought with them over PL 20,000,000, an average of PL 3,763 per family. This capital was invested as follows: 42 per cent in citrus cultivation, 21 per cent in citrus and other economic branches, 17 per cent in building and 5 per cent in commerce.¹ The investment of large sums of capital in agriculture was particularly evident during the 1930s. For example, between 1932-35, about 29,000 liras were spent on agricultural production. Of this 21 per cent was invested in citrus.² Over 63 per cent of this capital was brought by 15,410 settlers, each of whom brought more than one 1,000 liras with him.³

Between 1933-38, 20,681 Jewish immigrants brought with them a total of PL 21,441,000. Less than 5 per cent of these settlers had between PL 250-500 each while the rest had over 1,000 liras each.⁴ The largest single investor throughout this period was the Rothschild family which invested more than PL 15 million in agriculture as well as an estimated 30 million in industrial and other enterprises.

The importation of capital during the 1930s was a political priority for the Zionist authorities in Palestine. Investments from all sources were encouraged during this period, even if such a source was politically, morally and ideologically in enmity with certain (socialist) Jewish ideals. A case in point commonly quoted by critical writers relates to the agreement struck in 1933 between the Zionist authorities in Palestine and the Nazi government of Germany which resulted in the transfer of millions of pounds to Palestine.

According to the deal the German authorities agreed to the transfer of capital in the form of cash, German technology and other merchandise to 'transfer companies' established in Palestine for this purpose.

[Gozansky, 1986: 106; Sa'ed, 1985: 115]. In one year only, 1933, about 106 million German marks (equivalent to 5.5 million Palestinian lira) in cash and merchandise were transferred from Germany to Palestine [Gozansky, 1986: 106]. In addition, between 1934 and 1937 machinery and merchandise worth over 77 million German marks were also brought to Palestine from Germany [Sa'ed, 1985: 115]. This deal made one Jewish writer comment:

The 'transfer agreement' which was struck between the Zionist organisation and the Nazi government under Hitler was the gravest national treason committed by the Zionist movement. In this deal the Zionist leaders proved that they prefer colonialism over all other moral considerations [Gozansky, 1986: 106].

Without referring to this particular incident, one Lebanese Marxist observed the following:

The Zionist movement is nothing but the exploitation, for the profit of Jewish capitalists linked to the aims of imperialism in the Arab East, of the feelings of a people that has gone through a great deal. The Zionists have traded the unhappiness of their people for a commercial undertaking and a colonialist platform.⁵

Yet, as further discussion will show, the exploitative aspect of Zionist colonialism was not confined to economic basis only. Harsher forms of exploitation expressed in the displacement and uprooting of the indigenous population were also sought. For the time being, it is the significance of the influx of European (Jewish) capital on the Palestinian rural economy which will be dealt with.

The large sums of money brought to Palestine had great significance on the Palestinian economy, both relatively speaking as well as in absolute terms. One must be reminded here that these large sums of money were brought to a peasant economy which by the early 1930s was found to be severely impoverished and largely destroyed. Elsewhere, I have shown that the average monthly net income of an ordinary 'fallah', during the 1920s, barely exceeded two three Palestinian liras [Abdo 1989]. In contrast however, individual settlers brought with them over 1,000 Palestinian lira each.

The gap between the wealth of the settlers and that of the ordinary indigenous 'fallaheen' was even greater in the mid 1930s. Village reports during this period indicate that many villages were almost totally bankrupt, to cite one example, that of the village of Dhahiriya. In 1934, as a measure to enforce taxes on this village, the government imposed a collective punishment and ordered the village to pay an amount of 3,000 liras.

Responding to the government order one villager was quoted saying: "I ven if government decides to sell the village complete with all its 1,000 families it will not be able to squeeze 3,000 liras from us."⁶

Moreover, in absolute terms these sums of

money meant a great deal for the development of the Jewish economy. Most of the money was concentrated in developing a relatively small area of land. According to the 1945/46 Survey of Palestine, out of a total agricultural area of 17,31,000 dunams under Jewish ownership in 1944, only 7,16,750d or 41 per cent of the land was actually settled. The remaining 10,14,550d or 59 per cent was put on reserve for future settlement.⁷

In addition, the purchasing power and the productive manner in which this capital was used greatly strengthened the development of Jewish agricultural settlements. Besides the investment in specific commercial products, such as citrus, grapes and other vegetables and fruits, large sums of money were also used in advancing agriculture on scientific and technological bases.

SCIENCE AND TECHNOLOGY IN AGRICULTURE

Scientific research centres, experimental stations, demonstration plots and agricultural schools were but one aspect of the capitalist investment in agriculture. One major achievement in this respect was the establishment of a grand experimental station in Tel Aviv in 1922. Other extension stations were also founded in various settlements. Built with an estimated 85,000 Palestinian lira, the Tel Aviv station became the centre of agricultural instruction for all Jewish settlements. In 1930, the station was staffed by 40 scientists, had three laboratories, seven field divisions and nine district instructors to cover all settlements.⁸ Agricultural schools and research centres were also established in various Jewish settlements. Besides the well known Mikveh Yisrael (an agriculture school and research centre) which by 1929 was catering to over 160 students, the Jewish Agency with the support of the government established five additional agricultural schools.⁹

In contrast, by the early 1930s, the Palestinian rural population which formed over 90 per cent of the total had access to only one agricultural school providing space for less than 40 students per year.¹⁰ Research centres and scientific expertise including chemists and analysts were also provided by the Hebrew University and the Technion, now Israel's largest technical institute.¹¹ The application of technology and science, it must be added, was not solely the fruit of Jewish capital and human resources. A great deal of assistance was in fact provided by the British colonial government.

The role played by government in advancing agriculture was evident at virtually all levels. At the legal level with an eye to encouraging commercial production, the government advanced laws which exempted all demonstration plots (whether erected on Jewish land or on so called state land) from taxes.¹² Of particular significance in this context was the role the department of agriculture assumed in promoting capitalist

agriculture. Established in 1929 and directed by a Jewish agricultural expert, the department was almost exclusively put under the services of Jewish settlements. Government investment in the department in a two-year period of 1929 and 1930 amounted to P1 153,767.¹³

The department of agriculture was not an independent body. In fact, as one British analyst noticed, the department was a mere extension of some Jewish scientific centres and mainly the Hebrew University.¹⁴

While there is no evidence to show that the department made any significant contribution, financial or otherwise, to the indigenous population there is ample evidence to demonstrate its contribution to the Jewish agricultural settlements. Worth noting here is the assistance provided by the department to the Tel-Aviv experimental station. Thus, in a secret dispatch by the British secretary of state for the colonies to the high commissioner of Palestine in 1933, it was revealed that the department planned to spend P1 3,000 a year for a period of five years "to the Jewish Agency's experimental station and the establishment of a government citrus demonstration grove." The same dispatch also stated that "the director of agriculture suggested that the Jewish Agency contribute P1 49,000 and government spend P1 70,000 to be completed within five years for agricultural development."¹⁵

It is interesting to note that neither the government itself, represented by the high commissioner, nor Israeli official authors saw government as biased or one-sided in its agrarian policy. To the contrary, Israeli writers widely believed that if government were not neutral, it was in favour of indigenous Palestinian agriculturists.¹⁶ In fact, as the following two examples show, high government officials firmly believed that their position was even handed and that what in government view was good for promoting modern (capitalist) agriculture was also good for all the economy.

In 1928, for example, after an investigation into the economic conditions of the 'fallaheen' in the Northern District, Harding, the district director suggested that government advance a loan of P1 50,000 as relief to the 'fallaheen'. However, one year later, in 1929, it was reported that the government agreed to a loan of just P1 20,000 and that the loan be divided among both Jewish and indigenous Palestinian agriculturists. As a result the loan was divided as follows: P1 15,000 paid to the 'fallaheen' in kind wheat and barley were bought by government and distributed to the 'fallaheen' and P1 5,000 paid in cash to the Jewish agriculturists.¹⁷

In 1930, after the publication of various reports which demanded that the government do something to help the dispossessed 'fallaheen', the high commissioner of Palestine arranged a meeting with representatives of Jewish and Arab agriculturists to lecture them on what was called "the government role in advancing agriculture in

Palestine. In this meeting the high commissioner provided an empirical example of how the government intended to allocate a grant to "all Palestinian agriculturists". Of the grant, estimated at 20,000 Palestinian lira, 10,000 in cash were handed to 'Jewish representatives' as follows: PL 4,500 to Mikveh Yisrael; PL 2,000 to trade schools in Jerusalem; PL 1,500 to schools for handicraft in Jerusalem; PL 1,250 to the agricultural school in Ben Shemen settlement and PL 750 to the professional school of the Jewish Federation of Labour. The 'Arab representatives', who did not receive a penny, were told that the government would provide villages with barley and wheat.

In both cases, imported North African wheat and barley were purchased. Wheat was bought for 15,500 mils per ton while barley was bought for 10,000 mils per ton. During the same period, however, local wheat and barley were disposed of at an average of 6,000 mils per ton for wheat and 3,000 mils per ton for barley. In other words, had the 'fallaheen' been given the money in cash, they could have obtained more than double the amount of wheat and more than three times the amount of barley offered by the government.¹⁸

As a measure to further subsidise and expand Jewish agriculture, the government extended its tax exemption laws to include the imports of all machinery free of duty. Capital and the colonial state worked together in developing Jewish settlements and revolutionising their forces of production. An impressive achievement of the alliance of capital and legal facilities was demonstrated in the rapid development of mechanisation. For example, in 1922 all Jewish settlements combined had only 33 tractors and no combines. Yet, by the end of the 1920s, all cereal production which characterised the co-operatives was dependant upon tractors and combines. In 1939, a Jewish Agency survey showed that there were over 237 tractors and 80 combines in use in the settlements [Gozansky, 1986: 146].

Equally impressive was the introduction of irrigation schemes during this period. In 1922 an estimated 2,867 dunams were under irrigation, but by 1930 this land expanded to 21,348 dunams, an increase of more than 1,000 per cent, 58,162d in 1941 and reaching 79,850d by 1944.¹⁹ Capital and technological change in agriculture caused a dramatic change in the nature of production. Specialisation and large-scale production based on intensive methods were at the core of this development.

AGRICULTURAL SPECIALISATION

Specialisation in agriculture, which means producing commodities for exchange value, is considered by Marxists as a significant step in transforming agriculture into industry. The concept of agricultural industry must be differentiated from industrial production proper. This difference was described by Lenin as follows:

From the very nature of agriculture its conversion into commodity production occurs in a particular manner, unlike the corresponding process in industry. Manufacturing industry splits into separate, completely independent branches, each devoted exclusively to the manufacture of one product or part of a product. Agriculture on the other hand does not split into completely separate branches, but merely specialises in producing, in one instance, one market product, in another, another market product, the other agricultural aspects being adapted to this principal (i.e. market) product [Lenin, 1977: 267].

Industry in this sense can be attributed to all Jewish settlements both the private and the co-operatives. While the private settlements were predominantly specialised in producing citrus and grapes, the co-operative farms were quickly becoming industrialised as well. Vegetables, fruits, and dairy products were increasingly the predominant agricultural products in these settlements.

Dairy and poultry production in the co-operatives was particularly significant. From 1922-1936 the number of cows reared annually rose from 750 to 8,040. In 1944 due to improved fodder and the introduction of new breeding techniques, the number of cows reached 16,040. An equally impressive growth was also recorded with regard to poultry; from 6,800 heads of poultry in 1922 to 1,75,500 in 1936 and 3,02,400 in 1944.²⁰

The application of capital and machinery in agriculture speeded up the process of industrialised agriculture resulting in a gradual but sweeping take-over of extensive small-scale production by production on large-scale.²¹ What characterises large-scale production is not the size of the land put under a certain crop, but, rather, the form of use of that particular crop.

One must differentiate here between large-scale production and specialised agriculture. For, although in both cases crops are produced for the market, the two phenomena are not the same. Agricultural specialisation, for example, can be found in pre-capitalist forms of production. In contrast, large scale production is specific to the capitalist mode of production.

In small-scale production, usually characteristic of peasant economies, crops are produced primarily as use-values to be consumed by the direct producers. Within the Palestinian context, for example, most cultivable land until the 1930s was under cereal production. Although this does not imply that other commercial crops were absent, it nevertheless indicates that small-scale pre-capitalist forms of production were characteristic of the 'fallah' economy.

The emergence and development of large-scale production, namely, vegetables and fruits during the 1930s and 1940s began to gradually take the place of cereal production. One indication of this process is shown in terms of the decline in the size of land under cereal and the growth of that under commercial crops (Table 1).

While the area under cereal cultivation

was constantly in decline (Table 1), from 65,35,031d in 1935 to 42,35,053d in 1944, that is, a decline of about 35 per cent, both areas under vegetable and fruit cultivation were simultaneously expanding. Between 1935 and 1944 the area under vegetable cultivation increased by 1,75,954d or about 148 per cent, and that under fruits increased by 215,005d or 124 per cent. Yet, the most significant feature in the process of transforming small-scale agriculture into large-scale production is in the amount of exchange value acquired from each product.

In 1941-42 for example, a survey of 8,793 Jewish private farms showed that despite the fact that they occupied relatively a very small area, the overwhelming majority of these farms employed intensive techniques and produced commercial crops. Table 2 demonstrates how small farms were utilised for large-scale production.

Except for category 4, 'extensive farming' (Table 2) where crops like wheat and barley were produced largely for the farmers' own consumption, all other farms surveyed here, estimated at 7,770 farms or 86 per cent of all farms, were highly industrialised, hiring family and outside labour and producing commercial crops for the market [Gozansky, 1986: 145].

Under large-scale commercial production, the productivity of the land is measured by the value of produce per unit [abu-Rjeili, 1970; Kautsky, 1976; Lenin, 1977]. The general trend in Palestinian agriculture since

TABLE 1: AREA UNDER CEREAL, VEGETABLES AND FRUITS (OTHER THAN CITRUS) 1935-44
(In Dunams)

| Year | Cereal | Vegetables | Fruits |
|------|-----------|------------|-----------|
| 1935 | 6,535,031 | 118,542 | 879,813 |
| 1936 | 6,365,636 | 145,871 | 1,046,111 |
| 1937 | 6,300,310 | 151,520 | 1,062,753 |
| 1938 | 5,766,009 | 133,333 | 1,059,003 |
| 1939 | 5,366,900 | 138,621 | 1,071,992 |
| 1940 | 5,736,932 | 206,266 | — |
| 1943 | 4,568,294 | 257,871 | 1,095,766 |
| 1944 | 4,235,053 | 294,496 | 1,094,820 |

Source: *Statistical Abstract of Palestine*, 1935-1944.

TABLE 2: SIZE TYPE AND NUMBER OF FARMS

| Type of Farm | No of Farms | Average Size Per Farm (in Dunam) |
|----------------------------------|-------------|----------------------------------|
| 1 Plantations | 3,857 | 20 |
| 2 Intensive monocultural farming | 636 | 5-10 |
| 3 Intensive mixed farming | 3,277 | 15-20 |
| 4 Extensive farming | 1,277 | 150 |
| Total | 8,793 | 20 |

Source: *Statistical Handbook*, 1947, p 145 [in Gozansky, 1986: 146].

the mid-1930s was of a constant and intensive decline in pre-capitalist forms of agricultural production which were being replaced by capitalist forms of production. As Table 3 shows cereal production was gradually but intensively undergoing a process of decline in terms of tonnage and value, while the production and value of cash crops was rising.

In 1935, out of a total area of 75,33,386d under all crops cereal cultivation occupied 6,535,031d or 87 per cent of the area (Table 1) but produced a value of PL 15,97,100 or 53 per cent of the total value produced by the three crops (Table 3). On the other hand, both vegetables and fruits which occupied just 9,98,355d or 13 per cent of the total land (Table 1) yielded produce to the value of PL 13,86,979 making 47 per cent of the total value (Table 3). The trend continued throughout the 1930s and 1940s. Cereal cultivation occupying vast areas yet producing much less income than the smaller areas under commercial crops.

The only exceptional years in Table 3 are 1943 and 1944 when a rise in prices of all three products occurred. This phenomenon was largely due to the second world war and the general rise in consumer prices at the international level. Nevertheless, this rise too favoured the more commercial crops such as fruits and vegetables.

The process of the displacement of small scale by large scale production is considered by Marxists as the fundamental and principal trend of capitalism [Saleh, 1979, Barakat, 1978, Bagchi, 1982, Patnaik, 1983]. The consequence of this is not necessarily the immediate expropriation of the peasants, but it nevertheless causes 'the ruin of the small farmers and a worsening condition on their farms'. This process as Lenin observes 'may go on for years and decades' [Lenin, 1977:70].

The mechanisation of agriculture was not confined to the private settlements, known otherwise as the moshava (plural moshavot). In fact these modern methods of agricultural production were characteristic of all Jewish settlements including the co-operative known as the moshav and the kibbutz. Alongside the development of the forces of production, the social relations of production in agriculture, it will be shown here have also changed.

WAGE LABOUR IN AGRICULTURE

The quantity of hired labour exploited in reproducing the European Jewish capitalist economy was phenomenal in all private and some co-operative settlements. In a 1938 survey, for example, it was revealed that five settlements employed 13,200 wage labourers. Hired labourers were drawn from both the indigenous Palestinian population as well as the Jewish settlers, 7,700 or 58.3 per cent of the labourers were Jewish and 5,500 or 41.7 were Arabs [Gozansky, 1986:146]. The large dependence on wage labour was partly related to the fact that many private settlers

used land and agriculture simply as a means of making profits.

The phenomenon of absentee landlordism within the Jewish economy was widespread. In a 1938 survey, for example, it was reported that 34 plantation settlements were owned by 1,515 farmers who lived on the land and 1,113 absentee owners. In these farms an estimated 10,000 wage labourers were employed, that is, four wage labourers for each farmer. In this case as well both in indigenous Palestinians and Jewish workers were hired 6,500 Jewish labourers and 3,500 Palestinian labourers [Gozansky, 1986:146].

Wage labour was also used in some co-operative settlements, particularly the moshav. A 1941/42 survey conducted by the Jewish Agency revealed that out of a total Jewish agricultural population of 1,34,276, 63,454 or 47.3 per cent were wage earners involved in various occupations. Of these, 27,114 persons or 42.7 per cent were agricultural wage labourers and the rest worked for industry, construction and other fields.²²

The exploitation of labour power in general, and within agriculture in particular, has received very little attention by most Israeli official writers. In fact by over-emphasising co-operative labour arrangements, authors have totally ignored the exploitative nature of production relations within the European Jewish economy. Not only were the relations of production within the moshav and kibbutz misrepresented, production relations within the private settlements, the moshava were also masked.

Various authors argue that the Zionist control of Palestine nationalised or even socialised all relations of production. This claim is not only made with regard to the co-operative farms, but also refers to the private settlements of the Rothschilds. It is argued that with the development of the Zionist movement, the conflict between the capitalists and the Zionist socialists was

resolved with the triumph of 'socialist Zionism' over capitalism. As a good will gesture on the part of Rothschild, it is maintained, his property was totally transferred to the Palestine Jewish Colonisation Association (PICA) and consequently fell under the control of the Jewish Agency.

A closer examination of this 'transfer', however, reveals a different picture. Data suggest that control over the Rothschild's settlements passed only temporarily to PICA. This was during the four-year period of 1920-24, after which the baron returned to Palestine and assumed full control over his property.

More importantly, the conflict between the Rothschilds and representatives of the Jewish Agency was not one between the adherents of capitalism and the adherents of socialism. It was not between capitalists and anti-capitalists, as some authors suggest [Kimmerling, 1983, Ohana, 1981, Eisenstadt, 1985]. On the contrary, it was between two sections within the Jewish bourgeoisie, on the one hand the Jewish Agency represented by big investors like Ettinger, Goldberg and Ussishkin who themselves occupied high political posts within the Agency,²³ and on the other, the baron who owned most of the moshavot.

The conflict in fact had little to do with the private or capitalist nature of these settlements as both conflicting sides were capitalists. The nature of the conflict was political instead. It was around control over the source of hired labour. The essence of the conflict basically revolved around the question of which labourers should be hired in these settlements: indigenous Palestinian or European Jewish workers.

Officially the conflict was resolved in 1924 by expelling 6,500 Arab workers and replacing them with Jewish workers. Yet, tensions between private farmers employing Arab labourers and the Zionist authority remained largely unsettled. We will show later that

TABLE 3 PRODUCTION OF CEREAL, VEGETABLES AND FRUITS FOR SELECTED YEARS

| Product (Tons) | Cereal | | Vegetables | | Fruits | |
|-------------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | Product (Tons) | Value (PI) | Product (Tons) | Value (PI) | Product (Tons) | Value (PI) |
| 1935 | 248,408 | 1,597,100 | 67,847 | 365,735 | 162,984 | 1,021,244 |
| 1936 | 181,700 | 1,173,526 | 70,321 | 400,384 | 186,498 | 1,063,192 |
| 1937 | 298,200 | 2,225,875 | 120,395 | 480,733 | 230,034 | 1,197,369 |
| 1938 | 202,973 | 1,264,481 | 109,088 | 575,048 | 248,573 | 1,213,020 |
| 1939 | 241,642 | 1,520,316 | 129,373 | 669,037 | 183,006 | 1,205,171 |
| 1940 | 337,411 | 2,800,047 | 198,273 | 1,244,477 | 204,183 | 1,711,988 |
| 1943 | 185,910 | 4,859,527 | 244,446 | 7,158,747 | 280,068 | 4,698,479 |
| 1944 | 162,690 | 4,373,451 | 271,329 | 7,525,897 | 201,560 | 6,144,571 |

Source: *Statistical Abstract of Palestine, 1935-1944 and 1945* [in Ameri, 1974:34]

private farmers continued to employ Arab wage workers and the Zionist authorities continued to harass both farmers and employees.

This case highlights the basic conflict within the Zionist colonial movement. The Jewish Agency which in this instance resorted to force in kicking out indigenous hired labourers from the Rothschild's plantations had in fact submerged the economic interests not only of the Rothschilds but also of its own members in favour of gaining long-term political hegemony in Palestine.

Throughout British rule, the moshavot continued to be the most important economic enterprises. In 1944, and despite their small number—estimated at 44 out of a total of 258 settlements—the 'moshavot' were economically the most advanced type of agricultural settlements.

The moshavot occupied an area of about 582,300d or 34 per cent of all Jewish land under settlement, including the most fertile land in Palestine. Most of the moshavot were concentrated in the plains particularly by the Maritime Plain. In 1944, the 'moshavot' owned 90 per cent of the total land under Jewish citrus plantations. They occupied 21,800d or 50 per cent of all Jewish land under fruits other than citrus and 297,500d or over 40 per cent of the total Jewish land under irrigated fodder, vegetables, etc, leaving most of the land under less commercial and more extensive methods of cereal cultivation to other settlements.²⁴

Agricultural production was highly specialised in the moshavot. In 1939 a survey of 34 moshavot revealed that out of a total area of 2,08,000d occupied by these settlements, 46,000 dunams or 22.1 per cent were under citrus production; 26,000 dunams or 12.5 per cent under grape and only 19,000 dunams or 9.1 per cent was under extensive cereal cultivation [cited in Gozansky, 1986:173].

The private nature of these settlements and the economic prosperity they provided to their owners attracted many settlers. Whether wage labourers or capitalist farmers, the population of these settlements witnessed a sharp increase during the British rule as Table 4 illustrates:

In absolute terms, the number of people in these settlements increased greatly over a short span of time: From 11,540 people to 27,740 or by over 140 per cent between 1922 and 1931. One decade later, i.e., from 1931 to 1941, the population of the moshavot increased by about 128 per cent. Their relative population, however, declined. This is largely attributable to the development of moshavot and kibbutz forms of settlements.

ZIONISM AND 'WORKERS' CO-OPERATIVES'

The extensive body of literature on the co-operatives is largely inaccurate and deficient. By lumping together all forms of co-operative settlements, the literature fails to account for the fundamental difference bet-

ween the kibbutz and the moshav as well as the differences within the moshav(s) themselves. Authors have also ignored the actual and potential social contradictions inherent in these forms of production.

Virtually all uncritical writers present these co-operatives as 'socialists' or 'primitive communist' communities or even, in one case, as the "ideal society for the fulfilment of human dream" [Tabenkin, 1985; Bettelheim, 1971; Rinehart, 1971; Eisenstadt, 1985; Spiro, 1972]. Yet, as various authors have correctly noticed, the co-operatives have always been integral parts of the capitalist mode of production [Rayman, 1981; abu-Rjeily, 1970]. To this analysis we will now turn.

A common set of assumptions shared by most Israeli and other romanticisers of these forms of labour organisations involves the two fundamental components of these settlements, landed property and wage labour. Authors argue that land in the co-operatives was not privately owned, thus concluding that land was collectively or communally owned. They also claim that wage labour was in principle forbidden in the co-operatives, hence strengthening further their contention that the co-operatives were socialist or even communist. However, as the following argument will show this claim has little, if anything, to do with reality.

Instead of finding out who actually owned and controlled the land and how land was distributed to members of the co-operatives, most authors assumed that private property within the Zionist settlements was absent and consequently concluded that the means of production in these settlements were socialised. As a result, in the vast majority of the literature the kibbutz is described as an example of "workers' control and ownership of the means of production"²⁵ or as an egalitarian society of "total equality among its members" [Spencer, 1981:171]. The term 'communist society' is often used to refer to early Zionist settlements [Viteles, 1944; Spiro, 1973; Bettelheim, 1971].

This literature suffers from a major theoretical flaw. It fails to show why the form of landed property necessarily indicates a specific mode of production. In fact there is no necessary correspondence between the form of landed property and the mode of production. Capitalism can be introduced through non-capitalist forms of landholding, as a consequence which may or may not have been intended. Whether landed property was private, individual, state owned or communally possessed, it must be stressed, capitalism at all stages of its development is capable of penetrating the agrarian economy.

All forms of property, Saleh maintains, are capable of providing fertile soil for capitalist development. "There is no contradiction," he argues, "between state property and agricultural capitalism" [Saleh, 1979:29]. In other words, what is important here is not the form of landholding but

rather the mode in which land is exploited and the purpose for which crops are produced.

Production in the moshavs and the kibbutzim was not organised on the principle of self-sufficiency of their members. Members did not produce use value but rather commodities, the exchange value of which was realised by the members only after it circulated in the market. At the empirical level however, one must also consider the question of who owns and/or controls the means of production in these settlements. Land in the co-operatives it should be stressed, was to a large extent owned privately by the Jewish Agency or its settlements institutions. What was absent was not private ownership but rather individual ownership by members of the co-operatives.

Moreover, the means of production, that is other than land in these settlements were not, as most authors believe, owned and controlled by their members. In fact the Keren Kayemet, (Jewish National Fund), an arm of the Jewish Agency was the sole owner of land capital and technology in the co-operatives. The Keren Kayemet advanced capital in the form of land and other means of production and expected payments in return. Recipients of capital advancements made by the Keren Kayemet particularly within the kibbutzim had to meet certain economic and, even more importantly, political requirements.

The Keren Kayemet was by no means a public or socialist body at odds with private property. The Keren Kayemet was partly funded by private companies, such as the Jewish Colonial Trust and the Anglo-Palestine Company which were established at the turn of the century. In addition it was involved in a prolonged international campaign for collecting money from various Jewish individuals and organisations.

Similar to other international companies operating in Palestine, the Keren Kayemet was heavily involved in colonial activities. These included buying and selling land, tree planting and settlement preparation. What distinguished the Keren Kayemet from other companies, however, was the fact that, while colonialism for the other companies was

TABLE 4: NUMBER AND PERCENTAGE OF MOSHAVOT POPULATION VS. TOTAL JEWISH RURAL POPULATION

| Year | Total Jewish Rural Population | Moshavot Population | Per Cent of Moshavot Total Population |
|------|-------------------------------|---------------------|---------------------------------------|
| 1922 | 14,140 | 11,540 | 82 |
| 1927 | 27,500 | 20,220 | 74 |
| 1931 | 37,240 | 27,740 | 75 |
| 1936 | 87,110 | 59,530 | 68 |
| 1941 | 111,250 | 63,240 | 57 |
| 1944 | 139,000 | 76,000 | 56 |

Source: *Survey of Palestine, 1945-46*, Chapter VII, p 372.

primarily for economic gain, for the Keren Kayemet the goal of colonialism was above all political in nature [Doukhan-Landau, 1980: 200; Gozansky, 1986:57]. There is a partial truth in the claim that land under the control of the Jewish Agency or any of its arms was withdrawn from the market [Kimmerling, 1983:34]. But it is also true that this withdrawal was one sided. The land which under the policy of the Keren Kayemet became the inalienable property of the Jewish people was in fact alienated from the indigenous owners/possessors. Indigenous Palestinians were excluded from claiming back, buying or even working on this land.

The withdrawal of the land from the market, in fact, did not affect the fact that land under the control of the Jewish Agency continued to be dealt with as a commodity and a means to promote capitalism. This was established by Rupin, the head of the Jewish Agency who in his report on the Land Development Company stated:

With regard to the important question of attracting capital to the 'land of Israel' I submit the following. During the first five years of our work it became clear that in order to attract big capitalists to invest in land, we had to be able to convince them that their capital would have a reasonable return. We, for that matter, were able to do so, since we showed all those who invested in industry how smooth it is to do so when they buy land from us... During the past five years, around one million francs were invested in our company. The Land Development Company sold to individual investors, land of the value of one and a half million francs and the urban branch of our company has sold land of the value of one million francs [cited in Gozansky, 1986:58].

In other words, the owner/controller of the land within the co-operatives, while not the individual member, was nonetheless a political agency whose aims were not entirely antagonistic to private ownership and capitalist principles. This agency was an integral part of the larger European Jewish economy in Palestine.

WAGE LABOUR AND CO-OPERATIVES

The second dubious assumption made by many previous analyses of the kibbutz movement concerns the supposed absence of hired labour in the co-operatives. They argue that the ideals of 'Jewish labour' and 'Jewish land' were the guarantors for the socialisation of labour and the absence of relations of exploitation [Eisenstadt, 1974; Tabenkin, 1985].

However, as with the claims for the absence of private land ownership, a closer look at the evidence fails to support this position. The principles of 'kibbush ha-adamah', (occupation of land) and 'kibbush ha-avoda' (occupation of labour), or what was otherwise known as 'adamah Ivrit' (Jewish land) and 'avodah ivrit' (Jewish labour) were, indeed, advanced by the Zionist leadership to promote the co-operative forms of agricultural colonisation.

Yet, the materialisation of these principles did not result in socialism. On the contrary, these policies were aimed primarily at creating a nationalistic exclusivist economy for the Jewish community in Palestine.

The hiring of labour power was never at odds with the principles or policies of the Jewish Agency or any of its affiliates. The aim of these policies was to exclude the indigenous Palestinian workers from employment in the co-operatives. This was expressed at almost every opportunity by Zionist organisations. In the International Zionist Annual Conference on August 14, 1929 in Zurich, the following was resolved:

Land is to be acquired as Jewish property and subject to the provisions of Article 10 of this agreement, the title to the lands acquired is to be taken in the name of the Jewish National Fund, [Keren Kayemet], to the end that the same shall be held as the inalienable property of the Jewish people.

Furthermore:

The Agency shall promote agricultural colonisation based on Jewish labour, and in all works or undertakings carried out or furthered by the agency, it shall be deemed to be a matter of principle in that Jewish labour shall be employed.²⁶

Boycotting Arab labourers was written as a condition to land leased by the Keren Kayemet. In a reference to the Maritime Plain co-operatives the following was stated.

The settler hereby undertakes that he will during the continuance of any of the said advances, reside upon the said agricultural holding and do all his farm work by himself or with the aid of his family, and that, if and whenever he may be obliged to hire help, he will hire Jewish workmen only.

Similar terms of lease were adopted with regard to co-operatives established in the Marj Plain: "The settler undertakes to work the said holding personally, or with the aid of his family, and not to hire any outside labour except Jewish labourers".²⁷

The Keren Kayemet, in fact, went so far as to impose a penalty on any Jewish owner attempting to employ an Arab worker. Article 23 of the lease stipulates:

The lessee undertakes to execute all works connected with the cultivation of the holding only with Jewish labour. Failure to comply with this duty by the employment of non-Jewish labour shall render the lessee liable to the payment of a compensation of ten Palestinian pounds for each default... Where the lessee has contravened the provisions of this Article three times, the Fund may apply the right of restitution of the holding, without paying any compensation whatever.²⁸

It is important to point out here that the Zionist exclusivist policies were formally supported by the British government. The debate which ensued in the House of Lords around these policies resolved the following: "The acquirement of large tracts of land in Palestine on inalienable trusts by Jewish bodies should be allowed; and conditions should be allowed to be inserted in leases or

tenancy agreements from such sources preventing any but Jewish labour on lands comprised in such leases or tenancy agreements".²⁹

Data above suggest that, neither the moshavs or the kibbutzim were prohibited, in principle, from exploiting hired labour. What they were forbidden to do is hire non-Jewish or Arab labour. The dispelling of these two major misconceptions is fundamental for understanding the true nature of these settlements. There were inherent contradictions within the structure of the Jewish co-operatives. While these contradictions surfaced early on in the case of the Moshav, for reasons to be discussed later, they took longer to emerge within the kibbutz enterprise.

THE MOSHAV

The literature on the co-operatives, as pointed out earlier, lumps together the 'moshav' with the kibbutz by highlighting the latter only. This is despite the fact that the moshav at least until the early 1940s, proved to be economically and demographically more successful than the kibbutz. Land in the moshav, like that in the kibbutz, was owned and controlled by the Keren Kayemet which in turn advanced all means of production to moshav members. Members of the moshav usually came from the better-off sections of the working class or from the middle class families. Work on the family farm was mainly done by family labour. At the end of the production process, the Moshavs Councils marketed the produce and paid each family according to its produce. From the cash obtained, each family was expected to cover its consumer needs and pay its share of rent fees and other dues to the land owner.

After a certain period of residency if families found themselves capable of buying the land without depending on the Keren Kayemet they could do so. In the process, families with better financial resources than others were able to own their own property while at the same time live in the moshav. This was the case in the Moshav Shittofi (literally, collective settlements), referred to in the literature as 'the middle class' moshav. In the Moshav Shittofi settlers privately owned the land and exploited outside wage labour [Sae'd, 1985:120].

The moshavs, both economically and demographically were more popular than the kibbutzim. During British colonialism, the agricultural population of the moshavs grew rapidly. From a total of 400 people or just less than 3 per cent of the total Jewish agricultural population living in the moshavs prior to 1920, the relative population of the moshav grew to 10 per cent in 1922; 17 per cent in 1927; 18 per cent in 1936 and to 22 per cent in 1941. In 1944, 29,500 people or 21 per cent of the Jewish agricultural population were living in 99 moshavs.³⁰

In addition, until 1936 the moshavs were the second largest form of enterprise—after

the moshava—and as the following table shows, more populated than the kibbutz.

However, with the tremendous emphasis placed by the Zionist movement on the kibbutzim in the late 1930s the place of the moshav in the co-operative system began to decline. Some authors maintain that the unpopularity of the moshav was the result of economic factors. They claim that the development of private ownership and the hiring of labour defeated the whole thrust of co-operation and collectivity [Spiro, 1973:5]. However, one can point out here that the use of hired labour was also a part of the structure of the kibbutz, yet its popularity was never harmed. The real reasons behind the popularity of the kibbutz, it will be demonstrated, was not its socialist traits, nor the lack of exploitation. It was the geo-political and military services which the kibbutz and not the moshav was able to provide to the Zionist colonial project which in fact accounted for its importance.

To begin with, two widely held misconceptions about the kibbutz experience must be discussed. The first is the claim that this experience was uniquely Jewish or Zionist and the second is the belief that its success was due to the strong belief in socialism brought by the Zionist settlers.

(1) 'Uniqueness of kibbutz'

Most authors see the kibbutz as a unique Zionist or Jewish phenomenon. Tabenkin who was considered one of the founding fathers of modern Israel and among the pillars of socialist Zionism described the 'kibbutz' as 'the apex of human experience, the only commune in the world which has not been founded by the social democrats nor by Bolshevism' [Tabenkin 1985:44].

There is some truth in maintaining that the kibbutz was different from the collective experience in the Soviet economy. Since at least in theory, the Soviet economy was socialist while the European Jewish one was predominantly capitalist. However, historically, the presence of a co-operative or a collective society in the midst of a capitalist system is not unique to the European Jewish settler's experience. Historical parallels to the kibbutz were known in mid 19th century Britain when Owen's 'communist societies' were formed.

Commenting on this phenomenon, Engels highlighted two functions he believed were crucial in the establishment of these communal societies. On the one hand, he pointed out that this arrangement was economically rewarding for both the members and the owner himself 'Owen's communism', Engels states "[W]as based upon this purely business foundation, the outcome, so to say, of commercial calculations. Thus in 1873, Owen proposed the relief of the distress in Ireland by communist colonies, and drew up complete estimates of costs of founding them, yearly expenditure, and probable revenues" [Engels, 1977:123].

While for the workers this arrangement secures employment and living conditions, for the owner it can also be rewarding. In the light of the fact that all decisions concerning production, the realisation of surplus value, supervision, management, etc., are left to the members, this organisation can serve as a means for the conservation of human and capital resources. It saves the owner the cost of managing, supervising and controlling production and reproduction in his enterprise.

Described by Engels as utopian socialism, Owen's enterprises had another dimension. These societies functioned as a response to the crying social abuses and the loosening of all traditional moral bonds created by capitalism. Owen, Engels writes, wanted to place the people in conditions worthy of human beings, and especially by carefully bringing up the rising generation [Engels 1977:124].

The experience of Segera, the first kibbutz which was built in 1908 on the land of the Arab village carrying the same name, provides striking parallels to Owen's experience. In 1908 a group of Jewish workers contracted the work in Segera for a period of one year and established the first kibbutz. This group was collectively responsible for redistributing the work among all its members. No hired labour was employed. All decisions concerning production, marketing, organisation and so on were carried out collectively by the group. This experience proved to be economically successful. At the end of the contract the group was able to pay back all its dues and also make profits for itself [cited in Kavyali 1966:24-25]. Although the group did not renew its contract and the Segera experience was short lived, it nonetheless left its imprint on the Zionist leadership and was considered an example to follow.

In the late 19th century the kibbutz concept was also enhanced by the fact that many Jewish settlers during the time had fled economic difficulties and socio-cultural persecution practised against them in Eastern Europe and Czarist Russia. However, since on motivation alone, no

socio-economic structure can be established, the dreams of the early settlers never materialised. Partly due to the fact that Jewish colonial companies at the time were not interested in this form of enterprise and partly due to lack of funds and political commitment on the part of the Keren Kayemet, the kibbutz concept did not initially flourish.

As a matter of fact, it has been reported that the first attempt at establishing a kibbutz which involved the Keren Kayemet in 1913 was a marked failure. In this case, a 'kvotza' (group) of five rented a piece of land from the Keren Kayemet and received some capital advancement but, because of the excessive payments which the 'kvotza' was required to return to the Keren Kayemet, the plan was halted. Both the 'kvotza' and other potential settlers interested in such an enterprise were further discouraged [Gozansky 1986:73]. The idea of the kibbutz was revitalised only after the entry of British colonialism, largely due to the increasing economic and political power of the Zionist movement in Palestine.

(2) Kibbutz 'Fulfilment of Ideals'

As alluded to earlier, literature has presented the kibbutz as 'the fulfilment of the Jewish dream or the materialisation of the Zionist ideal' [Tabenkin 1985, Orchan 1977, Rosen et al 1983, Eisenstadt, 1974].

It is assumed that the kibbutz is the product of an idea, a dream or a set of ideals put forward by the Zionist movement in Palestine. The kibbutz in other words is perceived as a package of ready made concepts produced in Europe and imported to Palestine by the Zionist authorities. This body of literature does not provide an objective scientific approach to the kibbutz. Instead it romanticises the kibbutz and discusses it as a separate and independent social phenomenon.

Extensive material has been published on the socialisation of children in the kibbutz. In *Kibbutz Venture in Utopia*, Spiro depicts the kibbutz children or what he calls "the generation of the desert" as the cultural

TABLE 5. PROPORTION OF POPULATION OF KIBBUTZ, MOSHAV AND MOSHAVA, SELECTED YEARS

| Year | Settlements | | Total | Agricultural Population | | |
|------|-------------|---------------|---------|-------------------------|-------------------|--------------------|
| | No. | Area (Dunams) | | Kibbutz (Per Cent) | Moshav (Per Cent) | Moshava (Per Cent) |
| 1882 | 5 | 25 000 | 500 | — | — | 100 |
| 1890 | 14 | 107 100 | 2 770 | — | — | 100 |
| 1900 | 22 | 220 700 | 4 950 | — | — | 100 |
| 1914 | 47 | 420 600 | 11 580 | 2 | 3 | 95 |
| 1922 | 71 | 594 000 | 14 140 | 8 | 10 | 82 |
| 1927 | 96 | 903 000 | 27 500 | 9 | 17 | 74 |
| 1931 | 110 | 1 058 500 | 37 240 | 10 | 15 | 75 |
| 1936 | 172 | 1 392 600 | 87 110 | 14 | 18 | 68 |
| 1939 | — | 1 533 400 | — | — | — | — |
| 1941 | 231 | 1 604 800 | 111 750 | 21 | 22 | 57 |
| 1943 | 254 | 1 731 300 | 139 000 | 24 | 21 | 56 |
| 1946 | 274 | 1 807 300 | 160 000 | — | — | — |

Source: N. Weinstock, *The Socialist Centre Israel* (cited in Abu Rjaily 1970:31)

heroes" of the Jewish people [Spiro, 1972] They are described as the "torch-bearers and liberators of the Jewish people" [Tabenkin, 1985] In fact, some writers go as far as to portray the kibbutz as a "civilising mission against the barbarians" [Orchan, 1977:30]

The kibbutz is seen as the haven for gender equality, the only society which is capable of replacing patriarchal family life with egalitarian group life [Orchan, 1977, Rayman, 1981, Spencer, 1981] In the *Children of the Dream*, Bettelheim goes into length detailing what she sees as the strong emotional ties within the kibbutz families. The whole kibbutz in Bettelheim's view was turned into one big family [Bettelheim, 1971]

Nowhere in this literature has there been any attempt to locate the kibbutzim within the social and economic structure within which they were founded. Kibbutzim did not emerge fully formed from a set of ideals nor were they operating in a social vacuum. In fact, at every stage of their development the kibbutzim were faced with both internal structural as well as external forces. These forces have largely influenced their structure and development.

The kibbutz was—and still is—composed of a small community ranging between 30 to 300 people per kibbutz and the size of its land between 2,000 to 20,000 [Kayyal, 1966:30-31]. During British rule, the kibbutz population grew from 3,000 people in 1931 to 33,360 in 1944. Yet the ratio of the kibbutz population to that of the Jewish population in general remained very minimal. In 1931 the kibbutz population represented only 2 per cent of the total Jewish population and 4 per cent in 1944.¹¹

Unlike the experience of the Segera and contrary to the impression given by the literature, the kibbutzim throughout the 1920s and the 1930s were never able to stand on their own without heavy dependence on external sources for funding.

As was mentioned earlier, most fertile land appropriated by European Jewish settlers was already occupied by the private settlements leaving only less fertile land for later settlement. Low fertility within the kibbutzim, as further discussion reveals, was also enhanced by the fact that most kibbutzim were established for other than socio-economic reasons. In addition, the capital needed for irrigation, mechanisation and other equipment was not always available. Kibbutzim during the 1920s were reported to be under equipped and serious complaints and dissatisfaction was widespread among their members.

Even earlier kibbutzim which were erected on Palestine's most fertile land, the Marj, were suffering from serious problems. Commenting on this situation one Jewish agricultural expert said:

No expenditures for planting new colonies should be made unless the development of existing colonies has been completed, or the money for their full development has been provided. The amount required for this will

absorb the probable normal income of the colonisation department for several years to come. Delay in providing settlers with needed equipment and improvements is now causing losses and disappointments. It is lowering the efficiency of the settlers. It is the cause of large deficits.¹²

In the late 1920s and early 1930s the whole kibbutz movement appeared to be in danger of collapsing. For a period of three years, 1929-1931, only three kibbutzim were established.¹³ Economic difficulties were not the sole or even the most important factor in the slow growth of the kibbutzim. Internal political factors were equally crucial.

The Palestinian peasant uprising of 1929 and the consequent pressure on the government to restrict immigration and land transfer to the European Jewish community had a great impact on the settler movement. The uprising gave a strong message not only to the Zionist authorities in Palestine but also to potential investors. Jewish capitalists, as a result, preferred to privately and directly invest their money rather than putting it in an unpredictable 'public' enterprise. This is illustrated by the failure of the urgent appeal for funding made by the Keren Kayemet to the World Zionist Organisation in its 16th Zionist Congress.¹⁴

The situation after the second half of the 1930s was radically different. Partly due to the influx of capital and settlers prompted by the Nazi atrocities, and partly due to the strengthening of the political position of the Zionist movement world wide, the kibbutz movement experienced a real upsurge. Between 1932 and 1936, 18 kibbutzim were established, i.e. an average of 3.6 kibbutzim per year. An even sharper rise occurred between 1937 and 1939 when 28 kibbutzim were established, raising the average to 9.3 kibbutzim per year.¹⁵

The sharp rise between 1937 and 1939 was in fact a direct reaction to the serious threat posed by the Palestinian revolution of 1936-39. The pressure placed on the government, by the revolution, forced it to issue a 'White Paper', changing its immigration and land transfer policies.¹⁶

For the Zionist authorities, the change in the government policy together with the rebellion which was in its second year meant that they were under tremendous pressure. What was at stake was not only the preservation of the existing settlements but the realisation of their dreams for a Jewish state. This meant that they had to create as many settlements as possible irrespective of the government policy or the indigenous resistance. This resulted in the settlement movement referred to as the 'Tower and Stockade'. Irrespective of their size, the fertility of the land or who might inhabit them, 'kibbutzim' during this period were stockpiled. It was reported that some 'kibbutzim' were erected in a matter of single days. The only consideration in this movement was to make sure that 'kibbutzim' would serve as

observation sites and border security for the future Jewish state.

There are various interpretations as to why the government allowed this movement to precede. Some authors suggest that during this period, the Zionist movement has begun to establish itself as a potent independent political and military power [Rayman, 1981:38]. Yet, others maintain that the Zionist lobby in London has always been successful in defeating all government decisions including all 'White Papers' introduced during the British rule, [Stein, 1984:135].

While there is some truth in their claims, authors here provide a simplistic answer to a much more complex situation. A partial explanation of the Zionist expansionist policies can be found in the fact that while the government did not approve of their policy, it felt that it could not afford to open another battle front with them. Moreover in 1937 the government was pre occupied with crushing the Palestinian and northern Palestine.¹⁷ They were able to take advantage of the growing military power of the Zionists in order to help quell this revolution. Jewish settlers, as the secretary of states for the colonies wrote to the high commissioner in 1937, "were reliable in the police and armed forces."¹⁸

(3) Kibbutz: A Social Utopia

Unlike the Marxist principles of scientific socialism the kibbutz's socialism was, similar to that of Owen's experience, utopian in nature. But contrary to Owen's experience, kibbutzim were not created as anti capitalist or non exploitative societies. Nor were they created as safe or peaceful refuge for victims of wars and other forms of repression. On the contrary, the kibbutz mission as perceived by its main 'socialist Zionist' pillars was mainly to build a generation of 'fighters' [Ben Gurion, 1971, Tabenkin, 1985].

Socialism in the Marxist sense which is expressed in terms of socialising the means of production and creating a classless society was of very little importance for 'Zionist socialist' leaders. Classes and wage labour were always viewed as necessary for the development of the kibbutz. In a speech addressed at the anniversary of one kibbutz, Ben Gurion was quoted as saying "The value of kibbutz is in its collectivism rather than its struggle to achieve equality. Equality is against human nature, men are not equal and therefore they have no equal rights" [cited in Tabenkin, 1985:51].

Class inequality was bound to develop further with the industrialisation of the kibbutz which began as early as 1930s. The phenomenon of hiring outside labour in the kibbutz or members hiring themselves out was present during the British rule [Golomb, 1974:181-195]. Writing on this, Criden and Glebb said "In the 1930s the rejection of hired labour was severely threatened: the industrialisation of the kibbutz has resulted in a shortage of kibbutz labour" [Criden and Glebb, 1974:13]. With the further

development of the 'kibbutzim, and especially after the creation of the state of Israel, industrialisation and the hiring of wage labourers both from within and from outside the kibbutz became indispensable to the existence of all kibbutzim. Rosenfeld observed that "class differentiation in the kibbutz occurred as early as 1951" [in Rayman, 1981: 83]. By 1959, it was reported that 20 per cent of the total income of all kibbutzim was drawn from industrial enterprises, which employed both Arab and Jewish labourers. In the same year the kibbutz industrial wage labourers made up 7 per cent of the total industrial labour force in Israel.³⁹

Gender inequality in the kibbutz, as various writers admit, was always a serious problem without a solution. Women continued to be relegated to household related functions, such as kitchen—dining room work, baby houses, children houses, etc., while men worked in factories, agriculture, kibbutz administration and the army [Rayman, 1981: 203].

Also, racial exploitation was a structural feature of the kibbutz. The exclusivist policy of selecting the 'kibbutz' members did not only affect the indigenous Palestinians. Racism was also practised against the 'Sephardic' Jews (Jews who immigrated from Arab countries). Kibbutz members, Spiro pointed out, despised Arab Jews and often referred to them as *shechorim* i.e. blacks, [Spiro, 1972: 109].

(4) Kibbutz: A Settler Colonial Society

The kibbutz was established not as a means to transform an existing social order but rather as a means to create a new political order. The kibbutz served as the embodiment of the Zionist ideology of conquering land and labour. Co-operation and socialism, in the Zionist lexicon, were synonymous with the colonisation of land, labour and the market in Palestine.⁴⁰

The importance of the kibbutz as a colonial venture outstripped all economic and social considerations. Tabenkin summed up this point plainly when he stated: "Our minds and thoughts are constantly devoted to the need for security. It was not chance which dictated the location of our settlements at the expense of economic viability, we chose those sites with mostly their security in mind" [Tabenkin, 1985: 54].

The creation of kibbutzim, regardless of whether or not they were properly equipped or populated, was phenomenal during the thirties.

The under equipment of the existing kibbutzim did not deter the World Zionist Organisation and its Palestinian branch from adopting the following resolution:

The most important task of the Jewish National Fund [Keren Kayemet] in the immediate future is the creation of land reserves in all parts of the country, in particular the Congress is of opinion that it is necessary to create as soon as possible a land reserve of irrigable lands in accordance with

a definite plan for colonisation policy. The colonisation of Palestine is to be the basic policy of the Jewish Agency for all time to do everything to assure development and extension of time to do everything to assure development and extension of Jewish agriculture colonisation in accordance with the principles laid down by the Congress for co-operation with the Jewish Agency on as large a scale as possible.⁴¹

The colonial settler nature of the kibbutz was expressed in terms of its geo-political and strategic role as well as in terms of its military functions. Most kibbutzim, especially after the 1930s were built on hills and on the borders of Palestine. Both Chaim Weizman and Ben Gurion who represented the Jewish Agency, recommended the 'stocking' of kibbutzim on the borders of Palestine.

According to Ben Gurion: "If there are two to four settlements on the frontier this will reinforce our rights on the upper Galilee" [in Rayman 1981: 33].

The fact that the European Jewish settlement in general and the kibbutz in particular was a colonising and imperialist movement was not disputed by Zionist leaders. Writing on the kibbutz as a colonising movement, Tabenkin said:

We were the pioneers to work on the sea. None of our members were born sailors or fishermen. Yet the very fact that we were a colonising movement made us realise that Jews do not require only the land but the sea as well. We have to conquer the sea with our fishing boats and our merchant ships. Only thus can the country be protected from the sea.

Moreover, under the title *Our Imperialism* Tabenkin wrote:

How does the kibbutz imperialism manifest itself? It is through our striving to always be the first to tackle any hard or dangerous job. The kibbutz never neglects any pioneering prospects. This is why our kibbutzim were the first to settle by the sea, start the fishing industry, join the [British] police force, work in the stone quarries or in Sdom (the lowest spot on earth) where the temperature is unbelievably high and where salt and other minerals. We were imperialists in that ours was the initiative to organise illegal immigration and to do everything in order to enhance the prosperity of the country and of our collectives at the same time. The power of our kibbutzim is not measured by their numbers but in their places on the map [Tabenkin 1985: 61-62].

The kibbutzim played a major role in furnishing political leadership and military bases for the Jewish state. By carefully selecting their members, the kibbutzim accorded special priorities to the Jewish intelligentsia from the 'achkenazi' (European) origin who were considered as the true representatives of 'Zionist socialism'. The kibbutzim were rapidly turned into bases from which most Zionist leadership was drawn. This trend became more obvious after the establishment of the state of Israel. Members

of kibbutzim, as Rosen maintained: "Have often held leadership positions in Israeli parties and have represented them in the government the Knesset and in Histadrut institutions" [Rosen et al, 1983: 7].

Finally, the kibbutzim functioned as military bases for the settler community. The militarisation of the kibbutz was as old as the kibbutz itself. Together with the kibbutz, the phenomenon of 'Hashomer Ha-Tzair' (young guards) emerged. The emergence of this phenomenon in the form of bands of armed settlers was justified as a need to 'protect' the settlements from their 'hostile' or 'barbaric' surroundings.

Yet documents show that the Palestinian peasants were the ones who needed protection from the armed settlers placed on their expropriated lands. Reports on attacks made by armed settlers who were sent to 'protect' land, the ownership on which was often unsettled, were very frequent during British colonialism.⁴²

By late 1930s 'Ha Hashomer' movement which was entrenched throughout Palestine was transformed into the official militant force of the Zionist movement, giving rise to the two underground semi-secret militant organisations, the Haganah and the 'Palmach' while the kibbutzim served as "bases and reserves" for their operations [Rosen et al 1983: 1].

In the late 1930s and early 1940s, the 'Haganah' as Rayman stated, began to see itself as the military basis of "the state on the way" [Rayman, 1981: 38]. It was involved in attacks not only against the indigenous population but extended its aggression also against the British government which had encouraged its rise in the first place.⁴³

To sum up European Jewish co-operatives including the kibbutzim were not unique or separate forms of production. The land occupied by the Keren Kayemet was not withdrawn from the market in the economic sense. Expropriated from its previous cultivators, this land was transferred to an exclusive Jewish market where it could still be used as a source of profit. What had been withdrawn or more properly, excluded from this market instead were the indigenous Palestinians themselves.

Production on these co-operatives, it has been shown, did not differ from that on the private settlements. Capital technology and the consequent large scale industrial production was characteristic of all European Jewish agriculture.

Finally, except for the degree and extent to which hired labour was used—and in the case of the kibbutzim the race of nationality of the labourers—all agricultural settlements exploited labour power and used it as a basis for expanding the economy.

The findings of this paper strongly refute the Zionist claim that the Palestinians did not succeed as the European Jewish settlers did because of their 'traditional' and 'backward' culture. The history of agricultural development in Palestine has proved without any doubt that the threat to the

indigenous agriculturists was anything but 'natural' or 'traditional-cultural'.⁴⁴ The real threat, instead was a direct result of the British and Zionist colonial powers controlling the Palestinian economy during this period.

At every stage in its development, colonial-capitalism emerged and expanded at the expense, and by the exploitation of the indigenous rural economy. All components of the rural structure, i.e. land, natural resources and labour power were subjugated and made heavily dependent on the developing capitalist economy.

The relationship of exploitation between the two economies, the European (Jewish) capitalist and the indigenous Palestinian pre-capitalist, it was argued, was the prime mover in changing the Palestinian history. While the dialectical relationship of domination and subordination can be attributed to all social formations experiencing capitalist development through a colonial power, the Palestinian experience remains historically specific.

In the colonies, the subordination of the colonised economy eventually leads to its full dependency on the colonial capitalist economy. This is equally true in the case of settler colonial formations. As the South African and Rhodesian cases show, the native population in both economies were turned into reservoirs for cheap labour exploited by the capitalist economy [Wolpe, 1980, Arrighi, 1973].

The colonial settler experience in Palestine, this paper has shown, demonstrates rather different characteristics. The economic subordination of the indigenous Palestinian working classes to the European Jewish capitalist economy formed only one aspect of the developing economic structure. The other aspect of the developing structural reality was the exclusion of the indigenous working classes from the dominant capitalist economy. Indigenous Palestinians, it has been shown, were placed under double subordination, the advent of capitalism and the consequent ruination of their 'natural' economy, resulting in their expropriation from their lands, and, through Zionist racist-nationalistic policies, they were prevented from having access to their land even as wage labourers.

Contradictory as this relationship of exploitation/exclusion might appear, it was this precise relationship which characterised the Zionist colonial movement in Palestine.

Notes

- 1 M. Berenstein, 'Jewish Colonisation in Palestine', *International Labour Review* 1934, Vol XXX, No 5, p 632.
- 2 Between 1932 and 1937, PL 3,95,17,000 of capital generated in Europe was invested in agriculture. Of this amount, PL 76,00,000 or 19 per cent were invested in citrus only. See, Gozansky, *Hitpathut ha kapitalism* p 104.

3 Calculated from *Statistical Abstract of Palestine*, 1937-38, Table 31, p 28. According to Gozansky, between 1930-42, 26,000 Jews immigrated to Palestine bringing with them a total of PL 26 million, an average of over PL 1,000 each. Gozansky *Hitpathut* in op cit, p 198.

4 Compiled from *Statistical Abstract of Palestine*, 1939, p 39.

5 Ra'if Khouri, 'al-Qadiyya al-Palastiniyya' in *al-Tariq*, Beirut, March 31, 1946, cited in Maxime Rodinson *Israel, A Colonial Settler State* (Monard Press, New York, 1976).

6 'Falastin', August 29, 1930 in CO 733/192/2.

7 *Survey of Palestine*, 1945-46, Chapter IX, p 376.

8 'Simpson's Report', p 75.

9 Mikvey Yisrael was established in the late 19th century by Jewish Colonial Trust. For an indepth analysis of late 19th century Zionist colonial enterprise in Palestine, see Tuma, E, *Dirasat fi al Suhvouniyah al mua'asirah* [Studies in Modern Zionism] (Acre, 1982).

10 'Simpson's Report', 80.

11 For more on the role of the Technion in developing agriculture, see Abu Rjeily, *Al ziraa' al yahoudieh fi falastin al-muhtalla* [Jewish Agriculture in Occupied Palestine], (Palestine Research Centre, Beirut, 1970), pp 58-64.

12 Article 3 of the 1928 Exemption from Taxation Ordinance stipulates 'No title shall be payable on the produce of any land utilised for the purpose of agricultural instruction or research and certified as such annually by the competent authority'. See CO 733/139/9. Moreover, the 'Rural Property Tax 1933' exempted from taxes all newly established buildings for industry, all experimental and developmental land and all land with newly planted fruit trees. See CO 733/267 13.

13 'Simpson's Report', p 80.

14 Ibid, p 76.

15 See a despatch from the secretary of state for the colonies to the high commissioner, dated March 1933 in CO 733/229/10. Also in CO 733/229/10 file no 576.

16 In his *Zionism and Territory*, Kimmerling suggests that government's land policies throughout had favoured Arabs over Jews. According to him 'from 1921 many government land tracts were allocated to Arab and only a minority (about 20 per cent) to Jewish settlement and industry'. He further adds, 'until the end of the 1930s, Jewish land purchases did not harm a large stratum of Arabs, but rather represented a potential threat and created an impression that Jews had the ability to buy everything'. See Kimmerling, *Zionism and Territory* (University of California, 1983), p 36.

Kimmerling assumptions, it must be noted are baseless. In fact data suggests the contrary. By 1946, 18,07,300d or 28 per cent of the total agricultural land in Palestine was in the hands of European Jewish settlers. Of this, an estimated 1,75,088d were directly leased to them, for long periods, by the state. About 1,00,000d or 57 per cent of the state land, in fact, did not belong to the state.

The official terminology used to describe this

land was 'land with titles not yet settled', meaning that the state has not yet been able to prove that the land does not belong to its owners. On this issue, one government official quote 'all state land under titles not yet settled contain large areas which at land settlement may be found not to belong to government'.

In contrast, however, during the same period the fallahen received 17,591d. Only, under long term lease Government land policies at the time were, in fact criticised by its own officials who in 1945 stated 'The Jews have a substantial advantage over the free disposal of government land'. See *Survey of Palestine*, 1945-46, chapter VII, pp 267-68, chapter IX, p 372.

17 See a despatch by Luke, officer administering the government, to M P Amery, September 29, 1929 in CO 733/160/14 18) 'Government Role in Advancing Agriculture in Palestine', in CO 733/264/17. In another despatch by Luke, an officer administering the government, it was written that 'the Jewish villagers' administered by the Zionist Organisation prefer to take the loan in cash and make their own arrangement. See 'Despatch', dated 26/9/28 in CO 733/160/14.

18 See, CO 733/160/13.

19 *Survey of Palestine*, 1945-46, chapter IX, Table 6, p 379.

20 Ibid, p 378. Until late 1940, dairy farming made up two thirds of all agricultural production excluding citrus. See Abu Rjeily, *al ziraa' al yahoudieh*, op cit, p 137.

21 Commenting on the phenomenon of the displacement or take over of small scale by large scale production, Lenin states

[T]he fundamental and principal trend of capitalism in the displacement of small scale by large scale production, both in industry and in agriculture. But this displacement should not be interpreted merely as immediate expropriation. Displacement also implies the ruin of the small farmers and a worsening condition on their farms, a process that may go on for years and decades. This deterioration assumes a variety of forms, such as the small farmer's overwork or malnutrition, his heavy debt, worse feed and poorer care of livestock in general, poorer husbandry-cultivation, fertilisation and the like as well as technical stagnation on the farm, etc.

Lenin, *Collected Works*, (Progress Publishers, 1977) Vol 22 p 70.

22 *Survey of Palestine*, 1945-46, chapter IX, p 382.

23 Ettinger, Usishkin and Goldberg were the owners and directors of a Jewish colonial company called 'Giolah' (meaning savour). Ettinger's share of the founding capital in this company was estimated at 1,00,000 roubles. These big financiers have also invested in the Jewish Colonial Trust as well as the Anglo Palestine Company which became the central bank for colonisation activities. See Doukhan Landau, *The Zionist Companies for Land Purchase in Palestine* (Jerusalem, 1979), pp 197-200.

24 *Survey of Palestine*, 1945-46, p 373.

25 In his 1987 edition of *The Tyranny of Work*, Rinehart changed his position on the 'kibbutz'. The kibbutz as an example of 'workers control of the means of production' was dropped from his section on 'Solutions to alienated Labour' (Harcourt Brace Jovanovich, Canada, 1987), new edition

26 'Simpson's Report' in op cit, p 53

27 Ibid

28 See FO 731/14500/1930 F-6575

29 See a letter by the high commissioner, Chancell or, to the colonial officer, Shuckburgh, in CO 733/182/2, File, No 700/30. Imprisonment and heavy fines used to punish Jewish farmers for leasing land to Arabs has become a systematic policy for the Jewish state. Israel's plan for the Judaisation of the whole of Palestine was unveiled in 1976 after the Day of the Land. The leaking out of what was considered top secret document in the Israeli cabinet, the 'Koenig Memorandum' reveals the most blatant racist policy of the Israeli state. See 'The Koenig Report: Demographic Racism in Israel' in *MERIP Reports, Middle East Research and Information Project*, 1979, No 51. A complete English version can be found in Foreign Broadcast Information Service, September 14, 1976

30 Computed from *Survey of Palestine*, 1945-46, Chapter IX, pp 372-73

31 Ibid, p 373

32 Cited in 'Simpson's Report', pp 43-44. The Keren Kayemet policy of land purchase and lease was deemed objectionable by various Zionist leaders. In a decipher by one Zionist leader Harvey, dated September 12, 1930 a similar concern was voiced:

Area cultivable proves to be four million dunams less than was expected. Conditions on which Jewish National Fund purchases and leases land are [blank] and more land should not be allowed to pass to that fund until conditions radically altered. Jews possess large reserves of land not yet settled sufficient to enable settlement to continue for a number of years. See FO 371/1-4546

33 See Abdel Wahab Kayyali, *al kibbutz wal mazari l ja mai'yyah fi israel* [The kibbutz, or the Collective Farms in Israel] (Palestine Research Centre, Beirut 1966) pp 121-30

34 See a letter by the high commissioner, Chancell or, to the colonial officer, Shuckburgh. File no 700/30 in CO 733/182/2

35 Calculated from Kayyali, *al kibbutz*, in op cit, pp 121-30

36 On the 'White Paper' of 1937 and the consequent changes in some of the government policies, see K Stein *The Land Question of Palestine* 1984 pp 59-71

37 See, Kalkas B, 'A Chronicle of Events in Abu Lughud, I (ed) *The Transformation of Palestine*, (Evanston, 1971), pp 237-70. See also my unpublished manuscript, 'Colonialism and National Liberation Movements: The Palestinian Struggle, 1920-40'

38 In FO 371/20820/E 6749

39 By 1959, 20 per cent of the total income in all the 'kibbutzim' came from industry, see

Kayyali, 'al-kibbutz...' op cit, p 56.

40 Differentiating between the Jewish settlers who immigrated to Palestine out of religious and cultural convictions, that is those 'who had come to keep their ancient laws, the Torah', and the 20th century Zionist settlement, Tabenkin noted:

They [early settlers] studied law from scrolls and letters, we rewrite ours on the landscape, on the hills and the valleys, releasing the ancient land from its arid desolation. Tabenkin, *The kibbutz: A Non-Utopian Commune* (Yad Tabenkin, Israel 1985) p 91. See also, Flapan, *The Birth of Israel: Myths and Realities* (Pantheon Books, New York, 1987)

41 CO 733/182/2, File, No 700/30

42 For more on settlers' attacks on the Arab villagers of Zubeidat, see, FO 371/18957, E 1311. Also, 'Periodical Appreciation Summary' 13/35 in FO 371/18957/C II

43 The 'Haganah' was not a secret military force, nor the representative of an anti-imperialist settler community, as some authors claim [Emmanuel, 1972]. In fact many members of the 'Haganah' have received their initial training as British army and police service men. Moreover, various 'court cases' gathered from the British Archives strongly suggest that the government was aware of many cases of arms smuggling conducted by the 'Haganah'. Equally important is the revelation made by various reports to the effect that the government itself was active in militarising the 'Haganah' by placing arms in various settlements. See a CID report, dated December 1934, in FO 371/18975/E 1325.

During the Palestinian revolution of 1936-39, the 'Haganah' played an important role together with the British army and police in suppressing the anti-imperialist indigenous revolution. Only in the latter part of the 1930s and early 1940s, when it began to see itself as the foundation for an effective defence for a sovereign people and moved toward the institutionalisation of a 'shadow nation state' that this force began to assume certain degrees of independence from the British colonial power [Rayman 1981: 37-38].

During this period the 'Haganah' began to direct its attacks against both the indigenous Palestinians and the British government. It defied British policies stated in its 'White Paper' of 1937 partly by bringing illegal immigrants to Palestine and partly by 'stocking' illegal settlement [Criden and Glebb, 1974: 233, Tabenkin, 1985: 62]. Despite all this, however, it must be pointed out that during the late 1930s and early 1940s, the relationship between the British colonial government and the Zionist leadership in Palestine began to take a new course, and develop real conflicts, the understanding of which requires further research.

44 This argument was bluntly put by Harry Viteles, general manager, Central Bank of Co-operative Institutions in Palestine when he wrote:

The great aptitude of the Jewish mind for economic organisation, backed by a democratically moulded racial spirit and organised financial support naturally

and without political intent threatens the agricultural existence of this section of a great race whose social traditions are an obstruction on the road to economic independence which co-operation offers. See, Harry Viteles, 'Community Farming in Palestine in *Year Book of Agricultural Co-operation in the British Empire* (P S King and Son, London, 1936), p 134

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ESSAR SHIPPING LIMITED

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FORM IV A (See Rule 4A (1))

Form of General Notice to be given to the Members of the public before making an application to the Central Government under sub-section (4) of Section 23 of the Monopolies and Restrictive Trade Practices Act, 1969

NOTICE

It is hereby notified for the information of the public that ESSAR SHIPPING LIMITED proposes to make an application to the Central Government in the Department of Company Affairs, New Delhi, under sub-section (4) of Section 23 of the Monopolies and Restrictive Trade Practices Act 1969, for approval to the takeover of the whole or part of SOUTH INDIA SHIPPING CORPORATION LIMITED

Brief particulars of the proposal are as follows: I Name and address of the applicant ESSAR SHIPPING LIMITED Regd Office 2nd Floor Prestige Court 101 Kengal Hanumanthiah (Double) Road Bangalore 560 027 II Name and address of the undertaking the whole or part of which is proposed to be taken over and the manner of takeover i.e. by acquisition of shares acquisition of control or management whether by the acquisition of ownership of the undertaking or under any mortgage lease or licence or under any agreement South India Shipping Corporation Ltd Chennai House 7 Esplanade, Madras 600 108 By acquisition of shares III Management structure of the applicant A public limited company managed by the Managing Director under the supervision and control of the Board of Directors IV Capital Structure of a) The applicant Essar Shipping Ltd — Authorised 9 95 00,000 Equity Shares of Rs 10/- each — Rs 99 50 Crores 50 000 11% Redeemable Cumulative Preference Shares of Rs 100/- each — Rs 0 50 Crores 10,00 000 14% Redeemable Cumulative Preference Shares of Rs 100/- each — Rs 10 00 Crores Issued Subscribed & Paid up 1 63 94 030 Equity Shares of Rs 10/- each — Rs 16 39 Crores 50 000 11% Preference Shares of Rs 100/- each — Rs 10 00 Crores 10 00 000 14% Preference Shares of Rs 100/- each — Rs 10 00 Crores b) The undertaking proposed to be taken over South India Shipping Corporation Ltd — Authorised 10 00 000 Equity Shares of Rs 100/- each — Rs 10 00 Crores Issued Subscribed & Paidup 6 00 000 Equity Shares of Rs 100/- each — Rs 6 00 Crores V Line(s) of business of the undertaking which will or is likely to emerge as a result of the proposed take over The undertaking (SISCO) is engaged in the business of Shipping There will be no change in their line of business VI Consideration for the takeover 50 Equity Shares of Rs 10/- each of Essar Shipping Ltd and Rs 65/- in cash for one Equity Share of Rs 100/- each of SISCO VII Scheme of finance indicating the source(s) of finance for the proposed takeover By issue of shares and internal resources Any person interested in the matter may make a representation to Secretary, Department of Company Affairs, Government of India Shastri Bhavan Dr Rajendra Prasad Road New Delhi within 14 days from the date of publication of this Notice intimating his views on the proposal and indicating the nature of his interest therein

Bombay
Dated 25 7 1991

By Order of the Board
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Land Reform under Military

Agrarian Reform in Peru, 1969-78

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The issue of land reform postponed for decades in Peru was addressed by a relatively progressive military leadership during 1969-78 thanks to political pressure from radical peasant movements and the economic crises in agriculture. The reform has transferred 50 per cent of the total farm area to about 33 per cent of the rural families organised mostly under various forms of co-operatives to preserve agricultural productivity while effecting an unequal pattern of rural income distribution. Consequently, the tenurial changes effected under the reform was only minimal although there occurred fundamental changes in tenancy and other agrarian relations with the elimination of all remaining vestiges of the feudal-like hacienda system. Although the reform failed to solve the problems of landlessness, it can be considered a notable success in modernising the agrarian sector so as to create the necessary conditions for autonomous industrial development like the creation of market oriented and technologically responsive rural middle class, the transfer of agrarian capital into the industrial sector, and the conversion of former oligarchies and hacienda owners into industrial bourgeoisie by cutting their links with land.

I Introduction

THE land reform implemented in Peru during 1969-78 stands out as something different, if not unique, compared to both the land reforms of other Latin American countries as well as the earlier reform efforts undertaken in Peru in the early 1960s. While the radical land reforms of Mexico (1917), Bolivia (1950), and Cuba (1917) were the direct consequence of revolution, the land reforms of Venezuela (1960), Colombia (1961), and Brazil (1964) undertaken under the US sponsored Alliance for Progress programme were more land colonisation than land redistribution proper. The Chilean reform (1964) that subsequently became radical under the elected Marxist president Allende (1970-73) was completely reversed after his assassination in 1973. Like other Latin American countries, Peru also implemented two major land reforms during 1960-68 which aimed to pacify the peasants and depoliticise the issue of land reform. But, the highly organised peasant movements in Peru that resorted, at times, to *de facto* land reform like the one in 1962 kept alive the political pressure for a radical land reform. Also, the radical land reform during 1969-78 was most effectively implemented by a relatively progressive military leadership with very little political disturbance. Moreover, land reform formed an integral part of the military's comprehensive programme for the economic and political modernisation of Peru with a view to create the necessary conditions for autonomous industrial development supported by state capital. Given the assigned role for land reforms within the military's overall programme, land reforms were implemented with the major objective of modernising the traditional agrarian structure by creating a market oriented and technically responsive rural middle class capable of providing economic and political underpinning to indigenous industrialisation and moving land based agrarian capital to the industrial

sector. The main objective of this paper is to evaluate how far the land reform implemented under the military has succeeded in achieving its objectives within the context of earlier reform attempts and the magnitude of the agrarian problem in Peru.

II Agrarian Structure in Pre-Reform Peru: 1961

Table I indicates the problem of land concentration and land use pattern in Peru before the initiation of any significant land reform measures.¹ As of 1961, Peru had a total of 0.9 million agricultural units with a total farm area of 18.6 million hectares (ha). Of the total farm area, 89 per cent was under private ownership, 11 per cent was under the communal tenure, i.e., under some 4000 Indian communities sustaining about one fourth of the Peruvian population. The extremely polarised land distribution in the privately owned sector is indicated by the fact that the large farms representing just 0.2 per cent of the total number of holdings accounted for 68 per cent of the total farm area whereas the small farms representing 83 per cent of the total number of holdings accounted for a mere 6 per cent of the total farm area. The family and medium farms together representing 16 and 25 per cent of the total number of farms and total farm area respectively were relatively unimportant. About one third of the total area under communal tenure was individually operated by community members and the remaining area was collectively used mainly for pasturing cattle. Most of the larger holdings under the communal tenure were almost under collective use and the larger holdings individually operated by community members were often hilly tracts suitable only for grazing. With increasing population pressure on a fixed amount of communal land, the lands set aside for common use in many communities started disappearing due to their distribution among members for individual use. As a result, commonly used holdings

did not exist in more than 66 per cent of the communities [Bourque and Palmer, 1975, p. 204].

The extreme polarisation in the distribution of land had a direct bearing on land utilisation pattern characterised by over utilisation of land in small farms and under utilisation of land in large farms. Table I indicates clearly the strong inverse relationship between farm size and the proportion of farm area under cultivation. While small farms cultivated about 65 per cent of their farm area, the large farms cultivated only 6 per cent of their farm area. Also, while small holders devoted 72 per cent of their cultivated area to temporary and food crops, owners of larger farms devoted only 47 per cent of their cultivated area to temporary crops. Consequently, agricultural productivity stagnated due to declining land and labour productivity in small farms caused by soil erosion and exhaustion and lower land productivity in larger farms caused by under utilised land resources.

The agrarian structures evolved around a land tenure pattern dominated by *latifundio-minifundio* (large holding small holding) system displayed, however, marked qualitative variations across the three geographically and ecologically distinct areas of Peru, i.e., the *costa*, the Pacific coastal strip with arid climate requiring irrigation, the *sierra*, the mountainous region covering the Andean highlands, and the *selva* consisting of the eastern slope of the Andean mountain and humid Amazonian marshy low lands adjoining Colombia and Brazil. The modern export oriented, and highly capital intensive coastal system has specialised in the production of sugar, cotton and rice. The sugar zone accounting for the most fertile and irrigated land of the coast was dominated by modern sugar plantations and refineries worked by salaried workers and owned by landed corporations and foreign interests. On the other hand, the cotton zone was dominated by transitional *haciendas* (estates) with wage labour system. Family and medium farms and farms work-

ed by sharecroppers were common in the rice zone and also, to some extent, in the cotton zone. The Indian communities and traditional *haciendas* worked by service tenants² which characterised the agrarian structure of the *sierra* were virtually absent in the coastal system. Even though the highly productive coast accounted for 40 per cent of the national agricultural output, 75 per cent of the total agricultural credit, and 90 per cent of the total area under irrigation in 1968, the coastal system employed only 4 per cent of the total agricultural labour [Paige, 1975, p 128].

The traditional, subsistence-oriented, and labour-intensive *sierra* system produced mainly maize, potato, beans, fruits, and livestock. The *sierra* system presented the most complicated and iniquitous tenure pattern characterised by the domination of the feudal-like traditional *haciendas* owned mostly by absentee owners and worked by various kinds of service tenants. The ubiquitous presence of the land-starved Indian communities added yet another dimension to the iniquitous agrarian structure of *sierra*. Unlike the coastal agriculture, the production system of *sierra* was based more on the exploitation of labour than the utilisation of land thanks to the unlimited supply of cheap labour provided by the vast majority of landless and land-short peasants including the community members. However, capital intensive transitional *haciendas* with a wage-labour system were found in the advanced enclaves around the urban centres of the *sierra* region like Caja Marca and Arequipa as well as in the sugar and cattle zones of Huanuco department.

The isolated *selva* region representing the agricultural frontier of Peru has specialised in the production of coffee, coca, fruits, and forestry products. Even though the *selva* has vast land resource potential, less than 10 per cent of the land area in this region could be utilised in view of the ecological constraints and lack of dependable transport network to incorporate this region with the rest of Peru. Although the *selva* followed the same pattern of land concentration, the magnitude of inequality was relatively lesser here as compared to the other regions due to the presence of large number of medium and family farms fostered by the economic viability of family and medium farms in the production of fruits, coffee, and coca.

The agrarian structure in Peru was not conducive to balanced development of agriculture. Even though coastal agriculture was very productive, its external focus and meagre labour absorption prevented its effective integration with the national economy. The coastal system also became more and more vulnerable to the fluctuations in the international price of sugar. Broad-based industrial development was also stifled by both the demand and supply constraints created by the iniquitous and traditional agrarian structure. The most skewed distribution of rural income and the bi-polar social system engendered by the ex-

treme concentration of land did not permit the emergence of a dynamic rural middle class capable of providing both an expanding domestic market for industrial products as well as political underpinning to autonomous industrial development. The subsistence and unproductive nature of *sierra* agriculture was not responsive enough to meet the food and other agricultural needs of the urban areas and the resultant food shortage induced increasing food imports. Moreover, the rural problems of landlessness, unemployment, and poverty produced by the iniquitous agrarian structure especially in the *sierra* got themselves manifested in the urban centres due to distress migration representing almost 13 per cent of rural population [Barracrough, 1973, p 13]. In addition to economic problems, the Peruvian agrarian structure also created serious political problems challenging the status quo. While labour strikes and demonstrations organised by left-leaning labour unions dominated the coastal agriculture, the *sierra* remained an epicentre of violent peasant uprisings and a fertile ground for leftist and guerrilla activities.

III

Peasant Movements and Earlier Attempts

Although land reform measures were often met with stiff opposition from the ruling groups including the military, the intensity of rural unrest especially since the early 1950s forced the government to pass some kind of agrarian reform legislation. Given the prevalent political power structure, most of these efforts were make-believe in nature aiming at confusing the peasants. The first such effort was the creation of the Commission for Agrarian Reform and Housing in 1956 which submitted its report along with a draft agrarian reform law in 1960.³ Even though the commission's concern over productivity completely protected the coastal agriculture and its exemption and other loopholes left the *sierra* virtually intact, the Congress dominated by 'landed interests' totally rejected the draft reform programme and ratified instead a land colonisation programme. The Congress, however, approved the recommendations of the commission such as the earmarking of 3 per cent of national revenue for agrarian reform (i.e. colonisation) and legalisation of peasant and labour unions. Also, an initial administrative base was created with the establishment of National Institute of Agrarian Reform (NIAR) in 1959 and Agrarian Investigation and Promotion Service (AIPS) in 1960.

The draft reform programme of the commission did not, however, fail to signal the landowners especially in *sierra* to initiate parcelisation and decapitalisation of their estates. The resultant evictions of permanent workers, service tenants, and sharecroppers as well as the very deceptive nature of the 1960 law flared up a new wave of organised land invasions in *sierra* in which both

peasants and members of the Indian communities participated. For instance, in the La Convencion and Lares provinces of the Cuzco department, highly organised peasants led by Hugo Blanco, a syndicalist-turned-guerrilla, had successfully invaded and controlled 80 haciendas and implemented their own land redistribution.⁴ These invasions were also followed by general strikes by peasants⁵ of all the other haciendas in the two regions. Besides, other areas in *sierra* also witnessed spontaneous land invasions in which mostly members of those Indian communities with age-old land disputes with the neighbouring haciendas participated.

The elected president Manuel Prado could not pacify the peasants even after his presidential decree to abolish the practice of unpaid services. This large-scale rural insurgency was the major reason for the military coup that ousted president Prado in July 1962 [Nehemkis, 1964, p 93]. Having failed to quell the rebellious peasants and having sensed the possible escalation of land invasions in other areas of *sierra*, the military itself was compelled to pass a special Agrarian Reform Law 14444 in March 1963 applicable only to the La Convencion and Lares regions. What the special law did basically was to legalise the peasants' *de facto* control over the invaded lands by stipulating them to pay compensation extending over a period of 20 years. The junta also undertook politically prudent and strategically located colonisation projects through NIAR to augment its strategy of bringing a renewed social equilibrium in the violence-torn zones. Even though the special law also provided for expropriation, the land distribution through expropriation under this law was insignificant as only 260 out of the 16,000 landless peasants in the La Convencion region who applied for land actually received land [Petras and LaPorte, 1970, p 49].

Even though the special law did succeed in demobilising the peasant movements of the La Convencion and Lares regions, it signifies the powerful role of the Peruvian peasant movements in moving the political balance towards a direct land redistribution albeit at a regional level. The law did instigate further land invasions in other parts of *sierra* as the peasants were encouraged by the government's approval of the *de facto* reform in La Convencion and Lares. Thus, just before the 1964 election, there were 306 land invasions in which nearly 3,00,000 peasants and community members participated [Paige, 1975, p 165].

The escalating land invasions and rural unrest forced the newly elected president Belaunde Terry to pass the Agrarian Reform Law 15307 in 1964 applicable to the whole of Peru. The 1964 reform law provided for expropriation with compensation subject to a maximum exemption limit of 150 ha of irrigated land or 1,500 ha of dry land or pasture land. Since the law allowed maximum permissible exemption for each

member of the landed corporations, it effectively excluded all the coastal sugar and cotton estates as well as the modern and transitional estates of *sierra* from expropriation. Moreover, the compensation specified was very close to the market value of the expropriated land. Although the law attempted to give legal titles to the plots operated by the service tenants, sharecroppers, and permanent workers, it had, in practice, the opposite effect of large-scale evictions and intimidations as the law that specified penalty against the invading peasants did not specify any penalty against the evicting landlords.

In addition to the legal loopholes, there were also other built-in sabotage mechanisms that inhibited the effective implementation of even the limited expropriation provisions of the law. Since, the Agrarian Reform Council (ARC), the highest decision-making body regarding the financing and implementation of the reform programme, was dominated by landed interests, the Agrarian Reform Financing Corporation (ARFC) was deliberately left to starve for funds to carry out expropriation. For one thing, the actual sanction of funds never reached 3 per cent of the total national revenue as stipulated by the 1960 law and for another only 68 per cent of the amount sanctioned was ever realised by ARFC during 1964-68 and a substantial portion of the amount realised was diverted to colonisation projects [Edder, 1971, pp 217-18]. Further, the financial aid for agrarian reform promised under the Alliance for Progress never materialised as US law forbids financing the expropriation of private properties. As an inevitable outcome of the legal loopholes, and administrative and financial bottlenecks, the accomplishment of the 1964 law was only marginal.

Given that there were about 1 million landless and land-short families and assuming 6.5 ha per family in the coast and *sierra* and 30 ha in the *selva*, an effective land reform required the expropriation of at least 9.7 million ha. But, only 18 per cent of the projected minimum area to execute an effective reform was made expropriable by the 1964 law and just 0.8 per cent of the land required for an effective reform was actually expropriated as of 1968 [Petras and LaPorte, 1970, p 257]. Even though most of the reform finance was diverted to colonisation projects in the *selva*, these projects failed to make much dent on the problem of landlessness. Due to the longer gestation period and heavy financial and infrastructural requirements of the colonisation projects, the number of families settled during 1964-68 were only 1200 per annum [Dozier, 1969, pp 88 and 113]. By 1969, the law expropriated only 4 per cent of the total farm lands and benefited no more than 1 per cent of the rural families including those settled in colonised lands [World Bank, 1978, p 278]. The impact of the 1964 law on land tenure was negligible as the land ownership pattern that obtained in 1969 was not very

different from that found in 1961 by ICAD [Eckstein, 1983, pp 355-56].

IV Agrarian, Reform under Military, 1969-78

To cap the failure of president Belaunde Terry on the agrarian front, the *Acta del Talara*⁶ scandal occurred in 1968. Seizing this opportunity, the military under general Juan Velasco Alvarado staged a coup on October 3, 1968 and ousted president Belaunde Terry. This military coup is so unusual in the South American context because not only was it devoid of the usual post-coup political repressions but was also followed by a series of positive reform programmes. The Agrarian Reform Law 17716 of June 1969 formed an integral part of the junta's comprehensive reform programme for the economic and political modernisation of Peru. The main aim of the reform law was the elimination of the traditional system of excessively large and small holdings, concomitant promotion of commercially viable and technologically responsive family and medium sized farms with wage labour system, and group operation for large units where economies of scale would suffer from subdivision. The law aimed to create favourable conditions for autonomous industrial development by both helping to transfer the capital still tied with land, promoting an expanding rural market for industrial products, and enhancing marketable surplus especially of food crops.

Like the earlier reform laws, the 1969 agrarian reform law was also a law for the purchase and sale of lands on a long term basis. But, unlike the earlier laws, the new law was not only comprehensive and direct but also was packed with the much needed political determination to implement it effectively. The exemption limit specified by the 1969 law varied with regions and types of exploitation. For irrigated land, the exemption limit was 150 ha in the coast but only 15.55 ha in the *sierra* and in the case of dryland, the exemption limit was twice that allowed for irrigated land in both the regions. However, basic exemption could be

denied if the land in question was needed to meet the claim of the peasants and community members and also when the landowner did not comply with the labour laws.

The effectiveness of exemption provisions was, however, diluted by Article 181 of the law that allowed parcelisation on private initiative with the intention of both generating capital for industrialisation as well as to create commercially-oriented family and medium farms to enhance marketable surplus and promote rural market. However, due to mounting opposition from the evicted permanent workers of many parcelled haciendas especially in the *sierra*, the military later amended the parcelisation provision to require that each permanent worker of the estate should be assigned a family farm and then parcels of two to 15 family farms and one larger parcel within the legal minimum could be formed. The military also established penalty for the evicting landowners which was 50 per cent of the value of the expropriated land.

The amount of compensation and its mode of payment were also considerably rationalised under the new law. The compensation for expropriated land was determined simply on the basis of the value declared for tax purposes to catch the landowners in their own trap of undervaluation. However, higher compensation was allowed for the expropriation of properties below the legal minimum. While immediate cash compensation was paid for cattle and installations, the expropriated lands were largely paid by agrarian bonds carrying 3 per cent interest and redeemable over a period of 20 to 30 years. Even though the bonds were non-negotiable the law provided that if a landowner makes an investment in an approved industrial undertaking and supplies 50 per cent of that investment in cash, the Agricultural Development Bank would redeem his bonds on their face value to supply the remaining 50 per cent of the investment. This provision aimed to move both the cash payments for cattle and installations as well as the amount paid in agrarian bonds to the industrial sector.

In addition to Reform Law 17716 and its subsequent amendments, the junta also passed other supportive legislation having

TABLE 1 LAND TENURE AND LAND USE PATTERN PERU 1961

| Size Groups (ha) | Private Units | | Units under Indian Communities | | | | Land Use Pattern | |
|------------------|---------------|-------|--------------------------------|-------|----------------------------|-------|--|---|
| | Number | Area | Units under Cultivation | | Units under Collective Use | | Per Cent of Total Area under Cultivation | Per Cent of Cultivated Area under Temporary Crops |
| | | | Number | Area | Number | Area | | |
| Upto 5 | 83.3 | 6.1 | 82.2 | 10.0 | 0.0 | 0.0 | 64.4 | 72.7 |
| 6-99 | 15.4 | 10.6 | 16.1 | 15.9 | 50.4 | 1.0 | 44.4 | 48.1 |
| 100-999 | 1.1 | 14.8 | 1.6 | 33.2 | 26.0 | 4.9 | 15.8 | 58.2 |
| Over 999 | 0.2 | 68.5 | 0.1 | 40.9 | 23.6 | 94.1 | 5.8 | 47.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 13.7 | 53.6 |

Source: Barraclough [1973, Table 11.1, 11.11 and 11.12, pp 253, 255 and 277].

significant implications. The most important among them was Law 17752 which declared water as the national resource and created a body to plan for better utilisation of water resources. With this law, the military not only established a mechanism to deal with inter-regional water sharing conflicts but also eliminated the private control of streams and other water sources by hacienda owners. Law 19977 was promulgated to abolish sharecropping, leasing, and all other forms of indirect cultivation to eliminate exploitative agricultural contracts and absentee ownership of agricultural land. Law 19973 was passed to assure the non-expropriation of farms within the exemption limits and also to establish fiscal incentives to encourage family and medium farmers who directly cultivate their farms with wage-labour.

On the administrative side, the junta not only reorganised the NIAR and AIPS into the Directorate of Agrarian Reform (DRA) and Directorate of Agricultural Promotion and Cooperation (DAPC) but also placed military officials in every crucial executive position to see to the strict implementation of the reform programme. The ARC that sabotaged the implementation of the 1964 reform law was dissolved by the military immediately after the promulgation of the reform law. Regarding the financial aspect of the reform programme, while cash compensation for cattle and installations was paid through the Agricultural Development Bank, the ARFC was authorised to issue eight billion soles worth of agrarian bonds against its previous limit of six billion soles. The adjudication procedure based on a regional approach rather than the 'estate-to-estate' approach of the 1964 law was considerably simplified to expedite reform implementation. Under the new law, once a region was declared an agrarian reform zone, all farms above the legal minimum size automatically came under the purview of expropriation. To reduce the delay involved in legal battles, the military also established the Agrarian Tribunal to deal with any dispute concerning expropriation and compensation.

As a major departure from the past, the new law first affected coastal agriculture especially the sugar estates where the foreign influence was more.⁷ The immediate and sudden affectation of the coast not only created a pro-reform political climate but also provided very little time for the coastal oligarchy to solidify its opposition. Although some of the most productive estates in the *sierra* region were also affected immediately, the junta concentrated most of its effort in the first two years in transforming coastal agriculture. Each of the immediately affected estates both in the coast and *sierra* was transformed into an Agricultural Production Cooperative (APC). Under the APC arrangement, all the land and capital assets therein should not be split but be collectively owned by the clerical staff, technicians, and permanent workers of the transformed estate. However, the

workers were allowed to cultivate their own individual plots as existed before the reform. The profit of the cooperatives should be distributed among the members only after having paid the annual instalments towards compensation. All the APCs were placed under the general direction of the Advisory and Control System for the Agricultural Production Cooperatives. The sugar refineries and other processing units which were not affected immediately were nationalised subsequently in view of their indivisibility with the sugar plantations. The sugar-based APCs were organised under a separate system known as the Sugar Cooperatives of Peru to better coordinate sugar production. While the sugar zone was completely transformed into APCs, the coastal cotton and rice zones dominated by family and medium farms were not affected much by the 1969 law except for the parcelisation of large transitional estates and limited cooperativisation attempts of a few large cotton estates.

Despite the immediate expropriation of the modern cattle and sheep ranges in Junin and around the lake Titica, the main focus of the law in the *sierra* region could be seen only after two years. This strategic delay provided substantial time for the owners of large estates to quickly carry out parcelisation and decapitalisation. Since the parcelisation provision was modified only by the end of 1971, the landowners parcelled out their estates before 1971, escaped the modified provision requiring the assignment of family farms to their permanent workers. One exception to this was the Canete valley where stiff opposition from the permanent workers forced the military to annul all parcelisation carried out in this region after the promulgation of the 1969 law. While the military transformed the most modern estates into APCs, the traditional and transitional estates were transformed into another cooperative form known as Agricultural Society of Social Interest (ASSI).⁸ The ASSIs were organised as follows. The former permanent workers or the service tenants of the transformed hacienda formed a service cooperative. They could, however, retain the independent cultivation of their small plots as in the pre-reform period. Along with these workers who actually work the estate, each adjoining community entered as a single member into the ASSI. Thus, the members of ASSIs are not individual workers but an association of workers and the adjoining communities. It was specified that each community should be given 5-82 per cent of the divisible income of the ASSI and that amount should not be distributed but only be utilised for investment in community development projects. The idea behind the incorporation of the Indian communities into the ASSIs was to eliminate their age-old land disputes with the transformed estates.

In an effort to address the problem of uneconomic and fragmented landholding system within the Indian communities, the

new law also tried to extend the cooperative concept to all the recognised Indian communities. The law provided for the transformation of the communities into cooperatives managed by the elected members of the Administrative and Control Board in each community. The law established that only those members who obtain the major portion of their income either from cultivation or from employment within the community could qualify for community membership. The aim of this provision was to enhance the land per capita to the members by eliminating those members obtaining the major part of their income from urban and industrial employment. Even though the communities were accustomed to the concept of co-operation, the time and the manner in which the reform was implemented in the Indian communities produced more violence and conflict rather than co-operation among the members. The traditional co-operative tendency in the Indian communities was seriously eroded due to the ongoing penetration of capitalism as well as the absence of commonly used lands in most of the communities. This was especially so in the crop producing regions of *sierra* where the Indian communities appeared very much like a group of independent holders. Moreover, the qualification established by the law for community membership was met with violent opposition from the most prosperous members of many communities. Despite the superficial nature of the reform with respect to the Indian communities, a number of Indian communities without commonly held lands were organised under another form of land tenure system known as 'peasant groups'.

Even though the reform programme was a 'reform from above' implemented in an essentially non-bargaining political climate, the implementation of the reform was not, however, smooth. The military was subjected to political pressures both from the workers, peasants, and landowners. The response of the military ranged from outright oppression to quick yielding to pressure. The workers of the sugar estates who were initially caught by the revolutionary image of the reform programme resorted to strikes and demonstrations when they realised that their share was affected by the annual instalment payments and their secondary role due to domination of technicians and clerical staff in decision making. Although the military's initial response was the ban on strikes and demonstrations and arrest of violating workers, the tenacity of the workers forced the military to subsequently raise their wages. The military responded to the violent opposition from the evicted permanent workers of the haciendas by modifying the original parcelisation provision aimed to benefit the landowners. Yielding to political pressure from the landowners, the military established the Agrarian Tribunal and allowed landowners to settle their expropriation and compensation disputes. While the military passed a legislation to assure the

non-expropriation of farms below the legal minimum employing waged labourers, it also passed legislation requiring such farms to distribute 50 per cent of their divisible income among the workers.

Violent land invasions also occurred in *sierra* carried out by landless rural groups such as temporary and casual agricultural workers of the estates. This was due to the nature of the new law that benefited only those who had some kind of access to the hacienda land either as service tenants or permanent workers or sharecroppers but excluded those who did not have that access. The most outstanding case among the 80 land invasions reported after 1969 was the one that occurred in Andahuaylas where 20,000 peasants invaded some 50,000 ha prompting the military to kill 20 peasants in its effort to crush the rebellion [Monahan, 1975]. These land invasions forced the military to devise new schemes to benefit the hitherto neglected rural landless groups. The result was the creation of the Integral Rural Settlement Projects (PAIRs) and Integral Development Projects (PIDs) to incorporate the hitherto neglected groups into the reform process. These regional structures comprising the ASSIs and APCs of a given geographic region were aimed to transfer at least a part of the profit of the cooperatives to the temporary workers and other landless rural groups in an indirect way. However, the military's attempt to create regional cooperatives were met with severe opposition from the members of both the ASSIs and APCs. In addition to these efforts, the military also speeded up its land colonisation programmes in the *selva* to settle the landless families not benefited so far.

The junta headed by Velasco Alvarado that carried out 91 per cent of the total land expropriated during 1962-80 was viewed as too responsive to the pressures from below [Alberts, 1983, p 267]. Fearing that the reform process would go beyond the originally planned limit, the physically indisposed general Velasco Alvarado was ousted by a relatively conservative general Morales Bermudes in a coup in 1975. With the change in political leadership, the land reform programme lost its dynamism. The area adjudicated during the 1976-78 period was essentially from land expropriation initiated by the earlier regime or from land colonisation.

V

Evaluation of 1969 Agrarian Reform

While Peru had an estimated 7,00,000 landless families by 1969, the new law envisaged an initial target of adjudicating 11.4 million ha of land and benefiting 2,42,088 by 1975 [USAID, 1969, p 140]. Table 2 shows the progress of agrarian reform during 1969-78. Since the military concentrated its effort in the coast and the most modern segments of the *sierra* in the initial period, over 65 per cent of the families that

benefited during 1969-73 were those of the permanent workers, technicians, clerical staff of the sugar estates in the coast and livestock enterprises in *sierra*. The beneficiaries during 1969-73 also included some 26,188 families settled in 582,000 ha of colonised land in the *selva*. When the focus of reform shifted to *sierra*, there was an acceleration both in the area adjudicated and families benefited partly through land expropriation and partly through parcelisation. However, the sharp acceleration tendency after 1975 was mainly due to the inclusion of communities and groups of small holders who were simply organised under some form of superficial regional co-operatives. Since land expropriation was brought to a halt after 1975, the lands adjudicated during 1976-78 were mainly from colonisation or land expropriation initiated during 1974-75. However, colonised lands represented only 10 per cent of the total land adjudicated during 1969-78 and the rest of the area was from land expropriation.

Since more families were accommodated with reduced expropriation, the average area

adjudicated per family declined from 66 ha during 1969-70 to 22 ha during 1976-78. However, the extent of reform benefit varied markedly between regions, mode of adjudication, and enterprises within each region and adjudication mode. This is evident in Table 3 showing the institutional breakdown of the reform sector as of 1978. The dominant trend in adjudication was towards co-operative and other associative forms of ownership like peasant groups rather than individual ownership. Of the total 7.4 million ha of land adjudicated under the reform, 37 per cent was accounted by the ASSIs, 29 per cent by the APCs, and 21 per cent by the peasant groups. Even though ASSIs had a higher share in the adjudicated land as compared to the APCs, the former had a lower share both in terms of total beneficiaries as well as total value of adjudications as compared to the latter. This is due to the fact that while the lands assigned to the ASSIs are of poor quality suitable mostly for extensive cultivation, lands assigned under the APCs are highly capitalised and irrigated. For instance, the

TABLE 2: AGRARIAN REFORM UNDER MILITARY PERU 1969-78
(Cumulative Figures)

| Year | Area Adjudicated | | Families Benefited | | Average Area Per Family (ha) |
|---------|------------------|-----------------------------|--------------------|----------------------------|------------------------------|
| | Area (000' ha) | Per Cent of Total Farm Area | Number (000) | Per Cent of Rural Families | |
| 1969-70 | 1527 | 5 | 23 | 1 | 66 |
| 1971 | 2310 | 7 | 59 | 3 | 39 |
| 1972 | 3226 | 10 | 87 | 5 | 37 |
| 1973 | 3600 | 11 | 166 | 9 | 22 |
| 1974 | 4768 | 14 | 202 | 11 | 23 |
| 1975 | 5839 | 18 | 240 | 13 | 24 |
| 1976-78 | 7406 | 23 | 334 | 19 | 22 |

Sources: World Bank [1973, Table 19, p 48], United Nations [1976, p 115], and Centro de Investigacion Y Capacitacion [1980, Tables 1 and 2, pp 107 and 110].

TABLE 3: AREA AND VALUE OF LAND ADJUDICATED AND FAMILIES BENEFITED BY THE MODE OF ADJUDICATION PERU, 1978

| Mode of Adjudication | Land Adjudicated | | Number of Families Benefited | Area Per Family (ha) | Value Per Family (000' Sols) |
|----------------------|------------------|-------------------|------------------------------|----------------------|------------------------------|
| | Area (ha) | Value (000' Sols) | | | |
| ASSIs | 2773435 (37) | 1544062 (14) | 60990 (18) | 45 | 25 |
| APCs | 2127166 (29) | 8625010 (77) | 103699 (31) | 20 | 83 |
| Coast | | | | | |
| Agro-industry | 139175 (2) | 4085098 (36) | 29067 (9) | 5 | 141 |
| Others | 634977 (9) | 3901667 (35) | 42432 (13) | 15 | 92 |
| <i>Sierra</i> | 1211116 (16) | 532750 (5) | 28126 (8) | 43 | 19 |
| <i>Selva</i> | 141898 (2) | 105495 (1) | 4075 (1) | 35 | 26 |
| Peasants groups | 1586463 (21) | 604019 (5) | 43922 (13) | 36 | 14 |
| Indian communities | 728227 (10) | 172243 (2) | 109709 (33) | 7 | 2 |
| Individual | 190317 (3) | 199168 (2) | 15878 (5) | 12 | 13 |
| Total | 7405508 | 11144502 | 334108 | 22 | 33 |

Source: Centro de Investigacion Y Capacitacion [1980, Tables 1 and 2, pp 107 and 110].

APCs accounted for 77 per cent of the total value of adjudications as against the poor share of 14 per cent by the ASSIs. Within the APCs, those located on the coast accounted for 71 per cent of the total value as against only 6 per cent by the APCs located both in the *sierra* and *selva* regions.

While both types of co-operatives in the *sierra* together accounting for 53 per cent of the adjudicated land had only 19 per cent of the total value of adjudication and 26 per cent of the beneficiaries, the coastal co-operatives with only 11 per cent of the total land adjudicated and 29 per cent of the beneficiaries accounted for 75 per cent of the total adjudicated value. Obviously, the peasant groups, communities and individuals are only marginally benefited with just 9 per cent of the total value of adjudications under the reform. The most notable aspect in Table 3 is that the Indian communities with just 10 per cent of the adjudicated area and 2 per cent of the adjudicated value accounted for one-third of the reform beneficiaries. The Indian communities who benefited from both land distribution as well as from their membership in ASSIs represented only 10 per cent of the total communities in Peru. Also, the individual adjudication covers not only the sharecroppers but also the members of the co-operatives received title for the small plots they cultivated in the pre-reform period.

Overall, the reform has benefited roughly 33 per cent of the rural families with 50 per cent of the agricultural land. Most of the reform beneficiaries were essentially those who already had some kind of direct access to land in the pre-reform period. The reform did not benefit the holders of uneconomic and fragmented units known as *parcelarios* and the landless labourers representing roughly 40 per cent of the rural families and the 50,000 sharecroppers who benefited from the reform represented just 5 per cent of the rural families [Rojas, 1978]. The regional co-operatives attempted by the military to benefit the hitherto neglected groups in the *sierra* actually turned out to be a political ploy to pacify the landless rural groups as very few co-operatives of the *sierra* had any substantial divisible income. Despite the poor show of the reform in terms of its inability to solve the problem of landlessness and its unequal impact across regions and rural social groups, the reform programme has definitely produced significant qualitative changes in the agrarian sector. The impact of the 1969 agrarian reform can be evaluated on the following counts.

CHANGES IN AGRARIAN STRUCTURE

Regarding the tenurial changes, Table 4 clearly shows that only the large farms were reduced both in numbers as well as in area. On the other hand, the family and medium farms, though reduced in numbers, had more or less the same area as before. This can be expected in view of the objective of the law to promote family and medium

farms both by exempting from expropriation those which already existed before the reform but also creating more of them through parcelisation. Notably, although the small holding declined in numbers, it had the same share in the total farm area. While the average size of the small and family holdings remained the same, the average farm size in the medium and large category has declined substantially after the reform. The major impact of the reform on land tenure pattern has been the transfer of the area under the large farms into the reform sector dominated by group operation. The group operation was designed to resolve the conflicting objective of effecting land distribution while maintaining land concentration.

The tenurial changes that occurred seem to be more conceptual and institutional rather than structural in nature. This is because the co-operative systems were simply superimposed on the former hacienda system and the conversion of service tenants and sharecroppers into the owners of the small plots actually perpetuated the problem of uneconomic and fragmented holdings. The most important factor that produced a significant impact on the problem of land concentration has been the parcelisation of large estates with the attendant emergence of family and medium farms. However, no one can deny the fundamental changes engendered by the reform in the realm of agrarian relations. The co-operativisation, parcelisation, and the conversion of service tenants into owners have all resulted in the complete liquidation of the hacienda social system along with the elimination of unpaid labour and other exploitative agrarian contracts as well as absentee ownership. In the coastal system, the reform has effectively

eliminated not only the land ownership by landed corporations and foreign interests but also the practice of sharecropping, leasing, and other forms of indirect cultivation. Despite the co-operativisation of the sugar zone, the private character of agriculture was fully maintained in the cotton and rice zones of the coastal area. Moreover, the impact of the reform on the communal tenure structure was only superficial in nature as there was not any restructuring of community land.

The post-reform agrarian structure in Peru was dominated by the agrarian co-operatives and the group of small, family, and medium farms owned and operated directly by the former service tenants, permanent workers, and the former hacienda owners with the wage-labour system. Although the wage-labour system replaced the earlier exploitative system of unpaid labour, it is not going to solve the problems of agricultural workers as the agricultural wage is bound to be depressed by the higher farm labour supply potential represented by the landless rural groups as well as the land-short community members not benefited under the reform.

DISTRIBUTIVE EFFECTS

The income redistribution profile can be studied both in its vertical (within each productive sector) and horizontal (between productive sectors) dimensions. Despite the compensation payment that reduced the vertical income distribution potential of the reform, substantial vertical distribution of income did occur thanks to the fact that compensation was in most cases far less than the market value of the adjudicated lands. Moreover, in view of perennial hyperinflation witnessed in post reform Peru, the

TABLE 4: CHANGES IN FARM SIZE DISTRIBUTION AND LAND TENURE PERU, 1969-79*

| Size Groups (ha) | 1969 (Pre-Reform) | | 1973 (Mid Reform) | | 1979 (Post-Reform) | | Average Size (ha) | |
|-----------------------|----------------------|------|----------------------|------|-----------------------|------|----------------------|--------|
| | Number | | Number | | Number | | 1969 | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| <i>Private sector</i> | | | | | | | | |
| Upto 5 | 83.3 | 6.1 | 66.0 | 6.0 | 59.0 | 6.0 | 1.5 | 1.5 |
| 6-99 | 15.4 | 10.6 | 12.1 | 10.0 | 11.2 | 10.0 | 14.0 | 14.0 |
| 100-999 | 1.1 | 14.8 | 0.8 | 12.0 | 0.7 | 10.0 | 286.0 | 168.0 |
| Over 999 | 0.2 | 68.5 | 0.1 | 44.0 | 0.1 | 24.0 | 6136.0 | 3621.0 |
| <i>Reform sector</i> | | | | | | | | |
| Independent | -- | -- | 4.0 | 3.0 | 5.0 | 5.0 | -- | 16.0 |
| Groups | -- | -- | 17.0 | 22.0 | 24.0 | 45.0 | -- | 13.0 |

* Figures in cols 1 to 6 are percentages

Sources: World Bank [1978, Table 2, p. 30], Centro de Investigacion Y Capacitacion [1980, Tables 1 and 2, pp. 107 and 110], and Eckstein [1983, Table 11.2, pp. 355-56].

TABLE 5. STRUCTURE OF POST-REFORM AGRICULTURAL OUTPUT PERU: 1981

| Rural Groups | Urban | Export | Subsistence | Total | Labour force (000') |
|---------------|-------------|--------|-------------|-------|------------------------|
| | Percentages | | | | |
| Small farms | 34 | 1 | 65 | 30 | 1024 |
| Medium farms | 54 | 40 | 6 | 43 | 464 |
| Co-operatives | 65 | 29 | 6 | 27 | 434 |
| Total | 53 | 27 | 20 | 100 | 1922 |

Source: Adopted from Webb [1989, Table 1, p. 40]

effect of compensation payment on the long-run vertical distribution profile will be negligible.⁹ However, the pattern of income distribution varied considerably between different groups within the reform sector (see Table 3). While members of co-operatives benefited more than others, within the co-operatives, it is the members of the APCs who benefited more as compared to the members of the ASSIs. Again, within the APCs, the members of the 12 agro-industrial APCs located in the coast benefited more as compared to those of other APCs. The members of the communal holdings benefited only indirectly through their membership of the ASSIs most of which had very low divisible income. Overall, the land reform has benefited only the upper three quartile of the rural society but virtually neglected the lowest quartile consisting of landless labourers and Indian community members [Webb, 1983, pp 103-105]. That is, the reform has segmented the rural sector by a deliberate strategy of unequal distribution of reform benefits so that the income effects of the reform is not diluted. This is not surprising in view of the reform objective of creating a market oriented rural middle class.

Although compensation payment reduced the potential for vertical income distribution, nevertheless, it facilitated horizontal income distribution. The land based agrarian capital released by the reform of 11.1 billion soles has already found its way into the industrial sector due to the combined effect of a variety of factors. The provision of the law for the immediate redemption of agrarian bonds due to inflation have provided an excellent condition for the quick transfer of the agrarian capital to the industrial sector. From a short-run perspective, the agricultural development programmes implemented in the wake of the reform brought substantial capital into the agricultural sector especially in the form of agricultural credit and investment in irrigation schemes. For instance, the amount of agricultural loans has increased from 2.8 billion soles in 1968 to 30.9 billion soles in 1977 signifying almost 11 times increase [CISE, 1981, p 19]. However, the allocation of funds within the agricultural sector still favours the dominant rural groups and regions. For instance, even after the reform, the share of the small and family farms was just 6 per cent of the total institutional credit [de Janvry and Saddoulat, 1989]. Similarly the coast still monopolises the irrigation investment as this region accounted for almost all of the 6,00,000 ha of additional land brought under irrigation after 1969 [FAO, 1987].

EFFECTS ON PRODUCTION AND PRODUCTIVITY

Even though intervening factors like climatic failures and the unavailability of consistent and comparable data preclude any conclusive analysis in this respect, it is,

nevertheless, possible to broadly indicate the effect of the reform on agricultural production and productivity. The average growth rate of crop farming, livestock, and forestry sub-sectors rose to 2.4 per cent during 1970-75 as against 1.5 per cent during 1965-69 [United Nations, 1975, p 329]. Food production continued to improve even after 1975 as the food production index (base = 1979=81) has increased from 106 in 1975 to 130 in 1986 [FAO, 1987]. Even though the index of cotton production declined continuously the index of sugar production (base = 1965=69) rose to 111.5 during 1975=76 [Thorp 1975, p 43]. The outstanding case of dramatic increase in production was rice which was imported till 1970, not only was self sufficiency achieved but also surplus for export was produced. This was achieved partly through a favourable price policy and partly through a government policy of directing the co-operative members to devote their entire individual plots and the cotton farmers to allocate 40 per cent of their farm area to food crops.

Substantial gains in productivity of both food and commercial crops were also achieved in the post reform period. The overall productivity of cereals as a group has increased from 1.551 kg/ha during 1962-64 to 2.674 kg/ha during 1982-84 which was also the highest in South America [FAO, 1987]. Moreover the average productivity of sugar rose from 144.8 metric tons in 1965 to 171.4 metric tons by 1974 [United Nations, 1975, p 319]. Peruvian agriculture also saw a favourable shift in crop pattern as the area under maize and rice increased while that of potato and cotton declined. However, improvement in the productivity of potato and cotton has more than compensated the decline in area under these crops as their total output has either remained the same or improved. The productivity levels of cotton and potato have also been the highest in South America [FAO, 1987].

More importantly, the structure of post reform agricultural output has witnessed a remarkable change to favour the urban and domestic industrial needs rather than the export sector. Table 5 gives the structure of agricultural output and employment as of 1981. It is obvious that 80 per cent of the total output is marketed suggesting the favourable effect of the reform on marketable surplus. Notably the urban sector accounted for 53 per cent of the agricultural output as against only 27 per cent by the export sector. The medium farms dominated not only in terms of their share in total output but also in marketable surplus. Similarly the co-operatives accounting for 27 per cent of the total output marketed almost 94 per cent of their share. On the other hand small farms with 30 per cent of the agricultural output spent almost two thirds of their share for subsistence. However in terms of farm employment, the small farms provided employment to over 60 per cent of the farm labour force. Table

5 clearly shows that the agricultural sector dominated by the highly productive medium farms and co-operatives has focused more on the domestic market in the post-reform period rather than the export sector as was the case before the reform.

VI Conclusion

The Peruvian agrarian reform implemented by the military during 1969-78 can be considered a definite success in terms of its major objectives. Although it is a reform-from-above conditioned often by forces from below, the military never sacrificed the major objectives although they were compromised at times. The agrarian sector has been reorganised and modernised without sacrificing productivity while effecting a moderate but unequal income distribution pattern. The agrarian modernisation undertaken by the reform also tailored the rural class structure conducive for autonomous industrialisation. Through a judicious policy of co-operativisation, parcelisation, and the conversion of sharecroppers into owners, the reform has promoted a rural middle class capable of providing both an expanding rural market for consumer goods and an increasing agricultural surplus to the urban sector. The reform has succeeded not only in moving agrarian capital into the industrial sector but also in converting the coastal oligarchies and the hacienda owners of the sierra into an industrial bourgeoisie by cutting their links with land. More importantly, the agrarian reform implemented by the military represents the first ever successful attempt made in the history of Peru to systematically and structurally integrate the agricultural and industrial sectors. Despite its favourable effects, the reform has failed to solve the problem of landlessness in Peru. The reform programme that benefited only the relatively mobilised and prosperous rural groups with some kind of access to land in the pre reform period has effectively excluded a majority of rural population consisting of landless labourers, the owners of uneconomic and fragmented holdings and the land short members of Indian communities. Thus, it seems that the reform that has finalised the demarcation of right over land has opened up the flood-gate of rural urban migration. Given the demographic pressure and a relatively limited level of employment potential in the co-operatives and medium farms as well as the slow growth of industrial employment, the *de facto* wage rate will tend to be depressed by the excessive supply of farm labour contributing thereby to rural poverty and unemployment. Even though Peru is currently utilising only 3 per cent of its national territory for agricultural purpose as against the arable land resource potential of 27 per cent of the national territory, the problem of landlessness cannot be expected to be solved through land colonisation due to the

budgetary, logistic, and ecological limitations. Land colonisation policy can be only a supplement to a well-conceived policy of increasing rural employment through public investment in irrigation and transport as well as agricultural extension and credit policies. Therefore, the durability of the agrarian reform programme depends ultimately on the nature and magnitude of effects of the reform programme on the general process of economic development

Notes

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- 1 This is based on the sample survey data collected by the Inter-American Committee for Agricultural Development (ICAD) during 1961. To this day, the ICAD data remains the most comprehensive and oft quoted source for any study on land tenure in Peru and other Latin American Countries.
- 2 The service tenants in the context of Peru and other Latin American countries are essentially peasants-cum-labourers. These tenants known variously as *feudatarios* or *colonos* or *vanaconos* have to provide 160 days of work in the landlord's estate along with additional unpaid services if required to the landlord in return for the right to cultivate a small plot of land located either within or outside the estate.
- 3 For an evaluation of this draft reform law, see Cohen [1964].
- 4 For a detailed account of the peasant movements in Peru, see Blanco [1972].
- 5 In the Peruvian context, peasant's strike means their refusal to pay the unpaid service to the hacienda owner.
- 6 An agreement between Belaunde's government and International Petroleum Company (IPC) which is highly pernicious to Peruvian national interest. But it was later annulled when IPC was nationalised by the military government.
- 7 The shares owned by foreign private interests in some of the expropriated sugar enterprises were as follows: Cartavio (99.99 per cent), Paramonga (99.85 per cent), Nepena (96.21 per cent), Casa Grande (73.51 per cent), Tuman (60.81 per cent), and Laredo (49.67 per cent). See United Nations [1976, p. 113].
- 8 The major factor distinguishing an ASSI from an APC is the presence of the Indian communities as members in the former. For instance, 16 ASSIs created in Puno were later changed into APCs as they did not have any community members.
- 9 The average annual growth rate of the consumer price index has been 33.5 per cent during 1970-81 [see World Bank, 1984, pp. 144-45].

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2087

Economic Ironies in World Politics

A Sequel to Political Ironies in World Economy

Andre Gunder Frank

This essay shows how in the short run today world economic conditions limit the discretion of, and produce unintended consequences from, political policy. These economic conditions are largely beyond anyone's control, but they have far-reaching effects on apparently autonomous political policies and social movements around the world. Uncontrollable world economic constraints and exigencies ironically subvert well and not so well intentioned political action all around the world. Their combination results in unhappy consequences for the peoples of the world.

This thesis is illustrated here by examining the present transition from socialism to capitalism in the east, the underdevelopment of development in the south, the political economic conflicts among the western powers, and the tragic ironies in the Gulf War. Unfortunately, this kind of economic determinism/reductionism is not popular in any of these places, but, equally unfortunately, it is realistic for all of them.

EARLIER POLITICAL IRONIES IN THE WORLD ECONOMY

RECENT history has borne out the theses which were advanced in my previous and complementary essay entitled 'Political Ironies in the World Economy' [Frank 1984, 1987]. Then, I maintained that in the long run since 1945 world economic conditions were shaping international and national politics and social movements. In particular, I argued that the economic conflicts and opportunities generated by the world economic crisis since 1967 would prove to be more important in shaping international relations and domestic policy than the ideological and political cold war between the United States and the Soviet Union. Moreover, I argued that many east-west conflicts were a sham and largely a cover for the always real north-south contradictions. I argued that none of the 14 'revolutions' in the south since 1974 was what it appeared to be or would turn out as was hoped or feared.

These observations among others suggest the further irony that much of the east-west conflict, especially between Washington and Moscow, is a smoke screen cover for north-south conflicts. The world economic and technological development that is now passing through a crisis of regeneration, is perhaps, again ironically, likely further to diminish if not eliminate the importance of the east-west political division of the world much more than the north-south economic division, which it is likely to accentuate still further [Frank 1984, 1987].

I also suggested that this inefficacy of 'voluntarist' state policy and politics, especially for 'national development' in a world economy, was the basis for the rise to greater importance of alternative social movements in the west, south and also in the east. Under the title *The European Challenge* [Frank 1983, 1984], I also argued that world economic conflicts made greater 'Pan-European Entente' both politically possible and desirable, as a least worst policy. In the meantime, all of these and related analyses and forecasts, which seemed unrealistic in the ideological climate of their time,

have become hard reality.

In the 1980s, political economic policies took unexpected ironical turns and have had or will have unintended ironical consequences. That is, they are ironical if viewed through the orthodox and even heterodox ideological prisms, which were then still dominant in the west, south and east. However, these 'ironical' turns and consequences are only logical repercussions of the changing world economic conditions. Now the cold war is over, and Germany and Japan have won!

The most spectacular turn is the end of the cold war and the dramatic transformations in eastern Europe and the Soviet Union. Hindsight theorists have since then attributed these changes to all manner of objective and subjective 'causes'. The world economic background of these political changes has, however, received far less attention in theory than it deserves in fact. The world economic crisis and particularly the severe recession from 1973 to 1975 prompted the west into anti-cyclical lending policies, which converted much of the south and east into ever more dependent debtors. The renewed severe recession of 1979 to 1982 then sparked the debt crisis, which erupted in Poland in 1981 and in Argentina and Mexico in 1982. The same recession also severely compromised the American and Soviet economies; the latter in particular through the decline in the world price for its exports of oil and gold.

Reaganomics or neo-conservatism (neo-liberalism in Spanish terminology) and the long cyclical recovery in the west since 1983 masked the continued development of the long economic crisis, particularly in the south and east, but also in the United States. Gross national product and per capita national income declined or stagnated in much of the now excessively debt-burdened south and east. By 1990 average per capita income in Latin America had declined by 13 per cent back to the level of the mid-1970s. In Africa, it fell back over 25 per cent to the pre-independence levels of 1960. The economies of eastern Europe and of the Soviet Union under the Brezhnev regime also stagnated or

declined. All of these completely missed the train of international economic competition and were left to vegetate on a siding, while the world economic express train rushed by on the main track.

However, if the American economy was still on track at all it was also running on steam relative to its rivals in western Europe and east Asia. Or at least, America was no longer able to generate its own steam at home. The United States ceased being the world's largest creditor in 1985 and became its largest foreign debtor instead. Ever more foreign borrowing became necessary on account of the foreign trade deficit, which in turn was generated at least in part by the growing domestic budget deficit. This growing budget deficit, its cumulation, and the resulting more than duplication of the national debt from less than 1 trillion to more than 2 trillion dollars (after President Reagan had promised to eliminate the first trillion) were in turn due primarily to the Reagan administration's vastly expanded military expenditures. Ideological get-government-off-our-backs monetarist/supply-side Reaganomics turned out to practise militar Keynesianism with money borrowed from the Europeans and the Japanese! One purpose was to keep the economy or at least its military sector afloat and to redistribute income from poor to rich at home, which succeeded on borrowed money and time.

The other purpose was to make 'America Number One Again' abroad, and that failed miserably. True, this Reaganesque 'Star Wars' policy and practice did indeed bankrupt the economically already weakened Soviet Union. However, it also nearly bankrupted the United States. Its legacy may still drive the American economy completely into the ground in the new recession, which started in 1990.

RECENT ECONOMIC IRRELEVANCE OF POLITICAL IDEOLOGY

Thus, the most important international and national economic and political policies adopted and implemented around the world

during the 1980s were often contrary to the 'dominant' ideologies. These in turn were largely irrelevant to the necessary political economic responses to world economic conditions beyond anyone's control. In my review of the revolutions in eastern Europe in 1989 [Frank 1990a] and in my answer to Francis Fukuyama [Frank 1990b], I sought to demonstrate that his ideological thesis that "in the long run ideology wins out over the material world" was belied by material reality. The latter proved the opposite in recent years—and threatens to do so again in the coming ones.

—In the 1970s, the same export/import led growth strategies were adopted by communist party led governments in the east (Poland, Romania, Hungary) and military dictatorships in the south (Argentina, Brazil, Chile).

—In the 1980s, the same debt service policies on the IMF model were adopted and implemented by communist party led governments in the east (Poland, Hungary, Romania, Yugoslavia) and by military dictatorships, other authoritarian governments, and their successor democratic governments in the south (Argentina, Brazil, Mexico, Philippines).

—There were variations on the theme of debt service, but it is difficult to correlate, let alone explain, them by reference to the political colour or ideologies of regimes or governments. The most stellar pupil of the IMF was Nicolae Ceausescu in Romania, who actually reduced the debt until the lights went out, first for his people and then for himself. In Peru, on the other hand, the newly elected president Alan Garcia defied the IMF and announced he would limit debt service to no more than 10 per cent of export earnings. Actually, they were less than that before he assumed office. Then, they rose to more than 10 per cent under his presidency. Real income fell by about half, and the novelist Vargas Llosa sought to succeed to the presidency after moving from the political centre left to the extreme right. But what does that mean, if anything?

—Communist general Jaruzelski in Poland and the populist Sandinistas in Nicaragua also implemented IMF style adjustment and 'conditionality' on their people. Both did so *without* the benefit of pressure from the IMF, since Poland was not a member and Nicaragua had no access to it. In Nicaragua, there was *condicionalidad sin fondo*, that is conditionality without the fund and without any bottom or end to the Sisyphean policy. Hungary had the most reformed economy and the most liberal political policy still led by a communist party in the Warsaw Pact. Yet Hungary paid off the early 1980s principal of its debt three times over—and meanwhile doubled the amount still owed! That is more than Poland or Brazil or Mexico which on the average paid off the amount of debt owed only once or twice, while at the same time increasing its total only two times. No matter, the Solidarnosc government that replaced general Jaruzelski and the communist party

in Poland now benefits from IMF membership and imposes even more severe economic sacrifices on its population than its predecessors. In Hungary's first free election, all parties promised to follow the IMF prescriptions after the election.

—Moreover, the western IMF and its policies were the 'secret weapon' and 'de facto ally' of the opposition groups. They are now in power or making their bid for it thanks primarily to economic and secondarily to the political crisis, which was engendered by the implementation of these austerity 'adjustment' policies with IMF support. So now there is not only no economic but also no political alternative to further austerity policies, which are tied to IMF and other western advice and conditions.

—The political irony is that 'really existing socialism' failed not least because of the unsuccessful implementation of import/export led growth models and IMF style austerity policies in the east. Yet 'really existing capitalism' pursued the same models and policies in the south and also failed. However, nobody in the west or east says so, and nobody in the south any longer has a plausible 'socialist alternative' to offer. Why was there a 'change of system' in (part of) the east in the face of failure, but none in the south in the face of the same failure? Jeanne Kirkpatrick was wrong when she said that 'totalitarian' countries in the east do not change, while 'authoritarian' ones in the west do. Actually, it is arguable whether in either case there was any 'change of system' or an 'end of history'.

—The economic crisis has been expanding and deepening in eastern Europe and the Soviet Union. The economic crisis and related economic factors contributed materially to the desire and ability of these social (and also ethnic/nationalist) movements to mobilise so many people at this time for such far reaching political ends. The decade of the 1980s, indeed beginning in the mid 1970s, is now called 'the period of stagnation' in the Soviet Union and generated accelerating economic crisis and absolute deterioration of living standards in most of eastern Europe (as also in Latin America, Africa and some other parts of the world [Frank 1988]). Significantly especially in eastern Europe, this period also spelled an important deterioration and retrocession in its relative competitive standing and standards of living compared to western Europe and, even to the newly industrialising countries (NICs) in east Asia.

Moreover, the course and (mis)management of the economic crisis generated shifts in positions of dominance or privilege and dependency or exploitation among countries, sectors, and different social, including gender and ethnic groups within the Soviet Union and eastern Europe. All of these economic changes and pressures generated or fuelled social discontent, demands, and mobilisation, which express themselves through enlivened social (and ethnic/nationalist) movements—with a variety of

similarities and differences among them. It is well known that economically based resentment is fed by the loss of 'accustomed' absolute standards of living as a whole or in particular items and by related relative shifts in economic welfare among population groups. Most economic crises are polarising, further enriching, relatively if not also absolutely, the better off, and further impoverishing both relatively and absolutely those who were already worse off, including especially women.

Thus, the momentous economic and political changes of perestroika and glasnost in the Soviet Union and eastern Europe and therewith the end of the cold war did not simply emerge, like Pallas Athene out of Zeus, from the head of Michael Gorbachev. He said himself that they were 'inevitable'. As (economic) necessity is the mother of (political) invention, had Gorbachev himself not existed, he would have had to be invented. His pragmatic praxis outpaces and overturns ideological preconceptions, including his own and those of his opponents at home and abroad. The exigencies of the world economy generated all manner of pragmatic praxis and political ironies in the 1980s.

NEW ECONOMIC IRONIES IN EASTERN EUROPE AND THE SOVIET UNION

However now in the 1990s, even the most pragmatic political policy and practice are subject to limitations and to the subversion of their intended consequences by world economic ironies.

Soviet perestroika and east European privatisation are destroying old forms of economic organisation before and much faster than they are replacing them with new ones. In particular, the Soviet Union made the serious mistake of starting perestroika where it is most difficult in industry and trade instead of in agriculture. There on the Chinese model (albeit less so) the beginning of privatisation could have increased food supplies to the cities and built up political capital for Gorbachev. Both the Soviet Union and especially eastern Europe began by marketising the industrial and commercial state monopolies and permitting them large measures of private monopoly power instead. The result is, of course, that they raise prices to consumers and intermediaries. At the same time, the state ran the money printing presses faster and faster to cover its growing deficits, including those generated by higher purchase prices from and support subsidies to these enterprises. The result had to be a breakdown of the supply system and runaway inflation. Instead of serving the consumer—not to mention the worker—better, liberalisation ironically brought the economy to grind to a screeching halt.

However, perhaps the biggest irony is that the 'transition from socialism to capitalism' is taking place just when another severe recession in the world economy is helping to pull eastern Europe and the Soviet Union

even deeper into depression. Therefore, the celebrations of the revolution of 1989 as liberation in the east and victory in the west may be premature. Marketisation through perestroika and glasnost in the Soviet Union and privatisation and democracy in eastern Europe was supposed to offer their peoples some of the benefits (although also some of the costs and discipline) of the freedom of the market = democracy in the west. East Europeans sought to become like west Europeans, and the Soviet people sought at least to join western civilisation. The transition would be unsettling, and better or worse domestic policy could smoothen or roughen the transition. Many people hoped and some still do that the more they reject old ideological ways and replace them with Reaganomic and Thatcherist ideology and practice, the better the policy and the faster and smoother the transition.

THE SHORT TERM

However, the short term economic irony is that the transition is accelerating economic decline in the east. Moreover, in world economic terms this transition in the east is being promoted at the worst possible time: the world economy is falling into severe recession again in the west, which exacerbates the difficulties of transition in the east. In 1990 already production declined an average of 20 per cent and spelled severe depression and galloping inflation in the east. This inflation is measured in terms of the national currencies, which become worthless. Accordingly, these economies are being 'dollarised' or 'D-markised'. Therefore, the real market value of their properties and goods is suffering a classical and severe deflation in terms of these world currencies. (Ironically the dollar is increasingly valued only in the socialist or ex-socialist east and the underdeveloping south, while it is declining in value on the world market.)

Unemployment is ravaging the population in the ex-east, which has no unemployment insurance, because previously the old ideology and full employment made it unnecessary, and now the new ideology and bankruptcy make it impossible. In Germany, politically accelerated unification deepens the depression and aggravates unemployment of already nearly two and a half million in the east. Ironically also, unification was accelerated to avoid mass migration out of the bankrupt east. Yet unification so accelerated the east's bankruptcy and unemployment as to promote even more westward migration.

Ironically, one of the short term victims of this political economic process are the very civil society social movements, which brought on the transformation of eastern Europe in the first place [Frank 1990]. Progressive social movements and their organisations with 'forum' names in several countries have everywhere been bypassed in the rush to organise new political parties through which to reorganise the state. Sym-

bolically, in Czechoslovakia two of the leaders of Civic Forum in civil society, Vaclav Havel and Jiri Dienstbier, became president and foreign minister instead. The new leader of the now split Civic Forum is the economics minister Vaclav Klaus, who pushes ultra right wing free marketeer Thatcherist views and policies. No doubt, this ideological reliance on the 'free' market will fail to address the real problems in the economy and will sharpen economic, social, and political polarisation. That, in turn, will again generate new social movements. However, then they will threaten to become fascistoid populist ones instead.

In the meantime, the plans for 1992 and now the new recession have made the west preoccupied with its own economic problems. Now the Gulf War has aggravated these Western markets, capital, and attention are constrained by problems at home and in the Gulf, and they offer little more than moral support to the ex-east. Therefore, western Europe is doing precious little to forestall these dangerous political developments in the east through economic aid. The new European Development Bank is itself underfunded and only makes loans at commercial rates. At the moment, the prospects for a 'European Marshall Plan' are dim indeed. The west has not even offered to write off or significantly reduce the enormous external debt payments with which several countries in eastern Europe are burdened. (However the West German state *de facto* assumed the US 20 billion dollar of GDR foreign debt and much internal and enterprise debt at the time of currency reform before unification.) Except for the ex-GDR, the economies of eastern Europe and the Soviet Union are receiving scarce support or even attention from the west. At the same time, the previous east European and Soviet regional economic arrangements are breaking down.

THE MEDIUM TERM

Therefore, the medium term economic irony is that domestic economic and political liberalisation and the breakdown or abolition of COMECON are breaking up the only still available international economic foundation of east-east trade. Eastern and central Europe are dependent in various ways on fuel and other raw materials from the Soviet Union. This dependence is physically based on the already installed network of oil and gas pipelines and railways. (A further bitter irony is that Iraq had agreed to pay off its own large debts to several east European countries by supplying them with oil - until the UN embargo and then the Gulf War left eastern Europe high and dry and with tripled import prices for oil to boot.) The dependence on the Soviet Union is also economic, since these countries cannot import and pay for fuel from elsewhere. They cannot do so as long as they are in turn dependent on manufacturing exports to the Soviet Union and to each other, which they cannot sell in

the west because they are not competitive there. The east also has difficulty selling them in the south, because the west and east Asia increasingly outcompete it there and must take away some of its market share to compensate for domestic and export markets lost to the new recession.

Therefore, conversion of east European and Soviet trade from transferable accounting roubles to hard cash dollars can only exacerbate the problem of their mutual economic dependence. The medium-term economic result can only be that the short-term domestic economic depression and unemployment in each country is exacerbated by the international decline of its export markets elsewhere in the region and the impossibility of replacing them by export markets in the west and south. Dollarisation and regionalisation among republics within the Soviet Union and Yugoslavia and elsewhere extends the same problem inside these 'countries'. Again, the new ideology and politics is also replacing the old international economic organisation before it can be replaced by another new one. Therefore, another economic irony is that, after the cancellation of its foreign debt, the next best thing eastern Europe could get from the west would be a fund of convertible currencies to maintain its existing international trade network among each other and with the Soviet Union until it can be replaced by more multilateral east-west trade in the long run. However, the long run also poses further economic limitations and ironies.

THE LONG TERM

The long term economic irony is that many of the 'second world' east Europeans who sought to join the 'first world' west will find themselves in the 'third world' south instead. This irony is long term in three respects. The first one is not really so ironical except in reference to present ideals: it is that historically eastern Europe, albeit culturally European, was never economically developed like western Europe in the first place. Therefore, their people have little historical claim to become west European now. Only part of the eastern part of Germany, the Bohemian part of Czechoslovakia, and in some sense part of Hungary, Slovenia and maybe part of Croatia in Yugoslavia in central Europe plus perhaps the Soviet Baltic republics were historically similar to western Europe.

The second long term economic irony is that 40 years of the politics and ideology of 'socialist development', literally not to mention the 'development of socialism', seems not to have changed the economic positions of these regions, neither relative to each other, nor relative to western Europe. (Indeed there is some question of whether these 40 years even changed their internal class structure much.) If there was any change of position (or of class structure) it was mostly the decline of Bohemia, Hungary, Slovenia and perhaps the Baltics

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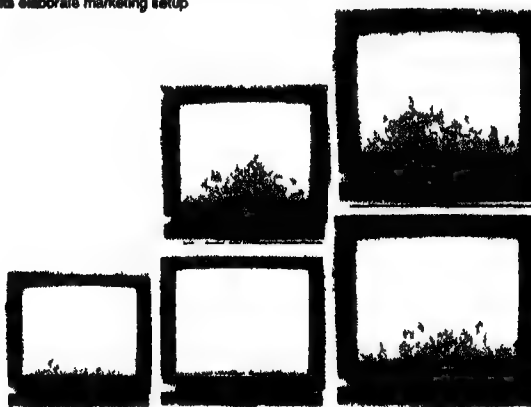
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in central and 'socialist' Europe relative to the rise of parts of Spain, Italy, and Greece in 'capitalist' southern Europe. Industrialisation, of course, modified the class structure everywhere in Europe, but apparently not more and perhaps less in the east than in the west and south. Therefore, only the above mentioned regions in central Europe now have a fighting chance to recuperate their historical positions in Europe, and that in competition with southern Europe. Public opinion in southern Europe already shows itself very aware of this threat, while in central and eastern Europe it still appears even unaware of the problem.

The third long-term economic irony, therefore, is that the same present day political and ideological changes in eastern Europe through which its people aspire to join the first world in western Europe now threaten instead to place eastern Europe economically in the third world—again, for that is where it was before. Poland has already been Latin Americanised. The earlier dependent agricultural (and only temporarily, oil) export economy par excellence of Romania will be lucky and thankful if it can even recuperate that position, now in competition with Bulgaria, which developed agribusiness for export during the 'socialist' regime.

The same problem obtains *a fortiori* in the Soviet Union. A few parts of Russia and the Ukraine were westernised by Peter the Great and industrialised by him, Witte, and Stalin. But most of the Soviet Union at best still is a third world economy, like Brazil, India and China, which also have industrial capacities especially in military hardware. The Transcaucasian and central Asian regions, whether they remain in the Soviet Union or not, are not even likely to be Latin Americanised, but rather economically more Africanised or, god forbid, politically Lebanonised. The same sad fate may befall much of southern Yugoslavia, whether it remain one or, more likely, become several.

Many of these regions now face the serious prospect, like Africa, of being marginalised out of the (admittedly exploitative) international division of labour. Their natural resources have been squeezed dry like a lemon for the benefit of industrial development farther north, and now the regions and their peoples can be discarded. That is the political position, for instance, represented by the Russian president Boris Yeltsin. The southern inhabitants' wrath at having so long been exploited in the past and demanding its cessation for the future is understandable. So is the appeal to (or discovery of) 'traditional' ethnic and national identity and inter ethnic strife in response to aggravated economic deprivation, such as 30 per cent unemployment in parts of Soviet central Asia. However, political 'independence' and inter ethnic strife in central Asia or central Africa now can afford them little economic benefit in the future. On the contrary, the erection of politically motivated ethnic and other bar-

riers to economic interchange, and even exploitation, threatens to convert them separately and altogether (back) into backwaters of history. (However, the 'centrality of central Asia' was a fact of history for millennia before the world's present north-south arrangement took shape in the 16th century [Frank 1991c].)

Bitter experience has shown that second world 'socialist' 'national development' in China, the Soviet Union and eastern Europe was unable to break out from or overcome the constraints of competition in the world economy. The events of 1989 and 1990 eliminated all their remaining ideological legitimacy and credibility. However, while many observers limit their attention to the bankruptcy of the 'socialist' component of this ideology in Europe and Asia or Africa, reality has undercut its 'nationalist' component equally or even more so. For, other national development strategies in Africa, Latin America, and Asia were essentially similar and often failed equally or even more so. So we observed in our comparative review above of economic policy by communist parties, military dictatorships, and their successor democratic governments. Thus, the long term economic irony is that the prospects for 'another national development' by any other political means, whether separately or together, are not good. On the contrary, these prospects are now quite bad for the underdeveloping third world regions of eastern Europe and the Soviet Union. However independently of their national ideology or state policy, they are equally bad and in some cases even worse for most still underdeveloping third world regions elsewhere.

PERSISTENT ECONOMIC IRONIES IN THIRD WORLD

Ironically, economic underdevelopment persists in most of the third world south in the face of almost all manner of ideological solutions and political efforts to overcome it. This story is not new and requires little elaboration here. However, there are some new ironic twists of fate, which merit note in the present context. In this regard, I may be permitted to repeat my reflections in my recent and partly autobiographical and auto critical essay 'The Underdevelopment of Development' [Frank 1991b].

Real world system development has never been guided by or responsive to any global and also not to much local 'development' thinking or policy. In this world economy, sectors, regions and peoples temporarily and cyclically assume leading and hegemonic central (core) positions of social and technological 'development'. They then have to cede their pride of place to new ones who replace them. Usually this happens after a long interregnum of crisis in the system. During this time of crisis, there is intense competition for leadership and hegemony. The central core has moved around the globe in a predominantly westerly direction. At the

sub-system levels of countries, regions or sectors, all 'development' has occurred through and thanks to their (temporarily) more privileged position in the international division of labour and power. The recently prevalent notions of 'national development' are the result of a myopic optical illusion. These notions and the illusion are derived from a self-interested selective tunnel vision perception. It lacks an objective global assessment of real world development. This development ideology was based on and is now doomed by this self-illusory perception. It is less and less sustainable in the face of hard reality. Instead as suggested above, we now need to replace this development theory, as well as micro-supply and macro-demand side economic theories, by another one. We need a more rounded, dynamic and all-encompassing supply and demand side economics to analyse, if not to guide, world economic and technological development.

The most widespread political ideology and 'development theory' for the last decade or two has been that 'national development' is best pursued through the 'magic of the market' by letting 'free enterprise' promote 'export led growth'. The stellar models are South Korea and Taiwan. These two have indeed done well in the world market recently. Unfortunately for the ideological model however, their success was not the result so much of free enterprise as of state intervention. Moreover, their state's ability to do so was in turn based on three earlier political factors: pre-war Japanese colonialism, post-war American imposed land reform, and massive cold war subsidies.

Unfortunately for the ideological peddlers of this political model and for the many countries of Latin America, Africa, and south east Asia who pursued essentially the same export-led growth strategy, outside the city states Hong Kong and Singapore, it failed miserably elsewhere. Moreover, the possibilities of continued success by Korea and Taiwan are now increasingly questioned, not to mention the political and social costs of these dictatorships while they lasted. The reasons of course are the exigencies of competition in the changing world market, particularly during the new world economic recession since 1990.

In this increasingly technological competition in and for the world market it is not yet clear who has made the grade to survive. To put it differently, in this world economic game of musical chairs it is not yet clear who will still have a seat when the music stops the next time, as it well may in this new recession. Perhaps Korea and Taiwan have, but more than likely they have not, and their success in carving out a world market share will be temporary at best.

However, it is clear that outside Japan much of the remainder of Asia, Africa and Latin America, as well as most of eastern Europe and the Soviet Union have not made the grade. Resource saving industrial development and the development of a ser-

vice/information society deprives them of their 'traditional' world markets for raw materials and reduces their comparative advantage as low labour cost producer exporters. At the same time, technological upgrading to remain competitive in the world market has failed in most of this third and 'second' world, but of course also in many sectors and populations in the industrially developed 'first' world and particularly in the United States.

Returning to my autocritical essay on development again

—What is a realistic prospect, therefore, is the growing threat to countries, regions and peoples to be marginalised. That is, they may be involuntarily de-linked from the world process of evolution or development. However, they are then de-linked on terms, which are not of their own choosing. The most obvious case in point is much of sub-Saharan Africa. There is a decreasing world market in the international division of labour for Africa's natural and human resources. Having been squeezed dry like a lemon in the course of world capitalist 'development', much of Africa may now be abandoned to its fate. However, the same fate increasingly also threatens other regions and peoples elsewhere. Moreover, they may be found everywhere. In the south (e.g., Bangladesh, the Brazilian north east, central America, etc.), in the ex-industrial rustbelt, the south Bronx, and other regions and peoples in the west, and in whole interior regions and peoples in the 'socialist' east, e.g., on both sides of the Sino-Soviet border. Events in 1989-90 must accelerate and aggravate the marginalisation of millions of people in eastern Europe and the Soviet Union. As noted above, many regions there are more likely to be Latin Americanised, and some even Africanised and Lebanonised, instead of achieving the west Europeanisation to which they aspire. —People in all these and other places may now be sacrificed on the altar of growth pole 'development' policy. They fall victim to inefficient competitive participation in the international division of labour in the world capitalist market and to contemporary social evolution. However, the west may well receive much more migration by the few who can, among the many who wish, to escape this marginal existence in central America and Africa. North America and western, but soon maybe also eastern, Europe and Japan will be the magnets. Many people prefer to survive exploited by the division of labour in the north than to suffer death by war and starvation or marginalised life without hope in the south.

—In other words another economic irony is that a dual economy and society may now indeed be in the process of formation at this stage of social evolution in the world system. However, this new dualism is different from the old dualism I rejected in my earlier writings [Frank 1967 and others]. The similarity between the two 'dualisms' is only apparent. According to the old dualism, sec-

tors or regions were supposedly separate. That is, they supposedly existed without past or present exploitation between them before 'modernisation' would join them happily ever after. Moreover, this separate dual existence was seen within countries. I correctly denied all these propositions. In the new dualism, the separation comes after the contact and often after exploitation. The lemon is discarded after squeezing it dry. Thus, this new dualism is the result of the process of social and technological evolution, which others call 'development'. Moreover, this new dualism is between those who do and those who cannot participate in a worldwide division of labour. To some extent, the ins and outs of this world division of labour are in part technologically determined. Thus, this new dualism may partake of the old technological dualism.

ECONOMIC IRONIES IN THE 'WEST'

In the 1984 forerunner to the present article on ironies, I wrote about the 'Debt Bomb'

The danger of another crash in our world financial house of cards is a domino like chain reaction spreading through the world banking system into the world economic system. [It] would feed economic and political nationalism and encourage the resurgence of economic blocks such as we had during the 1930s. A dollar zone, a mark zone, a yen zone. [Frank 1984: 1987]

I had already mentioned the possibility of such regionalisation or bloc formation in the world economy in 1972 [reprinted in Frank 1981, Chapter 1], and I returned to this theme in greater detail [Frank 1986 and 1988]. Then, however, I saw this regionalisation already occurring in the real economy, and I returned to the debt bomb and the possibility of a crash as an aggravating factor. In particular, I analysed what *Business Week* had already termed the 'debt economy' in the United States. I emphasised the basic problem of the non-competitiveness of the American economy and therefore the decline of the dollar, the derivative twin budget and trade deficits, the crisis in the oil, real estate, and farm sectors, the resulting emerging crisis in the Savings and Loan (S and L) 'thrifits' or mortgage banks, and also the weakness of the commercial banks and the annually increasing number of failures among them, the shift from equity to debt and junk bond finance and swollen interest obligations of industrial and other corporations, which they would be unable to meet when their earnings and cash flow next decline and the dangerous exposure of all of these to the shock of the next recession. It would be the fifth and possibly the most severe in this world economic crisis, which started in 1967. Moreover, I argued that in this recession the traditional anti-cyclical monetary and fiscal instruments would already have been exhausted. This is because they had already been misused just to maintain the preceding cyclical recovery,

which itself had already exacerbated economic conflicts of interest between the United States, Europe, and Japan. Since then, all of these observations have become common place.

The next recession is here! The rate of profits declined again in 1989, continued to decline in 1990, and the recession became evident in 1990—some time *before* the Gulf crisis and war. A very small sampling of recent newspaper headlines (and text) sets the tone: 'US Profits Sign of a Slump (for second year in a row)', '13 Per Cent Fall Forecast for US (3.4 per cent annual rate in the last quarter of 1990)', 'Amid Signs of a US Recession, Bankruptcies Hit a Record', 'US Firms' Debt Service Burden Grows', 'US (corporate and municipal) Debt Downgrades Hit a Record in 1990', 'Portfolios of US Banks Are Shakiest in 15 Years', '20 Big Banks Head for Failure: US Agency Says Many Will Need Bailouts', 'US Deposit Insurance (of bank accounts) is 'At a Low'', '1991 Bank Failures Threaten US Fund', 'Most Large Institutions are on Verge of Insolvency, Congress Study Says', 'This Is a Rescue? The S and L Bailout Is Faltering And the Metc Keeps Running', 'No End in Sight: Politicians Hurl Blame as the US Savings and Loan Crisis Races out of Control' but not only at the S and L's, and not only in the USA.

The recession is already worldwide. Canada and Australia are in severe recession. 'UK Slump Worse Than Expected', France, Spain, Italy, the Netherlands, Sweden even Switzerland ('bank profits down') have reduced or negative growth rates. Africa is in depression. In Latin America, GNP declined 0.5 per cent and per capita 2.4 per cent in 1990, on top of a 10 per cent decline in the 1980s. As observed above, now it is the turn of eastern Europe with an overall 20 per cent decline in 1990, and of the Soviet Union. Now growth rates are down and debt up also in China and in India, which the crisis largely bypassed in the 1980s.

Are Japan and Germany exceptions? Can and will they be the replacement locomotives for the world economy during the early 1990s? Growth rates have declined already in Japan, as well as in Korea and Taiwan. The Japanese speculative bubble has burst as well. The stock market declined 40 per cent in 1990, real estate prices plummeted, and Japanese investors and speculators transferred funds inward from abroad to help them cover their losses at home. That is also why for the first time since 1986 and now that the United States needs it most, in 1990 the net flow of Japanese capital was *out* from the United States to Japan. The prospects for a severe recession in Japan and the East Asian NICs are quite real. Either way, the prospects for economic co-operation instead of competition by Japan in the world economy are quite dim. 'G-7 Aides Disagree on Policy', 'G-7, by Default, Gives Japan Go-Ahead on Loans to China'. If Japan primes the pump or steams up its locomotive at all, it is likely to do so in its

own region in Asia—and Germany in Europe.

The July 1990 Houston Summit of the G-7 industrial countries confirmed the live-and-let-live 'Sinatra doctrine': each one does it 'my way', and the others nod approval, as long as they have no other choice. At that summit, prime minister Kaifu of Japan announced a large scale programme of loans to China, and chancellor Kohl of Germany, a similar state, guaranteed loan of 5 billion DM to the Soviet Union. President Bush reiterated his 'initiative for the Americas' for a free trade zone from Alaska to Patagonia (and \$ 7 billion remission of debts out of the over \$ 250 billion!), which he had already hurried to announce a week earlier. In each case, the other two listened, acknowledged, and did nothing either to participate or to stop it. Thus, they consecrated what the Soviet spokesman Gennadi Gerasimov had in another context baptised as 'the Sinatra doctrine'.

Germany's first priority was and is reunification. The economic and social costs are enormous, and they are borne mostly by the people and their government(s). So far private industry in the west of Germany has been very slow to invest in the east of Germany—and much less even in the east of Europe. How long it will take Germany to get up the steam to put its locomotive in motion remains to be seen—in central and eastern Europe. Little of this locomotive power is likely to be visible in the world economy elsewhere. On the contrary, as an economy that has been very dependent on exports to the world market, Germany itself has already suffered from declining export markets due to the recession elsewhere in the world economy.

Thus, the threat that world recession in the early 1990s will be even more severe than in the early 1980s is quite real. As I wrote in 1989 about 'Blocking the Black Debt Hole in the 1990s'.

The question is less one of a soft or hard landing than whether the world economy has already bottomed out, or whether the next recession will be still deeper once again. This is a serious danger, because the next recession threatens to exacerbate all these imbalances and to accelerate their resolution by sucking the world economy into the black hole of debt (to use the expression of MIT economist Lester Thurow). The accumulation of domestic and foreign debt in many parts of the world is likely to inhibit further domestic reflationary finance (call it Gramm-Rudman in the United States) to combat recession just when it is most needed in the next recession. That would be among other things to forestall the bankruptcies of junk bond financed corporations and banks dependent on interbank loans. Both US and Japanese monetary policies would be damned if they do and damned if they do not...

The continuing world economic crisis is exacerbating the accumulated regional and sectoral imbalances especially among the

world's major trading regions of America, Europe, Japan, and their third world and socialist trading partners. They will find it ever more difficult to manage the growing conflicts between financial debt speculation and real economic productive investment, through the already conflicting monetary, fiscal, exchange rate, trade, security and other policies. Therefore, another (again more severe?) recession threatens also to spark another (also more acute?) crisis within the crisis. More of the same muddling through is likely to become impossible. Any possibility of reimposition of the old American dominance (or an alternative Japanese new dominance) in a multilateral world economic and financial system or its co-ordinated management by the G-7, G-5 or G-3 is improbable in such a recession (a US bomb and Japanese yen based Pacific basin political economic consortium is possible but rather unlikely, and one including Europe even less likely.) The most likely possible alternative resolution will therefore be increasingly neo-mercantilist regionalisation of the world economy into American dollar, Japanese yen and German led European ECU/D mark zones and/or trading (and political?) blocs [Frank 1990c].

ECONOMIC IRONIES IN THE GULF WAR

That was still the situation on August 2, 1990 when Iraq invaded Kuwait and all the more so on January 17, 1991, when the United States with 23 other countries in tow started bombarding Iraq. Tons of ink have already been used to analyse and/or propagandise this war and its buildup, and I have myself added my two cents' worth [Frank 1990d and 1991a]. Here, we may confine our observations to the [ironical?] probable economic background and possible economic consequences of this world geopolitical drama and human tragedy.

Both invasions had economic backgrounds if not motives. Iraq's were its huge debt and reconstruction needs after its war with Iran; Kuwait's drain of their common oil field and other long standing disputes; the decline in oil prices due to the recession and increased production by Kuwait and Saudi Arabia, which were perhaps deliberately decided to weaken Iraq. President Hussein pleaded Iraq's oil interests to the Arab Summit in Baghdad in May 1990 and again to the American ambassador in Baghdad in late July. To no avail, and he invaded Kuwait in August—after the American ambassador indicated that the United States had no interest to intervene.

In the wake of an oncoming recession and cuts to the Pentagon budget, president Bush already invaded Panama eight months earlier. Now he deliberately escalated the crisis sparked by president Hussein's invasion into a full scale war. That was not unusual and should not have been surprising. In the face of every recession since the second world war, every American president before him also had recourse to a military

response and/or escalation [Frank 1990 and 1991a]. Former president Nixon summarised in the *International Herald Tribune* on January 7, 1991: "When Senator Bob Dole said we were in the Gulf for oil as secretary of state James Baker said we were there for jobs, they were criticised for justifying our actions on purely selfish grounds. We should not apologise for defending our vital economic interests."

However, American economic interests and their defence extend far beyond oil the Gulf and jobs at home. These interests are worldwide, and the primary threats to them are competition from Japan or Germany, or from a Japanese led Asia or a German led Europe—all the more so now that the Soviet 'threat' is virtually eliminated. As we observed, the cold war over—and Japan and Germany have won! The Reaganomics of the 1980s helped eliminate the Soviet Union from the running but at the cost of mortgaging the American economy and even its government's budget to the Japanese and the Europeans. The United States is now economically dependent on continued capital inflows from its principal economic rivals, and the Japanese already began to withdraw capital from the United States in 1990 instead. In response to even deeper recession and/or great deliberation, they now threaten to pull their financial rug out from under the United States and its dollar altogether. At the same time, trade and other economic disputes grew ever deeper at various points including the GATT Uruguay rounds. Japan was distinctly un-cooperative, and Europe refused to budge more than a few per cent on the issue of agricultural subsidies. At the same time, the road to 'Europe 1992' was made more difficult by the 1989-90 events in eastern Europe and by Britain's intransigent looting dragging.

Comes August 2, 1990. President Bush and his secretary of state Baker go on a spectacularly successful diplomatic campaign: line up their recalcitrant allies and even the erstwhile enemies, like the Soviet Union or Syria, behind American policy in the Gulf—and by extension elsewhere. The most enthusiastic support for president Bush came from the British prime minister Thatcher. She was in Washington in early August. There in addition to sharing her ideology with president Bush as she had with his predecessor Reagan, she now took advantage of an opportunity to support him—or even to egg him on?—to throw another monkey wrench into the process of European unification.

However, president Bush required little encouragement to proceed, despite—and perhaps rather because of—those with the least enthusiasm: Japan and Germany. They are the rival economic powerhouses that hold the economic keys to American economic survival during this new recession. However, they have no seats or voice, let alone a veto, in the Security Council! At that is where the first battle of the Gulf War

was to be fought—to align friend and foe behind American military might, which is the only one it still has left to support its geopolitical power

This is where mutually supportive further ironies come in. Since the second world war, the United States has not been able to use its military might against Japan and Germany, and it can no longer do much for them either, now that the Soviet military threat is waning. However, the United States still can—indeed without Soviet encouragement now all the more so—use its military might in and against countries in the third world. The other economic irony was spelled out by the American *National Interest*: 'The fact [is] that the military power of the United States was the only thing capable of mounting an effective riposte—when the economic power of a Japan or a Germany was virtually irrelevant. The London *Sunday Telegraph* (January 20 1991) comments editorially: 'This is not going to be a multipolar world. If there is to be a new world order, it will be based on US military power with Britain playing a key role. Saddam's scalp will be its first trophy.'

In other words the crucial irony is that president Bush has taken good advantage of a black golden opportunity to try to redress declining American hegemony against its principal economic rivals in Japan and Germany by playing the only—that is military—ace he still has up his sleeve. Of course, at the cost of Iraq and the third world, where this war is being 'played out'. Without exception all east-west wars since 1945 were fought on third world soil. Now the west-west competition is to be fought out in the south as well.

In June 1990, the former editor of the American foreign policy establishment's *Foreign Affairs*, James Chace, could still write in *International Management*, Europe's business magazine:

AUF WIEDERSEHEN USA There will be a European challenge. Europe has turned Servan Schreiber's thesis on its head. Today it is the United States that is fearful of Europe's economic strength and worried about its own relative economic decline. Approaching 1992—if there are severe economic dislocations or, let us not forget, a global recession—there is no telling how the new Europe will react. From this prospect arises the even more frightening spectre, to Americans at least, of a Fortress Europe dominated by great industrial groups that could freeze all competitors out of its market. If this should happen, the risks to the United States would be huge. The likelihood that the Europeans will eventually form a pan-European security system of their own will further reduce US power and influence. Washington is almost desperately eager to remain in Europe. 'The United States should remain a European power in the broadest sense, politically, militarily and economically,' said US president Bush in a speech last month.

Two months later, Saddam Hussein offered president Bush an opportunity to

meet the European challenge. President Bush successfully bluffed or finessed all of the Europeans, albeit less so the Japanese, to line up behind him—and to fall out among each other. Thatcher lost the battle and her job, but so far she has won her war both in Iraq and in Europe! The war is exacerbating the political and economic conflicts of policy within Europe, on which she made her stand against a more united western Europe.

With her help, the United States also has already achieved at least two major political coups in Europe beyond getting its support for the war itself. One is to scuttle even the pretence at a more independent European policy towards the west Asia and in favour of a more reasonable settlement of the Palestine-Israeli issue. Israel's all-purpose minister Isaac Rabin, recently declared that Israel has no use for Europe or the United Nations. For the time being, the American-Israeli line is unchallenged, except by the for now weakened Arabs themselves.

The other coup is the transformation and diversion of NATO. Far from constructing a stronger post-cold-war European pillar in NATO, let alone an alternative European security system, the Europeans have now acceded to an already earlier American pressure, which they previously resisted. To turn the NATO thrust south-eastward to intervene in west Asia in particular, and in north-south conflicts in general. American troops, bases, material, and logistics, but also those of several European countries' NATO contingents have been diverted from the defence of western Europe against the Soviet Union to the attack against Iraq in west Asia! They even took their Central European Air 1 and Battle plans with them to Arabian desert. Moreover, the Europeans are paying not only their own but also many of the American costs of this diversion. Europeans are even paying for the fuel that American B-52 bombers use when they take off from and are refuelled by bases in Europe. The use of Turkish bases to bomb Iraq also serves to engage NATO and through it the reluctant Germans, in this American-led north-south war.

The Europeans are not only supporting president Bush's war politically, militarily and financially, now even with modest contributions from Germany. Beyond that, a week before this writing it was announced that the Europeans have finally also caved in on the issue of agricultural price supports, their biggest protectionist measure, which had scuttled the last meeting of GATT. Symbolically its last deadline for reconsideration was the same January 15, 1991 set by the United Nations for Iraq to get out of Kuwait—and for the United States to go to war!

The decisions and *fait accompli* to go to war were made at the highest national and international levels. These governmental leaders not only failed to consult their populations and voters. President Bush deliberately avoided putting the issue to

Congress until long after the Congressional elections and his subsequent doubling of American Gulf troops in November 1990. In so doing, these government leaders ironically also pulled the rug out from under the social movements in civil society both in the United States and western Europe, after these movements had already been bypassed in eastern Europe. The mobilisation of civil society around a myriad of local, national and international issues of gender relations, environmental issues, and ironically since the shooting started the peace movement received a brutal blow. Even the director of that old cold-war think tank, the International Institute for Strategic Studies, observed in the *International Herald Tribune* (February 11, 1991) 'the current collapse of pacifist movements in western countries, not the least Germany, is one of the notable features of the war'.

The media confronted people in Europe with a choice between the Iraqi Saddam Hussein and the American George Bush. With that choice, the man in the street and in front of his TV set chose the white American. More women, fortunately or wisely, refused that false choice and opted for peace instead. Nonetheless, European civil society rapidly became shot through with rabid racism and chauvinism directed against any and all Arabs and Turks—in total disregard of the fact that many governments of Arabian countries and Turkey (which also has its eye on some Iraqi petroleum-producing territory) are loyal and active members of the allied coalition of the Americans and Europeans. Thereby these west Europeans may also be demonstrating a preference for replacing cheap non-European labour from the south by the newly available source of European cheap labour from the east. Certainly, the people in Europe, and of course in the United States as well, demonstrate that they are not entirely duped by the myths their leaders and media propagate about any supposed 'principles' in this war. Instead, these people in the north demonstrate through their own belligerent action against coloured immigrants or workers from the south on the streets at home that they feel and understand the war in the Gulf is between *their* north and the south. At the same time, the people in the south feel and understand the same thing. That is why all around the equator not only Arabs and not only Muslims, but all kinds of other people in Asia, Africa, and Latin America demonstrate against the United States, which is making war against the third world, and in support of Saddam Hussein who, however cynically, has been cast in the role of defender of the south.

The perhaps also ironic question remains whether in the long run this north-south war in the Gulf will recoup American hegemony or destroy it. President Bush is well aware of this major question. He devoted much of his January 1991 state of the union message to the Gulf War and gave his answer directly to this question and perhaps indirectly to

why we went to war against Iraq in the first place: America's responsibility to 'defend freedom' is greater than ever and therein its golden age lies not behind, but before it. President Bush may not be deliberately bluffing when he says so, but does he have the political economic cards in his hand to make his prediction come true? Or may the ultimate economic irony be that this gamble at prolonging the American century through yet another war will cost the United States so much as to become its last Indian summer swan song?

Only time will tell. In the meantime, we may rephrase this question in more concrete military, political, and economic terms. President Bush received military intelligence from his military advisors and political allies, like president Mubarak of Egypt, who said, that an air war of two days and at most two weeks would destroy enough Iraqi military capacities to render a ground offensive uncostly or even unnecessary. A ground offensive, if any, would only begin after most or at least half of the Iraqi military capacity had been destroyed from the air. After three weeks of the by far most massive bombardment in history, the allies had to admit that they eliminated at best 20 per cent of Iraqi military capacities, and very few in or near Kuwait.

The original deployment of American and other troops and equipment was 'to defend Saudi Arabia' from possible, albeit never threatened, attack by Iraq. However, there was at least one other reason for the choice of Saudi Arabia as the site for the massive buildup. During more than a decade after the debacle with Iran, the United States had built up Saudi Arabia as its client regional military power in west Asia next to Israel. The United States sold Saudi Arabia tens of billions of dollars of arms (in support of its own industry and balance of payments) and built up a whole network of naval and air bases, which Saudi Arabia pledged to make available to the United States for use in case of an emergency in the region. Saddam Hussein's invasion of Kuwait provided that emergency. Then the United States shipped nearly half a million troops and their supporting naval and air forces to Saudi Arabia, which is the only place that has the necessary ground facilities ready to receive them!

Even so, the allies had over five months time to put their offensive capacities in place there. Therefore, the deputy commander of the US military transportation command observes that "we ought to keep in perspective that we have had the luxury of time—161 days to land all that stuff without anybody firing a shot." Moreover, "47 per cent of it came from foreign ships, which might not be available in the next emergency." These facts, argues the *Washington Post*, "make Operation Desert Storm an inadequate test of the US military's usefulness in forging what president Bush called 'a new world order', according to military analysts" [*International Herald Tribune*, February 11, 1991]. We need note only in passing how

these analysts and publicists take it for granted that 'the new world order' is to be 'forged' by US military intervention in one 'emergency' after another. But at what political and economic cost, and can the United States afford them?

The political motive for getting the war over quickly was the fear that the allies' coalition could not hold up under the political strain of a long war and mounting casualties. Allied casualties appear to have been maintained relatively light in the air war. However that did not test Iraqi army in a ground war, in which it has much greater advantages. Moreover, the mounting civilian casualties in Iraq are turning more and more Arab public opinion against the war and the allies. There have been massive popular demonstrations from Morocco to Bangladesh against the governments which support the war. Thus the political cost of the war is mounting also. The same Israeli minister Rabin recommends that after the war the oil countries contribute their oil riches especially to Egypt and Syria "to stabilise the moderate regimes in the international coalition so that they can maintain themselves in the face of the zero sympathy of their citizens" [interview in *El País*, February 10 1991].

Iraqi missile attacks against Israel have increased sympathy for Israel in the west and by not responding against Iraq (although yes against Lebanon!) Israel has not yet brought other Arab governments to abandon the coalition. If Israel still intervenes, and God forbid uses its nuclear arsenal, the political as well as human cost will still be high. If it does not, Israel intends to charge a high political price for its war time 'restraint' in any post war west Asian political settlement. Either way therefore American protection of Israel and also its Muslim allies in the Gulf War will also come at a high political cost in the region and perhaps in Europe. Whatever political settlement may or may not be possible after the war, can the United States continue to bear this political, indeed also probably continued military (presence) and economic cost and price?

Is the weakened and now recession ridden American economy in a position to ride out the Gulf War successfully? The political costs beyond the direct costs of waging war in west Asia may also become an additional economic burden to the United States. The reasons are the need to pay subsidies to some poor allies, like Israel, Turkey and Egypt, to the last of whom \$ 7 billion of debts were already forgiven—and the threat of losing the *de facto* subsidies the United States has been receiving from the friendly rich governments of Saudi Arabia, Kuwait, and the Arab Emirates which have long since supported the American dollar, balance of payments and (military) economy. The first two alone have already made some \$ 25 billion of direct new 'contributions' to the United States only to pay for the 'new world order' mercenary services of its military

forces in this War in their Gulf. The Americans may be able to shame these governments in west Asia and others in the west to drop their contributions into the hat the United States passes around while the war lasts. But after that? What if the military and political consequences of the war destroy the riches and/or bring down these elitist governments in west Asia and replace them with more popular but less friendly ones? What if America's western allies again replace their wartime political competition by peaceful economic cooperation?

At home in the United States, the Gulf War is distracting attention from the deepening recession. That may be another one of its purposes, particularly in distracting public opinion from increasing bankruptcies and unemployment. However on the policy making level this diversion of needed attention from the recession may be a short sighted or even ostrich policy. It can become costly in the middle run, if it lets the recession get all the more so out of hand. More so because even without the distraction of the war, the US government and federal reserve have scarce anti cyclical economic policy instruments left to combat recession. Most measures to stem the recessionary tide at home like lowering the rate of interest as the Fed did in early 1991, only open the floodgates even more to a lower dollar and reduce or reverse the capital flows from abroad which the American economy also needs to remain afloat. The ongoing debates about how a shorter or longer war will affect domestic consumer confidence or spending and therefore the outlook for recession or recovery are largely beside the point. They are largely attempts to blame the recession on the war, while if there is any such causation, it is the other way around from the recession to the war. The main recessionary forces are both prior to and independent of the war and as observed above they may have given president Bush an additional impulse to go to war.

Probably more important than the confidence of consumers at home in the United States, is the confidence of international capital and of allied governments elsewhere in the west. The more important effects of the recession and war will play themselves out via the reactions of private capital and the decisions by governments and central banks in Europe and Japan. The German (central) Bundesbank and following it perforce the Dutch and some others, already followed the US interest rate decline by raising their own rates of interest to the dismay of the more recession ridden United States, Britain and France. The fixed exchange rates within the European Monetary System were brought under pressure, the dollar immediately plunged and capital was attracted to Germany. As usual the intervention of the central banks to shore up the dollar was to no avail. The Bundesbank president defended his decision by saying that he was contributing to 'stability' in fighting against

inflation in Germany, which is Europe's most important—but also still most healthy—economy. Let the devil take the hindmost!

How long will the Japanese and the Europeans, other than the British with their 'special relationship' but most depressed economy, continue to lend a helping hand of private and public funds to support the American war in the Gulf and the American economy at home? That is the question. For without foreign active political and material economic support, the United States no longer has the domestic economic base even to finance this war, let alone to build a new world order of its own design. Walter Russell Mead correctly observed in the *International Herald Tribune* [February 7, 1991]

At a time of diminishing national resources and power, the United States has not lowered its foreign policy horizons, it has universalised them. The mirage of universal alliance against instability, led but not paid for by America is potentially the most dangerous idea in US foreign policy in the last generation. It raises expectations that cannot be met. It tempts Americans to take on responsibilities beyond their resources. While they want the post Cold War order to evolve in (New World Order) ways that defend American primacy America's associates want it to diminish.

There is the rub! The Soviet Union never had the economic clout to support its claim to being a superpower. Now it is being downgraded into the position of an over armed third world/rate power. The United States was long obsessed with its political and ideological security in (successfully) defeating the Soviet Union in the cold war. In so doing, the United States neglected to maintain its real economic base in competition with its real competitors in Japan and Europe. So now the United States no longer has sufficient economic clout to be a super power either.

Yet with president Bush waving the American flag, the United States rushed in where angels fear to tread. It rushed into war in the Gulf in a probably vain attempt to shore up its declining power on the world stage one last time by the only means it has left and knows how to use—its military power. However, without an adequate economic base, military power is insufficient to keep a great superpower afloat. On the contrary, the foolish use of its military power may instead sink that power. It is not for nothing that Paul Kennedy became a best seller (apparently not in the Bush White House or the Pentagon) when he wrote that foolish military overextension beyond the economy's means to support it is the basis of *The Rise and Fall of the Great Powers*.

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Latin America: Poverty of Democracy and Democracy of Poverty

James Petras
Morris Morley

The divergent outcomes resulting from the crises in eastern Europe and Latin America are not the result of the demise of economic systems or the superiority of one system over the other but have more to do with the willingness and capacity of the US to reshuffle political regimes while retaining strategic ties to the underlying authoritarian states and economic elite structures. At the same time Latin America's coercive structures have also exhibited a capacity to hold on to power during periods of transition thus guaranteeing the continuity of the social system against democratic social movements and mass popular upheavals.

OVER the past decade, liberal capitalist experiments have plunged Latin America into its deepest crisis this century—and one that shows no signs abating. Deregulated economies (free markets, 'open door' investment policies, privatisation) have been synonymous with unprecedented social polarisation, downward mobility and plummeting living standards for millions of people, the spectacular growth of non-wage/salaried ('casual') labour (over 80 per cent of the region's workforce), and multi-billion dollar fortunes by 'insiders' working the international financial trade circuits and with access to the public treasury. The 1980s also witnessed massive pillage at the level of the economy (by foreign and local investors and bankers) and the state (by elected politicians and non-elected officials), leaving regimes bankrupt and providing the pretext for new and harsher forms of class-biased austerity programmes.

Despite campaign promises and rhetoric, the electoral regimes who took power throughout the continent during this period not only failed to solve the most elementary socio-economic needs of their populations but also to democratise their political systems or even provide the minimum security for the maintenance of everyday life. Instead of more democratic policy making processes, electoral systems have become more non-representative, more divorced from popular needs. Authoritarianism is on the rise everywhere and repression has become a routine feature of civilian rule.

The political response to the collapse of liberal capitalism and the deterioration of party-electoral regimes has not been uniform. Reflecting the volatility of the electorate, conventional alternatives as well as new movements and personalities have surfaced. Past political identities no longer have relevance in the wake of sharp political realignments, largely involving shifts by parties and their leaders formerly identified as centre-left, social democrats to the neo-liberal, centre-right and beyond. At the time, this 'turncoat' phenomenon is not tantamount to a broad rightist shift among the electorate. The presidential elections in Mexico (1988) and Brazil (1989) revealed massive popular support for the leftist candidates. In Brazil, Lula and the Workers'

Party secured an historic 47 per cent (approximately 31 million) of the vote, in Mexico, Cuauhtémoc Cárdenas actually won the election only to have it stolen through PRI fraud. This countertrend to the continent's 'right turn' has expressed itself through both electoral and non-electoral forms, and is capable of escalating into massive confrontations if coherent and organised political movements emerge.

Except for a tiny group of overseas-funded intellectuals, the demise of eastern Europe's collectivist regimes has created no positive groundswell in favour of liberal capitalism. The daily devastation wrought by the free market has had a much more decisive impact on political and economic outlooks than the pro-western, pro-capitalist rhetoric emanating from Moscow and other bloc capitals. More than ever, the vast majority of Latin Americans seek to create national economies that provide secure employment, a social safety net, an equitable income system, and efficient, democratically controlled public enterprises. The market has long since lost its mystique for the urban poor in Kingston, Lima and Caracas; the industrial working class in São Paulo, Buenos Aires, and Santiago; and for social movements throughout the region.

The failure of this latest cycle of electoralist politics and its market-driven economic programmes to improve the life existence of the Latin American masses was most poignantly and accurately captured in the words of a worker in the southern Brazilian state of Paraná at the time of the national congressional elections in late 1990. Arriving at the ballot booth, he handed back his voting card to the returning officer, stating "I hereby renounce this supposed right, which is incapable of staving off my hunger!"

FAILURE OF ELECTORAL REGIMES TO DEMOCRATISE POLITICAL SYSTEM

The transition from military to civilian electoral regimes was prematurely dubbed a 'redemocratisation' process. Yet the political shifts in Peru, Argentina, Brazil, Guatemala, Uruguay, Chile and elsewhere only affected a change in regimes; they were not accompanied by any diminution in the power,

prerogatives, and status of the more basic state institutions such as the armed forces and secret police, the intelligence agencies, the judiciary, the civil service, and the central banks. What immediately became apparent was that while the military had surrendered formal power to the civilians, they still retained a substantial 'veto' power over the 'redemocratisation' process. In Chile, for instance, former dictator general Augusto Pinochet enacted an amnesty law forbidding prosecution of military officials for human rights abuses, stacked the supreme court with pro-military judges, and created an autonomous central bank, personally choosing its members, before handing over power to the elected politicians. Furthermore, Pinochet retains his position as head of the army, and the Allwyn government lacks the authority to remove him or any of the other top military commanders from their posts. One of the civilian regime's first acts was to 'dissolve' the secret police (CNI), only to have its personnel and files reincorporated into the Pinochet commanded armed forces. Likewise in Brazil the generals retain a powerful presence within the political arena by dint of their success in getting a clause placed in the new constitution that defines the armed forces as the 'defenders against foreign and domestic threats'.

Perhaps the most striking illustration of democratic regimes as 'hostages to military power' is the lamentable efforts on the part of the newly elected officials to bring military officials to trial for crimes (killings, torture, kidnappings, etc.) against civilian populations. Fearful of the armed forces' likely reactions, they prefer to formulate and justify policies on the basis of possible responses by these non-elected authoritarians. The Argentine governments of Raúl Alfonsín (1983-1989) and Carlos Menem (1989+) have probably gone furthest in this direction.

In December 1986 Alfonsín introduced a 'Punto Final' law which sought to limit prosecutions of military officers by allowing only 60 days for new charges to be filed. After dissatisfied lower ranking army officers staged a revolt in April 1987, an intimidated regime enacted a 'Due Obedience' law which absolved all those under the rank of colonel from any crimes against civilian

Because they were only following what they believed to be lawful orders. This measure pardoned most of those directly responsible for the thousands of deaths resulting from the so-called Dirty War of 1976-83. Since Carlos Menem's election, this process of accommodation and capitulation to the armed forces has continued apace. In October 1989, he pardoned 280 officers and soldiers found guilty of human rights violations during the Dirty War. In March 1990, to combat daily strikes by workers demanding higher wages and a halt to declining living standards, and increasingly routine supermarket sackings by impoverished slum dwellers, Menem granted an increasingly restless armed forces permission to act promptly to subdue major civil protests, i.e. police powers to repress democratic protests; that same month, he granted military officers wage increases of almost 100 per cent and put into effect a \$ 300 million increase in the military budget.² As his approval rate plummeted from 80 per cent at the beginning of his presidency in mid-1989 to 17 per cent in March 1990, the frequency of secret meetings between Menem and the army high command increased.³ In early October, the steady retreat from prosecution and punishment of those responsible for the Dirty War atrocities continued when Menem announced that he intended to pardon the remaining seven senior junta members, including former presidents Jorge Rafael Videla and Roberto Viola, condemned to life imprisonment by the Argentine supreme court in 1986—despite polls showing that more than 70 per cent of the population oppose such a move.⁴

The parameters of the new electoral politics are, in a profound sense, being shaped by non-elected forces largely derived from the previous authoritarian political systems. Forces which impinge on the most elementary issues defining a would-be democracy, equal justice under the rule of law, are deemed extremist. Except for the trial and conviction of the seven Argentine generals whom president Menem has now promised to release, no civilian government has fulfilled its human rights promises to the electorate: to bring the full force of the law to bear on the military mass murderers of civilian non-combatants. On the contrary, the elected rulers have attempted to ingratiate themselves with the generals and admirals, offering promotions and perks, and partaking of frequent consultations, lunches, and ceremonial occasions. Symbolic gestures to the victims, such as investigations of the deaths and the uncovering of mass graves are accompanied by insistence on 'reconciliation'—amnesty for the executioners and forgetfulness for the victims. Worse still, Chile's new government not only pays homage to the Pinochet military leadership but refuses to release approximately 300 political prisoners jailed during the anti-dictatorial struggle.⁵ In a word, the electoral regimes function with a dual legal system that punishes ordinary citizens and ex-

onerates state officials involved in the most heinous capital crimes.

At the same time as elected regimes have elaborated policies within parameters laid down by the coercive apparatus of the 'old' state they have also engaged in major efforts to dismantle, displace, co-opt and even repress the autonomous social movements that offered the most formidable opposition to the military regimes. A continuation of autonomous popular movement activity is frequently described by government officials as a 'danger to democracy' or a destabilising force, and sometimes accompanied by efforts to amalgamate attempts to democratise policy-making with military conspiracies to overthrow the civilian regime—an approach described as the "theory of the double demons". Following the December 1989 presidential election in Chile, for example, the politics of movement disarticulation moved into high gear: local party functionaries pressured the leaders of the anti-Pinochet mass social movement not to engage in any activity outside of the state framework (*acuerdo-marco*) for fear of endangering the fledgling democracy and provoking the military to re-enter politics. As party machines seek to actively neutralise movement activity and narrow political options, the scope of the political discourse, political action, and policy choices is considerably narrowed. The electoral regimes have become not the vehicle for redemocratisation but essentially transmission belts for transferring the political constraints from the authoritarian state to the population at large.

What the above reveals is that the only manner in which the Latin American political transitions of the 1980s can be described as a redemocratisation process is to ignore the authoritarian parameters and institutional continuities (as well as the substantive socio-economic referents of policy) and the spillover effects of generalised fear throughout the political culture, and simply focus on the electoral procedures and short-term decision-making processes.

The failure of the electoral regimes to democratise the state and make it responsible to the interests of nationally-anchored groups is directly related to another fundamental feature of the transition—the inability of the civilian rulers to stem the growing remilitarisation of political life. In Peru, the Garcia presidency (1985-90) initially promised to reverse the Belaunde 'unleashing' of the armed forces in the war against the Sendero Luminoso and to investigate military human rights abuses. Instead, after limited efforts to assert some control over the military, Garcia sanctioned an expanded role in the war against the rural insurgents—accompanied by a declining interest in controlling abuses perpetrated against the non-combatant population. In early 1989, the government accorded sweeping powers to the military by declaring states of emergency in 36 provinces, including Lima, which placed almost 40 per cent of the population

under the authority of the armed forces. The civilian death toll resulting from the Belaunde-Garcia military 'pacification' programme exceeded 15,000. In Brazil, the country's first elected president in two decades, Jose Sarney (1985-90), spent more time consulting the military chiefs about public policy than the elected parliamentarians. Today, local grassroots organisations are subject to constant repression by the armed forces, the police, and rightist paramilitary groups. In Argentina, presidents Alfonsín and Menem have allowed the military and intelligence agencies to reassume their traditional responsibility for 'public security'. In Chile, the Allwyn government has made no effort to curtail the autonomy of the armed forces or the police (*carabineros*). Not surprisingly, reports of possible military coups have resurfaced with greater frequency as civilian regimes turn to the coercive forces of the previous military dictatorships to cope with unresolved political and socio-economic crises.

Of equal significance, the neo-liberal electoral regimes have employed the armed forces as a basic policy instrument in attempts to privatise economies and enforce class selective austerity payments to overseas bankers and local transnational capitalists. In Venezuela, president Carlos Andres Perez directed the armed forces to put down demonstrations in nine major cities in February 1989, occasioned by the signing of a \$ 4.6 billion loan package with the IMF which obligated the government to enact a series of austerity measures including the removal of food and other basic consumer subsidies. Approximately 300 strikers were killed and more than 2,000 injured.

Without doubt, the most baleful outcome of the 'redemocratisation' process has been the willingness of the electoral regimes to legitimate the military and forgive and forget its past crimes against society. Ignoring the international, as well as local, condemnations of the region's generals who authorised the killings, torture, and disappearance of tens of thousands of civilians, the new 'democratic' rulers undertook major efforts to refurbish the image and role of their military forces. Most have publicly praised their national, patriotic role, even as discoveries of their victims in mass graves are announced on the same day. The most recent example of this bizarre juxtaposition of official praise amid the discovery of graves occurred in Chile in July 1990, and was comprehensively reported in both the pro-Pinochet daily *El Mercurio* and the centre left *Fortin Mapocho*. The policies and practices of the electoral regimes, much more than mere pressure from the military, has once again created strategic imbalances between civilian and military power.

Last, but by no means least, the resurgence of the armed forces as the major arbiter of politics has been further strengthened by agreements between Washington and Latin American civilian presidents to expand the number of US

military bases in the hemisphere as part of the so-called anti-drug war. During 1988 and 1989, the US Army's Special Forces (Green Berets), specially trained Drug Enforcement Agents, and Pentagon military supply specialists were assigned to work with the armed forces and/or police in Bolivia, Peru, Guatemala, and Costa Rica. Following an April 1990 Bush administration decision to authorise a \$ 35 million military assistance programme for Peru (up from \$ 1.5 million in 1989) to expand the drug war and improve the military's counter-insurgency skills in the struggle against the Sendero Luminoso, the Garcia government gave the go-ahead for a US military training base to be established in the Upper Huallaga Valley—the guerrillas' stronghold where more than 50 per cent of the world's supply of coca leaf is grown.⁶

The failure of electoral regimes to consolidate democracy in Latin America is as much a structural as a policy problem insofar as it flows from a series of ideological, institutional, and socio-economic concessions, as well as political agreements, that weakened the authority of the democratic electoral and social movements while simultaneously legitimating and institutionalising the most authoritarian forces in society. In this setting, the neo-liberal socio-economic policies pursued by the electoral regimes were both cause and consequences of the emerging economic crisis, and the subsequent deepening of social polarisation and political deterioration.

FAILURE OF ELECTORAL REGIMES TO ARREST PROCESS OF ECONOMIC DISINTEGRATION

If the transition from military to civilian rule was accompanied by continuities at the level of state institutions and personnel, it produced little or no change in the neo-liberal socio-economic models constructed by the former dictatorial regimes. On the contrary, most elected governments combined a deepening of the processes of privatisation and liberalisation with new constraints on wage and salaried earners. In Argentina, even the most extreme free-marketier general balked at selling off or opening up to private participation virtually every enterprise in the state sector. Yet this is precisely what president Menem is currently seeking to achieve. Dramatically speeding up a process initiated by his civilian predecessor Raul Alfonsín, Menem has signed privatisation decrees affecting the oil fields, petrochemical companies, communications sectors, water supply, electricity, coal, postal and telegraphic services, and ports authority. In Brazil, within a month of his inauguration as president (March 1990), Fernando Collor outlined an economic strategy that included plans to privatise 188 state-owned industries. Since then, he has been systematically placing government-owned corporations on the auction block. To facilitate his

destruction of the public sector, he has already withdrawn practically all protective barriers to the national market and the new hi-tech industries. In Uruguay, the country's elected leader Luis Alberto Lacalle has implemented measures aimed at privatising the fishing industry, the national airline, alcohol production, insurance sales, and port and telecommunications services. In Peru, the new civilian head of state Alberto Fujimori has announced a programme to sell off the petroleum, mining, and metal refining enterprises that account for most of the country's industrial output.

During the decade of ascendant 'democracy', Latin America's per capita gross domestic product (GDP) fell by more than 8 per cent, with some countries (Argentina, Peru, Venezuela, Bolivia) experiencing declines of around 24 to 26 per cent.⁷ The only notable exception to this continental downturn was socialist Cuba whose economy grew by 42.8 per cent and by 33.5 per cent on a per capita basis. Calamitous as the aggregate figures undoubtedly are, they obscure the even more profound income losses that occurred over the 1980s. Minimum urban salaries (earned by over half the region's labour force) fell by 74 per cent in Peru, 58 per cent in Ecuador, 50 per cent in Mexico, 30 per cent in Brazil and 21 per cent in Chile.⁸ Workers throughout the region now scramble to three, four and five jobs just to be able to afford the cost of a basic necessities diet. In Brazil, the purchasing power of the 50 per cent of the population receiving the minimum wage is at an historic low.⁹ In Argentina, which until recently had the highest beef consumption on a per capita basis, unemployed workers knocking on doors demanding to be fed has become a common sight. Between September 1989 and September 1990, real wages in the country's state companies plummeted by an astounding 49 per cent—accompanied by job losses that exceeded one million in the industrial sector alone.¹⁰ In Fujimori's Peru, real wages hover around 1972 levels.¹¹

While the income gap between rich and poor has widened, social sector spending has declined by more than 50 per cent over the past decade. Simultaneously, individual sectors (especially health, education, transport, housing and recreation) and their classes have become more and more 'insulated' from one another. In Argentina today, for instance, the wealthy pay the equivalent of a school teacher's annual salary for three months of private health coverage while state-run women's psychiatric hospital reports (July 1990) the death of 30 patients from malnutrition. In fact, this latter is a continent-wide problem which affects almost half the population in some countries. Doctors, nurses, and medical aids simply lack sufficient drugs and equipment to cope from the resultant illnesses.

Inevitably, those least able to look after themselves have suffered most at the hands of the economic deregulators. Mortality

rates, childbirth deaths, and child malnutrition have risen significantly in recent years in countries like Argentina, Brazil, Peru, and Mexico.¹² In 'redemocratised' El Salvador, infant mortality rates surged during the 1980s because of deteriorating basic services—in particular, the worsening lack of access to safe drinking water. By 1988, nine out of every 10 peasants were being denied this fundamental right.¹³ In 1990, according to the United Nations Economic Commission for Latin America (ECLA), approximately 44 per cent of the continent's population (183 million) were living below the poverty line—an increase of 112 million over 1970. Almost half of this group (88 million) were characterised as destitute or living in extreme poverty. ECLA attributed this growing immiserisation to the dramatic and regressive fall in average income which "marked a tremendous step backwards in the material standard of living of the Latin American and Caribbean population" during the 1980s.¹⁴

This era of plummeting wages, a chronic deterioration in living standards, and negative growth rates was directly linked to governmental policies that facilitated massive transfers of capital abroad. Between 1982 and 1989, multinational corporations and banks feasted: profit remittance and interest payments over this nine-year period totalled an astronomical \$ 281.5 billion. Deducting new loans and investments, Latin America still remained a net exporter of capital to the tune of \$ 200 billion.¹⁵ The logic of the socio-economic model pushed by the electoral regimes—freeing capital (local and foreign) and contracting the public sector—dictated this outcome (which promises to continue) because it obliged them to maintain the international circuits, meaning paying the debt; once that was decided, they had no choice but to promote the export elites at the expense of local producers, and wage and salaried groups. The pillage of the economy was inextricably linked to the impoverishment and polarisation of society.

The most profound subjective consequence of these economic changes has been the accelerated proletarianisation of the professional and middle classes, especially those in the public sectors tied to salaried income. Equally striking has been the de-proletarianisation of the industrial wage labour force: under and unemployment is running at historically unprecedented levels (70 per cent in Lima, over 50 per cent in Caracas, 20 per cent in Buenos Aires, etc), temporary and casual labour, not covered by social legislation, minimum wage rates, or safety conditions in the workplace, has become the norm. The electoral regimes of the 1980s may have granted more legal rights to trade unions but their socio-economic policies have simultaneously emptied the unions and factories of their working members. Indeed, they have presided over the reversion of many major gains achieved

through half a century of class and political struggle.

Almost as striking as the socio-economic failures has been the absence of any public morality. Everywhere political theft of public property has reached monumental levels. In Peru, Alan Garcia's regime (1985-90) has been accused of stealing at least several hundred million dollars—leaving the treasury with a negative balance. In Venezuela the Democratic Action regime of ex president Luchini (1983-88) has at least a dozen former ministers under indictment for stealing billions in oil money—most of whom have fled the country. In Brazil the Sarney regime (1985-90) was universally despised for the massive appropriation of millions of dollars in state revenues for private entertainment and depositing hundreds of millions, if not billions, in overseas accounts. In Argentina, president Menem's brother and head of the senate, had accumulated over a million dollars in an Uruguayan account within three months of taking office. While in Chile, the Alwyn government is not expected to energetically pursue the massive fraudulent multi million dollar sell off of state enterprises to public cronies of Pinochet in the last days of the dictatorship. Wholesale venality, the scope and scale of corruption, by the neo liberal electoral regimes is their practical interpretation of unregulated capitalism—the free market. The scale of public pillage can also be explained by the drying up of private opportunities for enrichment. With the banks taking the bulk share and the established export elites untouchable the public firms being sold off to the private sector and the public treasury remain as the two last areas for private accumulation by the electoral officials. No doubt the new market ethos that encourages this behaviour as the ultimate value is no small factor easing the conscience of hesitant officials.

Privatisation has taken on special meaning under the electoral regimes—in the double sense of both a shift from public to private ownership, and in the practice by high government officials of appropriating (directly or through family or business ties) public resources. The scope and depth of political corruption in the new era of deregulation, privatisation and internationalisation of capital has been well publicised in the cases of Venezuela, Brazil, Argentina and Peru—where officials literally utilised state budgets to grossly expand overseas accounts, appropriate resources destined for public enterprises, run them down and sell off the firms to private associates.

As a result, a great deal of the deficits of public enterprises is not due to the inherent inefficiencies of the public firms, but is in part the result of private appropriations and corrupt subcontracting. (By contrast, in Uruguay, the recent elected socialist government of Montevideo was able to increase income from the city's casinos by 300 per cent in six months, largely, it is assumed, by

honest administration.) The private pillage of public enterprises become a pretext for further privatisation: state corruption is linked at both ends of the privatisation process fostered by the electoral regimes. The result is an economy that revolves around a kind of 'primitive accumulation' in which political officials establish their initial wealth through public pillage and later convert their wealth into capital in the newly privatised sectors.

The electoral regimes have fashioned economic strategies based on the free market that have led neither to a more equitable distribution of wealth in society nor to a bridging of the income gap between the export elites and the wage and salaried groups. On the contrary they have simply deepened the former while consolidating the latter as they actively campaigned to give it ideological legitimacy. Moreover, they have created a highly rigid dual economy: a private sector linked to the international circuits drawing on overseas financial resources and the pillage of the state, and another sector dependent on a shrinking internal market linked to declining wages deteriorating state services and a lack of job opportunities.

ELECTORAL REGIMES AND CLASS STRUCTURE

The peculiarity of electoral regimes and their leaders is that while often the products of class struggles they are quick to deny its relevance once in power. In opposition the electoralists address the class configurations of non democratic regimes, in office, they downplay the links between state and class in favour of a perspective that emphasises the distinctiveness, separateness, and autonomy of each sphere. This ideological shift accompanying the political transition have been particularly acute among the Latin American intellectual classes whose members have often been deeply involved in rationalising, or formally participating in the new regimes. Nonetheless, the latter have had a significance on class structures and, in turn, been deeply influenced by specific configurations of class power.

There are several striking patterns that are common to most of the new (and old) civilian governments of the 1980s. First is the almost total absence of populist policies and redistributive politics. Whatever coalitions of labour, middle class, and business groups exist before the presidential vote, they have no impact on subsequent policy and quickly break up in rancorous conflicts. Second, traditional ideological discourses and historical practices have less relevance in defining the policies of the new electoral regimes than have contemporary configurations of power within which the regimes are inserted. A clear example is the Peronist regime in Argentina. Menem's policies favour overseas bankers and private exporters at the expense of local producers and wage workers, directly repudiating past prac-

tices and ignoring trade union claims of 'betrayal'. Menem is responding to the ascendancy of Argentine transnational capitalists, overseas investors and local exporters, the power configuration inherited from the previous Alfonsín and military regimes. Third, electoral regimes have not been oriented towards transforming the class system or even ameliorating class inequalities, but rather strengthening and consolidating the power at the top, as the only classes capable of developing the economy. Briefly put, the electoral regimes are increasing international mobility for the 20 per cent at the top, while forcing downward mobility for the wage and salaried groups tied to the stagnant economy. In fact, the ability of the outwardly oriented classes to appropriate surplus from the inwardly bound classes is a condition for greater international mobility. These conflicting, but interrelated mobility patterns are mediated by the neo liberal state and electoral regime while the state extracts and transfers surplus from wage/salaried classes to the local and overseas transnationals. The electoral regime legitimises the process by evoking the democratic liturgy.

The major class configurations and class relations are not always the result of the electoral regimes, most of which emerged during the military regime. The policies of the electoral regimes have done a great deal to reinforce the pre-existing tendencies in the class structure.

Several features of the contemporary class structure require special attention. First is the predominance of a class of Latin American transnational capitalists (TNCs) as the major force throughout the continent. The key distinguishing characteristic of TNCs is not whether they are involved in production or not, nor the location of their productive activity, but their access and involvement in international markets which ties them to international capital flows. The ascendancy of TNCs at the top is matched by the marginalisation of important sectors of the working class: the massification of unemployment and of poorly paid, under employed, self employed, seasonal and temporary workers—lacking any of the traditional social security benefits. The polarisation between a cohesive self conscious TNC class at the top and a disarticulated mass of workers at the bottom has had a very dramatic impact on the professional and salaried middle classes: a minority has been able to insert itself into the private networks (ideologues, accountants, lawyers, doctors), while the great majority have suffered severe downward mobility. The downwardly mobile professionals have attempted to cope by turning to multiple employment, and increasingly overseas immigration, as well as toward direct action protests.

The electoral regimes, however, have also institutionalised another set of social actors who reinforce this class system—the international lending agencies who act as

representatives for overseas sectors and investors. In tandem with local TNCs and the technocratic elite of the electoral regimes, these 'external' class actors have played a major role in defining the patterns of class formation, determining which classes gain or lose income and which classes rise and fall in the class system. Hence, the electoral regimes are not merely products of internal class forces, but active agents promoting the convergence of interest between externally based, but locally involved, propertied classes.

The dynamics of this class system have been manifold—making and unmaking segments of classes and diluting the specificities of each class and unit of class. One major development is the growth of a lumpen proletariat, a spin-off from the disarticulated working class and impoverished self-employed. Throughout the region, and particularly in the large urban cities, crime rates are growing at unprecedented levels which the United Nations Economic Commission for Latin America attributes directly to "the marked deterioration in the standard of living of broad sections of the Latin American population...".¹⁶ In countries like Brazil and Argentina, security firms have become multi-billion dollar enterprises. Another development has seen the working class household unit become the basis for a new gender realignment of political influence. As unemployment has hit male household heads the hardest, and as the negative socio-psychological effects have apparently been most strongly felt in that quarter, women and young people have become more prominent in defining class positions in social movements and in spontaneous protests in neighbourhood arenas.

The dual developments of working class disarticulation and deepening social polarisation usually means that the traditional political controls exercised by the electoral party machines and bureaucratised trade unions cease to be effective. Mass spontaneous protests, sacking of stores, street mobilisations, unauthorised strikes, begin to merge as the class identity of the electoral regimes becomes transparent. Whether the polarised class structure will find expression in polar opposite political movements is a question of contingency and political intervention. What is clear, however, is that the electoral regimes and the dominant component parties that comprise them have not established hegemony over society. Their one-sided representation of the 'externally-oriented classes' and the 'downward push' on the rest of the subaltern classes precludes it. The distance, however, between a deteriorating hegemonic political class and an overt political rupture is still vast and subject to numerous byways. The shift from traditional parties to opposition, to protest candidates, to violent reactive protests and widespread disenchantment and a sense of betrayal, reveals a volatile mass in search of new political alternatives that can confront the catastrophes induced by the pragmatists and realists of the *status quo*.

ELECTORAL POLITICS, CLASS POLITICS, AND CRISIS OF MARXIST LEFT

Direct action by trade unions, social movements, and guerrilla forces has been a common response to the integration of the new electoral regimes into the 'old' export economy. The most striking aspect of the resurgent popular challenge is the target: ostensibly 'social democratic' and 'populist' regimes. This reflects the fact that the old electoral elites of the self-styled democratic left no longer have the wherewithal to capitalise on their rhetoric and evoke traditional ties. In Venezuela, tens of thousands of poor urban dwellers poured into the streets to protest the IMF-mandated austerity measures imposed by Carlos Andres Perez in June 1990, in Guatemala, urban groups, peasants, and guerrilla movements mounted an increasingly consequential challenge to the civilian Cerezo regime (1985-90); in Argentina, Peronist public employees unions, whose members have been radicalised by the loss of social status and economic impoverishment, have engaged in prolonged strikes against the Menem regime; in Brazil, organised labour—bank employees, health workers, metal workers, teachers, longshoremen, migrant cane cutters, and others—have participated in strikes against the draconian economic measures implemented by the Collor regime. Apart from an estimated 16 per cent fall in real wages, the civilian government's programme has led to the firing of hundreds of thousands of workers in the private sector and a further 100,000 in the public sector since March 1990.¹⁷ In Peru, successful general strikes against falling living standards, wage levels and services severely undermined the government of Alan Garcia (1985-90); when his successor Alberto Fujimori announced an accord with the IMF which resulted in the immediate removal of subsidies on basic consumer goods and soaring overnight price increases (gasoline increased by 3,000 per cent, milk and bread prices almost tripled, gas and electricity rose eight to twelvefold) the urban slums erupted. The food price rises were subsequently followed by sackings of hundreds of thousands of workers which triggered anti-regime strikes by thousands of teachers, bank employees, petroleum workers, and other segments of the labour force.¹⁸ Even in Chile, Socialist and Christian Democratic unionists have threatened to march on parliament if new labour legislation is not approved, while trade unions affiliated to the Workers' Party in Brazil have organised strikes against compromising municipal governments controlled by their colleagues.

The willingness of the working class and the urban poor to directly confront and challenge the traditional parties and the electoral leaders testifies to the reemergence of class struggle politics in the post-authoritarian era. However, several qualifications are in order. First, most of these movements' demands were part of the social democratic and populist programmes which

the civilian rulers subsequently abandoned. Second, the immediate struggles being fought are largely defensive—to prevent further losses in purchasing power, to resist new price increases, to oppose the withdrawal of food subsidies, to protest the new layoffs and sackings that have accompanied the privatization programmes. In Brazil, for example, where real wages fell by as much as a staggering 216 per cent between January and October 1990, the San Bernardo Metal Workers Union managed to wrest a total wage increase of 82 per cent for its Sao Paulo Ford Motor Company plant members after a 45-day stoppage which ended in late July. Meanwhile, striking national port authority workers, facing massive layoffs, gained concessions including an agreement that the criteria for all future layoffs would be negotiated between the unions and the port management.¹⁹ Third, there has been an ideological shift; the dominant political conceptions have moved away from specific socialist programmatic positions to vaguely democratic ones including support for amorphous 'mixed economies'. What is absent are any specific class configurations that can confront the entrenched, cohesive elites. Fourth, although the popular movements have challenged the hold of the electoral party regimes, they have not linked up to new political organisations. Hence, their struggles become sectoral, immediate and reactive, rather than strategic, anticipatory and state-centred.

In part, the defensive and fragmented structure of the popular classes reflects the post-Stalinist crisis affecting the traditional left in Latin America as well as the repressive content of the state in most of the 'redemocratised' countries. Profound divisions have emerged within the region's communist parties stemming from the disorienting impact of the breakup of the socialist bloc governments, criticism of previous political practices (too accommodating in its relations with the Argentine military dictatorship, too intransigent regarding participation in the Chilean political process), and/or disagreements over the continuing viability of centralised organisational forms (party democracy). The resultant fracturing of these parties in Chile, Argentina, Uruguay, and elsewhere has severely limited their capacity to intervene in current political struggles.

A different kind of crisis affects the other leftist parties. In Chile, for instance, the Socialist Party has renounced all semblance of its reformist class politics history and become part and parcel of the neo-liberal Aylwin regime—in the process, disorienting thousands of party militants in the trade unions and the urban squatter settlements. In Argentina, the Peronist Justice Party is openly supporting the most extreme neo-liberal doctrines being promulgated by any civilian government—and forcing its trade union affiliates to do likewise (thereby undermining their working class and nationalist beliefs) or split from the party. Mid-1990 meetings between populist trade

union and parliamentary leaders revealed the Peronist opposition at a deadend: unwilling to leave the party, yet unable to solve elementary demands within the party.

In Brazil, the Workers' Party is experiencing tensions between an increasingly social democratic leadership willing to sacrifice commitments to structural change in order to preserve electoral opportunities, and militant rank and file trade unionists being increasingly pressured by Collor's neo-liberal economic strategy toward more and more direct action initiatives.

Deep divisions also affect the radical left—the Chilean MIR, the Uruguayan Tupamaros, and other hemispheric revolutionary groups. Some tendencies want to dissolve into local movements, others are more interested in affiliating with the 'successful' electoral parties, while still others want to consolidate and rebuild a revolutionary party.

The crisis in the left and the exhaustion of the historical organisations has to be counterposed to the deepening crisis of neo-liberal capitalism. It is clear that the disintegration of capitalism and immiserisation of the popular classes does not automatically lead to a revolutionary alternative (nor does it preclude it). The bankruptcy of a whole generation of 'anti-utopian', pragmatic intellectuals, many of them ex-Marxists who framed their policies in terms of managing the neo-liberal state and economy has only recently been challenged by a new generation of radical critics. The internal crisis of the political parties of the popular classes has severely weakened the political, organisational and ideological capacities of the oppressed majorities to respond to the prolonged decay of social life: double negativity has not yet generated a positive outcome, at least at the level of state power, though, as we shall describe, the perspectives for the future are mixed.

Finally, resurgent class struggles in the new era of electoral politics still face a configuration of political power in which the military and paramilitary forces remain major actors. Guatemala, El Salvador, and Colombia offer perhaps the most striking evidence of the armed forces' continuing role in what has been aptly described as 'death squad democracy'. Since early 1989, the Guatemalan military and its paramilitary allies have assassinated or kidnapped unionists, politicians, students, diplomats, business leaders, human rights activists, church workers, peasant organisers and other civilian opponents of the elected Cerezo regime on a scale approaching the churnal house violence of the early 1980s. Meanwhile, the civilian president simply refused to respond to this new reign of state-authored terror, seeking instead to consolidate his alliance with the generals to ensure the government ran its full course and to increase the possibility of a Christian Democratic victory in the November 1990 presidential elections. Even the US state

department's 1990 human rights report on Guatemala was forced to concede that the country's security forces had engaged in "extrajudicial killings, disappearances and other serious abuses". The more detailed and authoritative Americas Watch report presented a damning picture of a regime that "tolerated and... apologised for unspeakable abuses" committed by a military that "remains a law unto itself".²⁰

The current situation in El Salvador is no less indicative of the persistence of military power amid the trappings of democratic politics. One of newly elected president Alfredo Cristiani's first acts after assuming the presidency in June 1989 was to order the army's social security agency to deposit its funds in the Central Bank. The generals balked and the president quickly rescinded his order. Since the March 1989 vote, between 2,500 and 3,000 civilians have been assassinated by the armed forces and their death squad allies. The systematic targeting of union organisers, peasant leaders, and church activists in particular reveals the impotence of civilian authority—its unwillingness to reign in a military high command that opposes any institutional reforms, and continues to frustrate efforts to negotiate a settlement to the country's civil war short of the unconditional surrender of the guerrilla forces.²¹

In Colombia, this same mix of elections and political murders has held sway over the past five years. Rightist paramilitary forces and death squads acting with the tacit approval, if not active participation, of the armed forces have been operating throughout the country—financed largely by the narco-drug trafficking cartels. In the two years prior to the 1990 presidential elections, over 2,000 members of the communist party-led electoral coalition, Patriotic Union (UP) were assassinated, in the midst of the election campaign itself, the UP candidate Bernardo Jaramillo was publicly murdered by gunmen acting for the official and unofficial sources of terror in society. A similar fate befell Carlos Pizarro, the presidential candidate of the former guerrilla movement MR-19, following a decision by the insurgents to turn in their arms and participate in the electoral process.²² The chief beneficiary was the ultra-rightist Liberal Party candidate, Cesar Gaviria.

Electoral parties throughout Latin America, keenly aware of the undiminished power of the coercive institutions of the previous authoritarian states, have all but abandoned popular programmatic positions, while attempting to clamp down on the activities of democratic social movements, in an effort to appease and accommodate their armed forces. Electoralism, in the context of an over-represented military presence, has not resulted in consequential structural changes or even redistributive politics in any country where transitions from military to civilian rule has taken place. On the contrary, one could argue that electoral politics in Latin America during the 1980s increasing-

ly revealed itself to be one more obstacle to popularly-based social changes.

ELECTORAL POLITICS AND FAILURE OF SOCIAL DEMOCRATIC LEFT

The great paradox in Latin America today is between the spiralling downswing in the 'free market' economies and the visible right turn of many of the left wing (social democratic, populist, socialist) parties, their political leaderships, and their ideologues—the latter primarily ex-Marxist intellectuals of the 1960s. In countries such as Venezuela, Jamaica, Peru, Argentina, Chile, Guatemala, and Ecuador, this right turn is most evident at the level of the political leadership.

The current presidents of Venezuela (Carlos Andres Perez) and Jamaica (Michael Manley) are the 'prototypes' of this 'turn-coat' phenomena: progressive nationalists and social reformers in the 1970s who have become neo-liberal, quasi-clients of Washington and US financial and investment groups, and uncritical followers of IMF austerity policies in the 1980s. Perez, the leader of the Democratic Action Party, an affiliate of the Socialist International, headed a government in the 1970s that nationalised the Rockefeller-owned petroleum and iron ore holdings, supported lavish social sector spending programmes, and attempted to stimulate agriculture as the basis for creating a strong internal market. In 1990, he remains a social democrat in name only. In all other respects, he has undergone a radical change in outlook, reemerging as an active proponent of privatisation of strategic industries, economic deregulation, an open door for foreign investment, and an enforcer of harsh economic adjustment programmes that sharply reduce living standards through cuts in public spending, freezing wages, freeing prices, and job layoffs.

Michael Manley has assiduously followed the Perez pattern since regaining the Jamaican presidency in late 1988, zealously courting foreign investors while embracing the IMF, promoting the establishment of free trade zones, and instituting a more fundamental privatisation-deregulation of the economy than that undertaken by his conservative predecessor Edward Seaga. Manley's attitude toward Washington also underwent a complete turnabout. No longer the nationalist, he called George Bush "very impressive, very pragmatic, very sensible" and, among other initiatives, offered Jamaican military collaboration with the imperial state in regional anti-drug campaigns.²³

In contrast to Perez and Manley, when Alan Garcia assumed the presidency of Peru in early 1986, he at least began by proposing a series of 1970s-type national and social reforms, including a cap on debt payments, state financial stimulus for national industries, salary and wage increases, and even a proposal to nationalise the banking

system. Unable to secure the active support of the business class for his 'productive revolution' or willing to mobilise the popular classes to move beyond moderate redistributive measures and, increasingly under harsh financial encirclement by the international banking elite, Garcia's team eventually succumbed and reversed their policies imposing orthodox adjustments while engaging in their private version of 'income redistribution'.

The elections of former guerrilla activist Jaime Paz Zamora in Bolivia, Socialist International member Rodrigo Borja in Ecuador, and human rights advocate Vinicio Cerezo in Guatemala continued the right turn trend. Paz, who won the presidency in alliance with the rightist party of former military dictator Hugo Banzer, allowed the US to establish new military bases in Bolivia and set about implementing economic policies that differed little from those of his rightist predecessors. Borja, lauded as the progressive alternative to the conservative, pro-Reagan Febes Cordero regime, followed in the footsteps of Perez and Manley by introducing IMF-austerity type reforms. Of the three, the reformist Christian Democrat Cerezo's transformation was the most bizarre: apart from implementing regressive income policies he began to consistently defend (by denying its involvement) the murderous role of the armed forces and its death squad offshoots as upholders of democracy.

Nor were Argentina and Chile exempt from this right turn phenomenon. Carlos Menem campaigned for the Argentine presidency in 1989 as an orthodox Peronist 'national populist'. However, once elected, he allocated the major economic ministries in his cabinet to representatives of the most extreme right wing big business/multinational corporate sector, and then proceeded to elaborate a sweeping privatisation programme aimed at literally abolishing the state sector. In Chile, the political leadership of Christian Democracy underwent a major shift between the 1960s and the 1980s. Eduardo Frei's government in the latter half of the 1960s enacted a series of moderate reforms in order to modernise capitalism and promote a more equitable distribution of wealth and income. They included an agrarian reform, the 'Chileanisation' of the foreign-owned copper industry (including a buy-out of 50 per cent of the shares of the major US copper firms), and a progressive tax on the upper classes. The recently elected Christian Democratic-led coalition headed by Patricio Aylwin, however, eschews reforms and directs the state's resources to promoting the agro-business export elite, opposes legislation allowing seasonal farm workers the right to strike during harvest season, increases the value added tax (which falls mainly on wage and salaried groups) to fund social programmes, and has expunged the very words 'redistribution', 'agrarian reform', and 'nationalisation'/'Chileanisation' from the government's vocabulary, substituting

the market rhetoric of their former Pinochet-like adversaries.

The 'right turn' of the reformist parties over the past decade has been matched by the presidential victories of a group of rightist political figures 'traditional' conservatives like Salinas in Mexico, Gaviria in Colombia, Lacalle in Uruguay, and Cristiani in El Salvador, and others, such as Collor in Brazil and Fujimori in Peru, posing as 'anti-political' and 'non-traditional' candidates, but whose political antecedents and commitments to a deregulated neo liberal capitalist agenda immediately surfaced as they began implementing 'shock treatment' economic programmes devised by ministers recruited from the big business sector—thus further perpetuating the deepening crisis of the 'free market' model. Indeed, the great irony about this continental shift to the right is how little it has had to do with socio-economic achievements. On the contrary, it has occurred as the effects of neo liberal economic policies worsen social conditions and ensure the persistence of stagnant economies into the 1990s. Nor have the rightist or 'turncoat' parties succeeded in creating a new hegemonic ideology while the 'free market' the 'social market' economy, and other such euphemisms may be currently in vogue, capitalism is still overwhelmingly viewed as an unjust system and imperialism is still commonly used to describe the financial pillage of the continent.

What accounts then for the right turn in Latin America since the early 1980s? Certainly, Washington's relative global decline has not significantly affected its position within Latin America where it continues to exercise over determined influence. Economically, US imperialism is still able to impose enormous burdens and pressures on dissident regimes (witness the experience of Garcia's Peru) through its ability to influence the behaviour of the two major sources of the continent's external funding, the international lending agencies and the private commercial (largely US) banking community. Militarily, its capacity to project its power is as great as ever. The invasions of Grenada and Panama, the use of mercenary forces in Nicaragua and El Salvador, and the recent establishment of new military bases in Bolivia and Peru are sufficient testimony to this reality. Finally, the imperial state's ideological influence has greatly increased since the 1960. Its market rhetoric and interdependence discourse circulates unhindered and is uncritically consumed by broad sectors of the political and intellectual classes. However, the problem with any explanation based on the power of US imperialism is that it was equally applicable during the 1960s and early 1970s when the left political opposition was stronger and extended over a broad universe of discourse.

To understand why this continental wide 'right turn' occurred in the 1980s and what possibilities exist for its reversal it is

necessary to consider a series of historical and structural changes (in both their national and global contexts) that took place in the political and ideological, as well as the socio economic, spheres.

First, the military state-authored repression of the 1970s and 1980s—not least, the tens of thousands tortured, executed, and 'disappeared' by the generals in Argentina, Chile, and elsewhere—had profound, long-term effects on the left and the rest of the opposition movement. It disarticulated grassroots organisations through assassination of the most intelligent, active, and knowledgeable militants. It created a political culture, during and after the bloody purges, permeated with fear and thus inhibited citizens from actively confronting public authority, it 'permanently' changed the balance of power in the state, increasing the weight of the coercive instruments (armed forces, intelligence agencies, police, etc.) in the post military regime society. This legacy of right wing terror and the survival and continuing power of its institutions in the new period of electoral regimes remains a reference point for the parties of the left and the populace at large, strengthening the position of the traditional neo liberals and encouraging the 'turncoat' leftists to accommodate these real power centres. The slow re-creation of a new generation of grassroots leaders and their re-insertion into the trade unions and neighbourhood organisations represents a challenge to this legacy and the political culture of fear, self censorship and internal repression.

Second, the 'right turn' of the former reformist Christian Democrats, social democrats, populists, and socialist in particular was heavily influenced by the socio economic legacy of the military regime. The key components include the predominance of the export elites, reconcentrated banking, agro business and industrial power, the climate of deregulation as a basic condition for any investor co-operation, hyper dependency on the financial circuits and high levels of overseas capital investment by local capitalists. The military's vast restructuring of the economy, society and state in the 1970s and 1980s posed a basic problem for the former reformists: either they had to transform the structure of the economy, challenge the power of export and financial groups, in order to pursue reformist policies or else they had to adapt to the existing configuration of power and pursue policies that would create 'confidence' in these groups, encourage new investments, and thereby avoid a crisis of capital (overseas flight) and the resulting 'chaos'—culminating in the 'demise of democracy' and the return of the military to the presidential palace.

Confronting this dilemma, the old reformers chose the electoral regime and conformity—decisions they termed 'pragmatic' and 'realistic'. Their abandonment of social reforms for the popular classes was dismissed as simply the 'end of utopia'. By equating democracy with public poverty,

these new rightists impoverished democracy. Integration into the new model thus engendered certain political, economic and ideological imperatives that could not be met by any stretch of the original reformist framework. The framework itself had to be discarded and instead of admitting to the need to submit to the new power centres, the political and ideological elites blithely proclaimed that a new 'modern world' had come into being which necessitated discarding of old anachronistic 19th century Marxist and socialist notions.

The alternative to conformity is confrontation and conflict, not concertation. The outcome would have been uncertain but under the alternative path there existed the possibility of a new and more equitable social and economic order—a democracy based on the social movements of the poor not with the generals and bankers. The path of conformity has assured neither democracy, nor equity, nor development and not even re-election—which after all is what the parties of the ex left have come to equate with democracy.

Third, the 'right turn' had to do with the integration of the major research institutes into the western capitalist foundation networks and their subsequent assimilation of liberal political and economic discourses. Several factors explain the gap between the extended crisis of market capitalism in Latin America and the intellectuals' continued support of market regimes and neo liberal economic strategies. Not only are the intellectuals integrated into the organisational matrix of western corporate and state funded circuits (conferences, subsidies, publications, etc), they are no longer subject to the crisis of the local economy because their salaries, perks, and travel funding, reflecting their new class position, are in overseas currencies. Moreover, a condition for employment is agreement to jettison the language of critical Marxism—concepts such as imperialism are taboo. At the same time the analysis of these conformist intellectuals linked to the 'turncoat' parties is deeply influenced by their class aspirations. Looking to become managers of the current crisis, their writings are designed to catapult them into the ministries of the electoral regimes. In Argentina and Chile, for example, the major overseas funded research centres have provided the new civilian regimes with ministerial appointees who served to defuse popular expectations and promote incentives to investors in the private sector.

In other words, as the local economies were transformed under the military regimes into economic appendages of the foreign banks and multinationals, and as a new class of Latin American transnational capitalists emerged, so in the intellectual realm domestic research centres became in effect locally administered 'branch plants' in which the managers formulated research projects within the conceptual framework devised by the 'home office'. The international con-

ferences and publications outlets served to consolidate the linkages and facilitate the transmission of the 'new' market ideology and the formulas for a democracy of poverty.

Fourth and finally, the 'right turn' was linked to changes taking place in the world economy and the perception of those changes by left wing political and intellectual leaders. The demise of eastern Europe's bureaucratic collectivist regimes, the decision of the Soviet Union and China to embrace free market economics and the growing adherence of social democratic governments in southern Europe (e.g. Spain and Portugal) to neo liberal politics has had a major ideological impact on Latin America's communist and socialist parties as well as on other major leftist forces such as the Sandinistas in Nicaragua. Particularly disoriented by these events were those communist party members who had long relied on the Soviet political economic model and have not been able to develop another conception of socialism.

Yet while the decline in socialist bloc economic and military aid and the contraction of markets for Latin exports is no small matter, most of these changes took place several years before the hemisphere's right turn. Furthermore, apart from Cuba and Nicaragua, the changes have not affected the economic patterns in most of the other regional countries. Nonetheless, the constraints on future policy are real but at the same time, have to be put alongside the even greater constraints that the Latin American people are experiencing under the combined impact of US imperialism and neo liberal market policies today and into the foreseeable future. Popular antagonism to perpetual reductions ('adjustments') in living standards has not diminished merely because one or other eastern European government now proclaims the virtues of the market.

This deepening crisis of Latin American capitalism poses the obvious question: can the right turn be reversed? Is a left counter trend visible? What is clear is that since the late 1980s, the region's underlying structural class polarisations have surfaced politically in a number of countries, most dramatically in two of the majors—Brazil and Mexico. The 31 million votes cast for the Workers Party in the 1989 Brazilian presidential elections both exaggerated its electoral strength (member of a left wing coalition) and underestimated its influence among the activist and movement sectors of the society. In key urban centres (industrial factories, favela and lower middle class sites) the Workers Party has become the dominant hegemonic force—its influence extends outward to religious, educational, health, and public sector institutions. It is a counter hegemonic power at the national-state level. Its strategic strength is its roots in the popular movements but its tactical weakness is the strong presence in its ranks of reformist intellectuals and municipal officials

willing to 'pact' with existing configurations of power.

In Mexico, the Cardenas' movement, an amorphous alliance of urban and rural poor, middle class intellectuals and ex PRI party loyalists was able to win the 1988 elections but lost the electoral count demonstrating once again the strength of the permanent state apparatus over the electoral process. Nonetheless, the continued mobilisation of the Cardenas forces on the local level and the large scale resistance to the Salinas regime in a multiplicity of municipalities, neighbourhoods and workplaces suggests that neo liberalism remains largely an elite phenomenon tied to Mexico's transnational capitalists with a strong commitment to president Bush's proposed common market (and state support) as a counterweight to their internal political weakness.

Although the most striking, Brazil and Mexico are not exceptional cases. Progressive socialist mayors and governors have been elected for the first time in Uruguay and Venezuela, increasingly large scale extra parliamentary confrontations are occurring between workers and rightist electoral regimes in Argentina and Peru, the guerrilla movement in Guatemala has assumed the proportions of a national movement now operating in 14 provinces and in El Salvador and Nicaragua rank and file militants are questioning the programmes of the party intellectual—the issues of socialism and democracy, collectivism and capitalism, are being openly debated even as these political formations retain widespread popular support.

The left counter trend reflects the consequential erosion of left wing political organisation and ideology between the objective crisis of capitalism and the neo liberal regimes in power. In other words, the natural polarisations created by the application of neo liberal policy are politicised and organised through the active intervention of parties and activists. Private discontent with neo liberal electoral regimes is mobilised by a variety of political formations—from predominantly electoral parties like the Cardenas movement, to electoral movement parties like the Workers Party to guerrilla groups and direct action movements as in Guatemala and El Salvador. The left counter trend has the capacity to become a hegemonic force if it can avoid the pitfalls of the 'turncoat' left formations that preceded it.

CONCLUSION

The crisis of Latin American capitalism is far more severe and extended than any comparable situation in eastern Europe, but the ruling elites do not depart, mass demonstrations do not end peacefully, opposition intellectuals in office do not purge the state of authoritarian secret police chiefs, the dominant hegemonic power does not gracefully accept changes in the social

system or write off debts. The political elites circulate from military to civilian; the economy lurches from one painful adjustment to another; and when one country, Nicaragua, ousts a US client, Washington finances a prolonged war of intervention and eventually reimposes an electoral client. One priest is killed in Poland and it becomes the basis for an indictment of the entire political system; 70,000 Christian peasants and a dozen nuns and priests are murdered in El Salvador and the leading defender of the Free World can speak of the 'moral crisis of communism' and the 'moral as well as material superiority of free market societies'.

The divergent outcomes resulting from the crises in eastern Europe and Latin America are not the result of the demise of economic systems or the superiority of one system over the other but have more to do with the willingness and capacity of the US to reshuffle political regimes while retaining strategic ties to the underlying authoritarian states and economic elite structures. In contrast to the Soviet withdrawal of support for its client regimes, Washington acts quickly to prop up and buttress regional allies: military aid helps repress dissident nationalists; civilian-military pacts provide the electoral facades that perpetuate the continent-wide pillage. At the same time, Latin America's coercive structures have also exhibited a capacity to hold onto power during periods of transition, thus guaranteeing the continuity of the social system against democratic social movements and mass popular upheavals.

It is these continuities of international hegemonic power, authoritarian state institutions, and the continued concentration of economic power in the outward looking elites that make such a mockery of proposals to learn from the 'Swedish model'.²⁴ Generals and bankers are not going to negotiate the large-scale, long-term transfer of wealth from overseas accounts into social welfare programmes, now or in the near future. Elite negotiations with the electoral politicians provided the political class with the freedom to try their hand at managing the existing model, pacifying the masses, securing overseas loans and keeping up interest payments. The electoral elites have set out to prove that they can manage the existing system better than their authoritarian counterparts: that they can better renegotiate the debt—and maintain payments; that they can run popular elections that would not impair the confidence of the investor elites.

Initially they succeeded, but for a brief historical moment. By the end of the 1980s, electoral regimes were deeply mired in chronic stagnation and the electorate was rapidly losing confidence in one political option after another; one anti-political personality after another. The major reprieve of the system was the very severity of the crisis: the struggle for day-to-day survival was exhausting the populace and forcing

them to turn inward to primary and immediate groups and networks. What new electoral 'options' will appear to perpetuate the political charade? One is tempted to speak of the 'end of neo-liberal capitalism' as the western pundits associate market ascendancy in the east with the 'end of socialism', but that is too easy, fundamentally wrong. The road to transcending the economic, political and moral bankruptcy of capitalism in Latin America is long and arduous. The organisers of the death squad still command the armed forces and they have been carefully nurtured by the incumbent electoral politicians. The economies are tightly chained to the international financial networks: ruptures at one end provoke reactions at the other. Industrialists have factories in Latin America but their capital is invested abroad. When change comes, it will not be easy nor will the initial measures restructuring the economy toward meeting popular social needs be painless: there will have to be a massive shift of resources from the upper 20 per cent to the rest, and that will certainly be resisted to extremities. The elites which have exhausted economic and political options do not simply concede the game as lost and turn philosophical. Irrationality is already increasing: evident in the obsessive and single-minded pursuit of further austerity measures against a whole people which literally has nothing left to give; in the monomaniacal pressures to continue interest payments despite sky-rocketing infant mortality rates and generalised hunger.

If socialism has a future (independently of the organisational capacities or incapacities at any given moment, the deflection or retreat of this or the other generation of intellectuals), it is because it is the only possible way to confront the irrational tide of market madness that threatens to defend general misery with unrestrained violence.

Notes

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- 7 Gert Rosenthal, 'Balance Preliminar de la Economia Latinoamericana en 1989', *Comercio Exterior* (Mexico), Vol 40, no 2, February 1990, p 124; 'How Latin America's Economies Look After a Decade's Decline',

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- 20 Quoted in Americas Watch, *Messengers of Death: Human Rights in Guatemala, November 1988-February 1990*, (New York, March 1990); Wilson Ring, 'Guatemalan Rights Performance Deteriorates Despite Promises', *Washington Post*, April 13, 1990, p A20. Also see Lee Hockstader, 'Climate of Terror' Again Grips Guatemala', *Washington Post*, September 29, 1989, p A45; Lindsey Gruson, 'Political Violence on the Rise Again in Guatemala, Tarnishing Civilian Rule', *New York Times*, June 28, 1990, p 3; 'Murder With Impunity Returns', *Washington Report on the Hemisphere*, Vol 11, no 1, October 3, 1990, pp 1, 6.
- 21 See, for example, Americas Watch, *A Year of Reckoning: El Salvador a Decade After the Assassination of Archbishop Romero* (New York, March 1990), 'Overlooked Abuses of Salvadoran Unions', *Washington Report on the Hemisphere*, Vol 10, no 14, April 18, 1990, p 4.
- 22 See 'Colombians go to the Polls', *Washington Report on the Hemisphere*, Vol 10, no 17, May 30, 1990, p 4.
- 23 Quoted in 'Born-Again Ideology in Jamaica and Venezuela', *Washington Report on the Hemisphere*, Vol 9, no 23, August 16, 1989, p 4. Also see Canute James, 'Manley Moves to Deregulate State', *Financial Times*, October 26, 1990, p 4.
- 24 See, for example, Francisco Weffert, 'Sweden and Latin America', *CEPAL Review*, no 39, December 1989, pp 31-36.



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Forces of Production and Agrarian Change

Gail Omvedt

The Political Economy of Agrarian Change: Nanchilnadu, 1880-1939 by M S S Pandian; Sage, New Delhi, 1990; pp 192, Rs 175

THIS concisely written study by Pandian breaks new ground in the history of agrarian relations in one important respect, by taking into account the 'ecological' factor (though Pandian does not refer to it as such). Rather, he begins with a discussion of various forms of explanation for the limited impact of the 'green revolution', placing himself firmly within the 'political economy' school which emphasised exploitative agrarian relations and changes in these as central, and which was expressed in the now-famous debate on the 'mode of production in agriculture'. But in doing so Pandian makes several important points in a critique of this debate: most of the participants did not study the concrete reality of Indian agriculture, they neglected the analysis of the forces of production in agriculture and simply accepted the bourgeois notion that growth of the forces of production could be measured in terms of increasing use of tractors, tubewells, HYVs, etc. and they did not deal holistically, concentrating on agriculture alone and writing as if a mode of production could be located here without exploring the interconnections of the agrarian economy with the rest of the social structure.

Pandian's aim is to remedy these gaps: proceeds with a detailed analysis of pre-independence agrarian changes in Nanchilnadu, an area comprising two talukas now in Kanyakumari district of Tamil Nadu but previously part of Travancore state. In fact the area is a semi arid one with low and irregular rainfall, but it had become a prosperous centre of wet rice production due to traditional irrigation works dating back as much as a thousand years. Water both in terms of rainfall and irrigation is thus crucial 'productive force' for Nanchilnadu agriculture. So were the then vast areas of surrounding forests, dry lands (grasslands) and tanks, which had functioned for the peasants as 'commons'—that is, lands resources which they had some degree of collective control over and access to for securing fodder, green manure, agricultural implements and other productive inputs.

The study makes it clear that much of what is being 'discovered' only now as a negative environmental consequence of capitalist development—water deprivation, the negative consequence of 'big dams' (more precisely ill planned irrigation projects), destruction of the commons, deforestation—dates back to the colonial period. Thus, not only did the Travancore state (under pressure from the colonial rulers) extract higher and higher and ever more rigid surpluses from the peasants in the form of land revenue, it also engaged in ill fated

grandiose (for its time) irrigation projects such as the Kodayar dam, it pushed wet rice cultivation recklessly onto ever large areas of land that had been under dry land cultivation and grazing use, and it increasingly 'reserved' the forests, hoping to use these for commercial purposes. Thus, in addition to having to pay land revenue in cash, peasants were also forced onto the market for inputs which previously had been freely available to them from the 'commons' around their villages. Thus without showing any dramatic event of environmental degradation, Pandian stresses the ongoing degradation—from the peasants' point of view as well as that of 'nature' as such—of the conditions of production of agriculture and its role in the exploitation and impoverishment of the peasantry.

As he sums it up: "(a) the peasants' free access to forests and tank beds was removed by the state and thus they ceased to be common property resources, (b) the effectiveness of irrigation as a productive force was reduced through various acts of the state, like the over utilisation of the Kodayar dam, sale of tank beds and disruption of water users' organisations, (c) the remission of land revenue during times of crop failure was abolished, (d) the mode and time of revenue collection were altered in favour of the state and against the peasants, and (e) surplus extraction from the peasants by the state was intensified" (p 149). As a result, peasants were forced to increasingly sell their crops in the market in a period in which prices were dropping drastically. Heavy indebtedness, loss of land to a class of absentee landlords, and stagnation of agrarian technology was the final result (p 170).

Along with this Pandian examines peasant responses, noting that while there was a good deal of individual resistance, a peasant movement as such was very weak. He gives two reasons for this. First, there was little landlord peasant antagonism since inter-village relations (payment in kind to the landlords by the tenants, remission of rent during bad harvests) still were relatively traditional—as he notes, "the landlords themselves shouldered the burden of declining prices as they paid the land revenue in cash" (p 164) and it was the community as a whole which was losing its access to common property resources to the state, which "characterised the state as the first accused in the eyes of the peasants" (p 164). Second, the state successfully maintained a paternalistic relation with the peasantry, particularly since the Travancore administration had a Tamil association for this Tamil-speaking peasantry (pp 165-69).

Though he has not dealt specifically with caste or gender issues, Pandian has thus given a relatively holistic analysis of agrarian change in Nanchilnadu which, it can be argued, does not only fill in some of the gaps in a 'mode of production' analysis, but breaks the framework of the debate and transcends it quite thoroughly. Like all good studies, Pandian's work provides answers to some questions—and raises further ones. These perhaps would have become more clear if he had been able to do what he writes in his introduction he had hoped to do—carry the analysis through to the present. The questions are as follows:

—As Pandian shows, peasants were forced into the market economy, according to him "this form of exploitation which is being mediated through the product market rather than through the labour market is a feature of pre-capitalist socio-economic formations" (p 157). This is an assent to the basic assumptions of most of the 'mode of production' debate participants—that *true* capitalism in agriculture means a process of differentiation that drives peasants off the land and produces the two contending classes of landless labourers and capitalist farmers. But is this an adequate analysis of capitalism? Should we not rather say that capital accumulation is carried on through bonding the peasant into producing cash crops for the market at prices which amount to a high level of exploitation of peasant and agricultural labour power?

The question of land alienation is related to this. Pandian argues that substantial loss of land to absentee landlords was a significant result of the processes he describes. Yet he has not given substantial evidence for this, and as he himself notes, Nanchilnadu "is today characterised by the domination of petty peasants" (p 57). In other words, the overall historical process has acted to maintain peasants as exploited rural producers. Analysing to what degree this is true and why would require a longer historical scope and perhaps a wider geographical scope or study.

What is the role of indebtedness to the state? Pandian sees indebtedness to moneylenders as playing a crucial role in exploitation and land alienation, but he seems to believe that provision of credit by the state would have remedied peasant problems. This appears to exempt the state from any participation in exploitation. Today, when a significant shift at the all-India level has led to the replacement of private moneylenders of all kinds by state institutions (co-operatives and banks) as providers of 'credit' (from the peasants' point of view it is 'debt', from capital's point of view it is 'credit'; the change of language is significant here), this is a crucial issue. Does not indebtedness to the state also function to subordinate the peasants' production process to the needs of capital?

—Finally, why exactly was there no peasant resistance? Pandian effectively shows that, even if landlords or big farmers benefited

from integration into the market, the main exploitation of the peasantry was by the state. Now, resistance at a collective movement level requires mobilisation—a mobilising force with some conscious ideology. But, the major mobilisers of peasants and agricultural labourers from the colonial period to quite recently—communists and socialists—worked with an ideology that did not comprehend the processes of exploitation which Pandian has shown. That is, they ignored environmental issues, did not understand the peasant labour process, and believed all fights should be directed against local exploiters—landlords, capitalist farmers or moneylenders. Peasant struggles on forest issues or land revenue issues—that is, against the state—had to take place during the colonial period under Gandhian or other non-communist leadership.

The theoretical framework which underlay the ideology of left organisers is more or less the same as that underlying the 'mode of production' debate. What Pandian's analysis raises is the very basic question of whether this framework is adequate for an understanding of the impact of capitalism (both in

its colonial form and today) on agrarian structure.

Finally, it may be said that the points which Pandian does make in his critique of this debate are interlinked. The participants, by and large, had little concrete study of the Indian reality, ignored the issues of the forces of production (technology and environmental issues) and did not take a holistic viewpoint partly because they looked at the issue from the view of capital. Capitalism fragments the production process, treats nature as a 'free good' without being concerned about the consequences of environmental degradation, rampantly extracting natural resources at no cost or low price for the purposes of accumulation. From the point of view of the peasants themselves, the production process cannot be fragmented, environmental issues, whether land degradation or access to common resources, cannot be ignored, and exploitation is exploitation whether it is at the hands of the landlord or the state and its functionaries. Studies of Indian agricultural change need to proceed more from the viewpoint of the toilers themselves—men and women both. Pandian's study is a good step in that direction.

Hobson's Choice

Saad A Saidullah

India Wins Freedom by Maulana Abul Kalam Azad, Orient Longman, 1988, pp xiv + 283, Rs 75 (pb), Rs 125 (hb).

Abul Kalam Azad by Ian Henderson Douglas, Oxford University Press, 1988, pp xi + 358, Rs 230.

India Wins Errors by Rajmohan Gandhi, Radiant Publishers, 1989, pp x + 108.

"AZAD" wrote Douglas, "in death as in life is alone." However, as the political has continued to encroach upon the religious—of which Azad was a unique amalgam—other graves have been added to that *muidan* between the Jama Masjid and the Red Fort. The omission of this fragment of information is perhaps the only one in Gail Minault and Christian Troll's revision of the 1969 Douglas doctoral thesis. Though the Nehru 'shatabdi' eclipsed Azad's centenary (he would not have begrudged that to his "friend and comrade"), it was suitably marked by the release of the much talked about 'thirty pages'. An unseemly court battle over, these have finally seen the light of day and we have Azad's complete account as 'old to Humayun Kabir'.

Just as the edited version had provoked Abdul Waheed Khan to present "the other side" (Pakistani), the unedited has provoked Rajmohan Gandhi to convert for "many are liable to recycle material from *India Wins Freedom*". The controversy does not appear to have noticeably diminished the prominent place Azad occupies in political imagination.

The artistic temperament that drove Azad "to go in the evenings to the Taj Mahal to play his sitar" appears to have led him, at times, to improvise on his life story. He specifically had to disown the legend that

he had attended Al Azhar even though it may have been construed from his remarks to Mahadeo Desai. But even after such deficiencies are allowed for, a noble edifice remains. For there is no denying the brilliance of his first rate mind, erudition, prodigious early accomplishments, sagacity, innovativeness in devising enduring institutions, and, above all, his political judgment. He is near enough to us in history for us to know this, so, his considerable achievements need not be repeated *ad nauseam*.

Rajmohan Gandhi asserts, "Remove him from history—the drama of Hindu-Muslim partnership in the movement for independence is then robbed of its Muslim protagonist." But to fall into the trap of this imagery is to ignore the reality that the Maulana symbolised and also injects artifice into everyday life. For every Azad and Khan Abdul Ghaffar Khan there were tens of thousands of Amtus Salaams and Khudai Khidmatgars. There were also many among the ulema who spoke against British imperialism before it became fashionable to do so, perhaps, because this group was drawn largely from the artisan class that European manufactures destroyed. Given all this the unity of religious communities was not a farce of a partnership for greater profit. It

became that, much later, to Azad's disgust.

One of the major hindsight provided by Azad is that the Congress as an organisation and many of its leaders in person were not above making communal hay while the sun still shone on the British empire. Thirty years later, from his grave, he testifies to his belief in the veracity of the stories about the side-lining of Nariman in Bombay and Syed Mahmud in Bihar. He believes that that does not in any way mitigate Syed Mahmud's, later, secret correspondence with the viceroy to secure his personal release. It is equally significant that Azad omits the account that Douglas provides of his own steadfast refusal to avail himself of the offer to let him visit his wife on her deathbed. His abnegation is complete. And in the legal wrangling over the publication of the sealed pages we had a glimpse of his relatives as they appeared through the media—ordinary Muslims following lowly trades. (It is in sharp contrast to most politicians, particularly that of Rafi Ahmad Kidwai's clan which appears to have levitated to dizzying heights on the magical power of his name.) Azad's revelation (how it must have galled him to admit there was an element of truth to Jinnah's description of him as a "showboy" and description of the Congress as a "Hindu" party) is confirmed by Mahatma Gandhi's use of religious idiom, the Khilafat movement and the Nehru chant of *gai matri mai* which were all mixed signals that the Congress used to mobilise from the religious communities.

In his monograph Rajmohan Gandhi uses textual analysis rather than a contextual approach. He, therefore, subjects all the later additions to close scrutiny. One cannot summarise his 120 page commentary without doing it injustice. But if we take one of the shortest passages with the shorter commentaries we have: "We therefore took steps for bringing soldiers in from the south more rapidly" [Azad]. Prima facie the word "we" suggests a collective decision—whether by the cabinet or Mountbatten's emergency council is uncertain. Rajmohan Gandhi, however, finds it difficult to permit such a role to Azad. He baldly asserts, "There is evidence, however, that it was Patel who brought in soldiers from the south." No such evidence in the shape of government orders is however presented, but, he blithely adds, "Controlling disturbances was after all the function of the home minister." All this implies is that the guilt of the deaths of millions lay on the head of Sardar Patel. He adds equally unconvincingly, "K Santhanam who was in Delhi in 1947 has recorded, 'The Sikh and Rajput soldiers who were supposed to protect Delhi indulged in attacking Muslims and though the Sardar was supposed to be anti-Muslim, he felt about the atrocities against the Muslims as much as he felt about the Hindus in Punjab.'" What access one K Santhanam had to the private universe of emotions of the Iron Man is unclear. Such "new history" is derived from a none too "new source"—a commemorative volume entitled *This was Sardar*. The concluding remark, "It was only when the Madras Regiment which

he [read 'Sardar Patel'] had summoned had come to Delhi that he felt secure'. Surely this begs the question whether the Muslims of Delhi, rather than the Sardar, were to feel secure and protected.

If one were to fight fire with fire one may turn Rajmohan Gandhi's, "Azad... blames Patel when he is not there to defend himself" to Azad's defence and claim Rajmohan Gandhi attacks Azad "when he is not there to defend himself". Such linguistic gymnastics might impress, but only momentarily. Arraigning texts against texts is good exegesis but poor history.

The overpowering message of Azad is that, in his judgment, partition was *not* inevitable. It could well have been averted. Indeed it came close to being avoided. It was not a tragedy in which the dice was loaded by a Shakuni (unless one believes in a conspiracy theory under which Edwina Mountbatten seduced Nehru to accept the plan in order to legitimate in modern international law the division of countries on religious grounds to appease the memory of her Jewish grandfather Sir Ernest Cassel who "battled his way to immense fortune and through his role as private banker and financial adviser to the future Edward VII lodged himself in the innermost temples of the Establishment") though its results were more gory and enduring than the *Mahabharat*. We had a choice then as we do even now.

Recent demands for greater provincial autonomy, in Punjab and Kashmir in acute form, and the collapse of the Soviet empire's myth of integrating nations through economic means rather than politics that ensnared Nehru and a whole generation, today militate in favour of Azad's concept of a looser federation. That a scheme he advocated so many years ago has relevance for our own times says much for Azad's political acumen.

Azad believed, "The basis of partition was enmity between Hindus and Muslims. The creation of Pakistan gave it a permanent constitutional form. Nevertheless the die is cast. The new state of Pakistan is a fact. It is in the interest of India and Pakistan that they should develop friendly relations and act in co-operation with one another." This also is of tremendous relevance. With the integration of national economies of politically autonomous nations and the emergence of supranational economic states, there is scope for cooperation among the nations of South Asia, especially given the complementarity of their economies.

Finally, Azad was revolted by the suggestion that the minorities in the domain of either country be held as hostages for the good conduct by the majority in the other state. It was repugnant to him that the world be split into Muslim (Darul Islam) and non-Muslim (Darul Harb) any more than pure (Pak) and impure because he fervently believed that the entire world created by god was his mosque. He realised, which few Muslims do even today, that for the foreseeable future Islam must come to terms with its role as a sept in the house of unbelief (Darul Harb).

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FRIENDS,

It is my pleasure to welcome you all to the 32nd Annual General Meeting of your Corporation. I am very happy to report the excellent performance achieved by your Corporation in all the key operational areas.

ECONOMIC REVIEW

The year 1990-91 was marked by a moderate overall growth in the State economy. There has been a marginal fall in agricultural production compared to previous year. Particularly food grains production is expected to decline to about 64 lakh tonnes during the year from 71 lakh tonnes achieved in 1989-90. The growth in industrial production is anticipated to be moderate at 4 to 5 percent during the year. There has been a marked increase in the production of silk fabrics and wood oil saleable steel sugar and iron ore as compared to the corresponding period of last year.

A new industrial policy was announced by the Government of Karnataka effective from 1st of October 1990. Notable features of this policy are major concessions for new industries incentive packages to employment oriented rural industries and dispersal of industries to backward areas.

KSFC as a regional development bank has a major role to play in the implementation of the industrial policy of the State Government as has been done in the past.

WORKING RESULTS

I am happy to inform that your Corporation has registered yet another commendable performance during 1990-91. During the year under review the Corporation generated a gross revenue of Rs 61.16 crores on cash basis as against Rs 51.52 crores during 1989-90.

The working of the Corporation during the year 1990-91 resulted in a net profit of Rs 9.01 crores before providing for taxation as against the profit of Rs 8.30 crores in the previous year.

OPERATIONAL HIGHLIGHTS

The performance of the Corporation against the targets set for 1990-91 is as follows:

PERFORMANCE OF THE CORPORATION

(Amount in Crores)

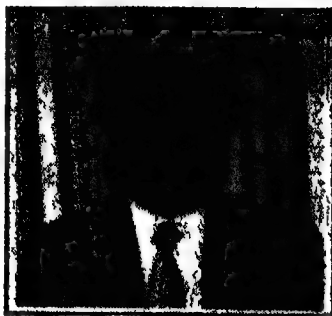
| Sl No | Particular | Target | Achievement | Achievement % |
|-------|---------------|--------|-------------|---------------|
| 1 | Sanctions | 207.00 | 258.87* | 125.05 |
| 2 | Disbursements | 164.00 | 190.71 | 116.27 |
| 3 | Recovery | 125.00 | 137.22 | 109.78 |

* Includes bridge loan of Rs 7.78 crore

The financial assistance provided by the Corporation during the year is expected to generate employment for 4.09 lakh persons. Total investments catalysed by the financial assistance is expected to be around Rs 418 crores and the value of output from these investments is estimated at Rs 1,255 crores.

CLEARANCE OF APPLICATIONS

The average time taken for clearance of an application was 21 days during the year as against 22 days in the previous year indicating the efficient and systematic handling of cases.



Sri. J. Alexander, IAS
Chairman

FLOW OF ASSISTANCE

In consonance with the Industrial Policy of both the Central and State Governments the Corporation laid emphasis on dispersal of industries to backward areas increased assistance to small scale industries and rehabilitation of sick units.

1 ASSISTANCE TO BACKWARD AREAS

During the year the Corporation sanctioned loans of Rs 113.65 crores to 466 cases in backward districts as compared to Rs 89.46 crores sanctioned to 4710 cases during 1989-90. About 56% of the cases sanctioned during the year are in backward areas and amount wise 45% assistance is availed of by backward areas.

2 ASSISTANCE TO SMALL SCALE SECTOR

The Corporation continued to increase the coverage of small scale industry sector. During the year an amount of Rs 166.98 crores has been sanctioned to 6185 cases in the SSI sector as against Rs 125.70 crores to 6060 cases during the previous year. Nearly 67% of the total financial assistance extended during the year is availed of by SSI sector. The cumulative assistance to the SSI sector amounting to Rs 773.67 crores was sanctioned to 37,667 cases which is 68.7% of the total sanctions in terms of amount and 79% in terms of number of cases.

3 ASSISTANCE TO LOCAL ENTREPRENEURS

It is heartening to note that 99.66% in terms of number and 96.53% in terms of amount has gone in favour of local entrepreneurs. 8256 local entrepreneurs were assisted to an extent of Rs 242.19 crores during the year.

4 ASSISTANCE TO RURAL ENTREPRENEURS

To help artisans and village and cottage industries in rural areas Rural Industrialisation scheme was introduced by the Corporation two years ago. During the year 1201 entrepreneurs were provided with an assistance of Rs 6.90 crores as compared to Rs 4.67 crores sanctioned to 729 entrepreneurs in the previous year. The cumulative assistance under the scheme stood at Rs 10.98 crores to 2008 entrepreneurs.

5 SINGLE WINDOW SCHEME

Single Window Scheme introduced two years ago for providing both term loan and working

capital is becoming popular among small entrepreneurs. During the year 876 entrepreneurs have availed of Rs 26.37 crores and the cumulative assistance under Single Window Scheme stood at Rs 41.05 crores to 1494 cases.

6 REHABILITATION OF SICK UNITS

The identification and rehabilitation of potentially viable sick units continues to be a thrust area. During the year 201 units involving an assistance of Rs 9.65 crores were rehabilitated. Since inception of refinancing scheme for rehabilitation of sick units a total number of 1148 units have been provided assistance aggregating to Rs 46.58 crores.

PROMOTIONAL AND DEVELOPMENTAL ACTIVITIES

KSFC as the principal financial institution in the State has taken the leading role in organising number of promotional activities on its own and in association with other developmental agencies. During the year as many as 728 promotional programmes were conducted by the Corporation benefiting 56,185 entrepreneurs.

TARGETS FOR 1991-92

The Corporation has set the following targets for the year 1991-92:

| | |
|---------------|------------------|
| SANCTIONS | Rs 244.20 Crores |
| DISBURSEMENTS | Rs 239.84 Crores |

ACKNOWLEDGMENTS

I wish to place on record my grateful thanks to the Government of Karnataka Department of Finance Industries and Commerce for the continuous co-operation and assistance rendered by them. I am thankful to the Industrial Development Bank of India (IDBI) and Small Industries Development Bank of India (SIDBI) particularly for the valuable guidance and unstinted support.

May I place on record the support and co-operation extended by institutions like RBI KSSIDC KSIIDC DICs KEB KIADB TFCOSK LIC SISI NSIC Apex Bank Commercial Banks TDCI IRBI Canbank Financial Services and CTD. I wish to thank the voluntary organisations like KASSIA LIONS CLUB ROTARY CLUB and AWAKE for their contribution in the Corporation's developmental activities.

I acknowledge the invaluable services rendered by Sri S B Muddappa IAS and Sri C Gopal Reddy IAS during their tenure as Chairmen of the Corporation.

I would like to compliment the contributions made by the outgoing Directors Sri A Sengupta Sri V K K Gore Sri Philipose Matthai Sri A Ravindra Sri R C Rai Sri S Thiagarajan Sri S Ganesh Sri S Rajagopal and Sri Y. Vishwanatha.

My sincere appreciation to the entrepreneurs for the trust and confidence placed by them in our Corporation.

Finally the efforts put in by the Managing Director Sri Y K Puttasome Gowda and the officers and the officials of the Corporation need to be specially mentioned and I take this opportunity to express my deep appreciation to them.

Bangalore

J. Alexander

29th July 1991

Excerpts from the Chairman's Statement at the 32nd Annual General Meeting held on 29th July 1991

Capital, State and Petty Trading in Calcutta

Nandini Dasgupta

The rapid growth of small-scale economic activities such as petty trading, in most third world cities is generally attributed to the dynamism of the urban centre and its ability to attract capital and labour. Calcutta, however, has followed a different path of change, for while it was abandoned by foreign and indigenous industrial capital soon after independence, the continuing rural-urban disparity attracts large influxes of workers to the city who have little choice or scope for mobility, operating as they do within the constraints of persisting stagnation.

This article argues that at the sectoral level, the case of Calcutta shows the kind of capital which dominates determines the path of change for the dominant mode of production, and also the nature and form of petty commodity activities articulated to the dominant mode.

THIS paper examines the relations between capital, the role of the state and the growth of petty trading in Calcutta. The relations between the state and the different types and segments of capital is seen to affect petty trading at sectoral and sub-sectoral levels. The initial flight of capital strengthened by the anti-capital stance of the Bengali politicians led to persisting stagnation and heightened the importance of petty trading in Calcutta's stagnating economy. At the sub-sectoral level, certain segments of commercial capital influenced the administration of the Congress government during the 1970s to limit the spread of this sector, shaping all subsequent policies towards this sector. This paper shows that the needs of the workers of this sector has never been a factor at the policy level.

Petty trading has been one of the most rapidly growing economic activities in Calcutta's urban economy in the last two decades. This is neither unexpected nor surprising for it is a trend observed in nearly all major third world cities in the post-independence period. The growth of such small scale activities in these cities is generally attributed to the dynamism of the urban centre and its ability to attract capital and labour. While the capital finds lucrative investment in capital intensive activities, the excess labour moves into labour intensive, low productivity and low income activities. However, a dominance of the urban economy by industrial capital, foreign or indigenous, is implicit in this model.

Calcutta, in the post-independence period followed a different path of change. Unlike most third world and other Indian cities, Calcutta was unable to strengthen its links and dominance established in the colonial period, as it was abandoned by foreign and indigenous industrial capital soon after independence. Large- and small-scale capitalist production first grew very slowly, then stagnated and finally declined. But the continuing rural-urban disparity attracts large influxes of workers. As opportunities for income generation got increasingly restricted, the workers looked for alternative means of livelihood. Though the inherent character

of petty trading in the third world cities is not questioned, it is important to note that in most cities workers are placed in a dynamic growing centre where the scope for vertical and horizontal mobility is real. In the case of Calcutta there is little choice or scope for mobility as workers operate within the constraints of persisting stagnation. In this structure of limited employment opportunities and limited mobility in Calcutta, small-scale activities acquire greater significance. Among such activities petty trading becomes a real alternative. Further, the high level of persistent unemployment among the educated Bengalis is forcing a class realignment. Unable to even reproduce their conditions, they are attempting to enter the urban economy at a lower level, through petty trading. It is thus a source of livelihood to illiterate migrants from other states, to unemployed resident urban workers, a large number of whom are educated, to migrants and commuting workers from the neighbouring districts. Thus this paper argues that at the sectoral level, the case of Calcutta shows that the kind of capital which dominates determines the path of change for the dominant mode of production, and also the nature and form of petty-commodity activities articulated to the dominant mode. Hence a study of the role and importance of a petty commodity sector in an urban economy needs to examine the relations between the state and different types of capital present.

At the sub-sectoral level, the politics of petty trading shows that while the scope of this activity increased because of absence of industrial capital, sections of commercial capital created conditions for its growth. While the mahajans who established links with petty traders stood to gain, other sections of commercial capital resisted its growth. In the early seventies, the latter groups were obviously powerful enough to influence state attitudes at administrative level. The Congress government's stand on the issue of 'hawkers'¹ and the pattern of eviction of hawkers reflected neither a concern for the workers of this sector nor an understanding of the socio-economic processes affecting the city. The state's attitude

at that time and the constant threat of eviction slowed down the process of consolidation and stabilisation of the petty trading units. This not only forced a greater politicisation of the sector, particularly of urban middle class workers, but also resulted in the next government in power (the Left Front) adopting a stance contrary to that of the Congress. In other words, the non-interventionist policy of the Left Front government towards the petty traders was politically convenient. The government's present policy reflects neither the needs of the sector nor an understanding of the socio-economic processes affecting the city. At the sub-sectoral level it is therefore argued that to explain the role of the state and its influence on the petty commodity sector, it is essential to understand the relations of the state with different types of capital and the political priorities of the government. It is these relations and priorities which are fundamental in shaping the activities of the petty commodity sector.

The purpose of Section I is to show that it is the combination of an absence of a Bengali capitalist class, the negative relations between the state and industrial capital which did remain and the inability of either to influence the decision-making at either the national or regional level which resulted in persistent stagnation which gradually choked off alternate avenues of employment enhancing the status of petty trading in Calcutta's urban economy and in its limited employment structure. This section therefore examines why there is an absence of a locally based industrial capitalist class and how the growing inertia in the local government since the inter-war period combined in the post-independence period with Calcutta's peculiar brand of political culture, its factionalism, militancy and political patronage to result in the deviations from the urban dynamics observed in other third world cities. This argument is grounded in empirical evidence drawn from an earlier study by the author.²

Section II of this paper takes up the analysis at the sub-sectoral level to show that the needs of the workers of this sector has never been at the heart of the matter. It shows that first, it was the needs of certain

sectors of commercial capital which generated the hostile policies of the Congress government in the early seventies, and subsequently it was the political priorities of the Left Front government which led to its adopting a non-interventionist policy towards the street traders. This section concludes with the socio-economic and political implication of this *laissez-faire* policy.

I

Flight of Industrial Capital, Stagnation and Petty Trading

Calcutta was one of the strongest colonial cities, an enclave of capital accumulation and a centre of investment. However, even in the colonial period there was one major difference with other colonial port cities. Most colonial cities were centres for industrial and commercial capital, like Bombay. Calcutta also attracted foreign and indigenous capital because of its status as the largest metropolis, but the indigenous industrial capital was controlled by groups based outside Calcutta and the eastern region. This was crucial when the national economy reorganised and reorientated itself to the national/internal market.

The political independence and economic reorganisation which helped other centres to strengthen their links assisted in destroying the links and relationships of this regional urban system by deflecting the forces which would have strengthened Calcutta's system. It is argued that such a process is initiated when local capitalists no longer find it attractive (for reasons economic or sentimental) to invest in a particular metropolis either because an alternate site is more lucrative or because the metropolis, unable to cope with the changed situation, became inefficient and inadequate. As the power of the metropolis is undermined, the centre becomes weak and exogenous factors become important. With the basis of earlier domination weakened, internal contradictions of the urban system surface and stagnation sets in and hastens the flight of capital. However, the flow of people into the city tends to continue for a while because disparity³ is still present. In the absence of growth in industrial employment, these people have no alternative but to become self-employed in the commercial sector.

Calcutta's class structure and the socio-demographic composition of the capitalist class has, therefore, been an essential factor in Calcutta's stagnation. Calcutta failed to develop a locally-based industrial capitalist class⁴ which could dominate at the national and regional level. Further, at the state level, because of the economic dominance of non-Bengali groups, an anti-capitalist stance was a common denominator among all Bengali politicians. The interests of industrial capital were rarely represented at the political level in West Bengal.

Bengali capital rarely dominated Calcutta's urban economy. In the colonial period, foreign industrial and commercial capital was predominant, with ethnic capital

from western India playing an increasingly dynamic role, first in commerce and then in industry. Bengali wealth generated during this period was spent on conspicuous consumption, commerce and real estate. The source of this wealth was in the political, structural and administrative changes initiated in the late 18th century. The first of these changes was a reorganisation of the land tax system and the imposition of the zamindari system.⁵ The net result of these changes were far-reaching. Most cultivators, whether formally landless or not, were reduced to near subsistence, as the social safeguard against proletarianisation⁶ was discarded in the search for higher revenue. On the other hand, moneylenders and landlords strengthened their position as they monopolised commercial agriculture, which expanded without an increase in productivity or increase in reward to labour. The intensification of rural poverty as a "large number returned to the land", following the introduction of manufactured goods and subsequent deindustrialisation, had a depressing effect on the level of the wages. "Normally the demand for labour increases with accumulation, the workers being recruited from pre-capitalist societies in decomposition. There is a certain equilibrium between the growth in the supply of labour and the growth in the demand for it" [Amin, 1974: 156]. In Bengal where no accumulation of industrial capital took place alongside the decomposition process, the disequilibrium between the supply of and the demand for labour worsened. Though some of the relations of pre-capitalist mode of production were destroyed, the dominant class survived intact, and the old mode of production retained so that a very dense rural population could be supported. The landowners/zamindars became wealthier as they turned to commercial production and moved to live in Calcutta as absentee landlords. As the value of land increased the position of the ground rent strengthened. Indigenous capital finding its entry into industry blocked, was transferred to the urban centres, primarily Calcutta in the eastern region, into financing commercial activities, conspicuous consumption and real estate.

Within Calcutta itself the dominant local business group was being replaced by trading communities, first from UP (Khatri) and subsequently by Marwaris (from Marwar, a region in Rajasthan). Trading in Bengal had been dominated by a few Bengali merchant houses till the early 19th century. They were gradually edged out of their dominant position by the Khatri.

The movement of ethnic capital to Calcutta, the new enclave of accumulation, can be attributed to the weakening of Moghul empire and the greater insecurity associated with political instability. They gradually took over the wholesaling and indigenous banking activities. Both the Bengali merchant and Khatri invested heavily in urban and rural real estate. This was because indigenous capital was restricted

from entering manufacturing activities by government licensing policy, and those open to entry were not lucrative. As Bagchi notes, "it is simply that under the policy of free trade and with an economic environment where mass poverty was endemic, it was not profitable to invest in domestic industry for supplying the home market" [1982:91].

The effect of investment in real estate was to push up the price of land. The means of getting a quick return to this investment was constructing slum-like dwellings to let out, and secondly, to "farm the land by small shopkeepers". The migrant trading group preferred to 'people' their market by members from their own community and district. Thus the trade in indigenous commodities came to be dominated by Khatri. However, the Khatri were displaced by the Marwaris at the top, although they continued to control the trade at a lower level.

Marwaris gained control of the trade in jute, oilseeds, and in indigenous banking. While the other groups had invested in real estate, this group operating from obscure lodgings, retained a strong "hold on inter-regional money circulation and the flow of imported cloth and spices. Such a long distance interlocking network provided a cushioning system in an overall situation of highly constricted supply of capital, to which the Bengalis never seriously addressed themselves except in a local setting" [Sinha, 1978: 59]. Calcutta had acquired a powerful trading community with its roots, hence its loyalties, outside the region. That is Calcutta had failed to develop a locally-based capitalist class, and this was to have a far-reaching effect in the post-independent period. By 1850s an Indian capitalist class had emerged in western India, which had started to build up a cotton textile industry to supply yarn to local weavers and export to China.

Calcutta and Bombay gained substantially from industrialisation, following the first phase of import substitution starting 1914. But a major difference between the two cities was that most industries in Calcutta had been financed by British and Marwari capital, while in Bombay it was controlled by the locally-based capitalist class. However, despite the loss of its political status to New Delhi in 1912, Calcutta was expanding its production base. But there were signs of inertia in civic administration. Ashraf [1960: 3] notes that "there is little evidence of any appreciable improvement in the city's administration since before World War II". The year 1943 brought the first influx of refugees after the famine of Bengal. The period between the beginning of the 20th century and 1947 saw rapid industrialisation, the beginning of inertia in the city government and the start of an influx of refugees.

In the post-independence period, it is this absence of a Bengali industrial capitalist class which was to be crucial for Calcutta's economy. Industrial capital started moving out of Calcutta soon after independence as mobility of capital and the scope for investment improved. This altered and reduced

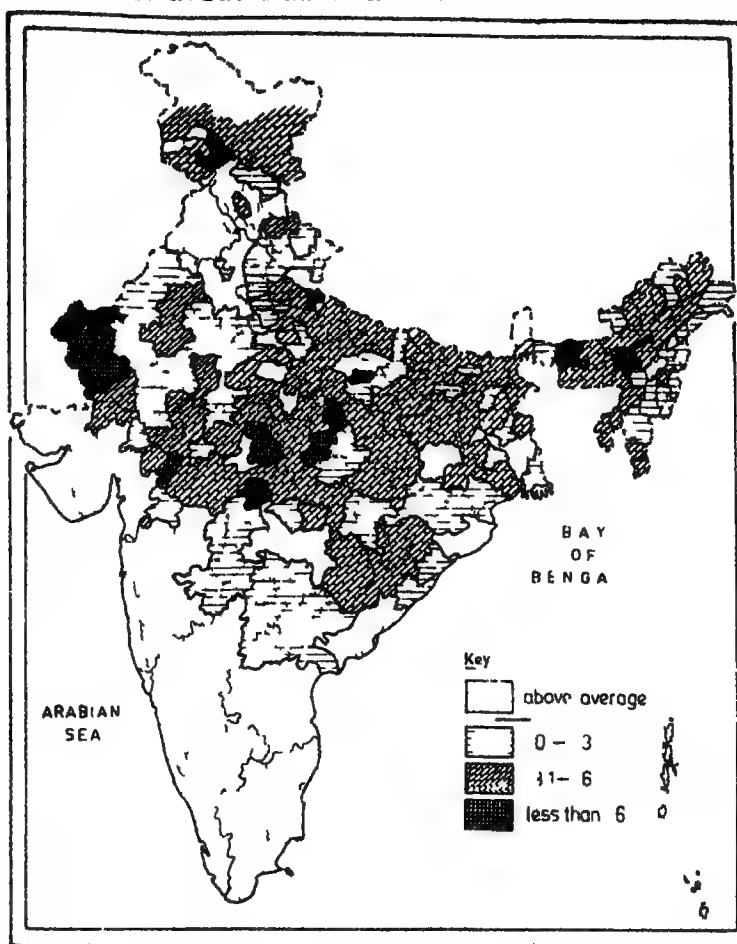
Calcutta's position in the national urban and power hierarchy and hence its ability to influence decision-making at the national level. The Indian capitalist class had subordinated short-term interests to long-term class interests and had played an active role in the national movement. This enabled them to participate actively in the policy planning after independence. Hence this role has been vital to the pattern of economic reorganisation and capital movement that followed. Secondly, along with industrial and commercial capital, industrial employment and commercial enterprise was also dominated by various ethnic groups. The Bengali reaction to this economic incapacity can be observed primarily at the political level. All attempts by non-Bengali politicians, representing economic interests, to enter politics were frustrated. The interests of capital in West Bengal were never represented at the political level. As a result when the cost of reproducing capital increased due to growing inefficiency and political unrest, it could do little to reverse the trend. This merely hastened the flight of capital. The political impotence imposed on industrial capital combined with political and economic changes at the national level, and the influx of refugees, factionalism, economic opportunism and Calcutta's peculiar brand of political culture at the local level resulted in the present stagnation.

In the Indian public economy capital from various segments and regions "fight and bargain for their share in the spoils of the system" [Bardhan, 1988]. The direction of events in the post-independence period in West Bengal and Calcutta indicate that the flight of capital deprived the state substantially of this bargaining power at the national level.

The capital flow into Calcutta dried up soon after independence even though it showed the highest per capita savings and at that time had an adequate infrastructure for industry. Calcutta was no longer attractive once indigenous capital was free to move within the country. Perhaps the presence of a group of locally-based industrialists might have changed the trend. Of course it can be argued that not all states in India have their own group of industrialists. Most states and metropolitan authorities have made it worth while for new capital to move into their states by offering incentives, subsidies and most important efficient management. The point being stressed is the fact that capital moved out of Calcutta even before these incentives were being offered by other states and cities.

Beneath the veneer of administrative efficiency and political stability of the first decade, West Bengal's and Calcutta's economy had begun to slide. Though this was not immediately apparent, it was soon reflected in the statistics. Mitra [1963] and Bose [1965] noted that the city was growing too slowly. While Calcutta was "stricken with an oppressive constriction. Bombay was planning to accommodate the accelera-

MAP VARIATION IN STANDARD OF LIVING FOR REGIONS BELOW AVERAGE



Source: Dasgupta N (1985), 'Geography of Socio-Economic Well Being in India', MPhil dissertation, University of Bombay.

ting in-migration rate" [Mitra, 1960: 31]. The first signs of disinvestment in Calcutta were reflected in factory employment and in the revenue generated. Between 1951-60 regional factory employment in Maharashtra and Gujarat increased by 45 per cent and 13 per cent respectively, while in West Bengal it increased by less than 5 per cent. While West Bengal's revenue declined from Rs 541 m to Rs 496 m, Maharashtra increased its revenue during the same period from Rs 510 m to Rs 526 m [Mitra, 1963].

For the capital which remained, it was unable to influence the state apparatus to act in its interest. The Bengali reaction to the economic incapacity was to impose a political impotency on this group, so that the interests of this group was never represented at the political level. Weiner [1962: 101-102] in a discussion of Politics of Scarcity observed that "in West Bengal, the intellectuals have noted that while the state is populated predominantly by Bengalis, economic power is in the hands of non-Bengalis: factory workers from Bihar, UP and Orissa and Marwari industrialists and commercial entrepreneurs. Even many of the shops, buses and taxicabs as well as the important rice trade are in the hands of non-Bengalis."

The Bengali reaction to this economic in-

capacity is observed primarily at the political level. In the post-independence period, all political factions in the Congress successfully obstructed every attempt by non-Bengali industrialists and other hopeful politicians to enter into state politics. The state assembly, state government, bureaucracy and political leadership are all dominated by Bengalis. In fact "non-Bengali groups are not represented within the governmental framework in spite of their substantial number" [Weiner, 1962: 102]. The first attempt to involve industrialists in state politics was made by B C Roy. However, the strong opposition from within the party forced him to abandon his plans [Sengupta, 1988]. Further, the non-Bengalis were also prevented from participating in urban management. As Mitra [1963] noted, Bengalis of all classes, social backgrounds and professions were represented in the governing body of the corporation of Calcutta, but there were no representatives of the business community. According to Mitra, the economic needs and interest of the urban economy were never quite represented at the policy level. This struggle to keep the industrial capitalist class from influencing state politics could be said to be an expression of the constant class struggle. Bombay presented quite a contrast

where policies and management strategies of the Bombay Municipal Corporation were designed to meet the needs of the industrial and commercial capital. Mitra notes that Bombay in the sixties was efficiently managed because the business community was involved, "Bombay was their passion".

In the state derivation debate on state and capital, three positions can be identified on the content, form, function and limits of the state apparatus to act in the interest of capital in general. According to the first position [Mueller and Neuss, 1975] the automatised state stands above the fray. The social relations of an otherwise anarchic society are reproduced and the general interest of the total social capital is thus established. In a review of the second position, Holloway and Picciotto [1978: 23] note that, according to Flatow and Huisken, an autonomous state is necessary because "relations of competitions existing between different classes of property owners make it impossible for them to realise their common interests other than through the state". Hirsch, occupying the third position, states that within capitalism the appropriation of surplus requires the relations of force to be abstracted from the relations of production and located at an instance standing apart from the direct producers. Thus the state is a historically conditioned form of relations of exploitation.

Though these three positions differ in their analysis of the form and content of the state, common to all is the underlying theme that the function of the state relates directly and/or indirectly to the interests of capital. It is because industrial capital was unable to influence the newly emerging political system in West Bengal, in the post-independence period, that it was unable to check the growing inefficiency and mismanagement of the urban economy and the deteriorating infrastructure and which ultimately increased the cost of reproducing capital. It was the growing inefficiency and the political instability which substantially increased the cost of reproduction of capital and hastened the flight of industrial capital which had begun soon after 1947.

The post-independence industrial expansion was naturally accompanied by industrial diversification and modernisation. In Calcutta, without any mentionable investment and sluggish growth, there was no question of modernisation and diversification of industry. That is, Calcutta failed to keep up with the pace and direction of economic change in the rest of India. The loss of locational advantage with price equalisation also affected Bihar, which was already one of the poorest and most backward states of the country. That is, Calcutta and the eastern states were thrown into a crisis from which they still have to emerge. However, a recent exception is Orissa, which after some aggressive marketing, now has the highest per capita investment in the country (CMIE). These two factors together largely determined

Calcutta and West Bengal's capacity to bargain and influence policies and events at the national level.

Calcutta, as it unsuccessfully grappled with its internal problems failed to participate in the process of change and gradually slipped down in the national hierarchy of power. Hymer [1975] states that the importance of a region/place depends on its position in the "hierarchical system of authority and control". The relationship between the different centres is one of superior and subordinate with the decision-making occupations being centralised in a few key cities. The structure of income and consumption will parallel the structure of authority and status. The process produced and established a different centre-periphery spatial structure in which Calcutta was relegated to the periphery. The new politico-economic structure which emerged was influenced by the rapidly growing and increasingly powerful group based in the west who also actively participated in urban management.

The new division of labour at the national level led to increasing polarisation of capital, skill and productivity primarily in Bombay and Delhi and several other secondary centres in the west and north. These gaps, once created, have been widened by state intervention in the form of price equalisation of all basic industrial raw materials and by the expansion of the multinationals and the rest of the private sector founded upon this inter-regional division of labour itself based upon the fundamental centre-periphery polarisation of the economy. Secondly, accentuating and sustaining this pattern today are the market forces working against the eastern states. Being economically the most backward, with a generally low level of wellbeing (see the Map) and small purchasing power, attracts fewer consumer goods industries. Mohan [1989] in an analysis of manufacturing and urban employment between 1961-81 notes that "among the traditionally industrialised states the fall in the share of manufacturing employment and urban population is the highest for West Bengal". Further, "West Bengal suffers a drastic fall in the share of manufacturing value added from 18 per cent in 1961 to 13 per cent in 1971 and to just under 10 per cent in 1981" [1989:2495]. The period between 1961 and 1981 saw a regional dispersal of industry and doubling of industrial employment. In 1961 Maharashtra and West Bengal each employed a fifth of the industrial workforce. In 1981 Maharashtra still supported 17 per cent of the workforce but West Bengal's share had declined to less than 14 per cent. Basu [1988] and Robertson [1987] indicate that because of a decline in industrial production in West Bengal there has been a fall in the level of living.

While it is the composition of the capitalist class which is largely responsible for initiating a stagnation it is the deteriorating relations between industrial capital and the state which is responsible for its

persistence. The disinvestment, the declining standard of living and the persistent high rates of unemployment in Calcutta's labour market has shaped the way the petty trading sector has evolved.

Empirical evidence suggests that petty trading has absorbed workers from all segments of Calcutta's labour market which has a complex socio-ethnic composition. The city has a long history of migration from neighbouring states, with different groups dominating certain industries (R Dasgupta, 1981) in the manufacturing sector and certain occupations in the tertiary sector. A greater complexity has been added by the periodic influx of refugees belonging to the middle class and more educated than the local population [Sen, 1960]. Also jostling for employment are the urban residents and migrants from the surrounding districts. It is estimated that there are nearly 100,000 street traders operating in Calcutta today.⁷ The number of street traders in Calcutta increased by 186 per cent between 1962 and 1972, a period marked by growing urban unemployment. As it absorbed a growing number of workers, street trading spread to every part of the city irrespective of the functional land use of the area and developed complex links and relations. However, a discussion of these links and relations is beyond the scope of this paper.

Evidence also suggests that though petty trading has attracted workers from all these groups it is more important to the city-born workers, some of whom are educated. Whereas the trends in the rate of entry of workers of all socio-ethnic groups is declining, it is rising for the city-born workers. The differential trends imply that there is a group of workers whose employment options are being gradually limited. To appreciate the significance of the differential trends in the rate of entry of the different socio-demographic groups into petty trading, a brief description of these groups is necessary.

The two major groups were the Bengali traders and non-Bengali migrant traders.

Bengali Traders (56 per cent): The refugees from Bangladesh (20 per cent) are Bengali Hindus who moved with the intention of taking up permanent residence in Calcutta because of religious persecution. Most of the refugees belonged to the middle class group, the Bengali *bhadralok*. They were totally uprooted and forced to sever all links with their country. They intended to merge into the mainstream of life in Calcutta and after 40 years their assimilation is almost complete.

The second group (18 per cent) of Bengali traders are those who have come from the surrounding districts of Calcutta, while some are from the other districts of the state. Most of these intra-state migrants live in Calcutta with their family. A third group (18 per cent) of Bengali traders are those born in the city, some of whom are educated. This group also includes the children of the refugees born in Calcutta.

Non-Bengali migrant traders (44 per cent): The non-Bengali migrants form a varied and complex group but they have one common purpose. The migrants from Bihar (28 per cent), UP (8 per cent), Orissa (5 per cent), Rajasthan, MP, Punjab and others do not come with the intention of taking up per-

manent residence (this does not include the Khatri and Marwaris who form the bulk of the wholesalers and large retailers) For them the city is just an economic space which provides an opportunity for better living in their village. They send back a major proportion of their income to their village and they themselves return to the village at the end of their work cycle, while their job or business is taken over by the son, relative or someone from the same village or district. They have no desire to assimilate and live in ghetto like units, nor any intention of improving their standard of living in the city. It has been estimated that Rs 1,500 million goes out of Calcutta through small postal orders to the neighbouring states every year [Misra, 1987]. Only one tenth of that comes back to the state. Interviews with migrant street traders showed that all migrants send back about 50 per cent of their earnings which ranged from Rs 150 to Rs 600 every month.

A break up of petty traders according to their place of origin and level of education

is also necessary to understand the relations among the various groups being drawn into this sector. Starting with the highest level of education, it is noted that nearly 6 per cent of the petty traders are graduates. A look into their background shows that they are all city-born and from the middle class. In 46 per cent of the cases the father ran a family business or was involved in trading, 25 per cent had regular employment in clerical occupations and another 10 per cent were professionals like doctors, teachers, legal assistants and brokers. They were all city-born but 50 per cent were second generation migrants from Bangladesh. However, 8 per cent of the traders had a rural background. They were all migrants from Bihar and UP.

In India a student is supported through his college by his family as little or no outside financial help is available. This implies that whatever may have been the profession or occupation, the family income was enough to support the trader through his education. This would place these families in the middle income group. Thus we have a group educated, city-born, but not skilled in any particular activity, moving into petty trading. The presence of this group, however small it may be now, indicates a process in which a section of the resident middle class is sliding back into a low income, low productivity sector. The process reflects the effect of a stagnating core on the resident population. The average age of these traders at the time of the survey was 34. On an average they had joined trading twelve years ago, that is they were approximately 22 to 23 in 1973-74. In other words, their time of entry coincided with the period of highest unemployment (Appendix Table A).

Looking first at the trends and rate of entry into petty trading it is clear from the Figure that each group has a different pattern and rate of entry into petty trading. The total entry into the sector appears to be slowing down, after having peaked 15 years ago. It also shows that all groups follow the general pattern except the group of workers who are city born.

Given these trends it would appear that in the face of industrial stagnation in the State, flight of capital, skill and business and political instability a large number of new urban entrants to the labour market in the mid 1970s had little choice but to take to petty trading. While 41 per cent had no other alternative but to take up trading, nearly 26 per cent felt it was the easier way out of the quagmire and 17 per cent said since all other avenues were closed and they happened to know someone in trading, it was the best bet. Approximately 13 per cent felt it was a combination of some of these and other personal reasons which pushed them into petty trading.

These varying trends seem to suggest an increasing pressure on the resident urban workers and raises questions like why are fewer migrants entering the sector? Is their share in other sectors also declining? To

TABLE 1 DEMOGRAPHIC COMPOSITION OF PETTY TRADING

| | (Per Cent) |
|-----------------------------|------------|
| Traders Bengali by origins | 55.89 |
| Sub groups | |
| Born in other districts of | |
| West Bengal | 18.40 |
| City born | 17.62 |
| Bangladesh refugees | 19.87 |
| Non Bengali migrant traders | 44.11 |
| State wise break up | |
| Bihar | 28.45 |
| UP | 7.50 |
| Orissa | 5.00 |
| Rajasthan | 1.26 |
| Other states | 1.90 |

TABLE 2 LEVELS OF EDUCATION OF PETTY TRADERS BY THEIR STATE OF ORIGIN (Per Cent)

| Major States | A1 | A2 | A3 | G1 | G2 |
|--------------|-------|-------|-------|-------|------|
| Sample | 64.49 | 18.80 | 12.06 | 5.72 | 0.42 |
| West Bengal | 50.77 | 29.79 | 19.48 | 15.47 | 1.14 |
| Bihar | 81.51 | 12.04 | 6.44 | 1.12 | |
| Bangladesh | 41.53 | 34.87 | 23.58 | | |
| UP | 71.41 | 17.35 | 11.22 | 0.02 | |
| Orissa | 74.07 | 16.67 | 9.26 | | |
| Rajasthan | 41.12 | 41.17 | 17.64 | | |

Notes: A1 No schooling or less than three years of primary education. A2 Completed middle school. A3 Completed school. G1 Graduate (non technical). G2 Master's Degree.

TABLE 3 RATE OF ENTRY INTO PETTY TRADING BY PLACE OF ORIGIN OF TRADER (Per Cent)

| Place of Origin | 5-5 Years | 6-14 Years | 15-24 Years | 25-34 Years |
|-----------------|-----------|------------|-------------|-------------|
| West Bengal | | | | |
| Other districts | 17.0 | 24.4 | 13.1 | 13.0 |
| City-born | 24.3 | 16.2 | 14.0 | 16.5 |
| Bangladesh | 19.5 | 17.9 | 21.3 | 21.1 |
| Bihar | 23.4 | 22.9 | 31.8 | 31.2 |
| UP | 4.9 | 7.0 | 9.7 | 11.1 |
| Orissa | 3.7 | 3.9 | 4.7 | 1.8 |
| Others | 2.5 | 7.7 | 2.4 | 5.3 |
| Total | 375 | 458 | 321 | 109 |

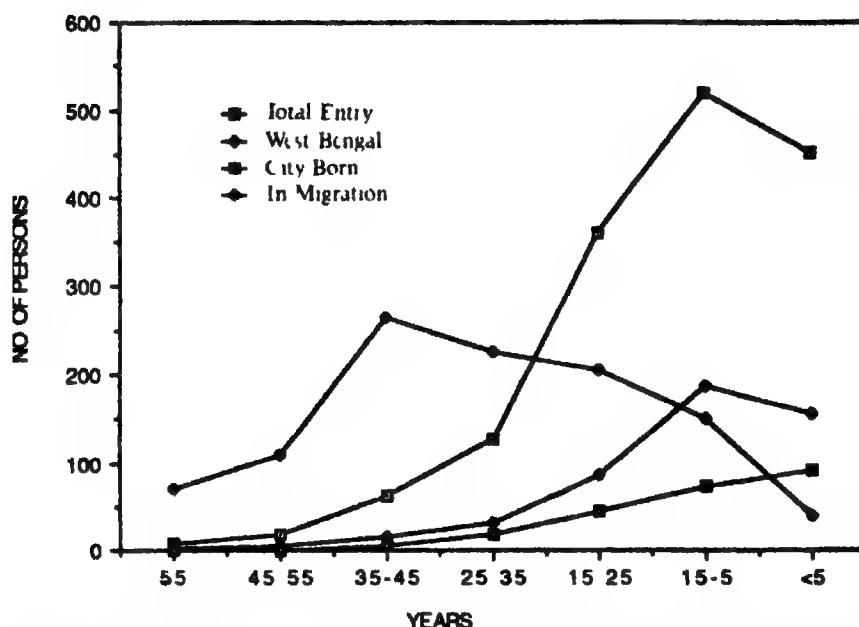
Note: This table covers 94 per cent of the sampled traders. The other 6 per cent were not sure when the shop was started.

TABLE 4 EMPLOYMENT IN INDUSTRY ACCORDING TO STATE OF ORIGIN (Per Cent)

| State of Origin | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|-----------------|-------|-------|-------|-------|-------|-------|-------|
| West Bengal | 43.83 | 42.53 | 51.76 | 52.61 | 52.61 | 50.20 | 47.14 |
| Bihar | 27.53 | 28.59 | 23.01 | 21.62 | 21.05 | 21.79 | 26.13 |
| Orissa | 5.94 | 5.21 | 3.73 | 4.62 | 4.56 | 5.50 | 5.54 |
| UP | 18.37 | 18.35 | 16.26 | 16.67 | 18.26 | 18.51 | 15.02 |
| Other states | 4.33 | 5.32 | 5.24 | 3.12 | 3.52 | 4.60 | 4.17 |

Source: Labour in West Bengal (1986). Department of Labour, Government of West Bengal.

FIGURE RATE OF ENTRY OF DIFFERENT DEMOGRAPHIC GROUPS INTO PETTY TRADING



answer these questions it is necessary to compare the trends and the pattern of entry into other sectors by the different groups.

An inspection of trends in employment of the various demographic groups in the different sectors of the urban economy suggests changing movements within the labour market. The non-Bengali migrant groups in industrial employment have maintained their ratios in industries where they control the union, in spite of rising unemployment among local youths. Though their proportion in most other categories of activity is declining, it has increased from 13 per cent to 24 per cent between 1984 to 1986 in 'engineering and contractor firm' [*Labour in West Bengal 1986*]. The migrant groups from Bihar and UP continue to maintain a stronghold on transportation and portage, activities closely connected to trading.

When these findings are examined in the context of decreasing urban migration of the total urban setting, and dynamics it appears to suggest that three separate parallel movements are taking place: (1) that new migrants were moving to other small scale activities; (2) that they were moving to other sectors of large scale activities, namely construction; (3) that a greater proportion of the smaller number of migrants goes directly to manufacturing industry and other large scale activities where they constitute a powerful body in the trade unions.

These movements support the notion that petty trading is of growing importance to the illiterate and educated unemployed youth of the city. With the lack of alternative employment opportunities the group will continue to join petty trading whether the state adopts a positive policy or not. The presence of this group in petty trading is indicative of the class realignment taking place in Calcutta. Unable to even reproduce their conditions they are attempting to enter the urban

economy at a lower level so as to be able to have access to at least the basic factors of well-being.

However, though the rate of in-migration has been declining, this does not discount the possibility that some migrants might still join the sector. The probability of labour moving to other small scale activities requiring little capital is high. Unfortunately it is difficult to assess labour movement among such activities. Secondly, very little information is available about the changing size of such activities. Though difficult to document, the growing size of the sector would seem to suggest it. The likelihood of non-Bengali migrants moving directly to large scale manufacturing and construction has already been suggested.

The generally declining rate of in-migration and the continued dominance of certain activities in the urban economy clearly suggest that a bulk of the smaller number of migrants have direct access to employment in large scale production and exchange activities. Research has already established that once a stream is initiated it is difficult to divert, because new migrants will only go to a place where they have a relative friend or someone from the village. They come forward to help workers to get over the high initial cost of moving into urban areas. According to Aziz [1984] it is this socio-economic mechanism which appears to have replaced the high wage differential that was theoretically believed to have attracted migrants.

Presence of this mechanism explains why Calcutta continues to attract, though a declining proportion, migrants despite a stagnating urban economy, increasing unemployment and falling productivity. Secondly, the control of labour recruitment in many sectors of the urban economy by the non-Bengali migrant groups and the

socio-economic mechanism would make it possible for migrants to move into the large-scale, modern sector, by-passing a stage thought to be essential [Cherunilum, 1984]. This very mechanism is at the core of the migrant's success in obtaining employment or in establishing himself as self-employed in the city.

It is the same mechanism which will help a migrant join petty trading. These socio-ethnic links are a definite source of advantage to the migrant and each social group and sub-group continuously reinforces the mechanism by drawing workers only from their own group. It introduces the migrant to the wholesaler and/or the financial middleman. On the other hand it helps the wholesaler and/or the middleman to draw his new recruits from the pool of new migrants.

Interviews with the Bengali traders revealed that they had few such contacts and depended on their own initiative and relied on their market information and familiarity with the commodity they decided to trade.

This disadvantaged position of the Bengali petty traders is also reflected in their economic position. An analysis⁸ of the monthly per capita consumption expenditure of petty traders of different demographic groups revealed that the process of consolidation for the Bengali traders was longer and slower than for the migrant traders who could more easily establish their economic links with the 'mahajan' on the basis of their common religious/caste/ethnic/regional links. The distribution of monthly per capita consumption expenditure for the different demographic groups also showed that migrant traders were better off than the Bengali traders for their income tends to stabilise at a lower level for a longer period. In the absence of common socio-ethnic links with the 'mahajan', the Bengali traders have to very gradually build up their credibility for higher credit. Their position is further weakened by the illegal status of the sector. Further, with the higher household budgets of urban living and the desire to maintain a certain standard of living, the educated Bengali traders find it extremely difficult to balance their household needs and business demands, leaving them exposed and vulnerable. However, a majority of these traders are located in the middle to high income residential areas, dealing in a wide range of commodities with scope for income gains to filter down. The second group of highly vulnerable Bengali traders are those operating in the low income areas, whose scope for increasing their income is extremely limited. They generally run tea and/or cooked food stalls, or commute with fresh vegetables from the outskirts of the city. Most of these traders have little or no education, skill or capital.

This sector has not only become an important source of livelihood within the limited structure of urban employment in Calcutta, it is the most important source of employment to its most vulnerable workers.

The Bengali street traders emerge more exposed and vulnerable than most others. The growing proportion of city-born petty traders reflects the increasing pressure on the residents. The state's disregard and neglect for the vast number of workers can be attributed to two sets of factors, political priorities and political exigencies. The political priorities are tied to the nature of the support base on which the Left Front depends. The predominantly rural base of the Left Front gave its policies a non-urban focus, while the political exigencies stemmed from the policies of the previous government. The non interventionist policy of the present (Left Front) government towards petty traders was a response to the negatively interventionist policy of the previous (Congress) government. The fact is that neither policy shows an understanding of the significance of this sector.

II

Politics of Petty Trading

The sequence of events since the early 1970s shows that state attitudes and policies towards petty trading had little to do with the state's perception of the petty traders' problem or the importance of the sector. The politics of petty trading show how certain sections of commercial capital worked through the state administration to influence policy at the sub sectoral level to limit spread and growth of petty trading.

As this sector continued to grow at a faster rate than any other sector in the 1970s, the Congress government then in power was forced to take a stand on the issue of 'hawkers' in Calcutta as the state prefers to call them. The number of street traders had increased very substantially by 1972. The state government and the municipal authorities initially attempted to evict the street traders but met with considerable opposition, particularly from those petty traders who had come as refugees from Bangladesh and from the members of the Bengali middle class. The plan was abandoned.

By 1975 the authorities believed that Calcutta was getting too congested with 'hawkers'. The need to define a stand and outline a policy did not stem from a concern for this burgeoning group of low income workers. Petty traders the unauthorised occupiers of public space were regarded as a growing nuisance to pedestrian and vehicular traffic and were considered visually unattractive. The policy which emerged reflected this attitude and the total lack of comprehension and/or recognition of the socio economic processes affecting the urban economy.

Samaddhar (1978: 50), the administrator corporation of Calcutta during the first half of the seventies when the Congress was in power, notes that 'Operation Hawkers' in 1975 was "first thrashed out between ministers of municipal services and C MDA and it was agreed that those people had come to the footpaths not at our bidding but

as they pleased, depending on some other methods of arrangement (invisible as I mentioned) and we were therefore not obliged to make alternative arrangements far less full-fledged rehabilitation". Backed by Section 354 of the Municipal Act of 1951 the authorities undertook the operation with 'great enthusiasm'. It was one of those rare instances when the state and the municipal authorities stirred themselves out of their apathy, to carry out these eviction drives. The "well planned drives to clear roads and footpaths" were 'successful' in areas around the central business district, along Brabourne road skirting the wholesaling area of Barabazar and in and around Esplanade. It is important to note the stalls located along the many lanes inside Barabazar were left undisturbed. The petty traders along these lanes had been located there so that the 'mahajan' could keep an eye on them. Further, the areas cleared of street traders were in the major retailing areas and markets where the street traders had blocked the shop frontage. The cluster of petty traders in and around all hospital complexes creating extremely unhygienic conditions (most petty traders here sell perishable, cooked food and snacks) were however left undisturbed. The "two hard areas of Sealdah and Shyambazar-Baghabazar were left alone". These areas dominated by Bengali traders had been most vocal in their protest in 1972, and had spearheaded the opposition to the government drive to evict them. They had by 1975 organised themselves into unions affiliated to the CPI(M) and the Forward Bloc. These areas were to be tackled in the second phase of the operation.

The pattern of the so called road clearance and hawker eviction scheme seems to suggest that Operation Hawkers had more to do with the interests of the commercial sector, who had little to gain from the presence of the petty traders, than a concern for the city.

Operation Hawkers was quickly abandoned as a wave of protest, backed by social welfare organisations and political parties, swept through the city. Political parties and trade unions reorganised and regrouped the evicted traders and helped them to re-establish their stalls. Demonstrations and processions were organised by the various area and product unions forcing the government to stop the eviction. The greater politicisation of this sector following Operation Hawkers had two effects. It gave the sector a greater cohesion as unions cut across socio ethnic lines, but secondly, it brought the petty traders under greater political control.

As the protests and demonstrations died down Samaddhar came up with another poorly conceived plan. He suggested constructing meenabazars to relocate some of the street traders. However, these 'meenabazars' were to be constructed only after the traders had been evicted. Expectedly, the plan provoked a lot of protests. The loudest

protest came from the women's groups who regarded the term as pejorative and totally unsuitable, with its implications of feudal pomp (Meenabazars were fairs held for the Mughal Emperor, where the women decked in their finery would try and entice the emperor to buy their products). However, more important was the protest from the established retailers of the areas where the meenabazars were to be constructed. Wine shop, boutiques, restaurant owners and all large retailers brought a high court injunction against such a construction.

This sequence of events suggests that the state government has never quite been involved with the problems of these low-income workers. Its policy had more to do with keeping certain sections of the commercial sector happy, than a concern for the city's congestion. However, this same group would turn to law to prevent the state and municipal authorities from implementing any plan which would affect them adversely. It is ironical that while the stronger industrial capital failed to influence politics in the state and its policies, commercial groups had the state government looking after their interests. Weiner (1962) in a discussion of the effects of the business community on the politics of West Bengal noted that these businessmen were exceedingly influential at the administrative level.

In 1977, the Left Front came to power in West Bengal. As far as their political stand on petty traders was concerned, it was necessary for them to demonstrate that they sided with the petty trader, the man on the street, as against the Congress who had represented the big commercial interests of Calcutta. Their stand against capital is a part of their broader ideological stand which brought them to power. Also, most of the political parties in the Left Front government were actively involved with the petty traders through the unions. Thus the *laissez faire* policy adopted with regards to the petty traders was politically exigent, and reflected neither a greater concern for its workers nor an understanding of the socio economic processes. In fact the government refused to address the problem of the petty traders and the problems of the urban poor as a whole with any comprehensive plan.

The last few years, however, indicate a change in attitude and a shift in policy relating to the manufacturing sector. The government has accepted that the state and the urban economy cannot develop without industrial capital. Though this change in policy is not a sudden volte face it does mark a possible change in the relations between industrial capital and the state of West Bengal. Ever since the CPI(M) has been in power its political philosophy has been gradually diluted. This is reflected in its efforts to develop the infrastructure for decentralised planning in rural West Bengal. Ghosh notes that "though centralism is inherent in a communist framework, the West Bengal government has made more attempts at decentralised planning than any other

state" [Ghosh, 1988: 655] (except perhaps Karnataka) and has been successful in raising agricultural productivity and increasing grassroots participation in rural planning. Though the state government has adopted a more pragmatic approach to the state's other problems, it appears unaware of the significance of the rapid increase in small scale non manufacturing urban activities, particularly retailing. These activities are a manifestation of the two decades of industrial stagnation and the associated socio-economic changes which have taken place

CONCLUSIONS AND IMPLICATIONS

The system of activities in an urban centre depends on the role and position of that urban centre in the hierarchy of the national urban system and the power structure. The hierarchised interdependent system of urban activities found in a city therefore depends on the position and role of the urban centre. Changes in such a structure affects the role and significance of most activities in the system. In Calcutta the flight of industrial capital accompanied by a loss of bargaining power at the national level, the steadily deteriorating relations between the state and capital at the regional level ensured continuing stagnation in production, a decline in standards of living and a substantial increase of small scale activities. Among the small scale activities street trading has been one of importance to almost all groups in the labour market. However evidence suggests that it is of particular significance to the growing proportion of the city born Bengali workers, while there is a slowing down of total entry into the sector. These trends suggest the possibility of a gradual change in the demographic composition of the sector. These findings negate the popular argument often put forward by the state that, given the large migrant component, any gains made through state interventions would leave the urban economy. However, it might be argued that there has occurred a gradual change in the relations between the state and industrial capital as the state government realised that stagnation will persist without industrial capital. A movement of capital into West

Bengal would imply that with increase in industrial employment the significance of small scale activities would decline. Though the present interest of industrial capital in West Bengal is exciting, little is said about the employment it will generate. Further, given that most of the investment is into highly capital intensive petrochemical industries, it could hardly be expected to even dent the unemployment situation. Even if there is a massive injection of capital into the state economy, it will be quite a while before it reduces the pressure on the labour market. Secondly, a large number of the workers in petty trading will be 'professionally stranded' [McCee, 1973] and unable to utilise the opportunities for alternative employment.

The need for a positive intervention by the state, where its policy is shaped by the needs of the workers and not by state capital relations is further heightened by the disadvantaged position occupied by the street traders. Being designated as illegal workers allows for a greater control by the 'mahajan' of the production relations and hence highly exploitative relations. Also as a result of their illegal status the police continue to extort protection money, with the amount varying with the kind of product sold and depending on how established the petty trader is. Further, the initial hostile attitude towards this sector has led to a rapid politicisation of this sector in the 1970s and a continued dependence on the various political parties subsequently. This of course raises doubts about the willingness of these parties to legalise the sector. Hence, there is today an added factor working against legalising this sector besides those segments of commercial capital which always opposed any help towards this sector. The longer the state avoids the issue of devising a comprehensive plan to help the urban poor (of whom the petty traders form a substantial component) the more complex will be the process of planning and implementation.

The case of Calcutta shows that the kind of capital which dominates and the state capital relations determine the path of change not only for capitalist production but also the nature and form of petty commodity

activities articulated to the dominant mode. Further, it shows that within the urban economy, the role of the state and its relations with different types of capital are fundamental to shaping the activities of the petty commodity sector. The needs of the sector have not been at the heart of the matter at the policy level. The methodological implications of this conclusion is that a study of petty commodity activities needs to look at the relations between different sections of capital, for the role that the state plays in influencing petty commodity sector is conditioned by these relations.

Notes

[This study was partly funded by the Central Research Fund, University of London.]

- 1 The petty traders in Calcutta are generally referred to by the corporation of Calcutta and by the state government as hawkers though they are neither itinerant nor mobile.
- 2 The empirical evidence provided in this study is based on the field work carried out in Calcutta between March 1987 and July 1987, as a part of the PhD programme, University of London. 1,344 petty traders were interviewed, beside union leaders of the different areas and of different political affiliations. A second round of survey was conducted after the empirical analysis was completed to obtain the opinion and reactions of the petty traders themselves to the survey results, but more importantly of the politicians, of planners from the CMDA and of the administrators from the corporation of Calcutta.
- 3 Declining small towns and very slow improvements in agricultural productivity make it difficult to narrow the disparity already established.
- 4 Calcutta's economy precariously balanced the interest of landlords, capitalists, professional class and upper class. Sen [1972] described the colonial city as a city of 'nouveau riche' i.e. of imperial administrators and commerce of absentee landlords, moneylenders and real estate speculators.
- 5 The social impact of the Permanent Settlement Act cannot be underestimated. The landed class, had started to consolidate its position with the weakening of the Mughals. This legislation in Bengal quickened the process and allowed the zamindars (large landowners) and the 'bhadralok' (rural gentry) to consolidate and to reside in Calcutta. It is the continued presence of this group which shaped Calcutta's peculiar political culture [A Banerjee, 1987: Section 3.4].
- 6 Under the Mughals the tax was levied on the output and could be paid partly in kind. The new tax was levied on the land, the peasant was entitled to cultivate and had to be paid in cash. This forced the peasant to cultivate marginal and pasture land and made him more dependent on the market.
- 7 This estimate is based on an analysis of the 1981 unpublished employment statistics obtained through A Chakravarty. The officers of the bustee cell, corporation of Calcutta, agreed with the estimates made by this study.
- 8 For a detailed discussion of the economic status of the petty traders and their survival strategies, see Dasgupta [1990].

APPENDIX TABLE A: RATE OF INCREASE OF EDUCATED UNEMPLOYED IN WEST BENGAL

| Year | 1968 | Increase | Rate of Increase (Per Cent) |
|------|---------|----------|-----------------------------|
| 1967 | 152,589 | 5,490 | + 3.4 |
| 1968 | 158,079 | 67,972 | + 43.0 |
| 1970 | 226,051 | 144,496 | + 63.92 |
| 1971 | 370,547 | 277,927 | + 75 |
| 1972 | 648,474 | 86,220 | + 13.30 |
| 1973 | 767,442 | 32,748 | + 4.25 |
| 1974 | 833,028 | 65,586 | + 8.5 |

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The Retarded Economies

Foreign Domination and Class Relations in India and Other Emerging Nations

by Nirmal Kumar Chandra

Why is it that while the former colonies and semi colonies have emerged as a major force in world politics over the last four decades, their economies in most cases remain retarded? The first part of this volume focuses on the exchanges between the poor and the rich nations. Did western aid, private capital and technology really help India, or was it the other way round? Granting that both sides made some gains, did the USSR derive undue advantage through its bilateral trade and aid transactions with the third world? Can the theory of unequal exchange explain the growing economic hiatus between the north and the south? The second part of the book is concerned with the domestic scenario in India. The author tries to relate the overall stagnation in material production per capita to the balance of class forces that emerged after independence as a result of a strategy of industrialisation based on import substitution. Long term trends in aggregate and sectoral outputs, the terms of trade between industry and agriculture, real wages and unemployment rates, savings and investment, private monopoly capital etc are analysed in this context. Further, the existing laws and regulations on private sector monopolies are also examined from the same perspective. The final essay is a critique of the recent tilt, inspired by the IMF and the World Bank, towards liberalism in India's economic policies.

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Judicial Accountability to the Community

A Democratic Necessity

V R Krishna Iyer

Our founding fathers have laid down for us a constitutional jurisprudence of judicial power, but the integral component of judicial accountability has not been designed with a sense of principled pragmatism. As a result the escalating misconduct of judges has often gone unpunished. Barring the extreme measure of impeachment, the law is silent, so much so that one might well say that the accountability of the judiciary is the vanishing point of jurisprudence. This void, unless competently covered by well thought-out legislation, is bound to undermine the democratic credibility of the judiciary

We all judges and lawyers, must restore our old faith and rekindle new hopes. The future is yours, men and women of law, take it and redeem yourselves.

— Justice Sabyasachi Mukharji

DI MOC RAC Y, as the opening page of our constitution declares, proceeds on the fundamental postulate that ultimately political sovereignty vests in the people of the country. This sovereignty gains social reality and dynamic viability only if the constitutional instrumentality submits tacitly to the broad oversight of the sovereign people. The people in the mass obviously cannot exercise monitoring, controlling, disciplining and like functions. Therefore, we need checks and balances so that power vested anywhere may not go haywire and may become amenable to the constitutional fundamentals and answerable to those who are the ultimate masters or donors of the power. This nexus between power and people has a certain dialectic. There is bound to be a contradiction, over time, between the tendency of authority to turn authoritarian, corrupt or partisan, and this proclivity may be accentuated by the syndrome of popular illiteracy and meek submissiveness of the masses and even of the classes who are overawed by echelons of power. The other side of the contradiction is the inevitable eruption of discontent, protest, violence and other forms of entropy induced by administrative terrorism, unabated disenchantment and infliction of injustice camouflaged as justice. Chaos will sully cosmos if the processes of order are not functionally ensured by law and justice and the structures designed for the delivery of justice. If this confrontation is not to escalate into explosive resistance to court and judge, a new rapport, communication and accountability of judicial power to the beneficiaries, viz, the Indian people, must be fashioned.

The Indian experience with regard to the executive, judicative and legislative instrumentalities over four decades has been one of exploitation darkening into misgiving, misgiving deepening into despair and despair exploding as adventurist violence. The categorical imperative for stability in democracy is, therefore, to see that every instrumentality is functionally kept on course and any deviance or misconduct, abuse or aberration, corruption or delinquency is duly monitored and disciplinary measures taken

promptly to make it unprofitable for the delinquents to depart from the code of conduct and to make it possible for people, social activists, professional leaderships and other duly appointed agencies to enforce punitive therapeutics when robed culprits violate moral legal norms.

Our founding fathers have laid down for us a constitutional jurisprudence of judicial power but in spite of their wisdom the integral component of judicial accountability has not been designed with a sense of principled pragmatism. Of course, it is equally disconcerting that the legislature and the executive have been indulging in corrupt and not so corrupt stultification of their vital functions. However, that is no alibi for judges to misbehave, especially because justice is the foremost human right and the first constitutional promise. Moreover, there is a spreading rash of judicial delinquency in many forms undreamt of in the past, unimaginable even today, and unprovided for by the founding fathers by way of correctional methodology. Luckily, the malady is in the early stages and it is tragic that the disease is apparently showing up in the most unexpected quarters, and today from the highest court down to the floor level there is grievance writ large about forfeiture of confidence in judges for various reasons. The panache of wigs and robes, 'wise saws and modern instances,' 'eyes severe and beard of formal cut,' silver mace and liveried bearers cannot cover up the pathology of lost confidence and exposed culpability. Their lordships in full panoply will still invite contempt unless they become institutionally and individually accountable to the country and be punishable for unbecoming behaviour, dereliction of duty and common criminality. 'Be you ever so high, the law in its equal majesty, is above you too!' The reasons for the decline are several but a most disturbing one of them is the absence of accountability and the frequency of unchecked abuse for anti-social and self-seeking purposes. Office and apparel are no amulets against detection and conviction. If we do not arrest the vice now, the institution may well be heading for collapse.

HANDS OFF DOCTRINE OUTDATED

All public power is a people's trust and so even judicial power has a fiduciary com-

ponent. Trusteeship and accountability go together, and constant monitoring plus social audit of the power process are a watch-dog factor. Executive power is accountable to the parliament and the parliament to the people. Judicial power is not accountable to the executive nor to the parliament in any direct sense. Nevertheless, being a democratic institution, the judicature must be answerable to the people. The oath of office clearly implies this responsibility. The iron curtain of contempt of court will not silence the populace when the time for storming the Bastille arrives. Wisdom and statesmanship lie in improving the system, with dialectical perceptions and dynamic prophylaxis. The cult of the robes must yield to the command of democratic discipline. Jerome Frank elegantly expressed the obsolescence of the hands-off doctrine.

The robe as a symbol is out of date, an anachronistic remnant of ceremonial government. An immature society may need or like to fear its rulers, but a vital and developing America can risk full equality. A judge who is part of a legal system serving present needs should not be clothed in the quaint garment of the distant past. Just as the robe conceals the physical contours of the man, so it needlessly conceals from the public his mental contours. When the human elements in the judging process are covered up, justice operates darklingly. Now that the Supreme Court has declared the judiciary a part of candid democratic government, I think that the cult of the robe should be discarded. (Jerome Frank, *Courts on Trial*, pp 260-261)

A new theory of judicial exposure and accountability is integral to the Republic's moral survival. Says Laski:

Obviously therefore, the men who are to make justice in the courts, the way in which they are to perform their function, the methods by which they are to be chosen, the terms upon which they shall hold power, these, and their related problems, lie at the heart of political philosophy. When we know how a nation state dispenses justice we know with some exactness the moral character to which it can pretend. (Harold J Laski, *A Grammar of Politics*, pp 541-542)

Some fundamentals must be accepted as constitutional basic to our republic. The judiciary derives its power under the constitution, not over it. It follows that constitutional democracy which is the basic struc-

ture of our polity applies equally to the three major instrumentalities. From Abraham Lincoln to Wendell Holmes, on to Jeromes Frank and Harold Laski the proposition has been accepted that the judiciary is a part of our democracy and must, therefore, be subject to the discipline of democracy. Social audit of performance is an obligation inescapable for a democratic instrument. Secondly, disciplining the operators where deviance is distressingly mounting is also a functional imperative which cannot be justified only to defend judicial prestige. Thirdly the judiciary occupies among the trinity the highest place in the people's conscience and confidence. The liquidation of the judiciary, which is a unique and sublime office shall not be allowed even by slow degrees since the entire country is committed to its exalted status. Justice and the instrumentalities of justice are too serious a business for being left to the judges alone. The bench and the bar must be mutually accountable and more than that both must fulfill the people's expectations since these two are the accredited constitutional mechanisms for delivery of justice. If the bench or the bar chooses to indulge in grave vice and when exposed bark and bite it will unwittingly become its own grave-digger! Bhatto before he was executed wrote in the last part of his tragic book, 'there is something in the human history like retributive and it is the rule of historical retributives that the instrument be forged not by the offended but by the offender himself'.

The Indian constitution provides for one extreme punishment namely impeachment. The procedure prescribed by article 124(4) is too restrictive and difficult to comply with. It is like a penal code which provides only for death sentence imposed after an abusive political procedure where acrimonious attacks on judges with no holds barred comes as a rare and delectable opportunity. Moreover it involves a political judgment upon the tenure or termination of a judicial office. More than that, contending parties may take rival positions independently of the merits and foul the air. Even beyond that is the vice of the extremity of the punishment by way of impeachment. Initially there are difficulties in igniting the jurisdiction for taking action. A number of MPs must sign a petition, a reference must be made by the speaker to a small body that body must investigate and give a report which eventually must become the subject of polluted debate. The fall out of this protracted exercise, even if it gets rid of a vicious judge, is likely to make it a remedy far worse than the malady. Iatrogenic justice is harmful to justice and justices.

Less than impeachment the great parchment does not provide a punitive measure. There are misdemeanours and felonious temptations and vices, rudeness, vulgarity and arrogant misdirection of power which may call for milder therapeutics and punishment after due enquiry by impartial

authority. In this area, our constitutional jurisprudence leaves a vacuum. We need an urgent graded measure for systemic correction and suitable mechanism because accusations are no longer exceptions and judges must suffer criticism and complaints against them cannot be condemned or go uninvestigated and, if true, unpunished. Judicial imperialism, impertinence and absurd or irresponsible behaviourism are a menace to the justice process and must, if the turpitude is truly proved, suffer sentence.

CODE OF CONDUCT FOR JUDGES

A code of conduct for judges is the desideratum. High office notwithstanding, hubris, hauteur, highbrow behaviour and other dubious mean conduct or sophistry hardly become the judicial jackets. Communalism, graft and nepotism with 'son stroke' and widely delinquency are becoming matters of adverse public comment and cannot be allowed to undermine the integrity of the ermine.

Appointments of judges, unless carefully screened by the collective wisdom of a panel with versatile experience, may result in distorted selections and the products—the appointees—may turn out to be bad choices. Leaving this process to the chief justices or the first ministers is no assurance that these secret process will eliminate favouritism, political pollution and other unprintable adulterations.

The judge is the symbol of justice itself and therefore we cannot have a dissection of private life and judicial life of the 'brethren' both must become the sublime office. The pleasures and pains of millionaires, the temptations and vices of the higher classes, the aberrations and abuses of persons in power are taboo or forbidden fruit for the judges. Winston Churchill, decades back told the Commons that judges are required to conform to standards of life and conduct far more severe and restricted than that of ordinary people. Indeed, their constitutional obligation to do justice without fear or favour, affection or ill will is a high moral command and exacting demand on their conscience. If 'you are what you wear' you have to keep up a certain manner of conduct which puts you in a category beyond the politicians and the members of the bureaucracy. Judges, like Caesar's wife must be above suspicion. They must be patient, maintain poise, be gentle and impartial and decline to be provoked and never lapse into venal behaviour or class conscious uppishness. They must be truly free from communalism, regionalism, religionism and frequent acquaintance with alcohol and other deleterious contacts. These lapses are slowly creeping into the judicial 'brotherhood' even as factionalism and undignified wooing of ministers and party leaders are observably infecting justices and getting rewarded through appropriate 'elevations'. Unfortunately, the upstart breed and the midget species behave

in violation of requisite rectitudes. On the bench they commit contempt by intemperate tongue, hubris, hauteur, high-brow airs and other sins of sadism which induce them to tease and insult and bring into ridicule the judicial tenancy itself. A code of conduct even on these details of decorum and comportment on dignified behaviour on the bench and the like may be necessary. Habitual violation must invite the displeasure of the law by punishment and reprimand. A bad judge with a wag's tongue or rude mood may do great harm to the institution. A sadist on the bench who wantonly keeps standing in court other responsible persons for Freudist pleasure until the imperial judge's pride is propitiated needs psychopathic treatment and mild punishment if the venal deviance becomes chronic.

Graver violations which in the case of ordinary persons may involve penal consequences must implicate the judges with the same measure of culpability because the law is no respecter of persons. If a judicial personage commits a sex offence, uses violence or resorts to corrupt accumulation of wealth, he cannot use the robes as defence. If he commits misappropriation, accepts undue presents and pleasures from lawyer or litigant or indulges in other penal offences, the law of torts and of crimes must take care of him like in the case of other citizens. We want our judges to rise as high as the high office he fills and so, far from condemnation of misdemeanours and felonies when committed by the members of the judiciary, severe censure must follow. The impression that judges are above the law must be removed lest the highest office in the land tarnish itself. The bench is a hallowed seat and judges must observe a gracious port and presence without making derisive comments and digs at lawyers and litigants who could as well retort and humble the bench in public. Offensive observations, even regarding other judges and judgments, are not uncommon with little minded judges. Comic performance cannot be fobbed off on a submissive bar. David Pannick cites some British instances which may have Indian parallels.

Judicial humour can turn into judicial woe. The eighteenth century Scottish judge, Lord Braxfield was a disgrace to the age. He took pleasure in tauntingly repelling the last despairing claim of a wretched culprit, and sending him to Botany Bay or the gallows with an insulting jest. Robert Louis Stevenson based Lord Hermiston upon Braxfield. In court Hermiston took his ease and jested unbending. In that solemn place with some of the freedom of the tavern, and the rag of man (the defendant) was hunted gallowsward with jeers. Braxfield and his contemporaries have a special place in the annals of judicial misbehaviour. They were cynically indifferent to the proprieties of the bench to an extent which now may well seem incredible. Uncouth in appearance, profane in speech, frequently harsh and contemptuous in the discharge of their judicial functions, addicted to the wildest eccentricities,

and exhibiting at all times a decided penchant for deep potation and the coarse and boisterous jocularity of the tavern. . . they lacked all judicial qualities (David Pannick, *Judges*, Oxford University Press, 1988, p 83)

Some judges do not care to listen or are too loquacious and by frequent interruptions make coherent argument impossible. There are many other ways in which judges can disrupt fair hearing. Performance and discipline are components of judicial decorum.

In India some judges are stated to be notoriously communal, openly biased, foster favourites and have close relatives at the bar which factor leads to many improper practices. There are factions among judges which inflict mortal wounds on justice. I agree with David Pannick in his observation:

The student of the judiciary inevitably concludes that there have been many bad and some appalling judges, with all manner of defects, administering justice over the centuries. Macaulay rightly explained that 'the earlier volumes of the state trials are the most frightful record of baseness and depravity in the world. Our hatred is altogether turned away from the crimes and the criminals, and directed against the law and its ministers. We see villainies as black as ever were imputed to any prisoner at any bar daily committed on the bench and in the jury box' (Ibid, pp 87-88)

Injudicious and judicially obnoxious behaviour bring disgrace to the judicial profession and cannot be tolerated merely on the alibi that he who commits it is a judge. It looks as if in England they get away with it. I may quote again from Pannick:

You will be unable to bring a legal action against the rude or unfair judge. Lord Denning explained in a 1974 Court of Appeal decision that ever since the year 1613, if not before, it has been accepted in our law that no action is maintainable against a judge for anything said or done by him in the exercise of a jurisdiction which belongs to him. The words which he speaks are protected by an absolute privilege. The orders which he gives, and the sentences which he imposes, cannot be made the subject of civil proceedings against him. No matter that the judge was under some gross error or ignorance, or was actuated by envy, hatred and malice, and all uncharitableness, he is not liable to an action. Judges of a superior court are so protected even when acting outside their jurisdiction, so long as it is a good-faith exercise of the office in the belief that the judge has jurisdiction over the matter. Judges of an inferior court are not so immune if they act outside their jurisdiction, or if they act within their jurisdiction maliciously and without reasonable and probable cause. We are a long way from the recent development in judicial liability in the USA. Some American judges have taken out malpractice insurance because of an increase in claims against them based on their court decisions (Ibid, p 95)

The Indian law is more straightforward but people, with colonial genuflection, hardly challenge 'robed' lapses. I am for a judicial Ombudsman or a Judicial Performance

Commission. Although England has no such system, many American states have such mechanisms for receipt of complaints and investigation into the factum and visit adequate consequences if a judge has acted in other than the Code of Ethics. This subject of performance audit and enforcement of discipline cannot be left to lawyers' strikes, internment of judges and chief justices' moods and methods. Bombay and Delhi have brought home the frequency of horrendous judicial delinquency and the vanishing point of jurisprudence *vis-a-vis* venal, venial and innovative violations by tenants on the high bench. Crime without punishment is lawlessness legitimised. The rule of law and life are repugnant to this systemic impotence.

So first things first. Let steps be taken by judges themselves to formulate a code of conduct. Similarly, the bar which has, alas, fallen into disrepute so much that Shakespeare, through Dick the butcher, used words which are unprintable but are on the lips of many in the country. Immediately, the Bar Council of India must painstakingly and creatively, with relevance to the prevalent pathology, draw up a professional code for the bar and suggest one for the bench. There is something of sorts even now but it falls short of what is needed in the light of the horrendous deviances in India of the poor millions aghast with Bofors. How many abettors 'of this sorry scheme of things entire' exist at the bar and maybe on the bench is gatherable only in private discreet, confidential conversation and investigation promising secrecy of source. There is something rotten in the state of Denmark. If what I have heard about judicial misbehaviour were true in a small fraction it may shock and shame us all. To protect the high integrity of the great majority of good judges, we must expose the meaner exceptions.

The bench cannot be corrupt if the bar is forthright. If the members of the bench commit crimes, they are amenable to the Penal Code even as they are amenable to traffic laws, immoral traffic laws and other punitive measures. It is wrong to think that there is a vaccination against prosecution of the judges and of the abetting lawyers if they commit common crimes from their professional eminence.

But it is from my deep concern to see that the judiciary is kept at a lofty level that I speak so bluntly. The scenario of great judges discharging their awesome obligations of office implies great regard on the part of the people to the judiciary which is the repository of justice incarnate. Supposing there are some delinquents, there must be a mechanism for correction lest the situation of entropy pathologically spread or deteriorate into a popular craving for revenge. I do consider the urgency of the need for a disciplinary mechanism, therapeutic and corrective in this domain where the process must maintain confidentiality and retain the judges' confidence and the whole disciplinary outfit and operation

must be functionally kept at an appropriately high level but assuring that no robe escapes from his wrong-doing. The desideratum is to create a structure at once high-powered but easy of access to the common people. Be you ever so high, if you are delinquent, the law is above you and may not spare you—that is the message. The subject of judicial accountability, considering the variety of aberrations of which judges are guilty, requires careful and realistic handling because many of the improprieties go unnoticed behind the iron curtain of Contempt of Court. Law of contempt has been overdrawn because it is of colonial vintage. Judges, like other constitutional functionaries, must face the law if they depart from or deceive the law. Justice is no cloistered virtue and the path of criticism, even if exaggerated, must be permissible since freedom of expression is a guaranteed right applicable as much for the judges as against the judges.

Let the bench-bar accountability to Indian humanity be high on the agenda of national, even constitutional, concern. Not the thoroughly useless judicial commission introduced into parliament some time back and is now deservedly dead.

Judicial accountability is no constitutional serendipity but a professional compulsion brought to the fore by the Bombay and Delhi explosions. But there is pervasiveness of judicial delinquents till now hiding behind the over-broad contempt jurisprudence of colonial vintage and the uncritical reverence the 'cult of the robes' commanded. Now that 'operation autopsy' and social audit of power donees have become integral to the democratic process, even the court and the judge must communicate with the country through a performance report, as it were; and where grave dereliction, even lesser crime or culpable conduct is observed, punitive and corrective proceedings must be initiated. The purpose is to rid the system of pathological offenders with the robes on and to inspire confidence that even justices are accountable. Norms of behaviour and ombudsmen of a high order to invigilate are essential components. If judges fail, that will lead to credibility collapse and harakiri of democracy.

CODE OF JUDICIAL ETHICS

A code of judicial ethics must be drafted after a public discussion. Maybe, a preliminary draft be made by the Law Commission, which may be circulated to the Indian Bar Council for scrutiny and response. Both these documents must go before the judges—the higher echelons and the subordinate judiciary. Simultaneously, these papers, together with the opinions and comments of state governments and the law academe, must be considered by the central cabinet and a white paper presented to the nation. The law of contempt and the immunity of judges and their independence must be deeply reflected on while finalising

the judicial code. Judges must be kept high, very high but not beyond the reach of the law save the impossible, even marginally obnoxious, jurisprudence of impeachment.

There must be a monitoring machinery lest the code be reduced to a *brutum fulmen*. Judges may not be scared by paper tigers, and so the code must both expose and, if unheeded, hit. A sentinel on the *qui vive*, if it is to be effective, must have statutory sanctions and powers. A collective ombudsman with absolute autonomy, mobility, fair procedure and graduated punitive/corrective and commendatory authority, with versatility conditioned by situations is the public necessity. A purposeful, competently trained infrastructure, with investigative skills, technological aids and delegated powers must be thought out, learning from the experience from other countries and remembering the native diseases. A judicial super-ombudsman composed of the most respected, highly independent team of three judges, one a retired judge of the Supreme Court, preferably a former chief justice without blemish, and one from the high courts, preferably a former chief justice of unsullied record and the third, a retired judge who has had vast experience in public life, involvement in public issues and an extra-judicial, even administrative career, may fill the bill. An advisory body, with high national status, may be an auxiliary. The attorney general, the president of the Bar Council of India, an outstanding lawyer-leader nominated by the president of India, a nominee each of the prime minister and the leader of the opposition from public life, a nationally recognised social activist, a great person of commitment to moral values, one each from among journalists, scientists, professionals and women's organisations. A few retired IPS, IFS and IAS officers may bring useful points of view to the body. These are flexible criteria but what is fundamental is the fearless, sensitive, activist public figures with a passion for preserving judicial purity, probity, practical integrity, and submission to the great traditions of justices, the humility of office, the rectitude, wisdom and concern for the common man and, above all, a becoming bearing free from arrogance and oblique tendencies and a standard, private and public, which reminds one that a judge's life like that of Caesar's wife must be above suspicion.

The degrees of judicial delinquency, the devious forms they take, their weaknesses and malpractices and the horrendous deviances never heard of in the judicial heritage of our country, are now common talk.

The versatile genius and the vagarious vices of judicial deviants take myriad shapes. Some judges, even of the highest court, do not believe in the creed of delivering judgments. They are a law unto themselves. During the seventies and eighties, justices and chief justices have practised the dubious art of non-delivery of judgments even years after arguments are closed. Some of

them have retired without pronouncing judgments, although long arguments, at great expense, have already been addressed. The entire protracted, terribly expensive forensic operation has had to be gone through over again. Strange but true, in some cases benches, consisting of a plurality of judges, have got into the habit of delivering judgments in instalments or separately with gaps, each doing it long after the others have done it. The embarrassment of law reporters is obvious. This Supreme Court trait is manifest even in High Courts. "If the salt have lost his savour, wherewith shall it be salted".

Some judges in the High Courts resort to the sneaky practice of pronouncing judgments and promptly taking them back home, with the result that nobody can see these hidden pronouncements. Copies obviously are not available for months. Indeed, even on the bench, the judges sometimes disagree violently and once one judge in anger left the bench abruptly. I can multiply instances of unbecoming behaviour and delinquent demeanour against which the bar is unable to protest, because courage oozes away sometimes or faction weakens possible action. The case for a judicial ombudsman is a formidable one. The law of contempt, behind which some judges indulge their follies, is too brittle a wall to defend against performance audit by the public through appropriate surrogates.

Far be it from me to anticipate verdicts in the Veerasamy episode and the Ramaswamy syndrome, since both are under enquiry. Although accumulated literature, through reports and case diaries, is unfortunately enormous, it is best to leave the verdict to the constitutional-judicial process. But conduct *a la* the Chawla melodrama takes one's breath away. The thrust of my submission here, away from individual instances of judicial felonies, is that we need an instrumentality which at once safeguards judicial dignity and independence on the one hand and tracks down judicial turpitude, overt or covert, through some effective ombudsman apparatus. I agree that "the place of justice is an hallowed place; and therefore, not only the bench, but the foot-pace and precincts thereof, ought to be preserved without scandal and corruption" (Francis Bacon). Remember the opinion of David Pannick on this point:

Litigants should have the power to refer to the commission a complaint about the conduct of a judge. The Lord Chancellor should have such power, and should be obliged to exercise it prior to dismissing a judge. (This would not prevent a judge resigning to avoid publicity on the matter.) In May 1986 Lord Hailsham expressed support for the introduction of an independent complaints board to investigate the facts and make recommendations to the Lord Chancellor prior to the dismissal of a Circuit judge. He said (understandably) that he was troubled by the absence of a fair procedure at present.

The jurisdiction of the commission would

need to cover all members of the judiciary and should not be confined to cases where the Lord Chancellor is contemplating dismissal. Whoever the complainant may be, and however high the judicial status of the investigatee, the value of the commission would be in the presentation of a reasoned, public, and objective analysis of the relevant criteria and of the facts of the case [Op cit, p 103].

A performance commission will impregnate the expression 'holding office during good behaviour' with living meaning.

Even judicial independence, a most important value of our system, cannot forbid bringing to book these guilty of judicial misbehaviour. Judge power is a critical factor of the highest importance in our constitutional order. For that very reason, the law must keep them away from lawless, immoral unethical and unbecoming conduct. Some cowardly judges and opportunist brethren obligingly bend their judgments when political heavy-weights and tycoons with clout happen to be parties. Some leading members of the Supreme Court bar wrote, not long ago, a complaint to a chief justice referring to holiday hearings and nocturnal proceedings where influential persons figured as parties. Even the Bhopal Gas catastrophe litigation and later settlement with judicial imprimatur have come in for sharp criticism, bordering on the needle of suspicion being pointed at five judges. This case is not merely an event but a portent and, the contempt barricade notwithstanding, may remain a polemical issue where the judges may not emerge with flying colours.

The process of saving the misbehaving judges from themselves and the community from those brethren whose allegedly culpable conduct is under investigation is fraught with difficulties under the current constitutional provisions. The accused judges, if deprived of allotment of work, may perhaps demand that until proved guilty, they are innocent and, therefore, as of right, must be eligible for allotment of judicial work. The chief justice, who is in sole charge of allotment of work to judges of the court, may have his own limitations and even prejudices. Pending enquiry he may ask the judge to sit idle and make the taxpayer pay his salary. If there is some constitutional provision for keeping judges under a cloud in suspended animation it may be possible for the chief justice to exercise his discretion. Suppose a chief justice misuses his power what restraint can protect the victim? Until a constitutional amendment is wrought, a convention may be woven, after consultation with the Indian bar, that if there is credible material supportive of the charge and if the charge is grave enough the suspected judge may be asked to proceed on long leave or dispose of formal judicial matters. Whether without any sanction rooted in convention or legislation the chief justice may withdraw all work from the accused judge is a moot matter. The best course would be, before arriving at the con-

vention I have mentioned, to persuade the incriminated judge not to create a crisis but step out of the cricket ground for a while. However, when some *prima facie* probative material is adduced, it is a grave risk to have an administrative court decision on the issue of 'to be or not to be'. The judicial trinity in the Ramaswamy affair has come to a conclusion without reaching a conclusion and stated that the judge may be guilty or not (to be discovered on further enquiry) but may continue to work. This gives the impression of a verdict of innocence to the laity while what has been held is almost the contrary. Sometimes, judges produce opinions which wear the inscrutable face of a sphinx, or to put it in Churchillian diction, they puzzle the people with 'a riddle wrapped in a mystery inside an enigma'.

I am aware that much can be said on both sides where judges are the subject of audit and punishment. Of course, politicians in or out of power and bureaucrats in or out of office sometimes commit shocking crimes but they are amenable to judicial justice. The court is the sentinel and the judges who operate it are too sacred for us. Indeed, we are proud of the quality of their performance, and the affirmation of their reputation implicit in the frequent demands for judicial enquiries. Even so, I must agree wholeheartedly with the view expressed about 'Judges and Co' by the brilliant barrister David Pannick. I quote him:

Some politicians, and a few jurists, urge that it is unwise or even dangerous to tell the truth about the judiciary. Judge Jerome Frank of the US Court of Appeals sensibly explained that he had 'little patience with, or respect for, that suggestion' I am unable to conceive... that, in a democracy, it can ever be unwise to acquaint the public with the truth about the workings of any branch of government. It is wholly undemocratic to treat the public as children who are unable to accept the inescapable shortcomings of man-made institutions. The best way to bring about the elimination of those shortcomings of our judicial system which are capable of being eliminated is to have all our citizens informed as to how that system now functions. It is a mistake, therefore, to try to establish and maintain, through ignorance, public esteem for our courts [Ibid, p 205].

Impeachment is a cumbersome procedure and offers the unjust extreme alternatives of death sentence of acquittal, with a heavy sprinkling of politics, polemics and party manoeuvrings. We want graded punishments for graded offences because that sentence is just which fits the offence and does not suffer from undue mitigation or immoderate exaggeration.

DYNAMIC DIMENSION OF ACCOUNTABILITY

Apart from individual misconduct of judges there is a dimension of institutional accountability whereby the judiciary and the country come closer together in understanding each other so that the problems, the

needs, the solutions and the common direction and progress of justice may be shared and solutions found. For instance, reporting to the nation on the *state of the judiciary* may be done on Constitution Day, November 26, each year. On that day, from the Supreme Court down to the floor level forum, including the various tribunals, there can be a reporting by the judges and the lawyers to the people about the problems confronted by the courts like budgetary deficiencies, modernisation of fossilised procedures, technological upgradation to improve the efficiency of justicing, other requirements like more judges, more specialisation, more management skills in regard to the administration of justice by appointment of administrators with expertise thereby releasing more judicial time for judicial work and so on. The bar too may have similar issues needing reporting. In the same way, and perhaps on the same occasion, there can be reporting by the communities, leaders like legislators and public figures, educational heads and management specialists and the state's surrogates pointing out their problems *vis-a-vis* the court system—their inconveniences, even victimisations, on account of judicial mismanagement, indifference to people's needs and other aspects of maladministration and neglect of public interest by the courts and the changes they may wish. There should be periodic ongoing education for the judges as a systemic necessity; there should be annual reports made by the various courts which will go beyond mere statistics but will tell the community about the social trends reflected in litigations and consequential corrections recommended by the judges. These reports must suffer parliamentary discussion, legal profession's study and popular seminars and so on. The social function of the court is not exhausted by mere adjudications of disputes and disposals of cases. There is a creative dimension to what the judiciary can do to inform and improve society about many diseases that afflict the populace like new types of crimes, irresponsible divorces and other maladies about which notice may have to be taken in time. On the whole, there must be a vigorous social and even political interaction, where even violations of human rights by the state may figure high on the agenda. The state's agencies may have their grievances against the judiciary and the judiciary in turn may have its grievances against the state and the delays it causes and the failure of justice to which it contributes. More and deeper insights and dynamic interactions can be discussed on this theme. But the purpose here is only to point out that accountability does not mean mere control of judicial delinquency.

The bar too has much to account for because of pathological degradation in its performance and the responsibility it owes in promoting social justice. That is an independent subject although close to judicial performance. The bench and the bar

are the two vital limbs of the administration of justice. The integral yoga of justicing and lawyering, with profound concern for justice social, economic and political, is the focus which up to now has been blurred in discussions on justice, justices and justicing.

Justice is what justice does. What is justice? I quote what Cappelletti once said:

The right of effective access to justice has emerged with the new social rights. Indeed, it is of paramount importance among these new rights since, clearly, the enjoyment of traditional as well as new social rights presupposes mechanisms for their effective protection. Such protection, moreover, is best assured by a workable remedy within the framework of the judicial system. Effective access to justice can thus be seen as the most basic requirement—the most basic 'human right'—of a system which purports to guarantee legal rights.

The New Zealand Law Journal (No 4, p 66):

today it is unreal to suggest that a person looks to the law solely to protect his interests in a narrow sense. It is necessary to do no more than read the newspapers to see the breadth of the interests that today's citizen expects the law to protect—and he expects the court where necessary to provide that protection. He is interested in results, not procedural niceties.

Processual justice to the people compels us to respond to the stormy challenges of the present, reject the dogmas of the dead past and liberate legal technology from the stranglehold of misty legalese, forensic mystiques and jurisprudential antiques which frustrate the founding faiths of our constitutional order.

To lend life to this credal essence of judicial justice we need judges of calibre, not clever ones, not even ones very competent.

Business Houses in Western India; A Study in Entrepreneurial Response 1850-1956

Dwijendra Tripathi
and
Makrand Mehta

1990, Demy 8vo. 223p. Rs.175

MANOHAR PUBLICATIONS
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in legal learning but dubious, immoderate and dedicated to wheeler-dealer processes. Canons of judicial conduct and professional ethics, codified or not, proceed on the fundamental assumption that a judge is more than a member of the state's salariat but an instrument of justice and therefore obliged to observe those norms and possess those standards which convince the public that it can repose confidence in him/her for the delivery of unpolluted justice to the people without fear or favour, affection or ill-will. Judges are not angels but are more than money-bees and business managers. Each occupation has its nobility which he who sits in that office holds out as binding on him.

Why is the robed fraternity subjected to higher discipline? I cull out portions from the Report of Panel of Referees to the Minnesota Court of Appeals in Justice John J Todd's case.

The view expressed by Martineau in 10 University of Baltimore Law Review 225, at 227, puts it well:

The ultimate reason for any type of judicial discipline is to maintain public confidence in the judiciary. The logic behind this principle is simple. A legal system can function only as long as the public accepts and abides by decisions rendered by the courts; the public will accept and abide by these decisions only if it is convinced that the judges are fair and impartial, anything that tends to weaken that conviction should be avoided. In other words, justice must not only be done, but must also appear to be done. For this reason, judges are commanded to avoid not only actual impropriety but also the appearance of impropriety in all of their activities.

A common thread running through the foregoing rules under which judges must operate is that the perception of them and their functions by the public is crucial to the proper administration of justice and the orderly functioning of society.

Part and parcel of the foregoing comment is the age-old rule, cited by some of the cases herein, and as fundamental to the proper administration of justice, that justice must not only be done, but it must also be perceived to be done. The Supreme Court, as recently as 1979, repeated the foregoing maxim in the form of the following:

The effective functioning of the judicial system depends not only on justice in fact being administered but that citizens feel they are being provided fair treatment and just decision. *In Re McDonough*, 296 NW 2d 648, at 697 (Minn 1979).

It is undoubtedly for the foregoing reason that the rule is universally followed in court disciplinary actions that

... judicial removal is neither civil nor criminal in nature, but *sui generis*, designed to protect the citizenry by insuring the integrity of the judicial system. *In Re Gillard*, 271 NW 2d 785 (Minn 1978).

The Supreme Court has frequently stated, with respect to the discipline of attorneys, that

As we have so often stated, the purpose of discipline is not primarily punitive, but,

'to guard the administration of justice and to protect the courts, the legal profession and the public'. (Italics supplied.) (*In Re Serstock*, 316 N W 2d 559, 561 (Minn 1982). Cf *In Re Kimmel*, 322 NW 2d 224, 225 (Minn 1982).

Judges, of course, are held to an even higher degree of integrity than attorneys.

The burden imposed upon those who accept judicial office by the Canons of Judicial Conduct are even higher than those required of practicing attorneys by the Code of Professional Responsibility. This is as it should be, in view of the extraordinary responsibility of judicial office. We touch upon this distinction here to emphasise the stringency of the standards of conduct to which members of the judiciary are and must be held. The Canons of Judicial Conduct are standards measuring fitness for judicial office and therefore embrace tests of behaviour relating to integrity and propriety that condemn actions in which the average citizen can freely indulge without consequences. *In Re Douglas*, *supra*.

Since, therefore, disciplining is not done to punish the offender but to maintain the strength and position of the judiciary, it inexorably follows that the public perception of the judge in question is critical to both the issue of the court's actions violating the

rules and to the issue of what sanctions, if any, should be imposed. Cf *In Re Storie*, *supra*.

When judges move with majesty towards their seat in court with silvered mace and liveried escort there is a message to himself and to the public. The Minnesota panel, while mentioning the relevance of the people's perception of the judge's conduct, answers.

Lastly, whether the perception of the judge in question on the part of the public is accurate or inaccurate, why is such perception important in our system? To ask that question is to ask other questions of a similar nature. Why must judges take an oath of office? Why do judges sit at a higher level in the courtroom than other persons present? Why do judges wear robes while in the courtroom? Why do people stand when the judge enters the courtroom? Why are decisions of life, death, and property rights given to such persons for resolution?

The answer to all of the foregoing questions is the same, namely, because the respect of the public for the court, based upon its perception of the integrity and dignity of such court, convinces those dealing with it to trust it, to believe in it, and to permit it

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to handle their most important matters of life and property.

The rationale behind the canons and their enforcement is not far to seek. Lest I should be misunderstood as sermonising, let me quote from the Minnesota Report:

In judicial discipline cases, the foremost and primary obligations of the whole judicial disciplinary system are the protection of the public and the administration of justice. The interests of the individual judge are considered but they are not foremost. The primary purpose of discipline is not punishment, even though it may impose a penalty upon the individual judge. The proceedings are not criminal and the criminal standards of due process do not apply.

Although there is some risk that the lesser standard may cause imposition of sanctions upon judges importunately, the interests of the administration of justice demand that the error be on that side rather than on the side of retaining without forfeiture a judge whose effectiveness is damaged in the public view. As unfair as this may seem in the abstract, there are positions of authority in society which demand such treatment, where sanctions are imposed and accepted without imposition of the beyond a reasonable doubt standard. The privilege of serving in these positions carries concurrent responsibilities to avoid misconduct and interference in the administration of justice so that confidence in the system is maintained. Certainly, the position of judge is one of these.

Some judges think that disciplinary power over their peers may be left to the chief justices. Unfortunately, there are many instances where complaints have come against chief justices and judges themselves, in private, admit the chiefs to be overbearing or dubious. More than that, chief justices have their own prejudices and many high courts (is the Supreme Court an exception, I wonder) are not free from factions and the domineering moods of judicial heavyweights. Even their lordly social philosophy is distances away from the ideology of the socialist secular republic of India. It is widely known that chief justices even of the Supreme Court have abetted or arranged hearing of bail petitions of VIPs on holidays and after nightfall. A senior-most judge of the Supreme Court, who later became the chief justice, and another senior-most judge of the Supreme Court, who also became a chief justice later, did hear criminal matters on an abnormal day or at an abnormal hour making a special exception for the accused tycoons. This resulted in some dissatisfaction at the bar. Indeed, if we draw the line of objectionable conduct with socialist sensitivity the discrimination in favour of influential petitioners makes the conduct of the judges venal. It is also reliably rumoured, perhaps, that a chief justice of Punjab and Haryana high court was not consulted in the appointment of a judge to his high court, and likewise a judge of the Supreme Court was appointed even though the chief justice of that time had not consented to his appointment. Other instances can be

discovered, without much research, about deviances by chief justices themselves. Therefore, to make a class distinction between chief justices and puisne judges on the assumption that chief justices are superior beings does not hold good. On the contrary, some chief justices are susceptible to executive pressure and blandishments but it is not fair to divulge that here. For the sake of the extension of age of retirement, for perquisites which are not extended to other civil servants and so on, judges have been passing resolutions and getting their points accepted by governments. Here is a case of judges as a class showing anxiety to secure executive favours—not becoming conduct for those who have to sit in judgment over the benefactors.

Legal sanctions against judicial delinquency are a necessity if the globorama of robed souls robbing the bench of its great integrity and impressive good behaviour is to be arrested. But the escalating misconduct of judges has often gone unpunished because the law of judicial accountability is still in its infancy. Barring the extreme measure of impeachment the law is silent, so much so, worldwide one might well say that, with marginal exceptions, accountability of the judiciary to the country is the vanishing point of jurisprudence. This void,

unless competently covered by well thought-out legislation, may militate against the democratic credibility of the high institution which is so central to human justice. While judicial independence is a valiant check against executive-legislative tyranny, absent judicial accountability may portend a forensic despotism. The subject is delicate, the remedy, unless carefully adjusted, may aggravate the malady. Crude nostrums may prove iatrogenic and so experiences in various democratic countries must be garnered to win the principles and processes whereby the best system of checks can be evolved. Justice has a global dimension in our age of human rights and the twin components of independence and accountability also are matters of universal concern.

Judge power is vast and strong in the keeping of those who are fearless and flawless surrogates of public justice. But the judiciary as a fiduciary must pay a price—they must be clean in public and private life, on the bench and off the bench and be worthy to be watchdogs, not lapdogs, sentinels, not sycophants.

The justice system is our only stable asset, as yet not corrupt. Let us preserve it. Public justice is too serious a business to be left to the justices alone. We need a national debate on this theme.

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Monitoring Budget Deficits with Time Series Models

J V M Sarma

The ministry of finance had come up last year with a method of determining normative levels of budget deficit at the end of each month of the fiscal year, using time series models of the Box-Jenkins type. Recently, Madhur and Wadhwa have contested the validity of the model specification. This note attempts to clear some of the misunderstandings expressed by Madhur and Wadhwa regarding the model used in the Technical Note. In brief, it shows that the criticism levelled against the model is not quite warranted and the points raised are inconsequential.

I

Introduction

IN an attempt to closely monitor the central government budget deficit the ministry of finance had come up last year with a method of determining normative levels of budget deficit at the end of each month of the fiscal year, 1990-91 against which the actual deficit can be assessed [Government of India, 1990]. The *Technical Note* (TN) considered several alternative methods of deriving the monthly norms and proposed the use of time series models of the Box-Jenkins type, for the purpose. As an illustration, the authors of the TN fitted a seasonal Auto Regressive Integrated Moving Average (ARIMA) model to monthly deficit data over a 10 year period (April 1980 to March 1989) and found that within this class of models, a particular specification comprising a secular component and a seasonal component was more suited for the purpose than other models considered.

Prior to the fitting of the model, the data were subject to two transformations. The first one, although not explicitly stated in the TN, follows from the non uniform nature of data series collected by the ministry, which were in the form of month end positions of the yearly budget deficits. Thus, although the March end figure might be non zero for a year, the starting figure for the next year was set at zero, which is consistent with the way the yearly budget deficit is commonly viewed. For the empirical exercise, these month end series were converted into a uniformly defined monthly change series so that each data point denoted the deficit incurred during the corresponding month. Further, the data series were transformed into a 12 month differenced series as they were found to be yearly non stationary as revealed by their plot and also confirmed by the sample autocorrelation function (SACF). The fitted model explained over a half of the past movements in terms of two yearly, and one monthly, autoregressive lags.

Recently, Madhur and Wadhwa [1991] have contested the validity of our model specification used in the TN. Their criticism pertains mainly to three aspects of the TN: (a) the choice of the Box-Jenkins models in preference to other types of models; (b) the forecasting ability of the model used; and

(c) the exact specification of the model. In particular, they have questioned the second stage (12 month) differencing of the series, alleging that it was done without conducting any rigorous scientific tests for the existence of stationarity of the monthly deficit series. In an attempt to do the empirical exercise, they have conducted certain statistical tests for the existence of stationarity in the series. However, these tests are recommended in the literature in the context of non multiplicative autoregressive linear models and therefore, their validity for multiplicative models such as the one used in the TN is debatable. On the basis of these misplaced tests they have wrongly concluded that the yearly differencing of the deficit series as done in the TN was not required. Accordingly, they have re-specified the model without differencing in terms of one yearly lag and one monthly lag, and claimed that the modified version fitted (on fewer than available observations) and forecasted better than the one used in the TN.

The objective of this note is to clear out some of the misunderstandings expressed by Madhur and Wadhwa (MW) regarding the model used in the TN. In brief, the criticism levelled against the TN by MW is not quite warranted and the points raised are inconsequential. Their modification of the model is based on misspecified stationarity tests and as such, does not connote substantive modification, let alone improvement, of the model used in the TN. In what follows I shall elaborate on these points.

The study plan is as follows. Since it is the third point of criticism that led MW to look for an alternative specification, we consider it as a substantive point, and devote the next two Sections II and III to dwell on it. Section II gives reasons as to why we resisted from conducting these 'formal' tests for the TN. An important reason was that these tests cannot be applied to multiplicative models without substantial modifications. This point is elaborated in Section III and the possible modifications needed are indicated. Section IV takes a critical look at the alternative specification proposed by MW where its validity is questioned by arguing that the tests leading to the modified specification are misplaced and therefore, it does not stand to reason. Then, the remaining two points of criticism are taken up for

clarification in Section V. And Section VI contains the concluding remarks.

II

Choice of Stationarity Testing Methods in TN

The critics felt that the use of the 12th differenced series of the monthly deficit as a dependent variable without conducting stationarity tests such as the Dickey-Fuller led to overdifferencing and, as a result, misspecification of the TN model.

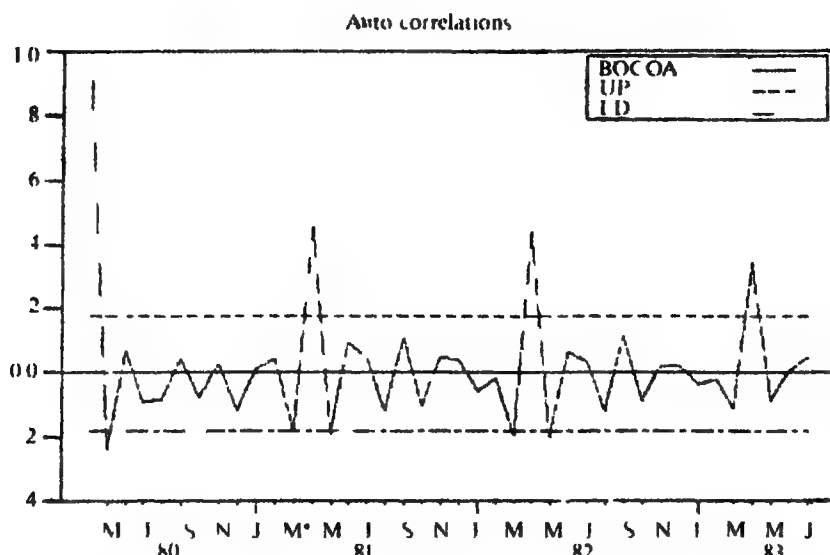
As the critics are well aware, the need to include a differencing factor in Box-Jenkins models arises if the autoregressive filters in the model are non-stationary (nevertheless, homogeneous). It is true that occasionally, in borderline cases, the traditional or informal methods employed for detecting non-stationary behaviour, such as examination of the plot of the series or its differences, inspection of the sample autocorrelation function (SACF) or informed inspection of a fitted model of a predetermined specification for a unit root, might make researchers face certain difficulties. These ambiguities, albeit rare, necessitated the search for alternative test procedures, generating sizeable literature.

Yet, for the empirical exercise in the TN, we had relied upon the SACF of the monthly (redefined) budget deficit series, rather than the more formal tests mentioned by the critics, for the following reasons.

First, recourse to such tests was advocated in the literature mainly to such occasions where conventional tools cannot resolve the question. However, in the case of the TN, the plot of the SACF (see Figure) left little doubt regarding the non-stationary nature of the series and clearly indicated significant autocorrelations for 12th, 24th and 36th degrees while the intra-year autocorrelations are not significant. The failure of the yearly autocorrelations to dampen quickly prompted us to suspect non-stationary behaviour of the budget deficit series between years.

Second, the non-traditional methods are not free from statistical ambiguities. Their precarious nature is clear from the caveats put on their use by those who developed them. Most part of the theory underlying these tests applies for deciding the last degree of differencing. While reviewing these tests

FIGURE 1. SADF OF MONTHLY BUDGET DEFICIT



Dickey, Bell and Miller [1986] make it amply clear, "Before proceeding, we need to make an important qualification. The theory we shall discuss applies only to the case $d=1$ (first differencing), that is between one and no differences y_t (the series under study) could be an already transformed series including the important case of seasonally differenced series. Thus, we assume that the other techniques mentioned (informal examination of plots, ACFs, and finite models) or other knowledge about the series can be used to discover all differencing factors except the last ∇ (difference)" [Dickey, Bell and Miller, 1986, p 12].

To be more specific, an important limitation of the Dickey and Fuller [1979] test is that the order of the AR and MA polynomials, even for a non multiplicative BI model, should be known prior to determining the degree of differencing, which is usually not the case. Later, although Said and Dickey [1984] developed a test by showing that it is possible to approximate an ARIMA (p, d, q) by an autoregression whose order is a function of the number of observations, the disadvantage, however, is that the approximate autoregression contains a number of parameters which are of 'nuisance' value, yet are to be estimated along with the first order coefficient. The alternatives suggested by Phillips [1987] and Phillips and Perron [1988] that do not need prior knowledge of p and q , and also avoid using a long autoregression recommended by Said and Dickey, still require approximations for truncation of lags in estimating the population error variance, that is essential for computing the z statistic.

Third, in most cases, the test statistics are obtained by OLS regressions of specifications involving lagged dependent variables. If the model also consists of a moving average process, OLS might yield biased coefficient estimates.

Further, economic reasoning also makes it sensible to suspect non stationarity in the

yearly budget deficits at least due to the price effect, which cannot always be taken care of by incorporating time trend variable in the model.

Thus, the alternative methods of determining the degree of differencing are not without limitations, and a foolproof method still eludes researchers.

The implications of wrongly testing for the unit root models were studied by Nelson and Kang [1984] and Plosser and Schwert [1978]. It was shown that out of the three distinct possibilities, viz, differencing removal of linear trend, and doing nothing the last alternative, namely, doing nothing when differencing is needed can have dire consequences, frequently leading to falsely significant regressions of non stationary series on time and on other independent non stationary time series. On the other hand, the consequences of unnecessary differencing were shown to be far less serious inefficient though unbiased and consistent parameter estimates.

In any case, over differencing is not as dangerous as under differencing as brought out clearly by the past studies. In fact the designers of the stationarity tests over the years have sought to build a bias in favour of over differencing. While surveying the literature on unit root testing, Dickey, Bell and Miller make it clear in no unambiguous terms "We do this because of what we perceive to be the relative importance of the two possible errors in deciding on differencing. Failure to include a differencing operator when it is needed results in bounded forecast intervals that must eventually be too narrow, giving unreasonable confidence in the forecasts, especially the long term forecasts. This can be especially true if a polynomial trend plus stationary error model is used when differencing is needed. Even if the polynomial trend fits well over the span of the observed data, extrapolating it implies a strong assumption about the future and this may well produce highly

unrealistic forecasts and forecast intervals. It is also quite possible for the polynomial to fit poorly at the last data points, resulting in poor short term forecasts. On the other hand, differencing when a ∇ is not needed is unlikely to have serious consequences. Such overdifferencing can even produce forecast results equivalent to those from a model without a ∇ [Harvey, 1981]. Overdifferencing can also sometimes be detected and corrected at the modeling stage [Abraham and Box, 1978]. At worst, use of ∇ when $1 - \rho B$ with $\rho < 1$ is more appropriate will tend to produce more conservative forecast intervals" [Dickey, Bell and Miller, 1986, p 16].

The single most important reason as to why we did not resort to these formal statistical tests was the ambiguities posed by them for multiplicative models. The difficulty of applying these tests to multiplicative models will be clear from the very design of such models as can be seen in the next section.

III

Stationarity Testing in Multiplicative Models

In general, a seasonal multiplicative model ARIMA $(P, D, Q)^s(p, d, q)$ represents the process

$$(a_p(i) \phi_p(\lambda) (1 - i)^d (1 - \lambda)^q x_t - b_q(i) \nabla_q(\lambda) \varepsilon_t) / (4) \text{ where } a_p(i), \phi_p(\lambda), b_q(i), \text{ and } \nabla_q(\lambda), \text{ are polynomials in the backshift operators, } \lambda \text{ and } i \text{ (where } i = \lambda^s, s \text{ being the width of the seasonality), and } \varepsilon_t \text{ is the white noise.}$$

The model being multiplicative, the relevant characteristic equation is a product of two polynomials, one for the inter year variation and the other for intra year variations. As such there could be four possibilities. The series could be (a) stationary with respect to both the inter as well as intra year variations, (b) stationary only with respect to intra year movements and homogeneous with respect to inter year movements, (c) stationary with respect to inter year movements and homogeneous with respect to intra year movements, and (d) series are non stationary but homogeneous. Cases (b) and (c) denote a kind of partial stationarity, while (a) refers to the full stationarity for multiplicative series and case (d) would imply non stationarity.

Thus while the situation of full stationarity implies that both the AR polynomials $a_p(i)$ and $\phi_p(\lambda)$ should satisfy the stationarity conditions separately, the disadvantage with testing for stationarity in the combined polynomial, $[a_p(i) \phi_p(\lambda)]$, is that even when the roots of the combined polynomial lie outside the unit circle, it does not ensure that the roots of both the component polynomials also do so. This can be shown by extending the derivation of the testing equation. While a comprehensive discussion of all the problems involved in such an extension would require a separate study, a ten

tative version of the testing equation for seasonal models can be derived by proceeding as follows

The problem now is to decide about the last differencing for both the non-seasonal (yearly) as well as the seasonal (monthly) component processes. As in the case of non seasonal models, to simplify let us consider the series as already transformed upto the last but one differencing for each of the component processes. Accordingly, consider the process,

$$(1-r_1)y_t = c_1 + u_t \quad (1)$$

$$(1-\rho\lambda)u_t = c_2 + e_t \quad (2)$$

where (1) and (2) represent the yearly and monthly component processes respectively, y_t and e_t denote the respective transformed series up to the last differencing such that $y_t = \nabla_{12}^D \nabla_{12}^S \nabla_{12}^T (i)x_t$, and $c_1 = \delta_0(\lambda)(\phi_p(\lambda)\nabla^d)^{-1} \epsilon_t$, r and ρ , the first order coefficients to be tested, and, c_1 and c_2 constants (indicating possible mean 'drift' of the series)

The Dickey Fuller type of equation can be obtained as follows. From (1), substituting the value of $u_t = (1-r_1)y_t - c_1$ in (2) we obtain,

$$(1-\rho\lambda)(1-r_1)y_t = (1-\rho\lambda)c_1 + c_2 + e_t \quad (3)$$

And, using the decompositions,

$$(1-r_1) = (1-i) + (1-r_1)i, \text{ and}$$

$$(1-\rho\lambda) = (1-\lambda) + (1-\rho\lambda)\lambda, \text{ the final testing equation can be obtained as}$$

$$\nabla y_t = (q-1)y_{t-1} + (r-1)y_{t-12} + (1-\rho\lambda)c_1 + c_2 + e_t \quad (4)$$

where $\mu = (1-\rho\lambda)c_1 + c_2$. Similarly assuming that e_t is weakly dependent and heteroskedastic, the Phillips Perron type of testing equation can be derived for the multiplicative models as

$$y_t = \rho y_{t-1} + \tau \nabla y_{t-1} + \mu + e_t \quad (5)$$

The equations (4) and (5) imply that the tests for seasonal and non seasonal differencing have to be conducted simultaneously and separate testing will lead to specification bias. On the practical side while the Dickey Fuller version of the testing equation is conditional on the prior knowledge of the orders of the polynomials involved the Said Dickey version would involve truncation of two autoregressive polynomials resulting in even longer testing equation with more nuisance parameters. As for the Phillips Perron version the z transformations suggested for non multiplicative models may no longer be valid as the assumption of the composite error being 'weakly dependent and heteroskedastic' may not hold. Also the z transformations involve double truncations of the lag order for computing the population variance.

In an attempt to check the correctness of the yearly differencing decision in the TN model, we have fitted the testing equation (4) which is as follows

Data from June 1983 to March 1989

$$\begin{aligned} \nabla y_t = & 1.01y_{t-1} - 0.015y_{t-12} \\ & \tau_u = (-0.23) \quad (-0.29) \\ & + 0.964y_{t-11} + 204.86 + e_t \quad (6) \\ & (7.37) \quad (1.45) \end{aligned}$$

$$R^2 = 0.51 \quad \sigma = 994.8 \quad DW = 2.009$$

The regression results show that the hypothesis of unit root at 12th lag cannot be rejected. Although this result appears to confirm the pattern of the SACF and justifies the 12th differencing of the series in the TN model, I would not recommend the test as a pre specification tool for determining the order of differencing.

IV

Testing and Reestimation

A Critique

The study by MW is an attempt to redo the empirical exercise, ostensibly with a view to improve upon the model used in the TN. Much of the empirical work has been on the same lines as in the TN. They also started by converting the cumulative month end series of the budget deficit into monthly change series. Further, despite their criticism regarding the choice of the Box-Jenkins model in the TN, they did not seem to be averse to using the seasonal ARIMA models. The crucial difference between the TN and their study, however, stems from the decision as to whether or not the seasonal (12 month) differencing is needed.

MW, in their eagerness to conduct formal tests, have misspecified the testing equations. For example, to conduct the Dickey-Fuller type of testing, two separate equations were specified, one for monthly and the other for yearly differencing (of course with and without the time trend in each case). The equations are

$$\nabla x_t = \mu + (1-1)x_{t-1} + e_t \quad (6)$$

where x_t is monthly deficit $t-1$ to $t-12$, $t-1$ and with the null hypothesis $\mu = 1$. Similarly the Phillips-Perron test is based on the equation of the form

$$x_t = \mu + x_{t-1} + e_t \quad (7)$$

with the hypothesis that $\mu = 1$. Two alternative hypotheses were considered: (i) unit root exists at lag 1 and (ii) unit root exists at lag 12. For each of these two variants were investigated, namely with and without a time trend.

The main flaw in the testing for the unit roots by MW lies in the specification of the test equation. As we have seen in the previous section, unit root testing in multiplicative models involves simultaneous estimation and testing of hypothesis for both seasonal as well as non seasonal differencing. Accordingly, the test equation to be estimated should be either the form of equation (4) or equation (5). Instead, MW have sought testing for the stationarity of the combined polynomial which can be achieved even when one of the component polynomials is non stationary. Even if their separate testing procedures showed that the series are stationary, it does not ensure stationarity of the component series.

Incidentally, an aspect of the estimation in MW that cannot go unnoticed by discerning readers is that the re-specified model

is fitted on fewer than available observations. Thus, out of the total data span from April 1980 to March 1989, the specification in terms of one yearly, and one monthly lags leaves the researchers with as many as 95 observations (from May, 1981 to March 1989). Yet MW have chosen to fit the model only on 59 observations from May 1984 to March 1989. Trivial may the decision seem, it has implications for long term forecasting with their specification. While their reason to drop as many as 36 initial observations is not known, re-estimation of their model on all the available 95 observations, gives a clue regarding its inconsistency. These regression results are as follows

Data: May 1981 through March 1989

$$(1-0.47\lambda^1)(1+0.16\lambda)x_t = 379.6 + e_t \quad (7)$$

$$t = (4.55) \quad (1.48) \quad (1.66)$$

$$R = 0.23 \quad SSE = 1369.8 \quad DW = 1.98$$

The regression results (7) are widely different from those obtained by fitting the specification on the 59 observations from May 1984 to March 1989. Thus, their model specification can at best be regarded as locally efficient and may not be useful for longer time forecasting.

V

Other Aspects of Criticism

CHOICE OF THE MODEL

It is alleged that the TN abstained from any objective criteria while preferring Box-Jenkins models to other types of models for deriving the budget deficit norms. The critics feel that the crucial issue is not whether the Box-Jenkins model is procedurally superior to the other methods but whether, on the average, it forecasts month end budget lefts more accurately than the other method.

This criticism is based on lack of understanding of the general nature of the Box-Jenkins models. The main reason for preferring Box-Jenkins models in the TN was not due to their procedural superiority to other, but due to the elementary fact that this wider class of processes provides a range of model stationary or non-stationary that adequately represent many of the time series met in practice. [Box and Jenkins, 1976, p. 81]. As such, Box-Jenkins models encompass most of the other commonly used models such as the growth trend equation models, random walk models, exponential smoothing models and so on, which can be derived as special cases by imposing suitable restrictions. The purpose of preferring these other models in the TN was only to bring out the maladies of restricted specifications. By nature, being more general, Box-Jenkins models suffer less from specification bias.

In fact, it is doubtful if one can regard Box-Jenkins models as *procedurally* superior to say a restricted model such as the trend equation. Unlike these restricted models, Box-Jenkins methods involve cumbersome, and often not very objective procedures per

taining to, identification of the degree of differencing, determination of orders of polynomials involve, as also estimation by iterative procedures. Thus, procedural convenience is certainly not the main consideration for preferring these models. The main reason for the choice of the Box-Jenkins models is the amount of freedom they afford in identifying and capturing the trend components.

NATURE OF FORECAST NORMS

Regarding the nature of forecasts of month-end deficits from the model presented in the TN, it is pointed out that for all the twelve months of the forecasting horizon, i.e. fiscal year 1989-90, the forecasts were consistently lower than the actual month-end deficit which does not speak well for the particular Box-Jenkins specification.

To begin with, the critics have wrongly assessed the out-of-sample forecasts derived in the TN. Presumably, they have come to their stated observation after comparing the cumulated forecasts (Table 2, column 5 of the *Technical Note*) from the specified Box-Jenkins model, with the actual month-end deficits (Table 2, column 2). Actually, as can be expected, since the model was fitted on monthly change series, the forecast inference results do not apply to the cumulative month-end budget deficits but to the monthly change series, whose forecasts were later converted into month-end deficits to be compatible with the original series. Thus, on the basis of these cumulated forecasts it is difficult to conclude if they are biased. The correct way of judging would have been to compare the non-cumulated forecasts and with corresponding actual monthly-differenced deficit series. Thus, a major reason for the observed 'consistently' different trend, is built in the way the deficit series is viewed. Once the transformation process is clear, it is not difficult to understand the biased trend of cumulated forecasts. Just one wide outlier data point could be sufficient to shift the subsequent trend of the accumulated forecasts. This shift could be even more prominent if forecasts for subsequent months of the year are based on previous months' forecasts, which is the case in the TN.

In fact, the unbiased nature of the forecast errors is clear even from the regression diagnostics presented along with the results (see Appendix Table A.3 of the TN). Given the adequacy of the model as represented by the R-bar and the SEE, the RMSE, the MAPE, the Q-statistic or the plot of residuals do not suggest any consistent bias in the residuals.

This leads us to believe that the phenomenon of the forecasts for the twelve month period (1989-90) being consistently different from the actuals, could be due to certain 'shocks' in the form of policy changes occurred during the forecast period that might have generated a higher than the past trend in the actual monthly budget deficits.

VI Conclusion

Thus, in brief, the criticism levelled against the model is not quite warranted. Also, their alternative model specification can, at best, be regarded as locally efficient and may not be useful for longer time forecasting.

All this, however, is not to say that the model specified in the TN is final and there exists no scope for improvement in several aspects. As mentioned in the TN, there could be a host of factors other than seasonality and trend, which influence the deficit of the government at any point of time, and that it is necessary to take into account the impact of all relevant economic variables having a significant bearing on the level of the deficits. The re-specified version by MW also suffers from these drawbacks, and to that extent, cannot be taken as methodologically much different from, let alone superior to, the original specification.

More importantly, the technical 'innovations' suggested by MW leading to the modified model, does not stand theoretical reasoning. In particular, it is doubtful if the so-called 'rigorous' tests of stationarity conducted by MW are valid in the context of multiplicative autoregressive models. In the absence of better test procedures, the conventional methods relied upon by the authors of the TN, based on the SAC I, appear to be more relevant.

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Institutional Credit and Overdues

D Rajasekhar

G Suvarchala

I

STUDENTS of political economy have been arguing that, in the rural areas, the financial system has been subordinated to the interests of the rural rich. Pointing to the growing political clout of the farmers' organisations, reflected in the prominence of political stalwarts like the late Charan Singh and Devi Lal, it has been argued that the rural banking system has been (mis)used to provide subsidies and easy money for those who belong to this class. Overdues to the banks are only a symptom of this basic malaise.

Be that as it may, we are grateful to A S Kahlon for initiating a debate on this important issue ('Institutional Credit and Overdues: Borrowers' Angle' *LPM* February 2 1991) within the narrower framework of the existing financial system. The main argument of the paper is that the loan policies and procedures of lending institutions have impaired the borrowers' ability to secure adequate incremental returns to enable them to repay their loans. Consequently, the overdues have been mounting. The author, by using evaluation studies, District Oriented Monitoring (DOM) studies and supply side studies conducted by NABARD in the early 1980s (which are not easily accessible to researchers), highlights the impact of factors like under financing, tight repayment schedules, absence of initial grace period, short loan maturities and delays in sanctioning of loans, on overdues. While emphasising these points, the author has noted the hiatus between actual implementation and the set guidelines. For instance, as per the guidelines of NABARD, a banker must give 11-15 years' time to the borrower in order to enable him to repay instalments for schemes like dug-well with pumpset. However, in reality the borrowers are provided with only a 10-year term. Similarly, the author has noted the variation between the actual unit cost and amount disbursed in various categories of loans, once again arguing that the shortfalls have contributed to the default. Thus he concentrates on the causes of *non wilful* default.

One cannot deny that these kinds of instances do occur in rural areas. However, for any attempt to examine the problem of overdues from within the existing system, among other things, it is essential to consider not only the perceptions of borrowers but also the perceptions of the bankers and other relevant issues.¹ The points that need to be raised here relate to the reasons for such

deviation from norms. The reasons might have been rooted in the day to day field problems of the bankers. The field problems may range from inadequate staff to structural problems leading to delays in loan disbursement and from political intervention to borrowers' attitude towards the formal credit agencies.

II

Kahlon has argued that defective practices have contributed to the problem of overdues. But to what period do the overdues refer to in the article belong? The question assumes importance because there has been a significant change in the nature of overdues during the 1980s. While many of the overdues of the early 1980s were on account of non wilful defaults (those in the late 1980s are essentially the result of wilful defaults). The level and growth of overdues amount held by wilful defaulters has rapidly increased during the period 1984-85 to 1988-89.² This statement is further corroborated by the evidence provided by the Khushro Committee's "Review of Agricultural Credit System in India". The committee, in order to ascertain the borrowers' perceptions of the causality of defaults, interviewed 1,013 defaulters across different types of credit agencies and the results are presented in the accompanying table. The table shows that crop failure due to adverse weather conditions and inadequate income generation from the activities for which loans are sanctioned are important reasons contributing to the problem of overdues. Only a small proportion of defaulters cited the defective lending policies such as very high repayment instalment amounts, unsuitable repayment schedules and high interest rates as the cause for overdues. The proportion of borrowers stating these factors as reasons for overdues are 0.9, 2.1 and 0.3 in CBs, RRBs, PACs and LDBs, respectively. The committee noted that "the largest percentage of respondents, i.e. 54.7 per cent defaulters to commercial banks, 54.4 per cent to PLDB and 52 per cent to PACs, did not indicate any specific reason which compelled them to default in repayment of dues to the credit agencies. This is, in fact, a *Don't know* category, some of these could be cases of wilful defaults". In fact, the change in the language of the bankers reflects this: they speak now not of repayment, but of recoveries, the latter term includes an element of coercion.

From the above it follows that the factors contributing to overdues have changed substantially. The defective loan policies and procedures of lending institutions might have contributed to the problem of overdues in the 1970s and the early 1980s. But the main factor contributing to the problem of overdues in the late 1980s is, we think, political intervention (both illegitimate and legitimate) in the functioning of the credit delivery system in the loan melas and also in the sanctioning of loans under government sponsored schemes, wherein the banker has been marginalised (totally and, perhaps, willingly). Legitimate political intervention refers to the loan waiver given by the National Front government when it implemented its election promise. It may be politically legitimate, in banking terms it is disastrous.

Another important factor contributing to overdues is the massive growth of the rural credit delivery system in the last 20 years leading to delays which are structural in nature in the sanctioning of loans. This is a managerial argument. For instance, bankers in western Orissa agreed with us that loans are delayed. This delay, they point out, is the result of a rapid increase in the number of borrowers and the absence of a corresponding increase in the staff, given the ban on recruitment. Even if they have staff, it would be difficult to ensure that loan instalments are disbursed in time. Consider a situation where 50 dug well loans are disbursed across the bank's catchment area. In several instances, the due dates of disbursement fall on the same day. The banker has to make pre-sanction visits to all the borrowers before sanctioning the next instalment. Because the borrowers are spread over a wide area, it is difficult to complete the pre-sanction visits within a short period. Hence the delays.

Let us assume that the defective policies of the lending institutions continue to exist. But these problems were unearthed in the early 1980s by the studies conducted by the National Bank which are referred to by Kahlon. Why did not NABARD act on its research findings? Why didn't it see to it that the defective policies of the lending institutions were changed? If indeed NABARD made such effort, then why did the banks ignore NABARD's instructions?

We know from our own field work that many of the nationalised banks have also conducted both studies and experiments on this subject and that they have an excellent understanding of both the problems they face and their own limitations. They have learnt from their experience. We are not sure whether this is the case with the NABARD which is a bureaucratic organisation. For instance, NABARD's idea in Bombay about the kind of data available with lead bank of

officers of the districts is far removed from the reality, as we saw in district after district. In this, there is a gap which is felt by the district/regional staff of NABARD itself. We had the exhilarating experience of NABARD's field officers telling us that the data their head offices wanted are simply not available.

Kahlon suggests that the problem of mounting overdues is the result of banks not following the NABARD's guidelines such as repayment schedule and grace period. Firstly, why is it that banks are not following the NABARD's guidelines? What do they gain by having massive overdues in their banks? We can turn around and ask: why should the banks follow NABARD's guidelines? We know of several guidelines/circulars of NABARD which were not very well thought out and on which NABARD kept on changing its mind and issuing fresh instructions. Certainly they are well intentioned. But these guidelines were formulated by officers in Bombay who often were devoid of any field level banking experience. The bankers, on the other hand, are operating at the field level and they know their problems and local realities, which include the borrower's ability to repay. Considering that many of the loans referred to by Kahlon went to those who are not the poorest, a reduction in repayment period or less-than the norm financing would not be critical. Such a reduction could even be justified on the grounds that the investor must have a stake in his investment if the loans were used for the stated purpose.

In fact, we argue that while the guidelines are necessary, they must be well thought out, tested and they should not be rigid in a large and diverse country like India. Bankers dealing with borrowers should have flexibility in deviating here and there from the guidelines. The fact of the matter is that the problem of overdues can partly be explained by strict adherence to the guidelines set up by the apex institutions regarding the amount to be given for a particular scheme and the inability of the apex institutions to make quick amendments in the guidelines based on field

realities. It makes good sense for the bankers to deviate from such guidelines when taking decisions in the field. This, after all, is the essence of a decentralised approach. The solution lies in dialogue and action research, but the system for this has to be set up. Here NABARD, as a promotional agency, may take the lead.

III

We get an impression from the article that the problem of overdues is the result of NABARD's guidelines not being followed by the lending institutions. In this case it must be noted that there is a serious problem of communication between the officers of the apex institutions and the banking institutions. The field reality is that the bankers (small and big) resist the supervisory superior role assumed by NABARD as an institution. As rightly expressed by Kanvande, the NABARD officials' "attitude towards both LBO and BMs [branch managers] should not be that of an overbearing superior but of a friend. Such an attitude will have to be carefully cultivated because it does not come naturally to those who work for apex institutions."⁴ The fact that, at a personal level, NABARD officials get along reasonably well with bankers does not change this basic position. Has NABARD ever tried to change its attitude if not why not? We are sure Kahlon, in discussing the problem within the existing system, would not deny the importance of this aspect in analysing the banks' attitudes to NABARD circulars.

The root of the problem seems to lie in the fact that, till 1982, such circulars had the authority of the Reserve Bank (of which NABARD as ARDC was a part) and were accepted by the banks as directions of the monetary authority. But after NABARD's independent set up in 1982, it is no longer part of the RBI, its officers do not wield the authority of a central bank and lack credibility on their own. Their organisation is seen as a routine refinancing agency. Its officers seem to have difficulty in accepting their new role as officers of a promotional

developmental organisation rather than a regulatory one. This is true of NABARD as a whole as well. To the officers of the commercial banks, NABARD officers are arm chair theorists who arrogate to themselves the power to give meaningless directions, and this is resisted. We regret the strong language, but this is our field observation.

This needs to be changed, and we would like to offer our own suggestion, once again within the framework of the existing system, here. The ACRC (Khusro Committee) has suggested that RRBs be merged with their sponsor banks. Instead, the equity of the sponsor banks—if it has not been eaten up—can be transferred to NABARD, and it should take up the responsibility of managing them. This will give NABARD officials a base in the field and an opportunity to show how rural credit institutions should be run. They can then take up the responsibility for implementing the Service Area Approach and show what can be done with the Potential Linked Plans. NABARD has taken the important step of posting its officers to districts as District Development Managers. These DDMs could also function as the general managers of the local RRB. They can show how linkages can be provided and the quality of credit raised to the required level. After that there will be no credibility problem. They can lead by example, not through circulars, and bankers will willingly follow.

Notes

[We thank Vinod Vyisulu and V. M. Rao for their comments on an earlier draft of this note. We would like to reiterate that these are our personal views.]

1 This we have attempted to get by interviewing borrowers and bankers in 10 districts across five states in the last 18 months or so in a project sponsored by NABARD. We would like to comment on Kahlon's points on the basis of our own field work in several major states on the factors influencing overdue—but we cannot present the data here as we need the written permission of NABARD for publication and this we do not have. But see, for example, D. Rajasekhar and Vinod Vyisulu, 'The Rural Credit Delivery System: A Study in Pali District of Rajasthan', *EPW Review of Agriculture*, September 24, 1990.

2 Based on the data on distribution of overdues amount by status of defaulters collected from about 300 bank branches (belonging to four types of credit agencies viz. CBs, RRBs, PACS and IDBs) spread over 10 districts in five states. However, we are unable to provide this information without the written permission which we do not have. Interested readers are referred to the Report on 'Strengthening the Credit Delivery System' submitted to the general manager, FAPD, NABARD, Bombay, in March 1991.

3 Khusro Committee's report, p. 552.

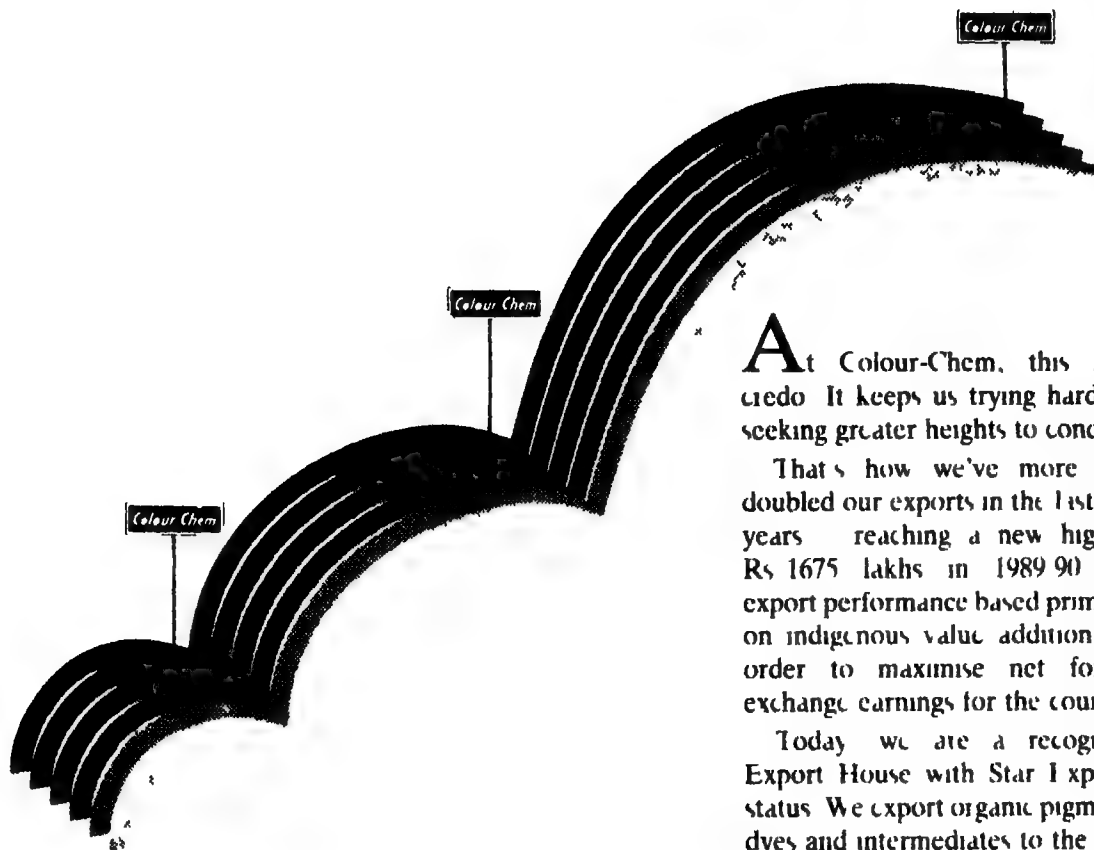
4 D. J. Kanvande, 'Service Area Approach', *State Bank of India Monthly Review*, January 1990, p. 9.

TABLE: BORROWERS' VIEW OF CAUSALITY OF DEFAULTS

| Particulars | Commercial Banks | RRBs | PACS | IDBs |
|---|------------------|--------|-------|--------|
| Crop failure due to weather | 10.9 | 33.2 | 23.5 | 19.4 |
| Crop failure due to other reasons | 0.6 | 1.0 | 0.7 | 1.5 |
| Inadequate income generation | 17.0 | 31.6 | 11.3 | 11.0 |
| Instalment of repayment too high | 0.4 | 1.6 | 0.4 | 0.3 |
| Unsuitable repayment schedule | 0.2 | 0.0 | 0.4 | 0.0 |
| Diversion of amount for other purposes | 2.3 | 6.2 | 2.6 | 1.0 |
| Political interference and misguidance | 0.5 | 1.6 | 1.1 | 2.0 |
| Lack of understanding of terms | 1.1 | 0.0 | 0.6 | 1.0 |
| High interest rate | 0.3 | 0.5 | 0.1 | 0.0 |
| Non adjustment of earlier paid instalment | 0.6 | 2.6 | 0.7 | 0.5 |
| Unforeseen development in the household | 3.9 | 3.6 | 3.0 | 2.3 |
| Any other | 7.5 | 5.7 | 3.9 | 6.6 |
| None (no problem) | 54.7 | 12.4 | 52.0 | 54.4 |
| | 100.00 | 100.00 | 100.0 | 100.00 |

Source: Report on 'Review of Agricultural Credit in India', RBI, Bombay, 1990, pp. 551.

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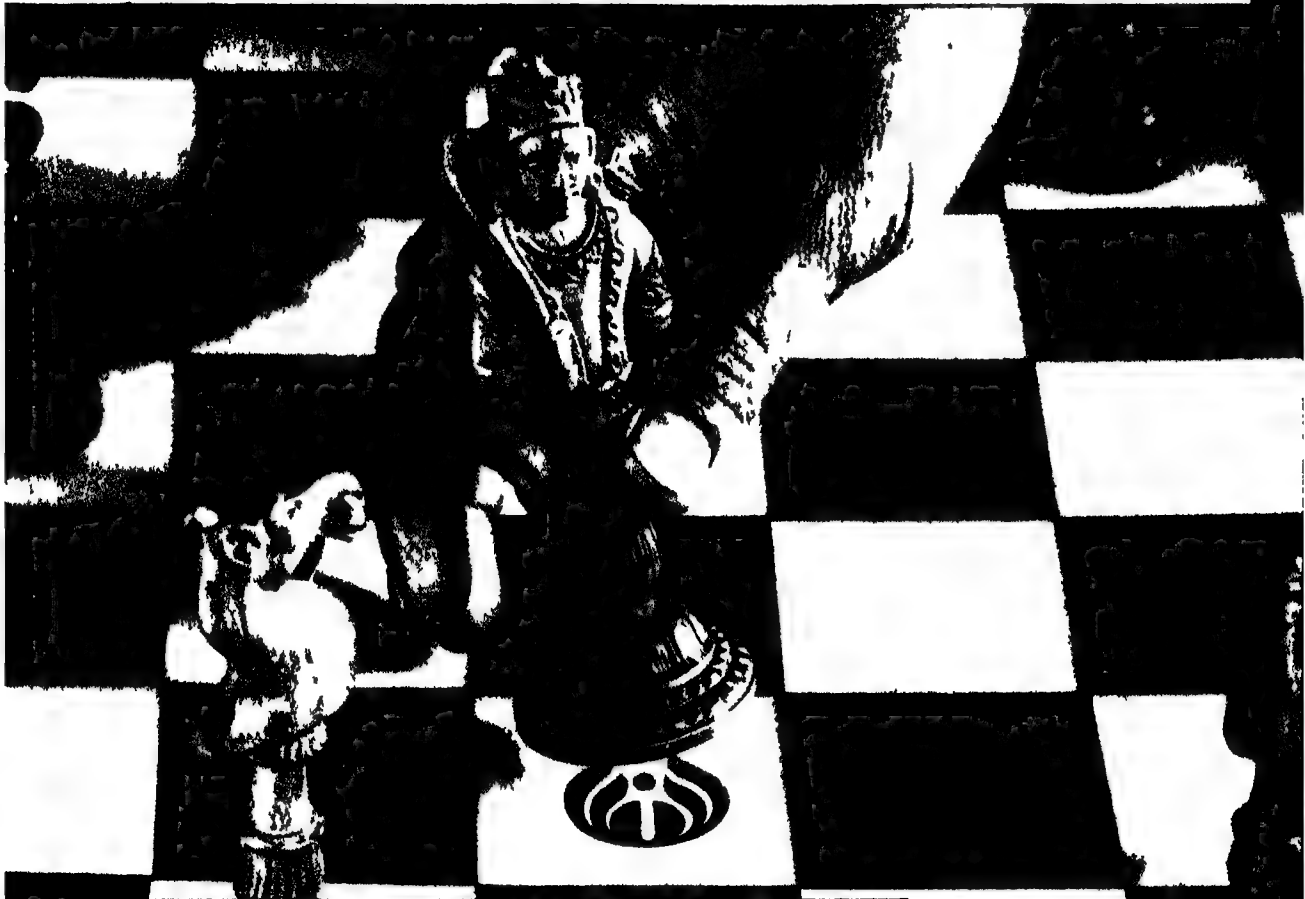
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Economic Policy Debate

What are the sources of increased efficiency and production in the New Industrial Policy and how does it propose to further the social objectives of promotion of small industry, fostering of regional balance and curbing of concentration? **1869**

An alliance is being forged between foreign capital, enjoying the backing of administrative and political authorities in the respective countries of origin, and comprador business interests enjoying administrative and political patronage in India. This is the deadly alliance which will drag India into neo-colonial dependence **1837**

It is true that India is getting close to the debt trap and indeed we may catch the Latin American disease. However, it is not the policies of the last five-six years that has brought this about but the development strategy of the last four decades **1850**

Hundred Years After

While the 1891 Age of Consent Act ensured legal protection for girl-brides and the related controversy introduced a more humane perspective on their condition, its fall-out was that the cause of women's emancipation was relegated to the background over the next few decades **1857**

Urban Dilemmas

The lack of infrastructure, particularly communication, the absence of a planning and implementation process and the dearth of a coherent, realistic development policy are at the root of the many problems which plague Calcutta: as for instance unauthorised construction and building collapses **1844**

But can a development policy which legitimises control over urban land use by vested interests, as the newly published Development Control Regulations does for Bombay, make life more comfortable for the urban masses? **1840**

Caste Shadow

Janardhan Reddy's new cabinet in Andhra Pradesh is only more of the old—the upper caste is more numerous and more visible **1839**

Building Consensus

The need of the hour is to build a consensus between Moscow and the republics and rewrite the national contract. Even the Baltic states need the Russian market to buy and sell and cannot survive outside or without Russia **1846**

Inefficient but Vital

Mindless interference in disbursements under the priority sector lending programmes has certainly to be acknowledged and countered. But it cannot be used as an excuse for faulting the very rationale of the programme **1833**

Muffled Voices

Slavery has an ideology of a kind. And before long Indians will discover that 'dasas' are never heard, if they have not already noticed the decreasing resonance of the Indian voice in international politics and economics **1834**

Purposeless Debate

What will be the effects of the different options being proposed for the change in the roles of the public and private sector? What are the possibilities of the private sector substituting the public sector in the economy? **1873**

Distant Dreams

Rajasthan's Indira Gandhi Canal has hardly fulfilled the hopes it generated—at least not for the region's poor **1842**

Hegemonised!

MY unease about the editorial policy of *EPW* has been growing over the past few years but I have put off writing about this, if only out of editorial fellow feeling! But I have criticised *EPW* elsewhere (in a forthcoming issue of *Manushi*) so the time has come to speak out in *EPW* itself.

LPW (then *The Economic Weekly*) was established by Sachin Chaudhuri, whom I knew well. He was quintessentially liberal, and the journal achieved its unique standing for that reason, besides his varied intellectual gifts. But it has in recent years been hegemonised (to use one of their favourite words) by a group of Marxists (I am not sure of the exact category). They have tried to convert it into a party journal, restricting debate to doctrinal strife amongst the faithful, appropriating the goodwill (and money) built up by Chaudhuri and his friends and supporters for very different purposes. This take over was easy because Indian liberals (including those on your board of trustees) are a supine lot.

Our apathy has been particularly dangerous in this case because *EPW* still has a unique position amongst intellectuals and policy makers not only in India but also abroad. Its influence has in fact been diminishing because of the staleness, repetitiveness and predictability of the party line bore readers—a very large number of people I know only read the special articles. Then why bother to protest? First because *EPW* still monopolises an important public space and building up a rival will be costly. Secondly, because many readers are not aware of the constant censorship of articles that are not considered ideologically correct, with exceptions such as myself. (Some radical readers I find, take it for granted that such censorship is desirable—but then they should found a journal themselves with an openly avowed editorial policy.)

To be specific, this partiality manifests itself in your choice of articles, the speed with which you publish articles and the space you give contributors. Let me make it clear that I feel editors have the right to determine such matters, but the principles on which they take such actions should be clear to their readers. I am objecting not to your taking decisions any editor should take, but to the editorial policy being under cover. If I am wrong about this question of time of publication you have a simple remedy—just publish the date of receipt of every special article

you publish. (And incidentally, why not publish the date of publication of each *EPW* issue correctly—the present incorrect system of dating is going to confuse future readers; indeed it confuses some present ones.)

To go back to the issue of partiality, I have also heard complaints that letters by critics of *EPW* favourites are doctored without their permission, which again misleads readers.

In conclusion, I should stress two points. First, these misgivings are very widely held, and indeed have a pre-censorship effect—many excellent scholars do not send papers to *LPW* fearing biased selection (a loss to them as well as your readers). Secondly, I have no personal animus. On the contrary, I have always been treated with courtesy and fairness. I write as a supporter of *EPW* from its inception, and as a genuine well-wisher.

DHARMA KUMAR

New Delhi

[The range of themes and writers actually figuring in our pages and not subjective impressions, nostalgia or hearsay should be the test of whether there is censorship of articles that are not considered ideologically correct and debate is restricted to doctrinal strife amongst the faithful. Such concrete scrutiny by concerned readers we welcome and hope to profit by. Unconnected with doctrinal considerations, there do occur delays and other lapses including in dealing with material submitted for publication. While

these are, in part at least, the outcome of the circumstances in which the *EPW* is produced, Dharma Kumar's letter has, for us, underscored the need to pull up our socks and for that we are thankful — Ed]

Private Sector in Health Care

NEARLY 80 per cent of health care is provided by the private sector and it is fast expanding. Closer scrutiny reveals that it is, often, inappropriate in its nature, skewed in its distribution, expensive in its manifestation and largely unregulated in practice. The present climate of 'marketisation' and 'privatisation' is likely to adversely tilt the situation further. This warrants a thorough debate on the subject. With this in mind, the medico friend circle has chosen the above mentioned theme for its annual meet, scheduled to be held in Bombay, at Vinayalaya (Retreat House), behind Holy Family School, Mahakali Road, Andheri (East), Bombay 400 093, on September 5 and 6 1991. This will be followed by a public meeting on the subject at Chhabildas Sabagrih on September 7.

Those interested in participating, please write to the convenor, Medico Friend Circle, Organisational Office 34 B, Noshir Bharucha Road, Bombay 400 007.

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Search for Identity

THOUGH the renewed schism in the Janata Dal remains unresolved, for the present visible signs of tumult in the party have subsided. Even so prognostications of an imminent split in the party, though seemingly premature, cannot be entirely discounted for there is more than a trace of residual tension in the newly launched public campaign of the rival factions. This resurgence of factional manoeuvring in a party that is at best only spasmodically united appears to be part of a process of defining its political identity—something that has not been clearly established either at its birth or at any other time thereafter—in the light of the realities revealed by the recent elections.

Initially the Jan Morcha group with a predominantly urban appeal comprised its core and performed a directive role in cobbling together a formation whose principal constituents represented forces on the ascendant in the countryside. The delicately balanced tensions that afflicted the National Front government were expressions of this original contradiction. Devi Lal's offensive at the head of a supposedly rural lobby was periodically neutralised by the manipulations of the Jan Morcha. The notification for implementation of the Mandal Commission's recommendations undermined the Jan Morcha by alienating urban middle class opinion and Devi Lal by fracturing his so called rural lobby and the Janata Dal increasingly identified itself as an OBC and minorities' party as an election gambit.

The current conflict in the party is a fall out of the persistent opposition to this OBC identity by the non-OBC element in the party. The overwhelming dominance of the OBC lobby in the party led by the Bihar group has generated an understandable anxiety in the likes of Ajit Singh who have a significant stake in north Indian mass politics. The developments in Uttar Pradesh have to a large extent shaped the latest round of differences between Ajit Singh and V P Singh. The departure of the bulk of the Mandal segment of the UP unit of the party to the BJP on Mulayam Singh Yadav's initiative on the occasion of the first split left the field clear for Ajit Singh to take control of the state unit. The party's election strategy in the state was by and large directed by him and as a

consequence of its poor performance he has been sidelined within the party.

However, the possibilities raised by the simultaneous eclipse of the BJP which laid to rest the aspirations of his rival Devi Lal to Jat leadership could not have escaped him altogether. Yet his potential to exploit the defeat of his rival and emerge as leader of a strong Jat lobby is severely restricted by the narrow OBC orientation of his party.

It is entirely in keeping with the platitudes that announced the birth of the Janata Dal and those that have serenaded the party through every crisis that Ajit Singh should adopt a high moral tone to air his grievances. His public criticisms of the party relate to its organisational weakness, its functioning through a coterie, the failure of party president S R Bommai's leadership in the election and so on. And in a simultaneous move to displace Mandal as the party's sole focus he held out threats to revive the now defunct front organisation of the erstwhile Lok Dal(A), the Kissan Kaugar Sammelan, in an attempt to revert the ground to a community of farm interests. A drift in this direction can prove beneficial to the party in the long run but how far he succeeds will depend on his capacity to utilise opportunities that present themselves.

In this context the budgetary proposal to withdraw the subsidy on fertilisers is opportune. But not one to be outmanoeuvred easily. V P Singh has announced a nation wide agitation against the anti farmer policies of the government in a move to pre-empt Ajit Singh's consolidation of an agricultural vote bank. This is in addition to the agitations proposed to be launched on both the Babri Masjid and the Mandal issues. The idea evidently is to link these issues to revive once again the coalition whose core was conceived of by Charan Singh and which was substantially expanded by the Janata Dal in 1989. If V P Singh succeeds in this venture Ajit Singh could still have a prominent role to play in the reformed coalition. If on the other hand V P Singh fails, the Janata Dal will have little option but to return to its OBC moorings, in turn leaving Ajit Singh no choice but to make his exit from the party.

FOREIGN REMITTANCES Third Dimension

FINANCE minister, Manmohan Singh, has himself singled out the balance of payments situation as the most difficult of the country's current problems. He has described it as precarious and the resultant foreign exchange crisis as constituting "a serious threat to the sustainability of growth processes and orderly implementation of our development programmes".

It is in this context that one can appreciate the thrust of his various budget proposals and announcements, be they on liberalisation of policy on direct foreign investment, on facilitating NRI investments or on foreign exchange inflows in general, including receipts by resident Indians. The last item refers to the two new schemes announced with a view to attracting additional foreign exchange inflows, one in the form of SBI dollar bonds to be made available for purchases by NRIs and "their overseas corporate bodies" and the second of tax exempt gifts in foreign exchange received by resident Indians. Even the bonds purchased under the first scheme can be gifted to resident Indians. In either case of gifts thus received by resident Indians, immunity and amnesty in respect of the provisions of direct tax laws and exchange control regulations are promised.

Basically, what both schemes seek to do is to attract back home funds which resident Indians have accumulated abroad with a promise that no question will be asked about their source nor will any tax be levied. If in spite of the promise of amnesty and immunity people would rather route their foreign holdings through a third party abroad, they can do so through the SBI dollar bonds. Otherwise, they can get them back directly under the second scheme. In the case of remittances received directly, the advantage to the recipient is that he/she can deploy the rupee equivalent straightaway, whereas he/she will have to wait for the SBI bonds to mature, that is, for a five year period. Of course, during the period of this waiting no tax will be leviable.

Some doubts have been raised about the implications of the finance minister's statement that "the provisions of direct tax laws will apply in the normal manner to the rupee proceeds of these remittances." Does it mean that the tax authorities can raise questions and demand tax on the rupee proceeds? Or does it only mean that on deployment of these proceeds for whatever purpose, be it bank deposits or business investment or for any other purpose, they will be treated as any other local proceeds? It is to be hoped that these doubts will be taken care of when the details of the two schemes are worked out and announced.

Will the two schemes prove to be attractive enough? Perhaps, going by the way the hawala rates have gone up even after the

upvaluation of the rupee. Normally, the gap between the official exchange rate and the hawala rate should have narrowed down. Could it be that black money within the country is trying to move out in order to come back in the form of tax exempt remittances under one or the other of the two schemes? Of course, the government has also announced an amnesty for local black money, but that is to attract an impost of 40 per cent, whereas remittances from abroad are not to attract any tax. Therefore as long as the hawala rate premium on foreign exchange is lower than 40 per cent, it pays to move black money out and bring it back as remittance. But if this is the logic of the hawala market's current behaviour, then perhaps the foreign exchange inflows under the two schemes may well be substantial.

STATE FINANCES Axe on Statutory Transfers

THE finance minister has made a categorical statement in his budget speech that "in preparing this budget I have sought to ensure that the burden of fiscal adjustment does not fall on state governments." But has he really been true to his word?

Well, while he has allowed "a modest increase" of Rs 821 crore in the central plan outlay, it has to be conceded that his budget does not, at the same time, envisage any cut in the level of central plan assistance as was proposed in the interim budget. Should not the states be grateful for this mercy? Perhaps they are, particularly in the light of the reduction in the share of statutory transfers (i.e., share of taxes plus grants recommended by the Finance Commission) in the total resource transfer from the centre to the states. The share of these statutory transfers has declined from 52.1 per cent in the 1990-91 budget estimates and 47.4 per cent in the 1990-91 revised estimates to 45.1 per cent in the 1991-92 budget estimates.

That this has happened could not be unknown to the finance minister. In fact, the decline in the share of statutory transfers in the total resource transfers to the states is the consequence very largely of the way he has gone about raising additional tax revenues. The one source of central tax revenues that the states are eligible for the highest proportion of (85 per cent), namely, income tax, the finance minister forswore altogether. Even the 40 per cent special levy on black money deposited with the National Housing Bank is "to form the corpus of a fund" with the bank itself "to be utilised for financing slum clearance and low cost housing for the poor, in accordance with guidelines and priorities laid down by the government." The finance minister altogether forgets that 85 per cent of the levy rightly and properly belongs to the states,

representing as it does the balance of their income tax.

That the finance minister has also been purposefully selective in the choice of sources to be tapped for raising additional tax revenue is borne out by his actual proposals, particularly on the side of direct taxes where he has concentrated practically exclusively on the corporate tax. On the side of indirect taxation, he has no doubt taken care to see that he taps those sources whose proceeds can be equitably shared with the states. Thus of the additional net revenue from excise, including that from the 100 per cent enhancement in the special excise duty, the states are supposed to get as much as 50 per cent. (It is not clear though how this calculation has been made because the states are entitled to a maximum of 45 per cent of the excise revenue, perhaps the finance minister is including in his calculation the additional yield from excise on sugar which is really in lieu of the states' own sales tax.) Overall, however, while the centre expects to net for itself as much as Rs 2,005 crore, the additional statutory transfers on this account to the states would work out to only Rs 612 crore, i.e., a mere 23 per cent of the total additional revenue.

Will the states not be entitled to a conclusion of their own about the finance minister's stated concern for their finances?

CONGRESS(I) Regional Leaders to the Fore

BJP leader L. K. Advani recently suggested that the days of anti-Congressism are over. Perhaps in the light of recent events he may need to clarify precisely which Congress he meant. As if to confirm that there exists a Congress which is unwilling to regard the proposition in a spirit of reciprocity, the minister for civil aviation and tourism, Madhavrao Scindia, launched an attack on the BJP, referring to the party, without naming it, as anti-national. The allegation was reiterated in a subsequent parliamentary clarification. Perhaps the minister's real motives are quite far removed from the lofty principles that have been evoked, but judging from the response that has been elicited he is no doubt satisfied that his purpose has been served.

The BJP's shrill reaction is aimed as much at setting the record straight as at embarrassing the Congress(I). Following Scindia's clarification in parliament, the BJP's demand is that the government should explicitly distance itself from his remarks, knowing fully well that it is in no position to comply. The Congress which has laid claim to be the sole provider of stability cannot be seen to be chastising its own members at the behest of opposition parties. Moreover, any move in this direction can only aggravate existing divisions in the party.

For the moment, the BJP has decided to boycott parliamentary proceedings till the Congress party repudiates Scindia's statement. However, this impasse is likely to be broken soon since the arithmetic of the deputy speaker's election will require both parties to co-operate. But this does not in any way ease the Congress(I)'s position, since the party, though organisationally derelict, has itself become an arena of conflict.

The massive majority in 1984 enabled Rajiv Gandhi to treat the party merely as a label and to promote a coterie of non-entities, thereby compelling regional leaders to lie low. The defeat of 1989 initiated a new process with state leaders like Sharad Pawar, who commanded a reasonable mass base, staying afloat by engaging in subterranean dissidence against the high command. With Rajiv Gandhi's departure, mutations are under way in the Congress and the government's lack of independent status has created conditions for those with leadership aspirations to stake their claims. Scindia's move is quite obviously an attempt to create a distinct constituency for himself and this is of a piece with the activities of other state leaders. Since the erstwhile coterie has no figurehead to satellite around, it too has embarked on a similar enterprise.

In Karnataka Bangarappa, elevated to chief ministership by the old high command, has found the state's long-standing dispute with Tamil Nadu on the sharing of the Cauvery waters a convenient plank to carve out a niche for himself. Since this has jeopardised the party's relationship with its electoral ally, the AIADMK, the central leadership to the extent that one exists, is not above using his detractors in the state to mount a campaign on the telephone-tapping scandal. Bangarappa's stand has come in handy for TNCC(I) president Vazhapadi Ramamurthy to secure his position vis-à-vis his state party rival K. Moopanar, in the process allying himself more closely with the AIADMK. Of the coterie, Sitaram Kesri has taken a stand in favour of reservations for the other backward castes, violating the official silence that the party has found politic to maintain. Jagannath Mishra, too, for reasons relating to Bihar politics, has followed suit.

Scindia's campaign bases itself on the resentment in a section of the Congress parliamentary party to the emerging co-operation between the Congress and the BJP. Given the BJP's strength in Madhya Pradesh, closeness between the two parties can only be to the detriment of Congress leaders from the state. His anti-BJP tirade has also given him a head start over his rival from the state, Arjun Singh, who sought to retrieve the situation by compelling Scindia to clarify his position in parliament without perhaps expecting the latter to repeat his statement. That Scindia's move has paid off

for him is clear from the Congress(I)'s inability to dissociate itself from his remark. This apart, he has managed to garner substantial support within the CPP leading to misgivings of the likelihood of a 'conscience vote' in the deputy speaker's election. Scindia evidently has his eye on the other opposition parties as well. But how far Scindia can sustain his advantage remains to be seen. With January next being the deadline for organisational elections in the Congress(I), further developments of the same genre can be expected.

SMALL SAVINGS What about BBB?

WHILE presenting the interim budget, the then finance minister Yashwant Sinha, it will be recalled, made a very interesting observation while explaining why the fiscal deficit for 1990-91 was as high as 8.59 per cent of GDP. The observation was as follows: "The increase in the fiscal deficit is to some extent beyond the control of the government due to the autonomous buoyancy in small savings collection—a result of which the provision for loan to state governments against small savings collections has gone up by Rs 2,270 crore in the revised estimates. Were it not for this factor the fiscal deficit now estimated at 8.59 per cent of GDP would have been 8.11 per cent of GDP." Later in the same budget speech, Yashwant Sinha's list of measures to reduce the fiscal deficit included a reduction in the provision for loans to states on account of their share of small savings from Rs 6,770 crore in 1990-91 (RE) to Rs 4,500 crore. He was effecting this reduction on the grounds that the National Savings Scheme was proposed to be transferred to the Bharat Bachat Bank to be set up soon.

In the regular budget for 1991-92 just presented to parliament, there is no mention whatsoever of the proposed Bharat Bachat Bank. Unlike the interim budget which took credit for only Rs 6,000 crore as net collection from small savings as against the 1990-91 (RE) figure of Rs 8,000 crore, the regular budget takes credit for the full Rs 8,000 crore. There is not a word of explanation in the budget speech of the new finance minister why the government has dropped the idea of setting up a separate bank to be called Bharat Bachat Bank, nor is there any word about the resultant increase in the fiscal deficit.

Although Yashwant Sinha's proposal to transfer the National Savings Scheme to the proposed new bank did not go the full distance in meeting the problem he himself had posed, namely that higher small savings collection necessitated larger transfers to the states and consequently a larger fiscal deficit, he did make a serious attempt in that direction by excluding a part at least of the

small savings from the purview of the union budget. The new finance minister, if he had wanted, could have gone the whole hog and excluded small savings altogether from the purview of his budget. Instead he chose to reverse the budgetary reform initiated by his predecessor and in the process set himself a higher target in terms of reduction in the fiscal deficit, a target that the government is committed to reaching this year in its current negotiations with the IMF. (Whatever else in regard to the government's commitments to the IMF may have been kept out of public knowledge that this particular commitment has been made is no longer being denied. Indeed the finance minister has conceded as much in parliament.)

True, the state governments were extremely worried about the reduction in the interim budget in the provision for transfer to them of their share of small savings collections. But that was natural. The government chose not to be explicit about the sharing of collections under the National Savings Scheme. The new finance minister could have been explicit on this matter. But why did he decide not to pursue the idea of the Bharat Bachat Bank and adding thereby the budget of the impact of ups and downs in small savings collections? Did the IMF intervene and refuse to accept the consequential reduction in the budgetary outgo as a fiscal adjustment measure? Perhaps.

FOREIGN INVESTMENT Doubts about NRIs

INTERESTINGLY, in his budget speech, finance minister Manmohan Singh makes no reference whatsoever to NRIs when he speaks of the decision "to liberalise the policy regime for direct foreign investment". When he does speak of the NRIs and their investments in ventures in India, he does so in a totally different context. Thus he speaks of "investment on a non-repatriable basis". To quote: "A comprehensive review of policies and procedures bearing on non-resident Indian investments shall be carried out and further relaxation made in order to remove all procedural difficulties and impediments to the setting up of industrial and other ventures by non-resident Indians. New sectors shall be made available to NRIs for investment on a non-repatriable basis, including housing infrastructure and real estate development."

Of course, Manmohan Singh has made fully known his scepticism with regard to the inflow of NRI funds, in and out of parliament. But is it that in the new liberalised policy regime with regard to direct foreign investment a distinction is on the anvil between NRI and other investors from overseas? To a pointed question on whether or not someone like Swraj Paul, the UK-based NRI who at one time very nearly

succeeded in taking over one or two major Indian companies, Escorts and DCM, would now be welcome with his foreign funds, Manmohan Singh was rather guarded and qualified his response by drawing a distinction between establishing a new firm and taking over an existing firm. Will that distinction be kept in mind in regard to other investments from overseas? What if a foreign company wishes to increase its stake in an Indian company from the present 40 per cent or below to 51 per cent? Will that not amount to a take over of sorts?

These are questions answers to which cannot be evaded, not for long anyway. Not because of any so-called nationalistic concern for the NRIs vis à vis other overseas investors but because, whether one likes it or not, and Manmohan Singh's scepticism notwithstanding, NRIs may well be still the only ones who may show any major interest in making investments in India in substantial amounts, at least in the immediate future. And they would have to be assured that they would get at least the same treatment as other overseas investors, be it in regard to control, repatriation of funds or what have you. Also, from the point of view of the immediate need of the country for foreign exchange, is it not important that doubts and suspicions in this regard are cleared at the earliest? On repatriation of funds for instance, it is one thing for a company voluntarily to reinvest its profits here, quite another to be asked compulsorily to do so.

NICARAGUA

Revolution Imperilled

THE first congress of the Sandinista National Liberation Front (FSLN) last month was to determine not just the future programme of the front but also the future of the revolution in Nicaragua. The front's poor performance in the elections in February last has given rise to a series of internal debates, at least some of which are indicative of the existence of long standing differences over policies within the front. That these were never acknowledged and given room for development within the party is a major critique of the front which will undoubtedly prompt rethinking on such issues as the role of democratic debate in a revolutionary party especially one holding power in a besieged country. On the other hand that such critical and polemical debate should develop at all now is indicative of the essential vitality of the party, which in government made some very important gains for the people. It is these gains which are being reversed today, disturbingly, with the consent of the FSLN leadership.

Since its election victory, the Chamorro-led government of the National Union of the Opposition (UNO) has gone about systematically dismantling the social structures of

a revolutionary state. The first issue which came up was the role of the Sandinista People's Army (EPS) which numbered 90,000 in February 1990 and had been reduced to 28,000 by the end of the year. This demobilisation of the army and disarming of civilians were effected following an agreement with the FSLN by which Huberto Ortega was allowed to retain command of the EPS while giving up his functions in the leadership of the front. But the inherent contradiction of a revolutionary people's army being under the orders of a government set upon dismantling the revolution became clear in July 1990 at the time of the general strike organised under the National Workers' Front protesting against the Chamorro government's attempts to privatise industries and retrench workers. While the army refused to clash with the workers, it nevertheless cleared daily the barricades which were every night rebuilt by the workers, often with help from soldiers in civilian dress.

Following this came the October agreement between the FSLN and the government, which an emerging left section within the front, grouped around Tomas Borge alleged gave too many concessions. According to the agreement "The government in privatising the state enterprises takes into account the rights gained by the workers such as their right to participate in the ownership of the enterprises [it] will authorise the functioning of private financial institutions, [it] will concede export licences to associations of producers and to private individuals." Thus three major gains of the revolution, the area of people's property (APP), the nationalisation of the financial and credit systems and the state monopoly of foreign trade were put in jeopardy. Significantly, the October accord was in line with the official FSLN standpoint released at the Sandinista Assembly at El Crucero in June 1990 following the election defeat of the front. This text had omitted to list either the nationalised sector or the arming of the masses as the inviolable gains of the revolution.

It is not only the gains of the revolution which are in jeopardy today but the very ethos of a revolutionary party which had made international solidarity its centre piece. In December 1990, the United States with the active co-operation of the Soviet Union showed that missiles supplied to the EPS by the Soviet Union in 1986 had been smuggled across to the Salvadoran Farabundo Marti National Liberation Front (FMLN) the previous month to counter US gifted helicopter attacks on unarmed populations by the Salvadoran army. The FSLN not only acceded to the imprisonment of four officers on the charge of illegally transferring the missiles, but also to the FMLN being forced to return the arms. This was seen by a section of the Sandinista militants as a betrayal of the international movement.

TWENTY YEARS AGO

EPW, Special Number, July 1971

The government's latest *Economic Survey* concludes its chapter on 'the tasks ahead' with the statement that while the economic problems facing the country "add up to a formidable fare [the] economy is now better poised to tackle them than at any other time in recent years". The claim does not seem wholly unjustified by reference to some of the accepted indices of the state of the economy. For the second successive year the growth of national income at constant prices exceeded 5 per cent in 1970-71. There is another side to the economic picture, however. That the 5 per cent rise in national income was the result essentially of growth of agricultural production is well recognised. But within the agricultural sector itself performance was far from even. By and large it remains true that the impact of the so called 'green revolution' is still limited to wheat which accounts for just about 15 per cent of the total area under foodgrains. In industry, even accepting the most optimistic assessment of the performance of the small scale sector, it remains a fact that the recovery from the industrial recession has been unexpectedly slow and painful. Some of the large investment proposals which are surfacing now, and which account for a good part of the alleged 30 per cent increase in investment in organised private industry, are those which were mooted some years ago but were held up on account of the political uncertainties of the last two years. There is, therefore, no knowing whether the momentum will be maintained especially in the context of sluggish public sector investment. As for the rise in the level of investment in the economy, this has been achieved, let it be remembered against the background of deficit financing to the tune of Rs 365 crore in 1970-71. This year the deficit is expected to go up to Rs 600 crore—taking the total for the first three years of the Plan to over Rs 1,000 crore against the total provision of Rs 850 crore for the entire five year period. The alarms on the price front have been loud enough and even the stability in the case of foodgrains has been made possible only by cheap food imports. But nowhere is the limited impact of planned development so manifest as in the generation of additional employment. It has been estimated that the total increase in employment in the organised sector of the economy, covering all public sector undertakings and non-agricultural establishments in the private sector employing 10 or more workers, over the five year period from 1966 to 1970 was a mere 5 per cent, or less than 1 per cent annually. In other words, the total planned development effort has made not even a scratch on the employment problem.

Profits under Squeeze

HINDALCO INDUSTRIES, one of the largest manufacturers of aluminium, achieved an increase of 11 per cent in turn over during the year ended March 1991. Production of the metal improved from 1,30,787 tonnes to 1,39,762 tonnes. Capacity utilisation increased from 87 per cent in 1989-90 to 93 per cent. Production of rolled products and extruded products remained lower at 27,762 tonnes and 8,652 tonnes respectively compared to 28,787 tonnes and 10,000 tonnes respectively in the previous year. There was an improvement in the production of conductor redraw rods from 32,962 tonnes to 33,436 tonnes. The market for aluminium remained depressed despite price stability and adequate supplies. The non allocation of adequate funds to energy, transportation and other sectors and increase in the central excise duty stunted the expected

normal growth in consumption of aluminium rolled products and extrusions.

The value of production increased sharply by 12 per cent from Rs 467 crore to Rs 521 crore. Consumption of raw material which formed 34 per cent of value of production showed an increase of 19 per cent. Similarly, cost of power and fuel which formed 26 per cent of the value of production went up by 8 per cent. Operating profits improved by 23 per cent but gross profits (profits before tax and depreciation) showed a growth of only 12 per cent and profits before tax rose by only 8 per cent. Despite a 111 per cent increase in tax saving investments such as units of the UTI and other bonds the tax provision went up by 24 per cent. This resulted in a growth of only 0.6 per cent in profits after tax. The company paid dividend at the rate of 30 per cent on share

capital of Rs 32.39 crore including the bonus issue of Rs 14.54 crore. As a result of the partial conversion of debentures, the equity capital increased by Rs 6.38 crore and reserves and surplus by Rs 63.81 crore. The company paid a dividend of 15 per cent on equity shares arising out of conversion of debentures.

As a result of the increase in equity capital and reserves and surplus, the debt-equity ratio was lower at 0.62:1 compared to 0.90:1 in 1989-90. The increase in operating profits resulted in improvement in the interest cover from 3.24 to 4.16. The faster rise in investment than sales resulted in a lower turnover ratio at 0.82:1 than 0.93:1 in the previous year. The return on investment also climbed down to 18.64 per cent from 20.93 per cent. The net return on shareholders' funds also showed a decline.

Total flow of funds during 1990-91 amounted to Rs 159.32 crore. Internal sources, especially reserves and surplus and depreciation, accounted for the major chunk. This was utilised mainly for investments and increase in fixed assets.

Installed aluminium production capacity was increased to 1.5 lakh tonnes during 1990-91. The company proposes to enhance the smelting capacity by 1.5 lakh tonnes. The company installed micro-processor based controls in five potlines towards energy conservation. Similarly, installation of continuous strip caster made possible energy conservation and enlarged product mix. Work pertaining to another cold rolling mill is under way. The company is further pursuing clearances for setting up a one million tonnes steel plant for manufacture of hot rolled products and 5,000 tonnes per annum capacity aluminium foil plant.

The company entered the international aluminium market during 1988-89 and built up a sizeable market in south east Asia, west Asia, Germany, etc. Semi-fabricated products introduced in the West European markets enabled the company to more than treble export earnings from Rs 3.73 crore to Rs 12.10 crore in 1990-91. As against this foreign exchange used was Rs 18.74 crore. However the company fears the proposed withdrawal of CCS will have a dampening effect on exports, and on the industry in general.

ASEA BROWN BOVERI

Technology Upgradation

ASEA BROWN BOVERI (ABB) which completed a full year after amalgamation with Asea, showed an increase of 11 per cent in net sales on an annualised basis.

The Week's Companies

(Rs in lakh)

| Financial Indicators | Hindalco Ind 1990 March | 1991 March | Asea Brown Boveri 1989 March | 1990 March | 1990 December* | 1991 December |
|---|-------------------------------|---------------|------------------------------------|---------------|-------------------|------------------|
| Income expenses/profits | | | | | | |
| 1 Net sales | 1647 | 6716 | 16540 | 5114 | 14454 | 1975 |
| 2 Other income | 150 | 109 | 1107 | 7055 | 604 | 35 |
| 3 Raw material consumed | 72 | 61 | 14815 | 1634 | 108 | 1446 |
| 4 Power and fuel | 1 | 12 | 1587 | 1358 | 130 | 162 |
| 5 Other manufacturing expense | 1080 | 1339 | 7708 | 6 | 486 | 60 |
| 6 Labour cost | | 17 | 3597 | 348 | 1414 | 1 |
| 7 Other expenses | 101 | 335 | 574 | 131 | 113 | 563 |
| 8 Operating profit | 4 | 23 | 12085 | 14813 | 1430 | 62 |
| 9 Interest charges | 15 | 233 | 1672 | 3 | 681 | 1014 |
| 10 Gross profits | 109 | 708 | 10406 | 11686 | 712 | 1083 |
| 11 Depreciation | 7 | 109 | 1095 | 1644 | 181 | 9 |
| 12 Profits before tax | 43 | 599 | 9311 | 1304 | 68 | 144 |
| 13 Tax provision | 77 | 93 | 7870 | 3560 | 15 | 51 |
| 14 Profits after tax | 365 | 506 | 6441 | 6467 | 413 | 84 |
| 15 Dividends | 1 | 17 | 44 | 114 | 708 | 66 |
| Liabilities/assets | | | | | | |
| 16 Paid up capital | 506 | 506 | 2285 | 4 | 986 | 986 |
| 17 Reserves and surplus | 3 | 1102 | 7004 | 8 | 4056 | 4561 |
| 18 Long term loans | 1143 | 826 | 20130 | 10443 | 2473 | 2099 |
| 19 Short term loan | 31 | 2345 | 1318 | 34 | 4929 | 1747 |
| 20 Current liabilities | 41 | 302 | 6196 | 630 | 7717 | 10071 |
| 21 Gross fixed asset | 1939 | 4186 | 48138 | 57304 | 5730 | 72 |
| 22 Accumulated depreciation | 372 | 410 | 76336 | 956 | 1704 | 195 |
| 23 Inventories | 7508 | 7080 | 8784 | 7591 | 5067 | 531 |
| 24 Receivables | 91 | 7383 | 2585 | 1746 | 7996 | 9595 |
| 25 Loans and advances | 1986 | 991 | 7080 | 766 | 2441 | 1 |
| 26 Cash and bank balance | 55 | 1293 | 144 | 881 | 346 | 404 |
| 27 Investments | 70 | 4220 | 833 | 1855 | 715 | 194 |
| 28 Other assets | 131 | 108 | | | 4 | 33 |
| 29 Total liabilities/assets | 7336 | 14851 | 4996 | 6768 | 70161 | 1759 |
| (18 + 19 + 20 + 21 + 22) i.e. | | | | | | |
| (23 + 24 + 25 + 26 + 27 + 28 + 29 + 30) | | | | | | |
| Key financial ratios | | | | | | |
| 30 Turnover ratio | 0.63 | 0.4 | 0.93 | 0.8 | 0.74 | 1.00 |
| 31 Return on sale | 10.35 | 11.39 | 27.36 | 27.66 | 5.04 | 7.66 |
| 32 Return on investment (%) | 6.94 | 4.77 | 20.93 | 11.64 | 7.7 | 66 |
| 33 Return on equity (%) | 29.36 | 31.47 | 28.84 | 19.5 | 8.19 | 15 |
| 34 Book value per share (Rs) | 22.84 | 30.09 | 85.90 | 1.4 | 39.88 | 4.28 |
| 35 Earnings per share | 7.71 | 9.99 | 35.66 | 16.57 | 4.19 | 8.86 |
| 36 Current market price (Rs) | | 45.00 | | 200.00 | | 150.00 |
| 37 Price earnings ratio | | 4.50 | | 18.16 | | 16.93 |

The increases in profits before tax and net profits has been very impressive. Profits before tax and after tax rose by 88 per cent and 59 per cent, respectively, despite increase in cost of inputs as well as hike in labour costs. Profits would have been higher but for the delay in the realisation of payments from state electricity boards resulting in avoidable interest burden. The company earned foreign exchange to the tune of Rs 14.68 crore while it used Rs 26.37 crore for import of raw materials, etc. According to the company, the order backlog at the end of December 1990 stood at a lower level of Rs 230.6 crore compared to the 1989-end figure of Rs 280 crore. Reportedly, there was an improvement in the situation in the first three months of 1991.

The company continued modernisation and technology upgradation at its different facilities for widening its product range as well as improving cost effectiveness. New products such as SF6 circuit breakers, electronic telephone exchange for power line carrier application, small telemetering type STM-13, EPABX for telex switching, software for autonomous wind diesel systems, 2500 KW medium frequency stake convertor, etc, were developed.

The turnover ratio improved from 0.74:1 to 1.00:1. Return on investment and shareholders' fund also showed improvement. Gross return on total capital employed works out higher at 7.66 as compared to 3.72 in the previous year while return on net worth almost doubled from 8.19 per cent to 15.76 per cent.

There was a fund flow of Rs 20.46 crore in 1990, financed mainly by trade dues. This was utilised mainly for financing sundry debtors.

LLOYD STEEL

High Value Contracts

LLOYD STEEL increases its turnover and net profits by 34 per cent and 39 per cent respectively by taking up high value sophisticated contracts and turnkey projects despite the inflationary spiral and stiff competition during the year ended March 1991. According to the company, the continuous increase in operations and profitability was mainly due to providing technologically advanced and composite package of various services such as design, fabrication, erection and commissioning of sophisticated and import substitute equipment.

Operating expenses increased substantially during the year under review. The company had to import 57 per cent of raw materials and 69 per cent of stores and components consumed during the year under review as against 46 per cent and

45 per cent in the previous year. There was an increase of 16 per cent in the value of imported raw materials and 101 per cent in the value of imported components and spares. Besides, employees cost went up by 13 per cent and sub-contractors' charges under other expenses were enhanced by 262 per cent. Despite these spurts, the company was able to reduce the expenses to sales ratio from 1.17:1 to 1.01:1 in 1990-91. There was an increase of Rs 45 lakh in net profits.

The foreign exchange crisis caused con-

siderable delay in prospective orders. This affected the order book position of the company. The devaluation of the rupee would make import of materials dearer and affect profitability. The company made no export earning other than deemed export billing which came to Rs 2.34 crore during 1990-91.

During the year under review, the company made capital expenditure of about Rs 5.55 crore for expansion and modernisation. The company has four major

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Poverty and Income Distribution

Edited by

K S Krishnaswamy

While there has been, over the years, a perceptible increase in per capita income and expenditure and possibly some decline in the incidence of poverty in India, what still remains is massive and of a kind that is not remedied quickly or smoothly. Even with radical policies, the shifts in income and occupational structures to make a serious dent on it will take more than the rest of this century. In the welter of recent exchanges between the government and the opposition as well as between planners and market advocates on the strategy of growth, these issues, have been largely obfuscated. It is therefore more than ever necessary today to recognise the magnitude of the problem and the inadequacy of the measures adopted so far to deal with it.

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Lopsided Growth

Political Economy of Indian Development

by Pradhan H Prasad

This collection of essays in political economy unravels the forces which have acted as a drag on Indian development. The Achilles' heel of Indian development plans, the author argues, has been their preoccupation with investment planning to the neglect of institutional transformation. Within this broad framework the author discusses a wide range of subjects including macro-economic plan models, choice of techniques, the persistence of outmoded production relations in agriculture, growing political assertion by the middle peasantry, roots of agrarian violence and uneven regional growth.

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project sites equipped with all modern fabrication facilities. The estimated amount of contracts remaining to be executed was Rs 23.34 crore at the end of March 1991. The work on the 15,000 tpa integrated steel plant for making cold rolled steel strips at Wardha in Maharashtra is making steady progress. However, some delay in commissioning is expected due to the foreign exchange crisis.

During the year under review, the company issued fully convertible debentures

of Rs 124.86 crore to one lakh investors. Fifty per cent of the debenture issue is due for conversion, increasing the capital base to Rs 17.79 crore. This will bring down the debt-equity ratio substantially from the current level of 4.87:1. The interest cover rose from 3.37 to 4.04 in 1990-91. Gross return on investment works out lower at 4.77 per cent compared to 6.94 per cent in the previous year. The turnover ratio also came down to 0.42 from 0.63. This was mainly due to the faster rise in in-

vestments than in net sales. However, the company earned a higher return on net worth at 31.47 per cent compared to 29.36 per cent in 1989-90.

The total funds flow in 1990-91 was Rs 76.01 crore. External capital accounted for 94 per cent of the total sources of finance. More than 50 per cent of the funds was utilised for investments in units of UTI to save tax. The other applications of funds were increase in fixed assets, sundry debtors and cash and bank balances.

IN THE CAPITAL MARKET

Akhil Ceramics

AKHIL CERAMICS is entering the capital market with a public issue of 19,60,000 equity shares of Rs 10 each at par. Of the issue, 2,61,500 shares are reserved for preferential allotment and the balance of 13,98,500 shares are being issued to the public. The issue will open on August 26 and close on September 6 or earlier, but not before August 29. Akhil Ceramics, promoted by S Ramana, was incorporated as a public limited company in October 88. It is implementing a project for manufacture of floor and wall ceramic tiles with an installed capacity of 13,000 tpa using the cost effective dry grinding technology. The plant is located at Kayam in Chittoor district of Andhra Pradesh. The major items of machinery are being imported from Mori Spa of Italy; the company's collaborators. Erection of the plant is expected to be completed before the end of September and the project is likely to be commissioned in October. The total cost of the project is estimated at Rs 13.30 crore which will be financed as follows: equity capital Rs 4.63 crore (including promoters' APIDE's share Rs 2.67 crore), super term loans Rs 3.5 crore and foreign currency loans Rs 3.30 crore. Of the total production, 65 per cent would be exported to the company's collaborators as per a buy back agreement. The lead managers to the issue are Canbank Financial Services and SBI Capital Markets.

Indian Acrylics

INDIAN ACRYLICS, promoted by Punjab State Industrial Development Corporation and R K Garg, managing director of Steel Strips, is entering the capital market with a public issue of 2,86,70,000 equity shares of Rs 10 each at par totalling Rs 28.67 crore to finance in part its project to manufacture acrylic fibre with an installed capacity of 20,000 tonnes per annum. The project is being set up at Harkishanpura district Sangrur, Punjab at a total cost of Rs 190.24 crore. Du-

Pont, USA, with whom the company has entered into a technical collaboration, is providing complete know-how and engineering assistance. Further, Du Pont in association with Chemtex, USA, who are supplying the major part of process plant machinery, is assisting the company in the design and supervision of erection and in the commissioning of the plant. Du Pont and Chemtex plan to adopt this plant for their future technology transfer activities for acrylic fibre and also plan to assist Indian Acrylics in exporting up to 3,000 tonnes a year through their worldwide marketing network, according to F J Martinez, president, Chemtex International, New York. Asian Development Bank has an equity participation of Rs 32.5 lakh in Indian Acrylics besides providing a loan of \$5.9 million for the project. Out of the total public issue of 2,86,70,000 equity shares, 32,50,000 equity shares are reserved for preferential allotment and 57,00,000 shares are to be allotted to mutual funds. The remaining 1,97,20,000 shares are being offered to the public for subscription. According to R K Garg, managing director of the company, no problem is envisaged in selling the product as there is a tremendous demand for it. Commercial production is expected to start in October 1991. The subscription list will open on August 26.

Sunderban Fertilisers

SUNDERBAN FERTILISERS is setting up a plant for the manufacture of 66,000 tonnes of single superphosphate per annum and 33,000 tonnes of sulphuric acid per annum at Mouze Kismet, Sukhmit Rajganj district, Jalpaiguri, West Bengal at an estimated cost of Rs 12.75 crore. To finance in part the cost of the project, the company is entering the capital market on August 26 with a public issue of 20,00,000 equity shares of Rs 10 each at par totalling Rs 2 crore. According to Hardev Singh, chairman and managing director of the company, the plant will

be the first of its kind within a radius of 400 kms. The annual demand for SSP is expected to be in the neighbourhood of 51.9 to 62.2 lakh tonnes by 1992-93 as against the installed capacity as on 1.10.1989 of 49.99 lakh tonnes. The company does not therefore foresee any problem in selling its production of SSP. The lion's share of its production of sulphuric acid is intended for captive consumption. The estimated figures of sales turnover and net profit for the eleven months period ending March 31, 1990 are Rs 600 lakh and Rs 17 lakh at 70 per cent capacity utilisation for 1989-90 Rs 1,600 lakh and Rs 90 lakh (80 per cent) and for 1993-94 Rs 2,000 lakh and Rs 180 lakh. Commercial production of SSP is expected to commence in September and that of sulphuric acid in October 1991.

Dhanashree-1991

ILC MUTUAL FUND is offering Dhanashree 1991, a high income and growth oriented scheme assuring a minimum guaranteed dividend of 13 per cent per annum. Dhanashree 1991 units of face value of Rs 10 each are being issued from August 1 to September 30. Applications are to be made for a minimum of 100 units and thereafter in multiples of 50 units. There is no upper limit on investment. ILC Mutual Fund has already launched successfully 10 schemes of various types and has mobilised nearly Rs 800 crore in the first two years of its operations from 3.5 lakh investors. Dhanashree 1991 will be terminated after the sixth year but not later than the seventh year from the date of commencement of the scheme viz. October 1, 1991. The units can be encashed after October 1, 1993 at the repurchase price to be declared periodically by ILC Mutual Fund. The units will also be eligible for loan facilities provided by Central Bank of India. The units will enjoy tax benefits under Section 80I of the Income Tax Act, Section 5(1) of Wealth Tax Act and Section 48(2) of Income Tax Act on long term capital gains. There will be no deduction of tax at source.

STATISTICS

| Index Numbers of Wholesale Prices (1981-82 = 100) | | Weight | Latest Week 6-7-91 | Over Last Month | Over Last Year | Variation (per cent) | | | | |
|--|--------------------------|------------------|-----------------------------|-----------------------|----------------------|----------------------------------|---------------|---------------|---------------|---------------|
| | | | | | | Over March 31-1991 | In 90-91 | In 89-90 | In 88-89 | In 87-88 |
| All Commodities | | 171.4 | 196.9 | 11 | 101 | 2.7 | 10.2 | 7.5 | 8.2 | 5.8 |
| Primary Articles | | 166.9 | 204.7 | 18 | 12.4 | 4.7 | 13.1 | 4.9 | 11.3 | 9.1 |
| Food Articles | | 177.3 | 224.2 | 2.7 | 12.5 | 6.4 | 11.9 | 9.9 | 9.0 | 10.2 |
| Non food Articles | | 176.4 | 216.4 | 0.7 | 15.5 | 2.8 | 16.9 | 1.7 | 21.6 | 11.3 |
| Fuel, Power, Light and Lubricants | | 164.9 | 189.5 | — | 14.0 | 0.5 | 11.9 | 5.5 | 3.5 | 6.7 |
| Manufactured Products | | 174.7 | 193.9 | 0.8 | 8.1 | 1.9 | 11.9 | 9.4 | 7.2 | 3.7 |
| Cost of Living Index | | Base | Latest Month | Over Last Month | Over Last Year | Variation (per cent) | | | | |
| | | | | | | Over March 1991 | In 1990-91 | In 1989-90 | In 88-89 | In 87-88 |
| Industrial Workers | 1982-100 | 204 ^s | 10 | 12.1 | 1.5 | 11.2 | 6.5 | 9.1 | 9.1 | |
| Urban Non Manual Employees | 1984-85 = 100 | 169 ¹ | — | 13.4 | | 11.0 | 6.9 | 8.2 | 7.9 | |
| Agricultural Labourer | July 60 to June 61 = 100 | 858 ¹ | 0.3 | 16.6 | | 7.5 | 3.2 | 11.4 | 12.5 | |
| Money and Banking | | Weight | Latest Week (28-6-91) | Over Last Month | Over Last Year | Variation (per cent in brackets) | | | | |
| | | | | | | Over March 23 1991 | In 90-91 | In 89-90 | In 88-89 | In 87-88 |
| Money Supply (M ₁) | Rs crore | 2,27,716 | 682 | 36,211 | 9,620 | 34,300 | 28,571 | 22,027 | 22,295 | |
| | | | (0.2) | (15.0) | (3.6) | (3.6) | (18.1) | (15.7) | (18.8) | |
| Net Bank Credit to Government Sector | Rs crore | 1,50,643 | 2,156 | 24,395 | 12,644 | 21,778 | 12,715 | 12,811 | 12,776 | |
| Bank Credit to Commercial Sector | Rs crore | 1,74,380 | 857 | 21,001 | 3,977 | 19,552 | 20,531 | 12,389 | 11,294 | |
| Net Foreign Exchange Assets of Banking Sector | Rs crore | 7,357 | 41 | 1,121 | 660 | 1,429 | 637 | 682 | 1,314 | |
| Deposits of Scheduled Commercial Banks | Rs crore | 1,98,753 | 273 | 25,665 | 7,564 | 24,230 | 22,041 | 15,321 | 17,320 | |
| | | | (0.1) | (14.5) | (4.0) | (14.5) | (18.7) | (14.9) | (20.3) | |
| Foreign Exchange Asset | Rs crore | 7,386 | 291 | 2,970 | 1,612 | 1,710 | 830 | 508 | 604 | |
| | | | (10.9) | (55.5) | (40.3) | (10.0) | (11.6) | (6.6) | (8.6) | |
| Index Numbers of Industrial Production (1990-91 = 100) | | Weight | Latest Month (Feb-91) | Averages for | | Variation (per cent) | | | | |
| | | | | 1990-91 | 1989-90 | In 1990-91 | In 1989-90 | In 1988-89 | In 1987-88 | In 1986-87 |
| General Index | 100.0 | 222.7 | 206.7 | 190.5 | 8.3 | 8.7 | 7.4 | 9.1 | 8.7 | |
| Mining and Quarrying | 11.5 | 234.0 | 212.9 | 207.4 | 5.9 | 7.9 | 3.8 | 6.2 | 4.2 | |
| Manufacturing | 77.1 | 219.3 | 201.7 | 183.8 | 5.3 | 8.7 | 7.9 | 9.3 | 9.7 | |
| Electricity | 11.4 | 233.9 | 235.3 | 218.7 | 10.7 | 9.5 | 7.7 | 10.3 | 8.5 | |
| Basic Industries | 39.4 | NA | NA | NA | NA | 9.9 | 9.6 | 9.2 | 6.8 | |
| Capital Goods Industries | 16.4 | NA | NA | NA | NA | 7.4 | 15.9 | 18.2 | 10.6 | |
| Intermediate Goods Industries | 20.5 | NA | NA | NA | NA | 11.5 | 4.8 | 4.4 | 5 | |
| Consumer Goods Industries | 23.6 | NA | NA | NA | NA | 6.0 | 6.5 | 7.1 | 12.5 | |
| Durable Goods | 2.6 | NA | NA | NA | NA | 22.1 | 7.8 | 18.9 | 18.7 | |
| Non Durable Goods | 21.0 | NA | NA | NA | NA | 2.4 | 6.2 | 4.9 | 11.5 | |
| Foreign Trade | | Unit | Latest Month (Apr-91) | Cumulative for* | | | | | | |
| | | | | 1991-92 | 1990-91 | 1990-91 | 1989-90 | 1988-89 | 1987-88 | 1986-87 |
| Exports | Rs crore | 2,952 | 2,952 | 2,490 | 37.27 | 27,681 | 15,741 | 12,452 | 10,895 | |
| | | | | | | | (26.2) | (14.3) | (7.2) | |
| Imports | Rs crore | 2,850 | 2,850 | 3,736 | 43.17 | 35,416 | 19,818 | 10,644 | 7,735 | |
| | | | | | | | (11.2) | (2.2) | (14.7) | |
| Balance of Trade | Rs crore | 102 | 102 | 754 | 10.44 | 735 | 6,658 | 7,644 | 8,763 | |
| Employment Exchange Statistics | | Unit | Latest Month (Feb-91) | Cumulative for* | | | | | | |
| | | | | 1991 | 1990 | 1990 | 1989 | 1988 | 1987 | 1986 |
| Number of Applicants for Job Vacancies | Thousand | 44.8 | 34,787 | 33,126 | 33,632 | 32,776 | 30,050 | 30,247 | 30,131 | |
| Number of Registrations | Thousand | 554 | 5.4 | 704 | 6,541 | 6,576 | 5,963 | 5,465 | 5,535 | |
| Number of Vacancies Notified | Thousand | 39 | 39 | 39 | 600 | 600 | 543 | 621 | 623 | |
| Number of Placements | Thousand | 70 | 20 | 24 | 784 | 289 | 329 | 360 | 351 | |
| Income | | Unit | 1989-90 | 1988-89 | 1987-88 | | | | | |
| | | | | | | 1986-87 | 1985-86 | 1984-85 | 1983-84 | 1982-83 |
| Gross Domestic Product (current prices) | Rs crore | 3,92,574 | 3,49,105 | 2,94,408 | 2,60,442 | 2,34,159 | 2,07,869 | 1,85,991 | 1,58,851 | |
| Gross Domestic Product (1980-81 prices) | Rs crore | 1,25,733 | 1,85,543 | 1,70,716 | 1,63,924 | 1,57,348 | 1,49,966 | 1,44,310 | 1,33,469 | |
| Per Capita Income (1980-81 prices) | Rupees | 7142 | 2,078 | 1,910 | 1,881 | 1,852 | 1,804 | 1,780 | 1,682 | |

* For current year upto latest month for which data are available and for corresponding period of last year

** Excluding gold and SDRs. + Up to latest month for which data are available. NA - Not available

+ + Provisional data (a) Quick estimates

Notes: (1) Superscript numeral denotes month to which figure refers e.g. superscript 1 indicates that the figure is for January and so on
(2) Figures in brackets denote percentage variation over previous period

Calcutta Diary

AM

It may take a couple of months, or a couple of years, but a revulsion is bound to set in, for inflation hurts, joblessness hurts and the aggravation of inequalities between regions, classes and groups has harsh real life implications. To hand the country back to capitalist colonisers is anti-history. It is also wretchedly bad economics, as finance ministers will learn, in due course, to their cost.

APPLAUD him for his stamina, praise him for his gumption. At the completion of his one hundred thirty-five minutes long budget speech, which he has dedicated to the memory of Rajiv Gandhi, the finance minister turns his attention toward the direction of opposition leaders. Stop politicising economic issues, he admonishes them.

Is it innocence, or feigning at it? If it were a matter of a certain lack of literacy, an inability to see the interconnection between categories of reality, how does one explain the breathtaking chicanery over the abolition of the fertiliser subsidy? They need not worry, the finance minister assures the farm lobby, he will compensate them for the withdrawal of this subsidy by raising procurement prices. It would obviously be politicising the issue if it is pointed out that by doing what he has proposed to do, he will be compensating only the rich farmers; the poorer ones, those without surplus, will be left in the lurch. Since the finance minister could not be expected to bother about such niceties, at this stage, the more intense market lovers will perhaps take over. By their failure to produce for the market, non-surplus raising peasants, you and I will be told, have taken themselves out of the orbit of any sympathetic consideration, their poverty is clinching evidence of their inefficiency, the decision not to do anything for them is therefore sound, and no quarters deserve to be given to those who regard it as politically motivated.

Of course the finance minister will not disclose on his own that while raising procurement prices, he will also simultaneously increase issue prices. Nor will he admit that his action will be responsible for pushing up grain prices across the board, and therefore, soon all farm prices across the board. That denouement could only give a further boost to the rate of inflation, which in any case had reached the annual average of 25 per cent in the pre-budget week. The finance minister will keep his part of the commitment to the Fund Bank overlords to narrow the fiscal deficit in the first round, what happens

in the succeeding rounds he might as well leave it to the market-lovers.

Meanwhile a handful of conscience-stricken men and women will stand their ground. They will evoke derision, and be the butt of much righteous indignation. The Indian bourgeoisie has made up its mind: the IMF or bust, the new finance minister or bust. The media, for instance, are in raptures over the devaluation—sorry, the adjustment of the exchange rate—over the new trade and industrial policies, over the budget. Facts were never actually the strong point of the media. It is no different in the current season either. The budget lowers the proportion of direct tax yield to total tax revenue. The newspapers are not deterred, it is a soak the rich budget blare their headlines. Some fudging is necessary, it is part of the social responsibility of the media for otherwise gullible people might begin to place trust in their own experience such that the fiscal burden is exclusively on the poor, and the affluent set is being let off lightly. This is not politicking, but serving the cause of the nation's second war of liberation.

It is again evidently not playing politics to heap the blame for the current economic woes on the doings and misdoings of the two preceding regimes alone. The present finance minister, one would have thought, will find it difficult to dissociate himself from decisions taken by at least one of those regimes: he was an integral part of it as adviser to the incumbent prime minister, enjoying the status of a cabinet minister. Trivialities of this nature are the hobgoblin of little minds. Slightly more worrisome is selective amnesia, the failure to attribute, either squarely or faintly the country's slide into the debt trap to policies practised by those who had presided over the polity during nine tenths of the preceding 80s. Aha, what a convenient memory cell it is! It skips remembrance of occasions such as when another famous former civil servant, once again principal economic adviser to the then existing regime, had let drop the pearl of wisdom that the poor in this country

are a most understanding lot, they would rather go hungry than not possess a colour television set. That statement was the progenitor of many momentous decisions. Pundits were immediately imported from the Bank and the Fund, India, they complained, was not borrowing enough in the international money market. What a waste, this huge, big country should have learnt the art of borrowing overseas and spending such borrowed funds with an easy abandon, thereby ensuring growth at breakneck speed, high spending is, after all, quintessential Keynes. The advice proffered was gratefully accepted, and acted upon. Within the span of a half-a-dozen years, the country's external indebtedness quadrupled. This development did not disturb the cooing of the Doon school of economic thought, as K N Raj has gallantly suggested, it was all beyond their depth. There was then that celebrated late summer and early autumn of 1989, facing a dicey general election and an artificial domestic shortage of grains, edible oils and sugar, the regime used the overseas connections of such public agencies as the State Bank of India and the Oil and Natural Gas Commission to borrow at very stiff terms, short term money—perhaps as much as four billion dollars. To recount how, when and why the debt service ratio jumped from below 15 per cent to close to 40 per cent is evidently not economics but airy-fairy politics: a finance minister cannot possibly permit himself to stray into that kind of *cul de sac* in the course of his budget speech. Instead, he turns into a latter day Asoka Mehta and indulges in wildest day dreaming. It is basically a matter of definition depending on the identity of the construction worker, building castles in the air is by no stretch an indolent version of politics but hard nut economics. Just grant them one hundred per cent equity participation, multinational companies will come and occupy every nook and corner of the country; private foreign investment per annum will give or take a couple of years, zoom from the level of around fifty million dollars to as much as three billion. The foreigners will flock in, they will be entreated to take charge of the economy, it is however sheer calumny to suggest that we will in the process shed some of our sovereignty. Such insinuations are politicking of the most odious order. In case the foreigners arrive, they will no doubt know how best to take care of their royalty and dividends and the gains from transfer pricing, something might also be made to happen to the country's external terms of trade, the net foreign exchange contributed by foreign investors could then turn out to be negative, as it is at present.

Are not speculations of this nature however in effect sabotaging the patriotic cause? In this hour of gravest crisis, when a war of liberation is on, should not there be a new theism: in foreigners we trust?

The lesson sinks in, one should keep to the straight and narrow path, and not raise foolish questions. The finance minister himself, though, in one unguarded moment, has alluded to the other side of the coin. Whether the westerners arrive in strength to repossess their empire or not, devaluation and the new trade and industrial policies will, according to him, make life difficult for large sections of the citizenry. A few thousand extra factories are to close, hundreds of thousands of workers in the organised sector are to lose their jobs, umpteen small-scale units will be unable to absorb the *shokku* of the July devaluation and will go to the wall. These are empirical correlates of the sacrifice that collective abstraction, the nation, has to bear because the non-*hai polloi* chose a way of living for themselves in the past decade. Should the Fund and the Bank play ball, and the private buccaneers too behave, the country's rich might still succeed in protecting that arcadia of theirs. This acute skewness in the sharing of the burden of the second war of liberation makes it lose some of its lustre. But, then, Wittgenstein shades off into Chomsky, words are what you make of them, abdication of national sovereignty is liberation.

The Plan is in limbo, the public sector is to be Thatchered, monopolies will be left in peace to mulet the citizens. Apart from monopolies and the big houses, some foreigners, at least a sprinkling of them, will, hopefully, be around. Should one have the temerity, one could still ask the finance minister whether he feels confident of achieving even limited success in the two principal—and inter-connected—areas his attention is evidently riveted on: containing the rate of inflation and improving upon the country's export performance. Devaluation has raised the rupee cost of imports, all along the line, at the first go. That could still be only a beginning. Since Fund-Bank type structural adjustment insists on raising the proportion of imports in national income, and import duties are specifically lowered for the purpose, either the volume of imports must increase, or national income must shrink, or both phenomena must occur together. Domestic costs are bound to rise in the wash. Export prospects will therefore dim. Even otherwise, considering the state of expectations and the budgetary decision—no doubt because of Fund-Bank prescription—to raise revenue mostly through higher excise levies and ad-

ministered prices, inflation will experience a hastening of pace, providing independent explanation why exports are likely to remain where they are, or might even decline. It will be perhaps politicising the issue to remind the finance minister that the rupee got depreciated to the extent easily of three hundred per cent in the quarter of a century since 1966, and yet, exports as a proportion of both national income and overall global exports did not bother to move up. For a third world country exports, after all, are not a determinant, but a 'determinate' variable. The finance minister will presumably however rest his case by taking recourse to a clinching repartee: no empirical law exists which says that something which has not happened in the past will not happen in the future either.

Some confidences are supposedly not to be transgressed. Why strain yourself to delve into the economics of the decision to hand over a hundred crore of public money to a private trust to honour the memory of precisely the same former prime minister, during whose tenure all the things that could possibly go wrong with the economy went wrong; it hardly matters whether he understood, or had the capability to understand, the implications of the decisions taken by him or on his behalf. To confess to a feeling of nausea on account of the sycophancy oozing from each pore of the budget speech will only reveal one's subjective bias: it takes all sorts to constitute the universe, someone's economic wisdom is someone else's obscenity.

Besides, none of this is really relevant. The national economy has been coaxed into entering a phase of frenzy the consequences of which will duly work themselves out. The media have made up their mind, or have been helped to do so. Those wanting to pursue the path of independent self-reliant growth are to be given no quarters; they, it has been decided, deserve to be despatched to the asylum, they are inward-looking as well as backward-looking. It is a bit awkward that the warnings they issued a decade ago have turned out to be devastatingly right, it is best to suppress that fact. No need either to mention, morning and afternoon, about the debt trap and the falling level of unemployment and the rising number of closed and about-to-close industrial plants. Rather, attention should be gleefully drawn to the contortions the left are going through. They have to oppose the new set of economic policies for dear life, but they dare not vote against the regime; suppose the government is voted out, a poll-weary electorate will apparently not forgive them. Whether it will forgive the left for not voting down the anti-

people economic measures is a matter best left undiscussed.

Stirrings are nonetheless bound to take place at other levels, both inside the system and on its periphery. Finance ministers out to surrender the nation's interests to foreigners are not the final arbiters of history. It may take a couple of months, or a couple of years, but a revulsion is bound to set in, for inflation hurts, joblessness hurts, the aggravation of inequalities between regions, classes and groups is not an inert statistical category, it has harsh real life implications. To hand back the country to capitalist colonisers is anti-history. It is also wretchedly bad economics, as finance ministers will learn, in due time, to their cost.

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Bank Nationalisation Anniversary Collective Amnesia

D N Ghosh

Now that some US development organisations are planning to promote actively micro-enterprise lending by banks, will our own much-maligned 'priority sector' lending schemes be looked at more objectively?

US development organisations are finding that some of the world's poorest entrepreneurs repay their debts at rates approaching 100 per cent... These organisations are expanding programmes that already lend thousands of these struggling entrepreneurs amounts ranging from \$ 50 to several hundred dollars... The micro-enterprise lending is the hottest thing in development since the green revolution. (*Asian Wall Street Journal*, June 10, 1991.)

SUCH micro-loans, as part of poverty-alleviation credit programmes, have been the pride of the Indian banking system for over the last two decades. Country observers from western economies have not been enthusiastic as such about these credit programmes mainly because they were developed as part of a state interventionist strategy for the benefit of small borrowers. Now that several US development organisations (particularly ACCION, a Cambridge, Massachusetts-based non-profit international development group) plan to promote actively such small economic activities, micro-lending seems set to be hailed as one of the spectacular financial innovations, shedding its offensive third world parentage. Certainly not an unwelcome development particularly at a time when some of the interesting innovations made in our banking scene are fast losing their erstwhile crusaders.

To micro-lending has come to be added several innovative features. Take potentially credit-worthy borrowers, millions of small borrowers willing to engage in productive enterprises in over 5,00,000 villages all over the country. An exclusively profit-oriented system would have shut them out, but the integrated rural development programmes—a combination of credit from banks with subsidy from the budget—is a strikingly imaginative response, helping potential borrowers stand on their own and, more fundamentally, give them self-respect and generating challenge, but not too overwhelming to snuff out their enthusiasm. Look again at the interesting credit delivery system: for

millions of potentially credit-worthy borrowers, many of them illiterate, in backward and underdeveloped regions, the delivery system, contemptuously described as 'loan melas', do generate awareness through conspicuous demonstration of the developmental impact of the banking system.

For a country like India, such micro-credit lending programmes, core priority

sector lending as it has come to be characterised, has to continue with increased vigour and diversification; it has to cover all types of productive endeavours connected with small business, local services, agriculture and agro-based industries. For agriculture, in particular, which claims a good portion of commercial banking advance, the intensity of such lending has to increase at a very fast pace. Yield per hectare in agriculture averaging about 2 tonnes has to move up to the international average of 4 to 5 tonnes per hectare. This cannot be brought about unless credit inputs along with other inputs are deployed, through directed and systematic programmes in areas with minor irrigation, in dry land cultivation and in wasteland development. What we have covered so far and achieved is a fraction of the potential that exists. We cannot afford to slacken, notwithstanding the abuses which have taken place in recent days in the lending programme in rural

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areas, abuses which the political parties should have guarded against for the sake of the interests of the constituents they serve but which, unfortunately, they subverted for their narrow short-term electoral advantage. Mindless interference in disbursement of such loans has to be countered, but can we afford to use it as an excuse for faulting the rationale of the programme itself?

Strident voices are heard today against all directed credit programmes as such. Understandably, that is the fall-out of revulsion against political interference in the administration of the credit programmes and political exploitation of the financial infrastructure for purposes not so intended. This provokes knee-jerk reactions, not uncommon in the corridors of policy-makers, that even if the banks had not been brought under public ownership, the banking system could have delivered the goods expected of it by the state. Leave the debate aside for a moment and look simply at the behavioural motive and pattern of the commercial banking in the pre-nationalisation days: between the period March 1961 and March 1968, the number of borrowal accounts in the banking system was virtually stagnant, at around 1 million; in fact, to be precise, the number on the later date was lower by 14,000 accounts! A telling piece of statistics, does it need any further elaboration? Why is it then that today, on the anniversary of bank nationalisation, there was not even a semblance of a ceremony by those who were once acknowledgedly by the vocal crusaders for public sector banking and who had, in the past, unfailingly exploited every conceivable mass media. The reasons, not far to seek, should not be swept under the carpet.

While commendable work has been done in the core priority sector lending in some rural and backward areas, it is also undeniable that there has been a sharp deterioration in most of the elemental functions of banking itself in areas which were once, in the pre-nationalisation days, centres of excellence. If one were to go by the usual yardsticks, the payment system, processing cost, transaction time—the points where the public come into contact with the banking system—there has been deterioration in efficiency of unbelievable proportions. Productivity in Indian banking enterprises is reported to have been adjudged the lowest by international banking standards. Several such institutions have become co-operative enterprises of all categories of employees with little concern for those who use the banking system.

Those who argue for privatisation have their own reasons: for they believe that market forces would lead to efficiency,

result in the elimination of political and bureaucratic control, modulate the target of directed lending to the absorptive capacity of each individual bank. This could or could not come about under private ownership, but what would *not* take place under private ownership is the continuation of the thrust towards development lending which has to continue with full vigour in most of the regions of our country.

The crusaders for developmental banking are however losing their battle: they have to look inwards. They have to ask themselves: have they not connived in bringing this industry to the sorry state that it exhibits today. A crusader for efficiency has to contend with several vested interests and these primarily start from within the bank itself. It is easy to be committed to an ideology but it is infinitely difficult to be committed to efficiency which demands a change in work style and change in work culture. The existing rules of the game within the industry are dictated by entrenched vested interests at all levels. It has to be demonstrated that a publicly-owned bank can operate effi-

ciently (and there is no reason why it cannot) and at the same time continue the lending programmes. Will any political party take up the challenge and persuade the public at large that they are as much committed to those who use the banking system as to those who run it?

Adherents of public sector banking are fast losing their moral right to defend a system which is breeding inefficiency at all levels, on the part of all those who are responsible for running it, aided and abetted by the political class out to exploit them to their advantage, by interfering with the disbursal of loans in the core priority lending areas or in the larger loans for the industrial houses. The country expects a viable, efficient and impartial banking and financial system, but would the votaries of public sector banking volunteer to be crusaders for this cause as they were once crusaders for nationalisation? They have sensed the mood and cannot risk harping on the same old tune. Their zeal has dimmed and they are playing the game of escapism: witness the deadly collective amnesia on the bank nationalisation anniversary, July 19, 1991!

INTERNATIONAL AFFAIRS

Welcoming the American Horse

GPD

In a political sense, the Manmohan Singh nose dive has been neither secret nor surprising. It appears so only because some people in this country have been busy with the Mandal and the Mandir revolutions.

THE gentleness with which discussions and debates over the Manmohan Singh package of economic changes and 'reforms' are being conducted is indeed surprising. The question of economic sovereignty is unlikely to rock the government. The grant of Rs 100 crore to yet another monument (in this case a trust) to the scion of the Nehru family seems to have irked the MPs more than the sell-out of the national economy. Nobody is bothered about that as much as about that wretched grant. Parliament would be well advised to pass a bill that any member born in the Nehru-Indira Gandhi family is automatically a Bharat Ratna unless otherwise stated and that some percentage of the GDP of this land would be reserved for creating as many trusts as the Nehru-Indira Gandhi family might wish to create in whomsoever's name in future. Parliament can also pass a resolution that all ancestors of Jawaharlal Nehru are also Bharat Ratnas. That would at least stop

the debate in the house and in some sections of the looney left.

The other big issue that one reads about is that of 'secrecy'. That sounded rather strange to our non-economist ears. The thrust of India's policies over the last six years (inclusive of the JD rule), if not longer, was clear enough. There were any number of people from the Congress to the BJP who have been admirers of the South Korean experiment and rather naive believers that it can be repeated here. To say that, however, is to risk being accused of harbouring ideological hang-ups—as though slavery as a concept were free of ideology! In *Mruchakatikam* there is a little conversation which comes to mind here. The 'dasa' who tells the truth that Charudatta had not killed Vasant Sena is disbelieved by one and all. He laments that in this world no one believes you if you are a 'dasa'. Slavery has an ideology of a kind. And before long Indians would discover that 'dases' are never heard, if

they have not already noticed the decreasing resonance of the Indian voice in international politics and economics

Some commentators are celebrating the triumph over the left, as though Stalinists had been ruling the country for the last four decades or more. A socialist is answerable for the errors of omission and commission and the crimes of all those these pen-pushers choose to describe as 'socialist', while these pen-pushers themselves are not guilty of either capitalist or communal excesses in this country. Like a leaf in water they remain untouched by everything! It is a convenient position to assume. A scribe of a national daily can then even manufacture or collect stories and actually use them as arguments (vide the attack in *The Times of India*, August 2, 1991), on left-wing economists. The characterisation is dishonest and faulty on many a score. To cite just one example, Rajni Kothari was one of the signatories to that document. He is neither a Marxist nor an economist. Anyway, these people should undergo some training which our ancient Naiyayikas had. The 'uttara paksha' can be argued only when the 'purva paksha' has been represented in all fairness and impartiality and one's arguments cannot be based on hearsay and 'stories' collected here and there.

This is also the reason why the argument about 'secrecy' cannot be overdone. We do not think that either the economic bureaucracy or the political leadership or the media had left anyone in doubt especially after the Gorbachev phenomenon, that it was only a question of time before the process of dismantling of planning and the public sector would begin. If our media people are to be believed, defence of planning and social welfare is defence of the *status quo*. Quite a number of these enemies of planning and imagined socialism are great admirers of the Hindu civilisation. It might therefore be useful to remember what the ancient sages said about the meaning of words. *Yat parah sa shabdah* averred they, which means words mean what they signify. If planned development means the *status quo* then one must grant that words cannot possibly mean anything. In that case, even Manmohan Singh's 'radical economic reforms' would mean nothing. Be that as it may, the Manmohan Singh nose-dive has been in a political sense neither secret nor surprising.

It appears so only because some people in this country have been busy in the Mandal and Mandir revolution. As the rhetoric of the social revolution (it is to be noted that V P Singh, Sharad Yadav and Paswan, the 'trimurti' of the social

revolution, are rather quiet on the sell-out) and the rhetoric of the Mandir were the order of the day, nobody had time to examine what the bureaucrats and ex-bureaucrats were doing to prepare the country for whatever has happened.

One has to be fair to the Congressmen. That such a sea change in economic policies can occur within barely a month of the Congress being installed in power or that the preceding governments did not preside over the preparations for this change is hard to believe. One can almost predict that once the new economic order settles down (or more accurately starts sinking in) a host of documents would be released by this government (unless, of course, Cauvery or other waters drown it) to demonstrate that everyone is basically in agreement with it. Manmohan Singh said so to K R Malkani, the BJP vice president in so many words on Doordarshan. The turn of some other political groups, one takes it, will follow. Manmohan Singh has not sprung any surprises. He has done what the elite in this country have been wanting to see happen for a long time. If there was any secrecy it was typical of the caste system. The neo Brahmins would not share their thoughts with the Shudras! But that is about all. The Shudras should not be surprised. If they are this only means that they have not been watchful enough.

It appears as if president Bush is out for an 'Ashwamedha' sacrifice. In ancient India a triumphant king would let his horse run loose and fought kings and chieftains who challenged the horse. Some fought (at times mindlessly may be) while some others surrendered without protest. West Asia has been pacified. A king who challenged the American horse there has been shown his place and preparations for his banishment are on. The Indian elite has been more than ready to welcome the American horse. The triumph is complete. South east Asia was safe for the Americans anyway. So to the Americans the world must appear extremely well behaved just now.

In the meanwhile nobody cares to explain how the IMF and World Bank are an option. That the left is looney does not quite prove that (that the left is looney is not the belief only of the right. Many in the left these days appear to share it). That we shall not be a banana republic would require careful explaining for once keeping the left out of it. The left does not matter and is unlikely to matter for some time anyway. But that still does not answer one overriding question nor does the anti-left rhetoric negate that question. Simply put that question is: Why will India not become a banana republic under the new dispensation?

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EXTRACTS FROM STATEMENT OF
SHRI RAUNAQ SINGH (CHAIRMAN
AND MANAGING DIRECTOR AT THE
18TH ANNUAL GENERAL MEETING
OF THE COMPANY ON 9TH JULY AT
ERNAKULAM



THE REWARDS OF EXCELLENCE

"Ladies & Gentlemen,

I extend to you a hearty and cordial welcome to the 18th Annual General Meeting of your company

"REWARDS OF EXCELLENCE

After achieving one of the most spectacular turnarounds in corporate history your company has never looked back since 1985/86. Each year recorded higher and higher sales turnover, profitability and efficiency. Your company firmly believes that records are meant only to be broken. The financial period under review was no exception. Sales turnover registered an increase of 88% accompanied by 116% surge in gross profit. This compares favourably with the industry trend. The performance would have been even more impressive had there not been loss of production for two and a half months due to a labour dispute. Thanks to the maturity and understanding displayed by the Trade Unions, a three year truce has been concluded. The Cochin plant is now operating at peak efficiency like never before. Your company is all set to break new records even without the benefit of additional output from the Gujarat plant which is scheduled to start trial production by end 1991. The future years should be really rewarding for all those who have stood by the company in difficult years gone by viz investors, customers, suppliers, financiers and employees. Appropriately the theme of the Annual Report of your company for 1989/91 is 'Rewards of Excellence'.

Excellence cannot be sustained without rewards and there cannot be any rewards without excellence. Excellence in every way that can be measured or perceived—in production, quality, customer service, investor's trust, employee satisfaction, professional management, business ethics etc.

"EXPORTS

During the period under review your company recorded an export turnover of Rs 21.88 crores as compared to Rs 11.84 crores in the previous year, representing an annualised growth of 40%.

HIGHLIGHTS

- 40% DIVIDEND FOR 1989-91
- RECORD SALES AND PROFITS
- KERALA PLANT WORKING AT FULL CAPACITY
- GUJARAT PLANT TO BE READY BY END 1991
- 30% GROWTH IN EXPORTS
- BRIGHT PROSPECTS FOR ROAD TRANSPORT

"MARKETING

Over the years, your company has established itself as a price/quality leader in certain market segments. A wide network of committed and loyal dealers is a crucial strength of your company."

"LEADERSHIP IN QUALITY

Quality has been a way of life in your company right from its inception. It has been the hallmark of success of every product that bears the stamp of Apollo Tyres. To keep abreast of consumer preferences and emerging trends, technology needs to be updated continuously through in-house R&D and guidance of our collaborator. Your company is receiving invaluable help and guidance from General Tire International Corporation, USA which has now become a part of a bigger group viz M/s Continental AG of Germany. Continental in turn have agreements for exchange of technology with two leading Japanese Tyre manufacturers. Thus your company has direct and indirect access to the best international technology.

"TAX BURDEN

The Tyre Industry has been jointly and severally representing to the government to reduce the tax burden on Automobile Tyres which is as high as 84-118%. With the new government at the helm of affairs, I hope the Industry plea will receive a sympathetic consideration."

"NEW PROJECTS

The construction of the Gujarat tyre plant is in full swing and is expected to be commissioned by the last quarter of 1991. With the commissioning of this plant, your company will be equipped to double its sales turnover and offer to the customers a better product-mix with up-graded technology. Your company is investing in a joint venture with Gujarat Industrial Investment Corporation for manufacture of Electronic grade Copper Clad Laminates in collaboration with Perscorp AB of Sweden. The unit is being located at Gandhinagar Electronic estate.

Your company owes its leadership in quality and technical excellence to the ongoing guidance and help of its collaborator, General Tire International Corporation of USA.

Thank you

Kochi
9th July 1991

(RAUNAQ SINGH)

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.

HARSHAT ATY/TH

NEW DELHI

Towards Neo-Colonial Dependency

BM

An alliance is being forged between foreign capital, above all the multinationals, enjoying the backing of the administrative and political authorities in their countries and comprador business interests enjoying administrative and political patronage in India. This is the deadly alliance which will drag India into neo-colonial dependency.

THE finance minister, Manmohan Singh, had gone to town with the promise that his budget for 1991-92 would be a resounding advance towards what is euphemistically called structural adjustment of the Indian economy. This promise he was unable to fulfil. The budget has actually turned out to be a limited and in some ways a half-hearted exercise. His alibi has been the short time available to him for making the budget. But the fact is that political constraints for a new entrant into the currently turbulent arena of Indian politics are necessarily formidable. The budget is regarded by many, especially the votaries of structural adjustment as ordained by foreign creditors, as inconsistent with rather than integral to, as Manmohan Singh likes to claim, the major policy adjustments which have been pronounced—the steep devaluation of the rupee together with a liberal foreign trade, in particular import, regime and an industrial policy for opening up the Indian market for easy entry of foreign capital directly or in collaboration with comprador business interests. The industrial policy statement, significantly, was announced before the budget was presented on the same day and would seem to have robbed the budget of its importance as the principal instrument of making the economic policy and funding its implementation. But, again, it is not to be missed that it was considered prudent to refrain from coming forward with a new Industrial Policy Resolution to supplant the Industrial Policy Resolution of 1956 and be content with yet another industrial policy statement. The minority Congress(I) government has indeed to tread carefully, especially in parliament, and was advised to refrain from presenting the revised policy for approval of parliament. The fact, however, remains that the latest industrial policy statement is totally subversive of the content and direction of the IPR of 1956.

The Narasimha Rao government has already lost much of its steam to push ahead with policies and plans which will win for it what is euphemistically called credibility with foreign creditors. Domestic political reality and the hectoring creditors abroad have really pushed the minority government into a corner. This realisation must have dawned on Manmohan Singh when he was called upon to make the budget in a hurry. He often admits this much, even in public, especially when he has to strike ungainly postures before not only the opposition political formations but also, and even more so, the faction ridden Congress(I) Party in which it cannot be easy for him to find a comfortable position. The laboured attempts by him to make a display of his loyalty to the party and its election manifesto have turned him from the economic wizard who was relied upon by powerful vested interests, Indian and foreign, to pull the country out of a deep economic crisis towards a growth process favourable to them into a sorry figure in political office in which his professional skills are under a dark cloud. This realisation must have grown as he has to face widespread criticism of his performance from the political opposition as well as Congress(I). The Rs 100 crore allocation for the Rajiv Gandhi Foundation and the withdrawal of a portion of the fertiliser subsidy have put him in a spot. The durability of the Congress(I) government has already come under strong doubt in political and media circles.

The budgetary sums that Manmohan Singh has presented a truly mock at his pompous claims about restoring fiscal balance and stability to the economy. The tell tale figures which stand out in his long budget speech are many. But especially notable in this context is the position of the fiscal, budgetary and revenue deficits. Without additional resource mobilisation the budget deficit is estimated at Rs 9,724

crore, the revenue deficit at Rs 15,859 crore and fiscal deficit at Rs 39,732 crore, he said at the close of the part A of his budget speech. Towards the end of the part B, he said that, taking both direct and indirect taxes into account, the net gain to the centre in the current year was estimated at Rs 2,005 crore and that with this, the budgetary deficit of the centre for the current year would be Rs 7,719 crore, the revenue deficit Rs 13,854 crore and the fiscal deficit Rs 37,729 crore. Looking back at the budgets since the mid-80s, it would be found that the range of revenue raising by direct and indirect taxes has been the same as in the current year. But at the end of every year, the revised estimates of deficits have been found always to exceed the original estimates. In 1989-90, for instance, the revenue deficit was Rs 11,912 crore which was over Rs 3,000 crore more than the budget estimate. In 1991-92, the first estimate put the deficit at Rs 13,032 crore which swelled to Rs 17,585 crore in the revised estimate. The first estimate for the current year is Rs 13,854 crore, higher by Rs 500 crore than for the last year. It can be taken for granted that the deficit will swell to a figure higher than last year's in the revised estimate. Going by the experience in the first four months of the year when revenue from taxes, especially direct taxes, showed a decline, and expenditure swelled, it is likely that the deficits will grow more than even in earlier years, the cuts proposed in development expenditure notwithstanding. What is critical in respect of the deficits shown in the budget, which has tended to be glossed over by Manmohan Singh, is that the revenue deficit remains much larger than the budgetary deficit implying that resources, including from abroad, raised ostensibly for investment and development will continue to be diverted to current consumption. This means that indebtedness of the government, both internal and external, will grow relentlessly without building up repayment capacity and India will be pushed deeper into the debt trap. Interest payments on internal debt as well as external debt have already swelled to unsustainable levels. The fact is that receipts of credits, especially from commercial sources abroad, have already become negative and fresh credits have to be raised on onerous terms to meet service charges.

DRIFTING INTO STAGFLATION

The much dreaded harsh budget has thus eluded the budget makers under the present political dispensation. The budget

proposals had to be formulated within the frame of populist politics in the domestic arena and increasing dependency on foreign creditors to manage the balance of payments. This path, trodden with increasing recklessness in the 80s, has landed the Indian economy in the present morass. The effort to moderate the budgetary imbalance by reducing consumption expenditure and increasing the revenue of the government has failed to take off. The much-vaunted reduction in the fiscal deficit from 8.5 per cent to 6.5 per cent of the GDP as demanded by IMI-World Bank, besides being illusory and not likely to be realised in practice, has been attempted by way of drastically diluting the development role of the state. The avoidance of concessions in direct taxes on income and wealth and some additional taxes on the corporate sector and on items of elitist interest have not brought material improvement in the overall fiscal condition. The revenue expenditure or expenditure on the current consumption of the government is estimated to increase from Rs 74,966 crore in 1990-91 to Rs 81,383 crore in 1991-92. Capital expenditure, on the other hand, will increase from Rs 31,751 crore to only Rs 32,039 crore. Incidentally, in the case of defence expenditure, however, while there is a moderate attempt at saving on the revenue side, the increase in the capital account is substantial which has its own implications for the balance of payments.

The budget estimates are based on the assumption that economic growth in 1991-92 will be a modest 4 per cent and the inflation rate 10 per cent. The economy is drifting into stagflation with low growth and high inflation. Significantly, both exporters and rich farmers, who have emerged as the most influential economic agents in the system would enjoy total exemption from income tax which bars any serious move to enlarge the social base of direct taxes which is a must for any meaningful reform of the tax structure. Again, the finance minister, who is so strident in his criticism about spending away the oil surpluses accumulated in past years and offers this as the justification for the hike in petroleum and LPG prices (not touching diesel and kerosene for populist reasons), has not hesitated to adopt the proposal of his predecessor for selling the equity of public sector undertakings to raise revenue for the government to meet its current expenditure. This sale of assets is bound to have deleterious implications for the resource base for maintenance, modernisation and expansion of commercial enterprises in the public sector, especially as the budgetary support for this purpose is being withdrawn. The budget has initiated

the first moves to dismantle productive enterprise in the public sector.

The invitation to direct foreign investment on what are called liberalised terms, the emphasis on interest rates based on credit-worthiness of borrowers, rather than social priorities, and restructuring the Bureau of Industrial Costs and Prices into a Tariff Commission are probably the most noteworthy proposals in the budget in direct support of the so-called market-oriented liberalisation of the economy. Manmohan Singh has, however, so far only tinkered with the budgetary sums to prepare the ground for negotiations on the IMF loan and the conditionalities attached to it. But the policy pronouncements of the government have been more forthright and far-reaching.

PRIMACY FOR MULTINATIONALS

In the series of adjustments in industrial policy during the 80s opening the doors wider for direct foreign investment has occupied the pride of place. This has helped some scaling up of the flow of foreign private capital to India from the insignificant Rs 10 crore per annum in the 70s to an annual average of Rs 100 crore in the first half of the 80s and about Rs 200 crore per annum in the second half. There has been also a spurt in foreign collaboration deals with contribution of equity by the foreign partner to share in management as well as use of imported technology on a continuing basis. Signs of the deceleration in respect both of the inflow of foreign capital and collaboration deals had, however, begun to appear towards the close of the 80s, notwithstanding the increased stridency of the assurances of hospitality to foreign capital. The latest statement on industrial policy is a desperate bid to attract direct foreign investment, in particular by multinationals. There is talk of direct foreign investments of as much as \$ 2 billion per annum.

The facile notion, sought to be cultivated by a variety of interested business, academic, administrative and political lobbies, that foreign investors including multinational corporations are standing in the queue to enter India, however, misses the truth that foreign capital prefers to flow to growing economies and flourishing markets. The foreign investor wants safety of investment, quick returns and repatriation of the surpluses that are generated. The returns do not have to be in the form of dividends and royalty fees alone but include surplus generated from transfer prices of equipment and raw materials imported from captive sources and so on. To

rely on foreign investment to solve the payments problem, achieve development goals or subserve social priorities is, therefore, a fanciful notion. The nexus between direct foreign investment and promotion of consumerism among upper and middle classes is also palpable from the behaviour of multinational corporations already operating in India. The prolonged consultations under UN auspices to prescribe proper socio-economic norms for multinationals ended in total failure because of the obduracy of the multinational corporations. The fact to be reckoned with is that direct foreign investment tends to emasculate impulses for economic growth which satisfy mass needs and promote self-reliance. The Congress(I) government has formally resigned itself to this position in its industrial policy resolution.

The industrial policy statement also, significantly, gives primacy to the role of the multinational corporations in the bid to attract foreign investment. This is in recognition of the frightening strength of these corporations, their overwhelming weight in the flow of capital goods and services in the world economy. It is no longer deemed enough in their case to allow 51 per cent equity which is proposed to be the general rule for foreign investment; they have to be specially cajoled to come in with capital, technology, management and marketing expertise on their own terms. Hence the decision to appoint a special board "so that we can engage in purposive negotiations with such large firms". In the era of scaling down the development role of the Indian state and withdrawal of administrative controls in the name of liberalisation and efficiency of business enterprise, it is thus admitted as necessary that multinational corporations be treated on a special basis. Indian business interests, it is assumed, are in no position to even effectively bargain with them and there will be need for direct administrative and political initiative to clear the way for the entry of business giants of the world into India in the royal style on specially favourable terms.

FIRA restrictions on the expansion and diversification of foreign companies and corporations in the Indian market are, therefore, proposed to be completely removed. In the case of companies which under the FIRA rules had earlier diluted foreign equity to 40 per cent and become Indian companies, enlargement of their foreign equity is now to be approved. A reverse process of enlarging equity for foreign companies is, therefore, to be set in motion. Joint ventures which are being promoted with great zeal will now involve both joint trading and production ventures in which multinationals are invited

to come in with their high technology and global marketing networks and Indian firms are expected to play the role of subcontractors and provide cheap shop floor operators and labour. India would not, under this scheme of things, attempt to indigenise parts and components which go into final assembly of products for domestic consumption or export and the phased manufacturing programme is to be wound up. On the contrary, components and parts would be supplied by foreign corporations and assembled into the final product by Indian labour. It is proposed, therefore, that foreign equity should not only be allowed but preferred and encouraged not only in the case of new collaboration deals involving import and application of high technology but also in the case of existing enterprises which have only technical collaboration arrangements with foreign sources or are already using the imported technology after its outright purchase.

A new phase in economic growth process is thus planned to be opened through direct foreign investment primarily aimed at the satisfaction of elitist consumption demand in the domestic market and secondarily for exports. All considerations of essentiality of investment for the

economy in terms of satisfaction of mass needs and self-reliant growth is proposed to be extinguished. This fits very well with an investment pattern and production structure to subserve a social milieu and life style which has no relevance for the broad mass of the people and, at the same time, effectively blocks progress towards economic self-reliance. This is already part of the Indian experience. It is disconcerting, though not surprising or fortuitous, that a striking feature of the Indian scene is that foreign investors can easily find Indian collaborators and work through them to ensure security as well as super profits for their investment. Since arrangements for direct foreign investment and collaboration deals with an enlarged role for multinationals are to be actively encouraged and promoted by the administrative bureaucracy and the entrenched political-power establishment, what is being forged is an alliance between foreign capital, above all multinationals, enjoying the backing of the administrative and political authorities of their countries and comprador business interests enjoying administrative and political patronage in India. This is the deadly alliance which will drag India into neo-colonial dependency.

ANDHRA PRADESH

Distributing Favours among Friends

M Shatrugna

Not only do the upper castes dominate in the expanded cabinet in terms of numbers, but they also now hold most of the prestigious ministries

UPPER caste domination with the Reddys in the lead is the hall mark of the much awaited cabinet expansion of N Janardhan Reddy ministry. Barring the supporters of dissident leader Y S Rajasekhara Reddy (YSR), all the factions in the Congress (I) in the state have been accommodated in the reconstituted cabinet. While M Chenna Reddy's faction K Rosiah, D K Samarasimha Reddy, R Chenga Reddy, Uma Venkatram Reddy, Damodar Reddy, have been given cabinet posts, D Srinivas has been made a minister of state. While Jalagam Prasada Rao, son of former chief minister Jalagam Vengal Rao has been elevated to the cabinet rank, P V Ranga Rao, son of the prime minister, has been made a minister of state. Ranga Rao who had been in political oblivion for various reasons for a decade-and-half had staged a 'spectacular' come-back in the 1989 assembly elections. Also eliminated is the 'centre' faction of P Shiv Shankar, a close aide of Rajiv Gandhi and his mother, who of late

has been in the political doghouse. Shiv Shankar's ambitious son P Sudhir Kumar, the Malakpet ML A whose name figured prominently in the December 1990 communal riots and the recent attacks on the opposition party leaders' properties in the wake of Rajiv Gandhi's assassination has also been kept out of the expanded ministry. With 30 cabinet ministers and eight ministers of state, the ministry is one of the largest the Congress(I) had so far in the state but that fact does not seem to worry the CM a whit. Instead, when the exclusion of representation from certain districts and castes despite the large size of the ministry was queried the CM promptly replied that there would be no more expansion to include 'all', after the budget session. He further maintained that the recommendations of the Administrative Reforms Commission (headed by Morarji Desai) on the size of the cabinet are outdated as the workload of contemporary cabinets had increased 'enormously'.

Caste wise as usual the upper castes dominate the list with 14 Reddys, four Kapus, three Kammars, two Kshatriyas, and one each from among the Brahmins, Vaisya and Velama communities. The minorities (Muslim) have also a candidate. Now, in the 180-strong Congress legislature party, there are 125 forward caste people with 65 belonging to the Reddy community forming a little more than 30 per cent of the total MLAs. Similarly with 14 cabinet ministers, they occupy more than 30 per cent of the ministerial berths. Important and prestigious departments have been cornered by the upper caste people. While the chief minister retains to himself excise, higher education, power, services, law and order, finance has been given to his trusted follower S Santosh Reddy. While 'non-prestigious' departments like social welfare, women's welfare and backward classes welfare have been given to BC and SC people, home, finance, medical and health, industries, commercial taxes, school education, courts, civil supplies have gone to upper caste people, mostly Reddys. The composition of the reconstituted ministry shows that the facade of equality in accommodating various communities which to some extent was prevalent in the Congress(I) before it was ousted from power by Telugu Desam in 1983 has been given up now. This is understandable as most of the candidates who were given tickets in the 1989 assembly poll belonged to the forward castes, especially Reddy.

Of those kept out of the ministry are senior leaders like Nadendla Bhaskar Rao, Kudupudi Prabhakar Rao, Sripada Rao, Koneru Ranga Rao, Battina Subba Rao and K L Krishna Murthy. The omission of K L Krishna Murthy, a BC leader who had defected to the Congress(I) from Telugu Desam after a tiff with NTR three years ago is all the more glaring. His exclusion indicates the rising clout of Kotla Vijayabhaskar Reddy, his arch enemy in his native Kurnool district. By giving the home portfolio to M V Mysore Reddy, known not only for his lung power in the assembly but also muscle power outside, Janardhan Reddy had made sure that the dissident leader YSR is checkmated in the state political conundrum.

The selection also assumes political significance as the election to the Cuddapah Lok Sabha seat where YSR was contesting in the recent Lok Sabha poll was countermanded due to the killing of an independent candidate. Many believe that the postponement of the election ordered just a few hours before the scheduled time was done at the behest of the chief minister with an ulterior political

motive By including Chenna Reddy's hatchetmen, D K Samara Simha Reddy, K Rosiah, R Chenga Reddy, Uma Venkatram Reddy and Damodar Reddy the chief minister appears to have come to terms with his political opponent as his mentor Rajiv Gandhi is no more The inclusion of P V Ranga Rao is a foregone conclusion considering the support the chief minister receives from the prime minister for his political survival A new group under Vijayabhaskara Reddy which so far had not been 'recognised' is awarded plum posts With this he appears to have swung back to political centrestage after the party under his leadership had faced a disastrous defeat at the hands of Telugu Desam eight years ago The boycott of the swearing in ceremony of the new ministry by the PCC(I) chief V

Hanumantha Rao, a BC leader, indicates the general disenchantment of the weaker sections with the new set-up

Though Janardhan Reddy has got a brief lease of life with the expansion of the ministry, dissidence under YSR goes on merrily It appears that YSR has almost decided not to contest from Cuddapah Lok Sabha seat where election is to be held later this month but instead 'enter' state politics at an 'appropriate' time "to teach the chief minister a lesson" True to Congress(I) politics of 'succession' and heredity, he appears to have 'finalised' the candidature of his brother in law for the Cuddapah seat How long Janardhan Reddy retains his power is anybody's guess, knowing the track record of the state Congress(I) indulgence in infighting, factionalism and casteism

Beautifying Bombay at Cost of Poor

P A Sebastian

The recently published legislation to regulate development in Bombay city is a sell-out to vested interests

THE Development Control Regulations for Greater Bombay was published on February 20, 1991 and came into force on March 25 There has been very little debate about the DC regulations even though it is of enormous significance to the citizens of the metropolis

The Maharashtra Regional and Town Planning Act was enacted in 1966 with a view to planning the development and use of land in the city, as also in other regions The first development plan was launched in 1967 The development plan for the city comprises two documents A map which delineates the areas and zones for different things such as industry, commerce, residence, etc, and the regulations which verbally set out the plan The plan is due for revision every ten years, according to the act Thus the second development plan which has been brought into effect now should have begun in 1977 In the interregnum, there has been spasmodic tinkering in accordance with arbitrary requirements and the expediency of the powers that be Politicians and bureaucrats have themselves erected skyscrapers with FSI of 3.5 in the southernmost tip of the city in total disregard of the parameters of a planned development

The new Development Control Regulations is of a piece with the current philosophy of the government It has legalised and legitimised the needs and wants of the power wielders, power brokers and their entrepreneurial backers For instance, the normal FSI for the island city is 1.33 and for the suburbs one But the exceptions granted to the normal rule

of FSI may cover more area than the normal rule, which makes a mockery of planning itself

The government itself admits that 26 sq km of the city is occupied by slums The owners and developers of the land on which the slums are located may be granted a total floor space index of up to 2.5 a part of which may be used to accommodate the slum dwellers Even if all the people in a slum are provided with residences FSI of more than one is not needed The developers and owners can sell the rest of the FSI, which is 1.5, in the open market One square foot of built up area may fetch about Rs 1,500 in the open market The cost of construction per sq ft varies between Rs 200 and Rs 300 which means a profit of about 400 per cent The justification of the government proposing such a scheme is that it will encourage builders to take up such schemes which will house the slum-dwellers in properly constructed buildings and thereby eradicate the slums

Is this a possibility? According to the government 55 per cent of Bombayites stay in slums This comes to about six million people Several European countries have a total population of less than six million and they have had to spend billions of dollars to accommodate people at the level of ordinary human existence What rational person says that a handful of builders in Bombay can house six million people in well constructed buildings? The whole proposition is absurd and the public posture of the government in this respect is ques-

tionable because there is no connection between the publicly declared objective and the potentiality of the scheme

Besides, experience shows that even in the few cases in which such buildings are constructed, genuine slum-dwellers will be forced by builders and their musclemen to sell their places for a paltry sum, and quit It may also be beyond their means to maintain such places In all probability, they will go and set up another slum at another place The alternative to slums in cities like Bombay lies, in the long run, in the Indian villages In the short run, they be provided with 'sites and services' which will be habitat friendly to them

The second significant feature of the DC regulations is the scheme for dismantling all the cotton textile mills in the city and/or shifting them outside the city Clause 58 of the DC regulations is an incentive to the owners of the mills to do the same This has great significance vis a vis Bombay and its political configuration Mill workers were the most militant and organised force in the city who fought against the British When Lokmanya Tilak was arrested in 1906, they called for a strike which paralysed the city If the agitation for Samyukta Maharashtra was successful the credit goes to the textile workers of Bombay It is they who faced the bullets The new Development Control Regulations will wipe out the textile mills from the city within a matter of few years and thereby the most potentially radical force of the city

The entire open land and built up area of the premises of a sick or closed textile mill can be used under the DC regulations as follows About one third of the area for purposes like recreation grounds, another one third by the Maharashtra Housing and Area Development Authority or public sector undertakings and the rest is for residential or commercial users The owner of the land and the premises is entitled to the grant of transferable development rights in the case of first two categories This effectively means that the textile mill owners can encash their open land and premises at the market price This is nothing other than a call to the mill owners to close the mills and dispose of the lands and the premises Then what happens to 2,00,000 workers?

The loss of employment will force textile workers to leave their residences as well and reduce them to the level of slum-dwellers or force them to leave Bombay altogether and go to their ancestral villages It is not accidental that all star-rated category residential hotels have been granted an extra FSI of 50 per cent in F and G wards where the textile mills are concentrated In a few years, the whole area will lose its historical identity and will

become one of the posh areas of the city where the affluent have their commercial offices, hotels and residences. But there is no alternative plan to re-employ and re-accommodate that textile workers who will be rendered jobless as well as homeless.

The third important feature of the DC regulations pertains to the scheme to issue Development Right Certificates which can be negotiated in the market with the endorsement of the BMC commissioner. In certain circumstances the development potential of a plot of land may be separated from the land itself and may be made available to the owner of the land in the form of transferable development rights. The DRCs embody these development rights. The DRCs may be issued in respect of land on which there is a slum and the owner of which undertakes to develop it, in respect of mill lands and in respect of other lands reserved for public purposes. In the near future, there may be DRCs worth crores of rupees which will constitute a parallel economy.

The BMC commissioner and his minions have been given enormous discre-

tionary powers. How many slum dwellers will be accommodated in a newly developed plot of land and at what cost, which, textile mill lands will be disposed of and how this will be done, the magnitude of public facilities which the owner of a plot of land must construct to entitle him to DRCs, etc., will be decided by the commissioner. This will be a fertile source of corruption and abuse of power from where huge sums of black money will be generated. Land is the most precious commodity in the city.

The development plan which has such far-reaching consequences was prepared and finalised, under delegated legislation, by a group of bureaucrats with the approval of a few politicians. It was not laid before the legislative assembly for debate and sanction as it should have been done. A full fledged debate in the assembly would have highlighted the salient features of the DC regulations and set in motion a popular debate.

The DC regulations may make Bombay more beautiful but it will be at the cost of the poor and the deprived as in the case of New Delhi and Chandigarh.

Significant Victory on Minimum Wages

Bharat Dogra

One of the worst aspects of the violation of minimum wage laws in the country is that the government itself violates this legislation frequently, especially in the case of workers toiling at various rural employment sites. A report from Rajasthan

LAST year an organisation of peasants and workers called Mazdoor Kisan Shakti Sangathan (MKSS) launched a movement against violation of minimum wage laws in rural employment works in the Bhim region of Udaipur district culminating in a hunger strike cum dharna. The administration succeeded in breaking up the strike using false promises, but the movement succeeded in drawing attention to the issue of non-payment of minimum wage at rural employment works. This led to a two-day discussion on the question of minimum wages in government sponsored rural employment programmes which was organised at the Institute of Development Studies in Jaipur. Senior officials, academicians and social workers who participated in this discussion resolved that minimum wages should be paid in all government sponsored employment works including famine relief works, and that too, within a week of completion of the muster-roll.

This meeting gave strength to the struggle of the MKSS and its activists were hopeful that the revised minimum wage

of Rs 22 would be paid henceforth. However, when work on Jawahar Rozgar Yojana started at 13 places in Barar panchayat, it was seen that payment at much below the minimum wage rate was the general norm and in fact no worker was being paid the legal minimum wage of Rs 22. Several workers made requests for proper measurements to be taken and when this was not done, they refused to accept the lower than minimum wage. However, several workers were ultimately forced to accept a lower wage due to their precarious economic condition and the immediate need for cash. The final confrontation was confined to 12 workers who steadfastly refused to accept anything less than the legal minimum.

Meanwhile Udaipur district was divided into two parts and the Bhim region now came under a newly formed district called Rajsamand. This gave a pretext to officials to refer matters back to the old district, and thereby to delay all decisions.

Officials were quite willing to make an off-the-record extra payment to the 12 workers who had refused to accept the low

wage, and thereby to reduce the matter to one concerning only a dozen persons. For the MKSS, however, it was of crucial importance to get this extra payment on official record, so that this decision would prove helpful for similar struggles. It was in making the payment on record that the officials faltered, appearing to agree sometimes and then backing out. Finally the MKSS had to resort to another dharna-cum fast unto death in Bhim in the first week of May.

By now the decision-making appears to have passed from the hands of the local officials to state level officials. Once again the state government adopted an arrogant and indifferent attitude. In a particularly glaring act of ruthlessness and insensitivity, the government sent a large number of policemen to forcibly lift the five hunger strikers and carry them to a hospital a long distance away. While the reason given was that their lives had to be saved, in reality some of them were denied even water for a long time.

Finally what appears to have changed the heartlessness of Rajasthan government was the firm stand taken by the department of rural development, in Delhi. The state government was not only asked to pay minimum wages, but was further told that its grants for JRY would be held up if it failed to do so.

What is more important of course is the precedent that has been established in this matter. This immediate fall-out could be seen in surrounding areas where workers employed at several employment works started getting the legal minimum wage.

At the time of writing the one year struggle for the realisation of minimum wage, which was preceded by a successful land struggle, appears to be in high spirits. But some forces are not at all happy with this turn of events and appear to be planning repression.

MKSS is a non party political organisation of the weaker sections which has been fighting for the issues of weaker sections mainly by mobilising their own strength but also by drawing in sympathetic officials, academicians, journalists and social workers in other parts of the state. Although the MKSS has had its share of frustrations, on the whole this broad mobilisation has worked quite well during the last two years. A few members of MKSS support themselves by low budget, relevant research for the government.

[A young and brilliant academician Deepak Chanchandani who worked at the Institute of Development Studies in Jaipur went out his way to be of great help to the MKSS. Deepak died recently in a tragic accident at Jaipur. MKSS activists wish to record their great appreciation of the solidarity he showed the MKSS ever since he came in contact with them.]

Rajasthan's Sorrow

Report of Workshop on Indira Gandhi Canal

S Ramanathan

The sustainability of India's largest irrigation project meant to provide irrigation and drinking water to five districts of the Rajasthan is under debate. The project has so far brought only negative change to the poor of the region.

THE Indira Gandhi Nahar Pariyojana (IGNP), with a command area of 1.5 million hectares (m ha), is the largest irrigation project to date in the country, and is meant to provide irrigation and drinking water to five districts in north west Rajasthan. The project was conceived in 1948, and was approved by the Planning Commission of India in 1957 at an estimate of Rs 66.43 crore. The project is being carried out in two stages, and after an expenditure of Rs 720 crore, one-third of the command, or stage I of the project, is being utilised. Stage II of the command is just now being settled.

But, the very sustainability of the project is now an issue. With the introduction of irrigation the ground water table in the command has been rising at the rate of one metre per year, and this has been the highest among all canal commands. It is estimated that already 34 per cent of the stage I command has been affected by waterlogging and salinity ('Ecological and Environmental Studies for Integrated Development of Indira Gandhi Nahar Project, Stage II', Draft Report, WAPCOS, 1989). In stage II, approximately 35 per cent of the gross command has a hard pan or barrier layers at depths ranging from five to 10 metres below ground level (bgl). It is said that in these regions the water table will rise up to six metres (the critical limit) in a span of four to six years after the advent of irrigation ('Canal Irrigation in Arid Zone of Rajasthan and Its Ecological Implications' by Chatterji et al, in *Desert Ecology* edited by Ishwar Prakash, 1988). There are cases of fields and even an entire village having been abandoned due to waterlogging.

In order to create an awareness about these aspects among the public, and also to arrive at some solutions to the problems faced in stage I, and evolve alternate strategies for stage II, the Uttar Rajasthan Milk Union (URMU) Trust organised a two day workshop on the canal in Lunkaransar (near Bikaner) in February. The participants were villagers, journalists, government officials, academics, and funding agencies. Though some background papers on the environment, status of women and children, etc., were

circulated before the workshop began, these were not presented. First the villagers presented their cases, while other participants were expected to listen and then offer suggestions/solutions. The workshop was divided into four sessions. The first session was on the problem of settlement, the second on the status of women and children, the third on the problems of waterlogging and salinity, and the fourth session was on 'nahar pan chayal' as an alternate institutional mechanism.

To understand the issues raised in the first session, some details are in order. Prior to the canal the area was sparsely populated, with an average density of five persons per sq km. Hence, people had to be brought from outside for utilisation of

the potential. The land colonisation policy in the command began with the Rajasthan Colonisation Act of 1954. Under this act, plots measuring 25.28 bighas (plot size of 6.32 ha each called a 'murabba') of land were to be allotted to bona fide landless persons with a 30 per cent reservation for the scheduled castes and tribes. The priority in allocation was based on the criteria of closest proximity to the location of allotted field. Apart from the landless, certain other categories of people were also eligible for allotment of land in the command. But, the special allotment of land by sale or auction to people who had been domiciled in Rajasthan for about 10 years was begun in the year 1988-89. As of now 50 per cent of the land in the command is set apart for special allotment.

In the first session, two main issues emerged: (a) tardy implementation of the settlement policy, and (b) the correctness of the settlement policy. Villagers recounted tales of land being allotted but not given possession by the 'patwaris' unless bribed, numerous cases of double allotment where any one who could bribe got the land, allotted lands taken away on some pretext but no compensation offered, and cases where land either had no water courses or was on a large sand dune,

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higher than the gravity-drawn water could reach. Villagers questioned the policy of special allotment when the original intention was to allot land to the landless; they also questioned the policy of settling people from different areas and back-grounds together in one 'abadi'.

The official response was that the government was aware of the corruption and the non-cooperative attitude of the 'patwaris'. Hence, it had been organising settlement motivation camps, which are to be the single window for redressal of all problems of settlement—though only allottees in whose lands water courses have been constructed were invited to these camps. On the issue of special allotment of land it was pointed out that since the rate of settlement by the landless had been very poor it had been decided to give away lands on special allotment for effective utilisation of the created potential. But the villagers argued that special allotment has led to land speculation, absentee landlordism, and increased incidence of share-cropping. Villagers protested that even common property assets such as cremation grounds were being allotted.

STATUS OF WOMEN

While in the first session the focus was on the poor not getting land, the second session on the status of women and children revealed the misery of those who had acquired land. While allottees affirmed that income had increased, many spoke of deteriorating health conditions of children, increased water-borne diseases, increased drudgery for women in collecting drinking water, fodder and fuel, sharpening of gender inequity, and increase in the consumption of liquor. Women said the increased wealth was only 'on paper', for the crop income was only enough to finance their debts and not enough to sustain their households.

In one background note, the results of a comparative analysis of the health status of 480 children below five years in irrigated and unirrigated areas (carried out by URMUL Trust), showed that while there was "... no significant difference between children in unirrigated and irrigated areas overall, there is a significant [i.e., 10 per cent] difference between the female children in irrigated and unirrigated areas, showing the *status of female children in the irrigated areas to be worse than that of their sisters in the neighbouring uncommand villages*" (emphasis in original). One tentative hypothesis relates this to the shift in cropping pattern from traditional cereal crops—bajra, moth, guvar—to non-traditional cash crops like groundnut and mustard. Though groundnut and mustard are excellent sources of protein they are

not consumed locally but are sold to service debts incurred on land purchase, levelling, etc.

A second hypothesis associates the phenomenon to the increased work-load on the women in the irrigated areas. After the introduction of the canal, a study found that for women in particular there has been a sharper increase in the work-load. This was attributed to the fact that much of what is traditionally 'men's work' like ploughing and levelling have been mechanised, and not so in the case of women's work like weeding and harvesting. In addition, women's work tends to be distributed throughout the year whereas that of men is usually a one-time activity, with long slack periods between ('Development of Women in IGNP; Situational Analysis and Action Plan', IDS, 1989).

The village women who were present more or less corroborated the above hypotheses, and also pointed to the absence of health, education and market facilities, cremation grounds, etc. But, they complained most emphatically about the sense of isolation in living in 'dhanis' (irrigated fields). In fact, a survey in 1980-81 found that 76 per cent of the respondents resided in their fields, only 18 per cent in the 'abadis' and 6 per cent elsewhere (*Economic Viability and Land-Use Survey, Stage I, Phase II, Special Report I, 1980-81*). The reason being that the average size of the residential settlement unit (abadi) varied between four to six 'chaks'. Due to the sparse locations of the commanded area pockets, interspersed by sand dunes and depressions, the settlers found that their agricultural holdings were quite far from the settlement colonies. Hence, they had little choice but to settle individually on their own farm premises and the earmarked colonies were sparsely populated. One of the background papers highlighted this aspect and raised the need to examine the settlement policy in detail.

It was suggested to IGNP officials that they should provide mobile medical facilities, hand pumps to ease the drudgery for women, and proper educational facilities with the school master being from the same village. In fact, some villagers suggested that education should be made compulsory, especially for women. It was also suggested that more 'mahila kendras' should be built and women should be made to visit them as often as possible. Villagers also suggested that as far as possible villagers from the same area/village should be settled in a 'chak' to provide a continuum in social relations. Some thought was also given to evolving alternate cropping strategies to satisfy local fuel requirements which have

been exacerbated by canal-irrigation cropping patterns.

The third session on salinity and waterlogging was preceded by a visit to some of the highly waterlogged and saline fields near Lunkaransar. Ironically, the government agricultural research farm nearby had the most highly saline and waterlogged fields. One farmer highlighted how of the 25 bighas of land allotted to him, 14 bighas were destroyed by salinity: he predicted his remaining land would become uncultivable in a few years. He pointed out that with the reduction in acreage he was unable to pay off the loan contracted for land purchase and levelling and hence had to go in for an alternate employment. But, the question then raised was what about others who do not have the requisite qualification for alternate employment and whose sole possession was the land. Many complained that their debts were larger than the value of their degraded lands. Another issue raised was, who was responsible for this state of affairs?

IGNP officials contended that the farmers had been over-irrigating their lands and that no one prevented them from cultivating less water-consumptive traditional crops. But, the officials ignored the farmers' pleas about huge loans taken for the purchase of land, levelling and capital inputs. Only commercial crops like groundnut, wheat and cotton could help to pay them off. Also the interaction of the eight-day rotational schedule within canals and the seven-day 'warabandi' schedule in the 'chaks' makes water access uncertain. The risk becomes too great to pass up water on the occasion it flows by their fields. Also according to one estimate in stage I area only 40 per cent of the land was economically irrigable, and economically non-irrigable land forms about 47 per cent. Was it not the duty of the officials to adequately warn the farmers of the land's limitations and the dangers of irrigation.

One of the causes for the waterlogging in stage I is the irresponsible use of 18 Ghaggar depressions in the absence of natural subsurface drainage and impermeable formations at shallow depths. These are a series of 18 natural reservoirs bounded by earthen or sand embankments and used to store the flood flows of river Ghaggar to prevent their entry into Pakistan. An official at the workshop conceded that this practice was a mistake. There was no drainage component built into the stage I of the project due to its huge financial cost.

Officials described measures taken to combat waterlogging and salinity, such as the drainage project involving the three states of Punjab, Haryana and Rajasthan.

The Tawa dam crisis in Madhya Pradesh was presented by one participant to show the enormous cost involved in reclaiming the waterlogged land. Officials were asked what they proposed to do with the villagers who lost their lands to waterlogging. They felt that alternate land could be given—an unimaginable option in the light of the high numbers of affected families.

The discussion then focused on future options to prevent degradation of stage II, where the environment is very fragile. Animal husbandry was discussed as an alternate, more sustainable occupation—ironically this was the dominant occupation prior to the canal. The problem is that it is now economically unfeasible. Hence, it was suggested that the government should think in terms of providing subsidies/support prices and adequate infrastructure to make livestock rearing a profitable and sustainable proposition.

The other measures suggested were the use of drip and sprinkler irrigation techniques, which would be impossible for a small farmer to adopt unless subsidised. It was also suggested that the government should give up its insistence on using the project for intensive agriculture and use it to provide drinking water to the arid districts of Rajasthan. As of now only 11.5 per cent is earmarked for both drinking and industrial use. One wonders how much water will be diverted towards industry and away from households once industry begins to develop.

The focus of the last session was on how to increase the participation by the users, for better management of the canal and the environment. A case study of some of the 'chak samitis', presented in a background paper, showed that the present 'samitis' have hardly any power to either oversee the construction of the distribution networks or their maintenance. Two suggestions came up here. One from the official side was that the canal board would sell the water to the community who would then manage its distribution. This was not received very well by the villagers, who were not keen to be involved in water distribution without involvement in the construction of the distribution channels, since they may be burdened with sub-standard channels. The other suggestion was that a *nahar panchayat* which managed more affairs than just water distribution should be developed which would have the responsibility of working out a crop-mix or, a mix of crop and livestock, manage water distribution and thus avoid problems of waterlogging, maintain the distribution systems and manage the infrastructure required for livestock management. It was felt that this would

be ideal, but to achieve this the panchayat has to be given adequate powers. Hence, the question was, to what extent is the government willing to provide powers and involve the users in the management of the canal? Many of the villagers voiced dis-

approval of the 'nahar panchayat' proposal. Why should this be any different from other decision-making bodies which have no power? As it is, the canal has left many of them more powerless than ever before.

Urban Building: System Constraints in Calcutta

Sreemay Basu

While the Calcutta Municipal Corporation, both in its formal statutory functioning and even more in the extra-legal use and abuse of authority, has been instrumental in reducing the design and construction of buildings to the level of the 'commodities' trade carried on in the city, two other factors—land use policy and the conduct of professionals associated with the building industry—also deserve critical scrutiny.

JULY 1, declared by the Paris-based International Union of Architects as World Architects' Day, was celebrated jointly by the Calcutta Centre of the Indian Institute of Architects and the United States Information Centre. The new building of the US Information Centre on Chowringhee has been completed just some months ago after long delays, strikes, litigation and even demolition (of the guard house). Calcutta architects, invited to tour the building, were able via telephone, to talk to the designers in the US. In the discussions, a fleeting, elusive reflection of the state of the profession in Calcutta was discernible to those who cared to listen carefully to what was said and, perhaps even more so, to what was left unsaid.

Conditions taken for granted in daily transactions seem to acquire a different hue when seen through alien eyes. Is it, perhaps, because residual self respect forces the discarding of standards which are indifferent, and the confrontation of standards that are less so? With blinkers removed, it seems timely to take a long look at the state of the building profession in Calcutta.

The Calcutta Centre of the Indian Institute of Architects is itself newly formed. It has had a controversial birth because there already exists a West Bengal Chapter of the Institute. The formation of the Calcutta Centre is stated to be in response to the felt need for a professional forum to address the specific and peculiar problems of architectural practice in the city. Practising architects allege that these problems arise mainly because, over the years, the Calcutta Municipal Corporation (CMC) has, both in its formal statutory functioning and, even more so, in the extra-legal use and misuse of vested

authority by groups and individuals among its staff, been instrumental in reducing the profession of design and construction of buildings to the levels of the 'commodities' trade prevalent in the city.

Many cite as the manifestation of this degeneration the deliberate obfuscation of CMC sanctioning procedures to the point where, according to recent observations, a plan for a building less than 13.5 m in height has to be checked 64 times (often several times by the same CMC staff) before sanction is granted. For buildings requiring committee approvals, the number of checks is even higher. The ability to obtain sanctions from the CMC (and subsequent expertise in keeping inspectors satisfied during the construction phase) is said to rank as the most important attribute of a practising architect or IBS (licensed building surveyor) in the city. Architects and engineers complain that a prospective builder, irrespective of whether he is a promoter of large complexes or an owner of an individual building, is harried by the existing process to the point where he can have no residual energy or regard for the niceties of design (either architectural or structural) or for the construction.

The amount of lubrication that is said to ease the way through this labyrinth of 64 corners varied between Rs 1.50 and Rs 2.00 per sqft prior to the recent embargo on plan submissions. Further sums were deemed necessary to see things through committee and the construction period and, ultimately, to obtain the completion certificate. The potency of lubrication can hardly be confined to ensuring that only sanctionable and soundly designed buildings obtain necessary approvals. Inevitably, it clears the path for

the non-sanctionable and the not-soundly designed buildings to be also approved and constructed. This, according to popular perception, is the main cause behind the spate of unauthorised construction and of building collapses plaguing Calcutta recently.

But is it fair to blame the CMC alone? In the extensive bustee areas (slums), where some collapses have taken place, the CMC's writ fails to penetrate the muscle and politics nexus. In the other areas of the city, it is inevitable perhaps that, when the construction of buildings is as tightly regulated as it is, the lion's share of the blame goes to the regulating agency. However, two other factors, land use policy and the conduct of professionals associated with the building industry also deserve careful scrutiny.

Why were non professionals attracted to the building industry in the first place? Perhaps because scarcity of accommodation raised prices to levels where building promotion proved more lucrative than other avenues of making quick money? The CMC can hardly be saddled with the responsibility for this endemic scarcity. The lack of infrastructure, particularly communication, the lack of land use plans or, more accurately, the lack of a planning and implementation process with the requisite authority, even the lack of a coherent realistic development policy despite the early efforts of the Ford Foundation and the existence of a Land Use Board, the State Planning Board, CMPD (Calcutta Metropolitan Planning Organisation), ICPO (Town and Country Planning Organisation), Housing Board, MDA (Calcutta Metropolitan Development Authority), HUDCO (Housing and Urban Development Corporation), IDFC (Housing Development Finance Corporation) and, recently, the State Bank subsidiary, HPIIC (Housing Promotion Finance Corporation), and the National Housing Bank, are at the root of the problem. The bogey of course, is lack of resources. It has been raised long and logged hard, but still fails to obscure the act of abysmal squandering of available resources on *ad hoc* schemes too often subverted to serve political and personal ends. The immediate scope of the present article does not include policy analysis, but it should not be lost sight of that the resources created by housing shortage have rigns beyond the CMC and that a beginning is *still* to be made to address the fundamental causes with sincerity and technical competence.

The Town and Country Planning Act of 1979 stipulated the early formulation of a development plan. Twelve years later, in 1991, there exists only an 'Outline Development Plan' which is, at best, of

dubious clarity. It is incomprehensible how planning exercises of such vital importance, mandated through enactment, can be conducted in the absence of complete sets of basic land use surveys and data on sewerage, water supply, gas, electricity, telephone and other services in existence. Modern day land use planning is a highly complex multidisciplinary, systemic task involving economists, geographers, environmentalists, demographers, physical planners, transportation engineers, regional scientists, sociologists, and specialists in computer aided modelling and simulation. It requires the careful and tedious building of complex data-bases necessary for the formulation and testing of proposed interventions in the existing systems. And, of course, it requires political commitment for implementation.

While individuals within the CMC were being subjected to economic (and political) pressure to further private interests, the IBS and IBA (licensed building architects) associations could have aligned themselves with the CMC staff to offer resistance. In fact, the code of conduct professionals are supposed to adhere to would require them to have done so. Why did this not happen? It would be well worth the while of professionals to do some soul searching. They might inevitably have to confront the unpleasant fact that deterioration of standards have hit home just as badly. There is no organisation, no cohesive front, no motivation to fight for and uphold principles for the common good. The professionals have abrogated their responsibility to such an extent that they now find themselves in the unenviable position of being squeezed by the promoters and talked down to by even unqualified CMC staff. The promoters have reduced professionals to the level of artisans. Buildings in Calcutta are now designed on 'square foot' rates rather than the percentage basis specified by both the Indian Institute of Architects and the Council of Architecture. These rates, moreover, are pegged so low as to be absurd. Consequently the professionals too have begun to disregard the niceties of design, construction, and professional ethics, accepting commissions from builders and suppliers to achieve economic viability. The debilitating dog eat dog world of unaccounted for cash based commerce now pervades the profession as well. Those who are not guilty of commission directly have in many instances to plead guilty to acts of omission. Most necessarily have to act as or provide conduits for lubricants to flow to the CMC friction points.

This state of affairs is by no means confined to Calcutta alone. It is representative

of the general malaise that afflicts the profession to a lesser or larger extent throughout India. It would obviously be absurd to suggest adherence to professional standards that are unrealistic in the general environment of sliding societal norms. However, there are levels below which these standards must not be allowed to fall. Else, the *raison d'être* of a profession simply disappears. It is for professionals themselves to define this level and uphold it with due determination. The 'good' of society (in the form of the poor flat owners) also depends on this.

The only positive aspect of the collapses and the deaths of so many innocent (and inevitably poor) people is that the government has been forced to take more than a perfunctory look at the whole building delivery process. After the initial *ad hoc* ordinance barring buildings of over 13.5 m in height following the Bhowanipur collapse and the banning of construction on filled up sites after the Behala collapse, a more systematic approach is being adopted to rationalise the 1990 Building Rules of the CMC which came into force on December 12 last year. Next on the cards is said to be reforms to make the statutory authority more accountable. This is bound to create resistance. The implementation of the provisions of the Architects Act of 1972 was successfully stalled till 1991. There is no quick fix. Meanwhile, the professionals have to identify and fight the pressures that will inevitably doom their livelihood. Perhaps the Calcutta Centre will form the nucleus of the revival of professionalism in the building industry in Calcutta. The long suffering public is certainly owed this much.

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End of Gorbachev Era?

Ramnath Narayanswamy

What Gorbachev is attempting to do now—to secure and save the centre by presidential decree—is not promising. The way back to a stronger Moscow lies in genuine decentralisation in an increasingly European context, says Hans Hermann Hohmann, specialist in Soviet and East European affairs.

Ramnath Narayanswamy: The campaign for perestroika triggered by Gorbachev appears to be impelling its architect to pull up the barriers against the very restructuring that he initially set out to accomplish. By his inability to put himself firmly on the side of the reformers, Gorbachev appears to have lost a valuable opportunity. Are we therefore in the process of witnessing the end of the Gorbachev era?

Hans Hohmann: Of course, we will first have to define what the Gorbachev era was or is. The Gorbachev era was the attempt to modify the old system by introducing changes at various levels of economic and political life. His initial objective did not lie in abolishing socialism—the Leninist legitimisation of socialism—in the Soviet Union. Neither did he intend to abolish the one-party system. His idea consisted in having a perestroika in the sense of a process directed from above and not a process leading to revolution from below. Viewed in this specific sense, perestroika has failed and is failing if we conceive the Gorbachev era as the era of a man who has tried to modernise the system and not abolish it: this era is over. This does not necessarily mean that Gorbachev himself is a spent force, but I think he can only survive as a radical reformer: his chances of survival are largely dependent on his ability to join hands with genuine democratic forces and to move—conceptually and politically—much further than he has until the present.

RN: A cursory appreciation of the Ryzhkov plan and the Shatalin plan suggests that the critical issue for Gorbachev lies in the distribution of economic and political power. How do you assess the strengths and weaknesses of the Ryzhkov and Shatalin plans? Is a compromise between the two plans, a desirable/feasible objective under current Soviet conditions?

HH: There are a number of differences between the two plans. However, more important than these differences in the content of the two plans is the difference of the political context. Of course, it is possible to have a compromise between the Ryzhkov plan and the Shatalin plan in the sense that you can have a longer time horizon: Shatalin is very short (500 days) and that was indeed the original idea of

the Yeltsin reform in the RSFSR. This is certainly too short a period to reform an economy. The essence of the 500-day programme does not lie so much in the unrealistic expectation that a reform could be pursued in 500 days; the idea rather lies in emitting a strong signal to the public. The long-term horizon of the Ryzhkov plan is uninteresting to an impatient public and is therefore viewed as a disappointment. Of course, a compromise is possible but the political context is however more important in my view. If a compromise means more authority being vested in the centre at Moscow and frustrating the aspirations of the republics, not to speak of preserving the old apparatus (Ryzhkov is of course a symbol of the old apparatus), then the compromise will certainly not work, not because of economic imperatives which indeed exist (you can to a certain degree combine the two plans on condition of course that Ryzhkov goes in the direction of the market), but because of the political context. Herein lies the difference. It must be disappointing for the reformers and for the republics if a compromise entails the continuation of Ryzhkov as prime minister and the preservation of the old apparatus. Many reformers are agreeable to use the Gorbachev compromise as a beginning; the problem is what is done with the compromise and whether Ryzhkov is the right man to lead this compromise to a process of stabilisation and an eventual breakthrough to the market. I therefore believe that economic reform currently has certain political preconditions or to put the matter differently, the politics of economic reform is today more important than the economics of political reform. Gorbachev himself must also learn to move conceptually towards the republics—he can then perhaps hope that on the basis of a reformed system, some rights are given back to the centre.

RN: There are good reasons to believe that Gorbachev bears much of the responsibility for the current crisis. These include his initial emphasis on the machine tools industry, the creation of Gospriemka (State Committee for Quality Acceptance) and the Gosagroprom (State Committee for Agriculture) which contradicted his pro-

fessed objective of decentralisation of decision-making, his contradictory policies towards private and co-operative trade, increasing imports of machinery and cutting the imports of consumer goods, the campaign against alcoholism which heightened the fiscal crisis by reducing budgetary revenues and the massive increase in the budget deficit (from 18 million roubles in 1985 to 100-120 billion roubles in 1989) under which enterprise managers were given the powers to set wages as a result of which they came under increasing pressure to raise wages, and the law on joint ventures which frustrated the entire effort. In retrospect, were these plain and simple errors stemming from a personality who has been brought up in the tradition of the nomenklatura or was the design itself faulty?

HH: I think it is a combination of factors. Among several factors, it can certainly be said that Gorbachev and the Gorbachev era in general underestimated the severity of the crisis. They genuinely believed that it would be possible to remedy economic problems and repair the system by adopting an approach very similar to the one adopted by Yuri Andropov in the early 1980s which consisted in changing economic priorities, imposing more discipline and improving the operation of the planned economy. The earlier plan recognised for example that the capital stock was obsolete and the economy had to be modernised (which resulted in the investment campaign) through reinvestment, etc. This diagnosis proved wrong in the light of the deep crisis afflicting the economy. It was also not possible to secure the approval of the population for improving motivation. The notion of pursuing old targets (such as in heavy industry) alongside some modernisation would have failed in the light of the general frustration of the population. Considering the latter, it would have been advisable to give agriculture and consumer goods production priority. The next problem I think lies in the fact that Gorbachev underestimated the destructive influence of changes in the political domain. The initial idea lay in combining elements of traditional economic policy with changes in the political domain. For example, a glasnost in the early phases of perestroika was intended to be a means to fight against bureaucratic resistance against modernisation. But the problem was that glasnost could not be used as an instrument: it became a new political reality. It became a catalyst of far-reaching political change. Soon the focus on political change and the demands of the population took precedence which explains why many intellectuals believed that

all the early campaigns of the Gorbachev period were doomed to result in failure. In terms of economic reform the half-hearted reform of 1987 (wrongly portrayed as a radical reform), was an attempt to combine the market in the fields of consumer goods production with planning in heavy industry which led to all these disruptions. The partially enlarged rights of the enterprises for example, destroyed financial stability. I would therefore say that these three elements came together and were responsible for these disastrous results. Of course, there are other factors such as the deterioration of terms of trade, the Chernobyl disaster, the Armenian earthquake and so on. There were a number of such exogenous factors. Gorbachev also had a lot of bad luck too. Essentially however I think it was the three-fold mistake of beginning with technocratic modernisation and the underlying idea that it was possible to combine the latter with partial political reform. I think one of Gorbachev's biggest mistakes lay in his (false) perception that glasnost could be used as an instrument of manipulation which could be controlled by the centre. He also underestimated the danger from the standpoint of the system that glasnost could change everything. The third mistake was economic: the half-baked economic measures which were inconsistent.

RN: The reform experiences of the centrally planned economies suggests that it is advisable to first reform agriculture before attempting to reform industry. Do you think Gorbachev ought to have first concentrated on revamping the agricultural sector and improving the supply of consumer goods before attempting to reform the political structure and heavy industry?

HH: I think the major mistake was to simultaneously retain the Soviet Union as a successful world power and transform it into a civil society aimed at providing consumer goods for the public. This was the mistake and this influenced the reform of 1987 which embodied a hybrid mixture of plan and market. This illustrated the attempt to use the economic system as an instrument for political targets. The targets had moreover not changed. I think the Soviet Union has now learnt the lesson that it can no longer be a competing world power, that it must be content with remaining second and that there is a better chance of gaining international influence by not competing with the United States at least as a superpower. The way is now open for a change towards a civil society with other consumer-oriented priorities, but this was not the case in the first years of the Gorbachev era.

RN: The failure of the Supreme Soviet to arrive at a consensus on choosing between

the two plans to steer the country out of its difficulties has led to Gorbachev being armed with greater powers to dictate the future economic course. None of the republics are likely to respect executive decrees from an impotent centre. Does Gorbachev have any feasible options left?

HH: The option for Gorbachev in my view lies in his joining hands with the radical reformers and to join the separatist movements from the republics. Even if this happens, there will still be a number of problems, but I think what is necessary at the moment if economic success is to be achieved, is a national consensus. Economic policy has to be based on a national consensus. There are in my view, three aspects of this consensus. The first is a consensus between Gorbachev and the Soviet population. This implies a necessity for the population to recognise that Gorbachev is a reformer and that this is in their interests. And I think this can only be done through more decisive steps in the direction of a market economy. The second kind of consensus involves one between Gorbachev and the political forces of tomorrow and not of the past. The new political configurations and reformist intellectuals who are gaining increasing influence will be the determining factors in future political life in the Soviet Union. Such a consensus existed before and has since eroded and it is imperative that Gorbachev re-establish it. Gorbachev is still an important force, he still remains a worldwide symbol of reformism and therefore it is not only important for Gorbachev to seek a compromise with the reformers, it is equally important for the reformers themselves. Gorbachev enjoys a good international reputation and this should prove to be a viable basis for co-operation. The third kind of consensus I referred to is of course the consensus between the all-union government and the republics. And I think this is the only chance for Gorbachev to achieve this consensus: he must begin to go in the direction of genuine reform in terms of a clear market programme, institutionalising democracy which is a little mixed at the moment, (there are parties but there are no decrees and laws on the electoral system), and guarantee the republics their sovereignty. If he does this, the exigencies of economic development will or is likely to persuade the republics that it is in their interest to stay together and have central institutions for economic policy, stability, social policies, macro-economic stability and so on. This is the most promising option for Gorbachev.

RN: In other words, he has to rewrite the national contract?

HH: Yes. Even the Baltic states have no chance of survival outside or without

Russia: they need the Russian market to buy and sell. Of course, they will be independent within some kind of loose confederation in the sense of a common market. I think the first step in this direction lies in establishing the consensus I spoke about. What Gorbachev is attempting to do now—to secure and save the centre by presidential decrees—is not a promising way. This may sound paradoxical but the way back to a stronger Moscow lies in genuine decentralisation. And it will be a good idea to achieve this in an increasingly European context or perspective.

RN: It seems to me that the crucial test in the reform initiatives will be the reforms in ownership. Gorbachev's position on the crucial issue of ownership remains ambivalent. What do you think are going to be the likely consequences of this intransigence?

HH: Well, it is absolutely necessary to have a clear conception of privatisation. The problem is that Gorbachev still believes in what he calls the 'social choice' and this limits to a certain degree, property reforms. There has to be a learning process: it must for example be understood that exploitation is not combined with a certain type of property such as private or state property but that exploitation is more a question of the overall social policy which the state pursues. This means that in re-learning social situations in their dependencies, he has to indeed overcome this imbalance. There is a strong dislike for private property and Gorbachev often argues that the population does not like it and so on. But this is a mechanical understanding of property in the Marxian sense. Far more important is the overall economic and political context. If you consider some of the western economies like the Swedish or German economy, there is no exploitation in the sense of workers being exploited by capitalists. There is an overall social framework, (this is what a socially-oriented economy means), that acts as a preventive mechanism. Our experience also teaches us that it is not a good idea to allow the state to intervene directly in the economic sphere: this is a lesson which not everybody has learnt to the requisite extent. But apart from such major questions, there are many practical questions because it is extremely difficult to find an effective private property structure. In the Soviet Union, (where it is not a question of finding former owners because they do not exist), the problem lies in finding owners who are really interested in the firm. At the moment, nobody really knows what the firm is actually worth because of the distorted price system. There are no markets useful to firms. As

a result, it is very difficult to have shares or a market for them. The Soviet press is replete with suggestions of selling enterprises which are on the verge of bankruptcy. But nobody is likely to be interested in such enterprises. A different conception is therefore needed: enterprises which have functioned reasonably well under conditions of planned socialist economy must be sold because these can be expected to perform even better under a market environment

RN: The information explosion ushered in as a result of glasnost prompted a number of Soviet economists to criticise not only their own statistics but even those issued by the CIA as being guilty of overestimating Soviet economic growth in the past. A number of western specialists also appear to have overestimated Soviet economic performance. Has this overestimation been so excessive as to present a distorted image of Soviet economic performance?

HH: I think that it is quite clear that performance in terms of growth portrayed in official statistics overestimated real growth and real growth was also not so high and not so impressive. Whether the CIA was right or not is a very tricky question. I personally have not worked on this question. It could be because the Americans had a political interest to show that the Soviet economy was not effective or competitive, but on the other hand, they were interested in showing the Soviet Union as a dangerous competitor. While there was one bias towards overestimating Soviet economic performance, there was equally another bias towards underestimating Soviet economic claims. At the moment however, I do not think anybody is in a position to say what was right and what was not right. Of course, there is a certain feeling among specialists that not only were the official figures of growth performance overstated, but some other observers as Igor Birman are today being proved right and are being praised for being right. I think it is important to situate these issues in the context of what they mean for the Soviet Union. If the Soviet Union really had much less growth, this indeed could indicate much more stability in terms of them being poorer and they were stable for at least for a certain period. On the other hand, investment figures were not as high as the Soviet Union portrayed them to be. The degree of obsolescence of capital stock was much higher as has been proved by the subsequent breakdown of pipelines and gaslines. In my view therefore, the official figures of the Soviet Union were too high. If the CIA was right in estimating the overall Soviet defence expenditure (which

has not been seriously disputed), and wrong in assessing growth figures, then the share of the military must be much higher. This means that the task of not only privatising the Soviet economy in terms of ownership but also of extending the civilian sector of the economy through a reduction of military production. This also means that the influence of the

military on the economy is much higher than we thought it to be and will therefore be a very serious problem for Gorbachev. This is also one of the main reasons why the reformers are unhappy with Gorbachev: his support to Ryzhkov, who is representative of the old system and is supported by the military-industrial complex appears to confirm their worst

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suspicious.

RN: Positive changes have taken place during the Gorbachev era. While Gorbachev certainly deserves credit for what he has been able to accomplish so far, the most glaring disappointment of his legacy lies in the economic domain. Do the non-economic successes of the Gorbachev era outweigh the failures on the economic front?

HH: It depends on the standpoint from which you pose the question. From the German viewpoint, the changes in foreign policy were certainly good for us and they indeed outweigh the economic failures of the Gorbachev era. The profound changes in eastern Europe and the Soviet Union were a vital precondition for German unification. Even from the standpoint of the Soviet Union, the change is better: the economic problems and losses will be overcome in the long-run. It was possible to stabilise the economy through the use of old measures for a while, but an indefinite continuation of old methods leads to a dead end. If you accept the necessity to change the Soviet system and if this is coupled with the acceptance of combining change with going through a crisis, then the combination of change and crisis along with a policy of detente and foreign policy successes does certainly provide better perspectives for the future. In the long run, what the Soviet Union needs is international integration and co-operation. The market in the Soviet Union needs the experience of foreign competition. Therefore, such foreign policy successes might eventually prove to be useful to a crisis-ridden economy like the Soviet Union. On the other hand, one has to accept the fact that there are many people in the Soviet Union who do not see successes in foreign policy. I had a discussion with a deputy-director of Novosti, the Soviet press agency, who told me (he did not pretend that this was his own conviction), that in the international field, the Soviet Union was falling back to the situation in 1939. One must therefore recognise the fact that Gorbachev's manoeuvres in foreign policy are viewed as successes more in the west than in the Soviet Union. Similarly, Gorbachev winning the Nobel Prize, while laudable in terms of international prestige, has not been received well by the population. G. Gerassimov, the spokesman of the foreign office, actually said in a semi-serious manner that Gorbachev did not receive the Nobel Prize for economics. But as I said earlier, if the dominant trend in the Soviet Union proves to be the one towards the market and democracy, then these foreign policy successes will have a positive effect in the long run.

RN: The reform experiences of the socialist economies are an eloquent

testimony to the hypothesis that the process of establishing a centrally planned economy is easier than dismantling it and replacing it with a market-oriented system. Why is this transition proving to be so difficult?

HH: There are many problems connected with the transition from a planned economy to a market economy. Foremost among them is the fact that a market economy needs a different kind of society. It needs entrepreneurial agents which in the Soviet Union were destroyed by the imposition of planned economy. A planned economy is in many respects, a passive economy in which entrepreneurial abilities are not needed in a strict sense. Of course some degree of entrepreneurial abilities did survive even in the planned system but these were directed towards personal profits, building careers and so on. Therefore, the society itself needs to undergo a change. The second type of change that is needed is in institutions: the biggest problem here is to go back to a legitimate and effective form of property relations. This was not necessary in Germany after the war because the old owners existed. Neither was there any major discussion about the legitimacy of private ownership. But in eastern Europe, it is a *tabula rasa* situation: the structural problems are so great that it is going to be very difficult to go back to a market economy. But this is by no means restricted to eastern Europe; it is the same in southern Italy, Latin America or Portugal. All these countries have problems with the market. So why should one expect that it is enough to abolish the planned economy and leap into the world of a perfect market. The main difficulty lies in the fact that the market economy is a difficult system.

RN: The current state of the economy and polity in the USSR makes it pregnant with all kinds of positive and negative alternatives. What in your view are the likely scenarios we may have to contend with in the future?

HH: I envisage a couple of different scenarios but whether they are likely or not is of course, another question. One scenario consists in the continuation of the present situation. This means that for a couple of years, the Soviet Union will have to be prepared to confront what is in greater or lesser measure a crisis situation. A colleague of mine described the present situation where in terms of stabilisation of chaos, very similar to the current situation in Yugoslavia. This essentially refers to a situation where in the absence of substantive reform, self-corrective and spontaneous arrangements co-exist with some elements of the old planning system in a manner in which the system does not completely breakdown. This kind of muddling through on a very low level of per-

formance is certainly one scenario that I have in mind. Another scenario consists of a situation in which the economic situation deteriorates to an extent when muddling through becomes impossible and a new consensus is reached through a coalition of Gorbachev and other progressive forces including new parties in the republics and that in the long run, a new stability is restored, with Gorbachev remaining president for another couple of years. Another scenario could consist in a deterioration of the economic situation and a kind of Soviet-Jaruzelski, very similar to a Polish-type situation with other governments in the republics that are not necessarily democratic; they may be partly authoritarian. There is always of course, the danger of a military coup—even the reformers are not able to rule that possibility out. This can happen against Gorbachev and can equally happen with Gorbachev. There is a tremendous amount of insecurity and it is very difficult to say what lies ahead. We must be careful because we have so often been surprised by actual developments in the Soviet Union, especially now that old paradigms do not function anymore. My own feeling is that there is still a certain chance of avoiding civil war and a right-wing dictatorship by a process which is already underway: the emergence of new democratic institutions. If these forces consolidate themselves, there is a good chance of a peaceful transformation. I therefore see the necessity of a perestroika partnership with the west. The west must help and there are currently several approaches on what the west can do. One way lies in the continuation of disarmament which will help to reduce the military sector in the Soviet economy. Another way lies in offering institutional arrangements with European institutions including transfer of know-how and so on. In my view, it is imperative that the west opens Europe for Russia and not to exclude either Russia or the Soviet Union from Europe.

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Indian Development Strategy

An Exchange of Views

T N Srinivasan

We have to face up to the fact that our development strategy and the whole bureaucratic planning and control system that implemented it have failed. The failure is systemic.

Statement

The problems of India are other than mere bureaucratic delays or adherence to leftist principles. They go back to the abysmal poverty and to the glaring inequalities that exist in India.

Response

It is not the pursuit of 'egalitarian principles' that is at the root of Indian failure, but a development strategy and policy that robbed the poor while professing to serve them in the name of a 'socialistic pattern of society' and self-reliance. This strategy condemned the economy to an avoidably slow growth and bottled about 75 per cent of the rural labour force, a majority of them poor, in agriculture. The fact that the proportion of rural male labour force in agriculture declined from 83 per cent in 1972-73 to 74 per cent in 1987-88 is less significant than that the proportion is still so high after 40 years of planning! This can hardly be called egalitarian in its achievements whatever be its intent. Other economies which did not proclaim their egalitarian principles with great fanfare have achieved faster and more egalitarian growth than India.

Statement

It is inappropriate to compare India with South Korea or Taiwan and argue that India missed the opportunity for faster development. If India were to be divided into a thousand countries of the size of Taiwan, certain sections of it would doubtless record a rate of growth faster than Taiwan's.

Response

This is a silly argument. India is not *sui generis*. The belief that "comparisons with other countries, though occasionally helpful and useful, are illusory. They can never find the answers to the problems of any country at any time" [Arun Ghosh, *EPW*, June 18, 1991] is fundamentally misconceived. In any case, an overwhelming majority of the 100 or so developing country members of the UN are even smaller than Taiwan. But few of them can claim to have achieved the sustained and egalitarian development of Taiwan. If anything, the size of Indian economy with

its large internal market and a unified monetary system and few internal barriers to trade (if not labour movements) should have been an advantage rather than an obstacle to development. Once again our development strategy failed to exploit this advantage, but instead through 'planning' created high-cost inefficient industries of less-than-economic scale and sheltered them from foreign and domestic competition. Self-reliance, an arguably sensible objective, was perverted into self-sufficiency in everything. From a national resource allocation perspective, there is no particular advantage in self-sufficiency *per se*, whether it is with respect to food grains or to nylon stockings. Nor does national sovereignty and honour hinge on any particular exchange rate for the rupee—it is a price, albeit an important one, like any other price such as that of crude oil! Its administratively set value can be, and in India has been, unsustainable. What is crucial is that the economy generates enough foreign exchange through exports that are internationally competitive (and from borrowing) to pay for imports that cost more to produce at home. Borrowing is appropriate provided the borrowed resources are used in a way that the economy can service its debt in the future. Our self-sufficiency in many areas has been bought at a very high cost.

By some measures, the Indian economy is not large, thanks to a failed development strategy, in terms of value added our manufacturing sector in 1989 at US \$ 44 billion is smaller than South Korea's US \$ 54 billion. These figures, taken from Table 6 of the World Development Indicators section of the 1991 *World Development Report*, may overstate the Korean figures because they are in *purchaser's* rather than *producer's* prices, even if the usual problems of exchange rates used for conversion, etc, do not bias them in one direction. Still, it is unlikely that Korea's manufacturing sector would be smaller than India's given the rapid rate of growth of the former over the last three decades compared to India's. Table 17 of the same report shows that Korea's manufactured

exports to OECD countries totalled US \$ 43 billion in 1989 compared to India's paltry US \$ 8 billion. China's exports grew at 11.6 per cent per year on average during 1980-89, a rate that was twice India's. Closer to home, Pakistan's GDP grew at 5.2 per cent per year during 1965-80 and 6.4 per cent per year during 1980-89. The corresponding figures for India are, respectively, 3.6 per cent and 5.3 per cent. Thailand's performance is better than Pakistan's. The notion that comparisons with other countries are not very helpful is that of the proverbial "frog in the well".

Statement

South Korea and Taiwan are authoritarian regimes, while India is a plural democracy. Both countries are by no means *laissez faire* economies and their governments intervened in the economy extensively. There are many things wrong with us. But let us not run away with the idea that a *laissez-faire* economy will be the solution to our problems.

Response

It is naive to argue that the authoritarian regimes in South Korea and Taiwan had a lot to do with their success, while India's plural democracy explains its failure. Once again, authoritarian regimes are far more numerous than democracies in the developing world and not many of these have succeeded in generating egalitarian growth. Authoritarianism and small size are neither necessary nor sufficient for success.

There are no *laissez-faire* economies in the world. No one has ever suggested that Korea was a *laissez-faire* economy or that India should become one. The relevant issue is not that the Korean government intervened in the economy but that Korean interventions, unlike Indian ones, did not distort resource allocations seriously and, if they did, they were soon given up. For example, Koreans withdrew from investment in heavy chemicals when they found it was a mistake rather than run them in the public sector as sick enterprises!

Statement

India is a soft state—we do not tax the really rich and in fact, we do not collect the taxes that they should pay. What we have succeeded in doing in the last five years is to attain a rate of growth of 5.5 per cent per year at the cost of future growth, we are not only close to the debt trap internationally, we are in a debt trap internally.

Response

The Myrdal notion of the Indian state being soft is somewhat of a myth. Far from the softness of the Indian state in

the Myrdal sense, it is the softness of the budget constraint (to use Kornai's term) of the bloated Indian public sector and the bureaucracy that is at the heart of the problem. Be that as it may, the extent of redistribution that can be achieved through the fiscal system is fairly limited. If the socio-political system is unable or unwilling to redistribute assets, it is unlikely to redistribute income after its generation through the fiscal system anyway. Attempting to influence the distribution of consumption, through the negative instruments of industrial and import licensing is unlikely to succeed and has not succeeded in reducing inequalities. In the old days, automobile imports were banned because they were luxuries, but their high cost domestic production and administrative allocation at fixed prices to the elite was not viewed as inconsistent with egalitarianism. Pepsi is viewed as a luxury but Gold Spot is not! It should be obvious that under these circumstances the prospects for the poor depends on how fast the economy grows and raises the demand for and the returns on the assets with which the poor are endowed. Since in our economy the basic assets of the poor are essentially their labour, successful egalitarian development strategy would have emphasised skill accumulation and rapid growth of productive employment opportunities. Alas, the Indian strategy failed miserably in this regard.

Whether or not the rich are adequately taxed, it is certainly the case that the tax revenues as a share of GDP have risen substantially over the last four decades, but the revenue has been increasingly squandered. The revenue deficit reflects in part the growth in subsidies of various kinds (food, fertiliser, exports, etc) and the soft budget constraint of the public sector. But for the natural resource rents earned from the nation's petroleum resources, the losses of the public sector enterprises would be a much higher proportion of GDP. And the subsidies, particularly export subsidies, reflect the fact that a bad policy in one area imposes costs on another, to wit a restrictive import control regime and an overvalued exchange rate imposes costs on exports, which if not offset by subsidies, would affect exports adversely. The silliness of the policy, at least until recently, was that the import controls were largely in the form of quotas with tariffs being low enough to allow significant quota rents, thereby robbing the revenues that otherwise might have accrued to the state. Fertiliser subsidies in part reflect a whole series of bad policies relating to the domestic fertiliser industry and the inability to exercise the market power that a large importer such as India in principle has in international markets.

The faith of the fifties that the pricing, output and investment policies of the public sector would be used to generate resources for investment, to direct the private sector development along socially desirable lines, to set an example for the private sector as a model employer, and so on and so on, has proved to be naive, if not a malice, aforethought. Unsurprisingly, what happened, of course, is that the huge and over-manned public sector, including the public enterprises in the financial sector (commercial banks, LIC, etc.), has redistributed income in favour of the well off. Scandalously abused medical reimbursement schemes, leave travel concessions, subsidised housing, etc. to mention just a few, not only redistributed income to the well off which includes the labour aristocracy in the organised sector but eroded the revenue surplus. Anyone who has had dealings with the LIC can testify to its colossal inefficiency. The nationalised banks and term lending institutions are no better! They are over staffed, they over pay their staff and are inefficient. Aided and abetted by politicians through their loan moras and loan moras, they have reduced the commercial banking system to near bankruptcy while implicitly taxing their depositors by paying them low real interest rates. What all this means is that the savings of the public are being squandered by the LIC and financial system.

It is true that India is getting close to the debt trap and indeed we may catch the Latin American disease. However it is not just the policies of the last five six years that brought this about but the development strategy of the last four decades. The so called 5.5 per cent growth of the eighties is in part the reflection of employment expansion in the service oriented public sector. Since there is no direct measure of productivity in service sectors, if government pays a higher real wage to a larger number, even though there is no change in productivity, it will be counted as real income growth. But its cost would be reflected in larger budget and current account deficits financed by domestic and foreign debt. The otherwise interesting study of Vijay Kelkar and Rajiv Kumar [1990] which documents an increase in growth rate in the eighties in many industries does not examine whether total factor productivity increased (or at least did not fall) at the same time. Growth rate comparisons across countries and over time within a country can be misleading even if problems of aggregation, price deflation, exchange rate conversion were absent. After all, one could sustain growth for a while by simply using more and more inputs in the face of declining productivity as the Soviets did.

Such comparisons have to be supplemented by resource-use efficiency comparisons.

Statement

What is happening in eastern Europe and the USSR is tragic. It should certainly be an eye-opener. It shows that one should never get too far away from the people and that is what some of the party leaders in eastern Europe did.

Response

What is happening in eastern Europe, far from being a tragedy, is the inevitable denouement of a failed, oppressive and murderous system. Eastern Europeans are realising that it is the system that failed and has to be replaced. Mere reform of the old system is pointless. This is not to say that changing the system will be easy or costless. Nor is it to say that eastern European countries wish to or will become *laissez faire* economies. But what is clear is that the old system is dead as a door nail. The change-over to an as yet ill defined new system will be inevitably painful even if the rich industrialised market economies decided to help eastern Europe generously. After all, the mess accumulated over seven decades in the USSR and over four decades in eastern Europe cannot be costlessly cleared overnight. The destruction of enterprise and initiative had gone too far to be rejuvenated at a wink, societies that eliminated the market system cannot hope to revive it instantly. As per the current joke in that region, socialism is the longest and costliest road from capitalism to capitalism!

Nationalism and Communal Politics in India, 1885-1930

Mushirul Hasan

1991, Demy 8vo, 338p Rs 300

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For not was not the only one who massacred millions. Stalin did it before him and so did Mao who let over 20 million die in the avoidable famine of the late fifties. More and more horrors of the Ceausescu, Zhukov and Hoxha regimes are being revealed as time goes on. All this says something about their system! In eastern Europe the party was imposed on the people by Soviet power—the leaders were not close to the people to begin with. It should come hardly as a surprise to anyone in India that those who controlled the allocation of goodies allotted lots of it to themselves—the privileged life of the *nomenclatura* in the Soviet Union, the now-made-public lifestyle of Honecker and other East German leaders, not to mention the privileged life of the party elders in China, are what one should have expected to find whenever the veil of secrecy is lifted.

Statement

Opening up the economy to international competition is not the solution to India's problems. There is a real danger that recourse to IMF assistance in the short run may force the country into adopting policies that have a high long-run cost. The first step in liberating the Indian economy from the shackles of bureaucratic control is not trade reform of the type recommended by the World Bank.

Response

The statement reveals an unwarranted national inferiority complex. We are mature enough to examine suggested policies, regardless of the origin of the suggestions, on their merit: we should not accept unsound policy advice and reject sound ones depending on the source from which the advice originated. We need not fear competition, domestic or foreign: on the contrary, many of our failures in the industrial sector are due to lack of competition. The fact that any opening up to competition, domestic or foreign, will necessarily threaten the continued existence of some industries should not deter us from such an opening. The issue is not the reality of such adjustment costs: it is whether our present development strategy is sustainable. Clearly, if the pursuit of self-reliance and indiscriminate import substitution over four decades have not at all eased our balance of payments constraints and, in fact, have brought us to the desperate situation of having to go to the IMF and the World Bank in a position of weakness, rethinking of the strategy is surely called for.

We in India have to face up to the fact that our development strategy and the whole bureaucratic planning and control system that implemented it have failed. The failure is *systemic*, just as it was in eastern Europe. Merely changing the cast

of characters in the political leadership, bureaucracy and Planning Commission, but by and large keeping the system as it is, will not do. Changing the system does not mean changing the objective of our development: eliminating poverty should continue to be the overarching objective of policy. But what we need is a *system* that will achieve the objective, not one that grinds the poor down further all the time, chanting the mantras, self-reliance, socialism and planning. Alas the editorial and other pages of the *EPW* continue to invoke these mantras!

Let me conclude this exchange with an episode involving one of the most perceptive, pragmatic, non-ideological and dedicated of India's planners, the late Pitambar Pant, under whose guidance I had the privilege to work at the Planning Unit of the Indian Statistical Institute at Delhi. This episode was recently recalled by Attila Karaosmanoglu from Turkey who is currently a vice president at the World Bank. I quote,

I would like to conclude with one really precious memory I think it was in January 1961. It was two or three in the morning in the garden of one of the houses that were given to civil servants in India, and I was with Pitambar Pant. He kept asking me a lot of questions about Turkey in his machine-gun style. What is the rate of growth? What is the composition of GDP? What is the savings rate? What is this, what is that, etc., and I was trying to answer as quickly as I could that we had only an export level of

about \$ 500 million. We were trying to stretch our imagination to see whether we could make it \$ 550 million. Per capita income was over 150 dollars and the rate of growth in Turkey in those days for the last five years had been about five per cent. He turned to me and said, "Attila, why are you trying to plan?" He said, "If I get to that point, I will stop all the planning in India."¹

Attila concluded, "Maybe the time has come" for India to abandon planning, at least as it has been practised in the last four decades. I agree with him.

Note

[This is based on my correspondence (early in 1990) with a senior Indian economist. I apologise to him in advance if I have in any way distorted his views in the following statements. In any case, the views expressed in these statements are held by many, including many contributors to this journal.]

1 From the remarks of Attila Karaosmanoglu, vice president, summarising the discussion at an Asian Region Seminar on Policy Changes in India, World Bank, October 1990

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Faces of Oppression

Ashok Rudra

Of Women, Outcastes, Peasants, and Rebels: A Selection of Bengali Short Stories edited, translated and with an Introduction by Kalpana Bardhan, University of California Press, 1990

FOR one would most enthusiastically agree with the author that many deeper aspects of the social reality can be understood much better with the help of literature than what is possible by the application of statistical, anthropological or sociological methods. Literature as social commentary helps us to "gain valuable insights not only into behaviour, but also into the thoughts, beliefs, and motives underlying behaviour." It also helps to "understand the micro sociology of behaviour within the layers of social relations—relations between individuals, between groups variously situated in society, between individuals and the group—and the contradictions in these relations." The author claims, and we agree, that "literary realism, which describes both the mental and the material lives of groups and individuals, is perhaps the only medium capable of revealing the nuances of the relations between the oppressor and the oppressed, between the dominant and the subordinate." With this philosophy of science in her mind, Kalpana Bardhan, who is familiar to the readers of this journal as a distinguished economist, has thought it fit to turn away from the kind of economics she did earlier and makes her appearance on the stage of literature as the translator and editor of a collection of Bengali short stories in English. Her purpose in undertaking the venture, in her own words, is "not so much to precisely represent modern Bengali literature by way of the short stories as to show the faces of oppression, the facets of power relations, and the figures of resistance and rebellion." A "connected purpose has been to reveal 'parallels' between different forms of oppression, and to present 'various angles'." The purpose has been amply served. In addition, almost as a byproduct, the volume also gives an idea to all readers who do not read Bengali, in India as well as the rest of the world, the wealth that is possessed by contemporary Bengali literature. For the stories selected are some of the finest examples of modern Bengali short story, many of which would certainly qualify to be in the very first rank in world literature as a whole. The editor explains why she has chosen stories rather than novels "because I could thereby encompass, within a book of manageable length, several aspects of the social processes seen at different levels and from different angles."

The aspects of oppression that the stories are selected to represent are various, the spectrum covered being very wide. It can

hardly be wider, as the following explanations by the editor indicate:

"Oppression does not always take the form of outright exploitation, subjugation, and antagonism. Love itself can oppress, when one is slave to false notions of love."

"Sometimes an idea or belief oppresses, especially when it is internalised by the victim, a process often condescendingly called 'false consciousness'."

"Underneath the seeming compliance in many of the cases, under widely different circumstances, exists a variety of struggles, resistance, rebellion and revolt—at the level of ideology and thought, and sometimes also at the level of action, gesture, and cultural practice."

Not only these, even "paralysis of the natural human urge to protect the loved one, especially one helplessly dependent on that protection", is also treated as an oppressor or rather "a key factor in the pathogenesis of oppression." The editor herself presents a classification of different kinds of oppressions covered by her.

"In seventeen of the twenty stories, the protagonist is either female or a member of a denigrated (outcaste, tribal, ethnic) community, and in at least four she is both. In six stories, the protagonist is a woman belonging to the middle or upper socio-economic strata. In six others she is a member of the labouring classes (peasants, wage labourers) in three cases also an untouchable outcaste. The woman's viewpoint, thoughts and behaviour form the central focus, the direct subject, of thirteen stories. In two or maybe three stories, she is the passive subject. In five or maybe six, she is a tragic heroine, the tragedy arising not from a contradiction within herself in the classical tradition—but from the crushing or disintegration of her personal battle of resistance. In three, she is the counterpoint to the constrictive social and familial patriarchy, from within which she battles."

All these different oppressions constitute nothing more and nothing less than what Malraux described as '*La Condition Humaine*' and what Somerset Maugham packed so powerfully into the phrase "Of Human Bondage". Kalpana's coverage is even wider for she includes even the theme of the Pakistani army's massacre of Bangladeshis in which she finds (very unconvincingly to me) a parallel with "the destruction of a rebellious lower class woman by socially superior men" the subject of two stories in the collection. It is intriguing why Kalpana

did not choose a simple title, like say, 'Faces of Oppression' but goes in for the clumsy one that she has. She has obviously tried to make a complete enumeration of the victims in her collection but as her own very learned and competent discourse on the themes of oppression and rebellion and the 'tactics of the powerless' shows, she fails to complete the enumeration. That, of course, is bound to be so as oppression is a continuum of the human condition and does not constitute a countable set.

Whether one wants to generally represent the quality of a certain literature or communicate the way a particular theme is treated in that literature, there can never be a selection that would satisfy all readers. The editor's selection, made with much thought and deliberation, is very much to my liking but for two stories. I would not have included Hasan Azizul Huq's story about the rape of Bengal by the Pakistani army for reasons of thematic cohesion: the story has not for me either any parallel or any intersection about which the author speaks so much. I would have also dropped Manik Bandyopadhyay's 'The Old Woman' for being utterly insignificant.

The other point which any book of translation demands to be commented upon is the quality of translation. As is agreed by all, there can never be any translation of poetry: there can only be trans-creations. It is a part of my ignorance about literary matters that I do not know if such a position is taken also about literary forms other than poetry. Whatever be true of translations from and to such languages as English, French and Russian, when it comes to translation from Bengali into English there cannot but be many problems which defy satisfactory solutions. The collection in front of us is no exception. When the translator uses the expression "golden moon" in connection with a person the Bengali reader would shudder but all the same understand that the original expression is 'sonar chand', a colloquial phrase used endearingly or mockingly. But when I come across a sentence like the following even as a Bengali I fail to reconstruct the original: "a daughter born is already gone to husband or death." And what Bengali reader would be happy with the following rendering of the famous last line of 'The Living and the Dead': "On all their minds rested the disturbing knowledge that Kadamini had died last night to prove that she was not dead before." Where is the ever lingering resonance following the dull cosmic thud of the sentence in the original? A free rendering of which would have been something like "By dying Kadamini proved that she was not dead."

This matter—faithfulness to the original in meanings and nuances—is best left aside, for trans-creation is itself an artistic activity and every artist has his or her own prefer-

ances and convictions. We, therefore, propose to restrict ourselves in the rest of our criticism to the long introduction by the editor. This part is just as important as the stories themselves, for here the author reveals her understanding of the particular world—social, political, psychological and moral—which the stories are supposed to tell about. The introduction is brilliant and learned and for that very reason is bound to be subject to differences on various points with any serious reader. The essay has got three connected overlapping parts. The first is a general and summary history of the social conditions in the region inhabited by the Bengali-speaking people. In a second part the editor says some words about the five authors selected—Rabindranath Thakur, Tarahankar Bandyopadhyay, Manik Bandyopadhyay, Mahasweta Devi and Hasan Aziz Huq. In the third part the author makes some critical introductory comments about each individual story.

About the first part I am glad to see that Kalpana has had the courage to use the phrase 'nineteenth century Bengal Renaissance' and express a positive appreciation of the men and women and their social practices which are referred to by that phrase. It is possibly not known outside Bengal to what extent it has become fashionable in Bengali intellectual circles, cutting across all ideological lines from the extreme left to the right, to dismiss the entire 19th century Bengal with all its reformist leaders for their unpardonable sin of having collaborated with the Britishers and not having taken sides with the numerous peasant and tribal revolts. Sushobhan Sarkar, whom the editor quotes, was a loner stoutly refusing to fall in line with the trend and so did a handful of other intellectuals. The writer of these lines has made himself quite unpopular in left circles for taking the stand that in judging an individual or an event in history as being progressive or not one has to keep the historical context in mind, otherwise one makes nonsense of the very concept of the 'progressive', which is a relative valuation. It is not only naive to apply to Ram Mohan Roy the yardstick that one may apply to a left intellectual in the last quarter of the 20th century; it is pernicious, given that even if one makes such an ahistoric comparison, Ram Mohan Roy and other leaders of the 19th century reformist movement may prove to be more committed to their country and their countrymen than most of their critics of the late 20th century who mouth 'subaltern' slogans but live in elitist style and surrender themselves to the cultural imperialism of the west much more greedily than their 19th century peers ever did. It is, however, a pity that Kalpana, after refusing to devalue the 19th century, gives in to the terrorising techniques of the fashionable subaltern school of intellectuals. She tends to overestimate the radicalism of the trends in the Bengali literature. The radical character of the stories in her selection do not represent the mainstream Bengali literature of the last one

hundred years. They are marginal and exceptional.

The following account therefore is not acceptable to us: "Bengali intellectuals, writers, poets, and artists who were young during the Tebhaga movement, the 1943 famine, and the subsequent food riots and marches, became radicalised in consciousness and creative expression. In their work they tried to confront the contradictions between middle-class sentiments and the realities of middle-class life, even within their own lives and surroundings."

I was once asked by a Bengali periodical to write a substantial essay on political novels in Bengali literature. I was quite aghast at the discovery that I made at the end of my extensive researches. I found that the sum total of political subjects treated centrally in Bengali literature is incredibly small. There seem to be hardly any novels which give any convincing portrayal of the freedom struggle either of the terrorist stage or of the later mass movement stage. It is appalling how the decade of the forties has been left almost untouched in all of Bengali literature. That decade shook with one trauma after another from beginning to end. There were in 1941 Japanese bombs and suddenly destituted refugees from Burma trekked into India, many of them on foot over the Arakans. In 1942 there was the Quit India Movement and in 1943 the Great Bengal Famine in which some millions perished, lakhs of them in the streets of Calcutta. After that the INA soldiers returned and Calcutta burnt with street fights between the mob and the police. In 1946 Hindus and Muslims massacred each other and after 1947 refugees from east Pakistan flooded into West Bengal. In 1949 Calcutta became the arena for the armed struggle unleashed by the Communist Party of India. Of all these epochal events only the partition has left a deep mark on Bengali literature. All the others have hardly received any attention whatsoever.

The editor records, probably correctly, that Mahasweta Devi, one of the authors selected by her, acquired her radicalism from the Naxalite movement but she is alone in that position. Incidentally, Kalpana gives a somewhat misleading account of the Naxalite movement. It was by no means a "revolt of tribal and landless peasantry against landlords and moneylenders in areas of northern and central West Bengal and south eastern Bihar." It was by and large a revolt of urban middle class youth *on behalf* of the tribal and landless peasantry. That is, one more case of a movement from above.

Our appreciation of Bengali literature is, therefore, altogether different from Kalpana Bardhan's. The forte of this literature, according to us, lies in its portrayal of individual and social life by the strictly impressionist method—impressionism to be understood, as distinguished from expressionism—and, in addition, innocent of any ideological colours and also innocent of any analysis of any problems.

The brief sketches of the authors that the editor presents are useful and adequate and do not invite many comments excepting in one case. Kalpana Bardhan, like everybody else in the world of Bengali criticism, highly over-rates both the radicalism and the pure literary qualities of Manik Bandyopadhyay. As Bengali readers know, Manik has by now become something of a cult figure, the supposed first 'really modern' writer in Bengali; according to some, the best novelist since Tagore. I, however, think that Manik's modernism is no more than a phony mixture of party line Marxism and superficial Freudianism.

The brief notes that the editor provides for each selected story are all extremely perceptive and penetrating. Frankly, I have to admit that she has succeeded in drawing my attention to meanings and significances within many of the stories of which I was not aware from my own readings. But here, too, Kalpana is time and again led astray by her subaltern bias. She discovers in the downtrodden characters a consciousness and stances which are not there but are merely projections of her own values. Talking of a peasant, Karam Ali, she writes: "Like many other toiling peasants, he is profoundly aware of the enormity of his oppression as well as the enormity of his resistance." It is, however, not true that there are all that many Karam Alis among Bengali peasants. That the author is projecting her own consciousness into her characters is quite clear when she writes about Mahasweta's most power

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the story 'The Living and the Dead'—a relation that is brutish and nakedly business-like—the very word 'love' seems to be out of place. To see in the story any "monstrous oppression wrought ultimately by the exploitation of the landless peasant in rural Bengal" is only a projection of an elite mind in search of subaltern visions. One more example. The suicide in the finale of the Tagore story 'The Living and the Dead' is for me an action taken in sheer desperation in the heat of the moment. Kalpana finds 'boldness' in the act and a motive to shame the people who are the unwitting cause of her distress.

Even apart from the editor's penchant for discovering class consciousness where it does not exist there are many other interpretations she gives of many stories which I find difficult to agree with. For example, the comments she makes about Tagore's story 'The Punishment'—undoubtedly one of the very best short stories ever written—are for me quite bizarre. Kalpana talks of insult of 'conjugal love' whereas in my understanding in

the kind of marital relationship depicted—a relation that is brutish and nakedly business-like—the very word 'love' seems to be out of place. To see in the story any "monstrous oppression wrought ultimately by the exploitation of the landless peasant in rural Bengal" is only a projection of an elite mind in search of subaltern visions. One more example. The suicide in the finale of the Tagore story 'The Living and the Dead' is for me an action taken in sheer desperation in the heat of the moment. Kalpana finds 'boldness' in the act and a motive to shame the people who are the unwitting cause of her distress.

We need not give any more examples. Any high quality work of art is a many splendoured diamond and different appreciations by different readers of the same piece of work is only normal. That in no way detracts from the merit of the volume that surely is an important contribution to literature and literary criticism.

Pyu Civilisation

Peter Nolan

The Ancient Pyu of Burma, Volume I, Early Pyu Cities in a Man-Made Landscape by Janice Stargardt; Cambridge, PACSEA, in association with ISEAS, the Institute of Southeast Asian Studies, Singapore, 1990, pp XXIX + 416, notes and bibliography, 135 figures, 35 plates, including 3 folding mosaics of aerial photographs of Pyu cities and landscape with 3 associated archaeological maps in pocket, £47 hardcover, £27 softcover

THIS elegant piece of archaeology is of great interest to historians and social scientists. It provides the first instalment in a projected two volume work on the Pyu culture of Burma, which lasted from the second century BC to the ninth century AD. The book is based on both the author's own research and that of the Archaeological Survey of Burma. This volume presents extensive detailed evidence on one particular site, Beikthano as well as providing information on comparative features of each of the four main Pyu cities.

The Pyu civilisation developed in the dry 'niche' in Burma's meteorological map, namely the upland river valleys which eventually fed into the Irrawaddy floodplain. It might appear paradoxical that an irrigation based rice agriculture should develop away from the areas of highest rainfall, yet Stargardt demonstrates that far from being the exception, the Pyu shared this characteristic with other irrigation rice cultures of south east Asia. She argues convincingly that water supply could be controlled more successfully away from the main floodplain on smaller rivers. At the centre of her account of the emergence of Pyu civilisation is a detailed description of the Pyu irrigation system. The technology includes tanks with their associated bunds and (probably) sluice gates, a variety of weirs with different associated devices to control the flow of water, and complex systems of canals. The

system inescapably brings to mind the more famous ancient Chinese irrigation system, Du Jiang Yan, in Sichuan province, about which much has been written.

Inevitably the easiest archaeological remains to identify are those of urban centres. From the associated evidence Stargardt demonstrates the sophisticated cultural level attained by the Pyu. They developed a complex state structure. Almost certainly, their economy was characterised by considerable socio economic differentiation based on private land ownership with an associated land market, long distance trade, and division of labour within the handicraft industrial sector. Pyu cities were much larger in area than their contemporary European counterparts. Unlike European cities, the Pyu cities incorporated considerable areas of farmland (and associated irrigation systems) within the city walls, alongside a European style core area of dense urban settlement and markets.

This volume contains a detailed account of the Pyu belief system. This includes the relatively independently-developed concepts of the pre-Buddhist epoch as well as the later process of absorption and 'Pyuisation' of Buddhism. Stargardt analyses the ways in which the Pyu established trade contacts with Buddhist cultures well before Buddhist ideology took a strong root among the Pyu people.

For this reviewer, the most interesting aspect of the book is its analysis of the connection between Pyu irrigation systems and the nature of Pyu state and society. The Asiatic Mode of Production approach would see the complex Pyu irrigation systems and the associated cultural development as evidence of irrigation technology providing the functional necessity for a strong despotic state to organise irrigation. Stargardt's line of argument parallels that of Ho Ping-ti (*China Cradle of the East*, Chicago, Chicago University Press, 1974) in relation to early Chinese irrigation. She demonstrates that, despite their ingenuity and sophistication, the Pyu irrigation systems were not generally large centrally-directed projects. Rather, the typical level of organisation was the village. At their peak, the Pyu kingdoms owed their prosperity above all to the large agricultural surpluses facilitated by irrigation. However, the main body of the Pyu irrigation works were developed through local experimentation and local solutions to the requirements of collective action necessary to build them. Especially striking is the evidence which Stargardt uses from British colonial hydraulic engineers who found the basic features of the irrigation systems still operating, albeit in reduced form, one thousand years after the end of the Pyu civilisation.

The question which springs to mind is why it should have been that some traditional rice growing Asian societies (e.g. large parts of central and southern China) were more successful than other areas in Asia (e.g. much of India) at developing village based solutions to the problems of co-operation presented by the need to construct complex irrigation works if agricultural yields were to be pushed to higher levels enabling higher densities of population. Stargardt does not follow the 'Boxerup' track of relating agricultural technical progress to growing population pressure, and it may anyway not be possible to explore this line of argument rigorously with the evidence she has available. However, her account leads one to speculate in this area even if the causes of technical progress in Pyu agriculture cannot be identified unambiguously.

A brief review cannot do justice to the high degree of interest in this outstanding piece of scholarship. It is of great value not just to south east Asianists but also to anyone interested in comparative political economy of ancient civilisations. Indeed, the work is distinguished by its insistence on integrating a detailed analysis of the minutiae of archaeological evidence with the wider sweep of socio economic analysis, often with illuminating comparative insights. Janice Stargardt and the Cambridge project on ancient civilisation in south east Asia are to be congratulated on their pioneering work in this area (or which this volume is but a part) which has hitherto received far less attention in archaeological studies than it deserves.



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Symbol of our Independence
Symbol of the sacrifices made
by millions during our struggle
for freedom

We remember today the people-
of all religions, all castes,
all languages all States, rich
and poor, men and women, old
and young - who fought for the
nation's security and progress

This flag is dear to our hearts
Commands our respect
It's a symbol of India's strength
And it binds us all together

Guard the Glory of the Flag

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Girl-Brides and Socio-Legal Change

Age of Consent Bill (1891) Controversy

Meera Kosambi

The Age of Consent Bill enacted in 1891 formed a vital link in the movement for women's emancipation in the 19th century. The major women's issues of the time were abolition of child marriage, more humane treatment of widows and their right to remarry and education of women. The age of consent issue was integral to the child marriage question and the technical distinction between the two was often blurred in the actual controversy. The Consent Bill aimed to set a reasonable age limit below which a girl was considered to be incapable of giving consent to cohabitation and thus to ensure that her childhood was protected from physical coercion.

This paper attempts to analyse the major strands of this controversy. The author's focus is primarily on Maharashtra, but parallel movements in other presidencies and provinces are also covered.

THE recently celebrated International Year of the Girl Child coincidentally marked the 100th anniversary of what was, in retrospect, India's uncelebrated, but by no means unnoticed, Year of the Girl Bride. In fact, it was a landmark event which caused an uproar throughout the subcontinent, forging alliances and creating fissures along social, cultural and political lines. The brief but intense period spanning the controversy sent reverberations into many spheres of domestic as well as public life, reaching well into the future.

The epicentre of the controversy was the Age of Consent Bill whose introduction practically launched the year 1891 and whose enactment was concluded before the year completed its very first quarter. Today, a hundred years later, the bill might seem neither radical nor revolutionary enough to have provoked such a disproportionate reaction, unless it is examined against the contemporary social reality. The bill proposed to set a minimum age limit of 12 years for girls with regard to cohabitation, thus affording girl brides a protected childhood.¹ This proposal struck at the very heart of the orthodox Hindu marriage system and threatened its patriarchal ideological mooring.² The whole issue, socio-religious at the core, was soon engulfed in legal and political debates, and acquired a significance far beyond that merited by its technical nature as a legal amendment to raise the earlier age of consent set at 10 years by the Indian Penal Code.

This essay attempts to analyse the major strands of this intricate controversy. An appreciation of its implications for and impact upon the contemporary society is facilitated by setting the socio-legal context in Section I, the progression of events from the early momentum in the mid 1880s to the final climax in 1891 is traced in Section II, the nature of the controversy and the principal issues involved are described in Section III and finally, Section IV concludes with a brief glance at the political repercussions of the controversy.

I

The Socio-Legal Context

The age of consent controversy formed a vital link in the general, albeit largely unorchestrated, movement for women's emancipation in the 19th century. As is well known, the major women's issues were the abolition of child marriage, a more humane treatment (and if possible, remarriage) for widows, and education for women. The age of consent question was integral to the child marriage question, so that the technical distinction between the two was often blurred in the actual controversy.³ Traditionally, the Hindu marriage sacrament consisted of two components. The first part was the wedding ceremony itself which was mandated to take place any time during the girl's childhood, from infancy to about the age of 10. The second part was the consummation or *garbhadhan*—literally, the impregnation or conception ceremony—a name which directly linked sexual intercourse with the sacred duty of procreation. It was obligatory to perform it within 16 days of the bride's first menstruation. This latter custom was endangered by the age of consent proposal because of the possibility of the bride's reaching puberty during the two crucial years between 10 and 12. This potential threat generated the controversy which brought into focus, for the first time, a whole complex of women's issues interlinked with the marriage system.

Firm foundations of the patriarchal ideology which underpinned the 19th century society and locked its women into the life-long wife-mother role, were laid down centuries earlier in the Hindu religious and socio-legal treatises. In its authoritative tone, the *Manusmriti* had declared the woman to be inherently weak and in constant need of discipline, having been endowed by the Creator specifically with a love of her bed, her seat, and ornament, and generally with impure desire, wrath, dishonesty, malice, and bad conduct. It was imperative, then, that she be constantly controlled by a

man—the father in her childhood, the husband in adult life, and the son in her widowed old age—undeserving as she was of independence. The surest means of controlling her sexuality was to harness it to marriage and childbearing, and this primary wife-mother role was sacralised through the performance of the *garbhadhan* ceremony. This ritual therefore acquired a pivotal significance as the socio-religious sanction which turned the girl-woman into a legitimate instrument of her husband's sexual gratification and a medium of procreation.⁴

This male-dominated normative framework, which treated the woman as an appendage and property of her husband, rendered the concept of 'consent' irrelevant in a marital relationship. In the eyes of the orthodox, the Hindu scriptures entitled a girl not to freedom, but to be given away as a (sacred) gift—through 'kanyadan'—to her husband [*Indu-Prakash*, February 9, 1891:3]. By definition, then, the person who gifted her away also bestowed her consent on her husband.⁵ In addition, the onset of puberty in a girl was construed as a clear signal given by nature for the commencement of married life, irrespective of her age at the time.

In strong opposition to this stance, the reformers (while retaining a patriarchal view of women's subservience and their primary wife-mother role) insisted on a higher level of physical maturity in the girl bride before starting married life so as to avoid harming her. In terms of social change, the reformist position sought to ameliorate the harshness and extreme expressions of the patriarchal system rather than to challenge it altogether.⁶

Translated into concrete action, this position had already successfully initiated legislation to advance the women's cause, such as the abolition of 'sati' in 1829, the legitimisation of Hindu widow remarriage in 1856, and the abolition of female infanticide in 1870. The proposed Consent Bill aimed to set a reasonable age limit below which a girl was considered to be incapable of giving consent to cohabitation, even with

her own husband, and thus to ensure that her childhood was protected from physical coercion. This was presented primarily and emphatically as an amendment to the existing law, or what amounted to plugging a legal loophole. The Indian Penal Code, in operation since 1860, listed a series of offences which were punishable if committed against a non-consenting person. It also laid down the minimum age limit varying from 10 years in certain cases to 12 or even 16 in others, below which a person was considered to be unfit to give intelligent consent to an offence committed upon him/her. As far as cohabitation within or outside marriage was concerned, the law laid down 10 years as the minimum age limit for a girl below which intercourse with her was punishable as an offence of rape. Above this age limit, intercourse by the husband (with or without the wife's consent) was not an offence, and intercourse by a stranger with the girl's consent, was not punishable. The discrepancy among the various minimum age limits for "consent" was the crux of the legal angle of what was essentially a social (and religious) controversy. While an increase in the minimum legal age limit for cohabitation from 10 to 12 years, as proposed by the reformers and laid down in the bill, would protect the girl, it would, in some cases, violate the injunction to consummate marriage immediately upon the wife's reaching puberty. The girl bride's right to protection was thus pitted squarely against the husband's marital right, also enjoined by religion as a sacred duty.

II

The Progression of Events

The question of child marriage pioneered the tradition of nationwide networking among reformers and produced a considerable exchange of ideas across regions [Heimsath, 1962:491-92, 1964:147-48]. Consequently the age of consent controversy, although ignited first in the Bombay Presidency, swept across all parts of the subcontinent and even penetrated into Britain. The present article focuses primarily on Maharashtra, but attempts to cover parallel movements in other presidencies and provinces as far as possible (without however making any claim as to the adequacy of this coverage).⁷

The three pronged and mostly simultaneous progression of events included, firstly, the initiatives taken by Behramji M. Malabari, a Parsi social reformer, secondly, the legal machinery of the government leading first to the bill and then to the act, and thirdly, the agitation by reformers and anti-reformers.

The chain of events culminating in the passage of the Age of Consent Act of 1891 may be traced with justification to the note on infant marriage in India (together with that on enforced widowhood) circulated from Bombay on August 15, 1884, by Malabari. This, in itself, was a somewhat

paradoxical event, since the problem of child marriage was considered to be practically non-existent among the Parsi community.⁸ Also, the move was resented as undue interference from an uninformed outsider into Hindu affairs. However, Malabari's influence over progressive thinkers, both in India and in Britain, was considerable. The note on infant marriage (loosely interpreted as child marriage) vehemently castigated the practice as a more serious evil than infanticide which had already been abolished by British law. "For, whereas the latter was one short struggle, in which the victim was almost unconscious, an ill-sorted infant marriage entails life-long misery on either or both parties. Infant marriage is the cause of many of our social grievances, including enforced widowhood." The worst case scenario painted by Malabari was that of "married martyrs", "socially alienated from each other, though perhaps living under the same roof." Even in the event of the marriage turning out to be happy, there was another set of problems in store for the couple. "A too early consummation of the nuptial troth, the breaking down of constitutions and the ushering in of disease, the giving up of studies on the part of the boy husband, the birth of sickly children, the necessity of feeding too many mouths, poverty and dependence, a disorganised household leading perhaps to sin. In short, it comes to a wreck of two lives, grown almost old in youth, which might, in favourable circumstances, have attained to happy and respected age. That this is not an overcharged picture will be admitted by those who have even a superficial acquaintance with the domestic affairs of our people." [Gidumal, 1988:15]. This last assertion was too optimistic because many readers of the note did brand it as an exaggeration. However, the reformers were later to use most of these arguments while advocating late marriage or late consummation of marriage.

Malabari went on to claim that child marriage had no religious sanction in the 'shastras' and that the State should therefore treat it as an economic question ("as a source of over population and consequent disturbances") and follow a policy of inducements for late marriages and penalty for early ones. These would include a preference for unmarried candidates for government jobs, all other qualifications being equal and gradually disallowing married students from taking university examinations. In addition, school books were to propagate for late marriages. In his revised note II on infant marriage dated October 23, 1884, Malabari reiterated the main points and pleaded for greater state co-operation. [Gidumal, 1988:38-42]. Malabari's notes were followed up by an ambitious symposium of Hindu domestic reformers and anti-reformers from all parts of India organised by his close associate Dayaram (Gidumal), around the two issues dealt with by Malabari namely, infant marriage and enforced widow-

hood. The deliberations (published in 1889) covered multiple facets of the two social problems, methodically classifying the relevant facts, probable causes, requirements of the Hindu law, and proposed remedies; and a series of appendices further elucidated vital points, such as the existing legal provisions, medical opinions, and the 'shastric' injunctions.

Having failed to arouse the Indian people or the Indian government to action, Malabari shifted his arena to Britain in August 1890. This second phase was inaugurated with the circulation of a pamphlet on the same two issues, entitled 'An Appeal from the Daughters of India', targeted at the British public and especially British women. On its heels came the formation of a committee of the British elite concerned enough to take active steps in the matter. Into this committee were inducted the Earl of Northbrook, Lord Reay, the Marquis of Ripon, the Earl of Kinnaird, Prof and Mrs Max Muller, Mr and Mrs Ilbert, Cardinal Manning, Dadabhai Naoroji and others [Indu Prakash, September 1, 1890:3].

On the legal front, the demand for consent legislation was considerably reinforced by two court cases, exposing different aspects of the question of child marriage, which erupted on the national scene. The first of these was the Rakhmabai Case in Bombay. 19-year-old Rakhmabai (from an educated non-Brahmin elite family of Bombay) had been married in her childhood but refused to reside with her husband on the grounds of socio-economic and personal incompatibility. Her husband filed a suit for the restitution of conjugal rights, the court case dragged on from 1884 to 1888 (during which Rakhmabai was threatened with a prison sentence), and ended in an out-of-court settlement in which he relinquished his claims on her. The controversy which raged around the case was a confrontation between the largely traditional society and the reformers who sought to introduce the western values of choice and compatibility in marriage which presupposed adult marriage [Kosambi, 1988]. The second incident was the 'Calcutta child-wife murder case' of 1889, involving 10-year-old Phulmony, married to Hari Mohan Maitee who was over 30 years of age. Phulmony died in agony, allegedly on the wedding night, and her husband was charged with murder. The much publicised case led to the coining of the term 'Harimatism' to refer to "the noxious practice of early consummation" [Indu Prakash, October 6, 1890:3]. Two dire results of child marriage—incompatibility leading to unhappiness and disruption of the bride's life, and premature consummation leading to the bride's death—were thus highlighted.

Ultimately the Age of Consent Bill drafted by Sir Andrew Scoble to amend Section 375 of the Indian Penal Code was introduced by the viceroy of India, Lord Lansdowne, into the supreme legislative council on January 9, 1891. The age of consent was raised to 12 years in the case of both

married and unmarried girls, but in the case of married girls the offence by the husband was made non-cognisable, and the law was to apply to all religious communities [*Indu Prakash*, January 12, 1891 3]. The viceroy's council included 11 European, two Muslim and two Hindu members. Of the last two, Sir Romesh Chunder Mitter of Bengal opposed the bill on several grounds (examined in detail below), such as "widespread discontent, the existing law being sufficient, departure from the wise policy of non-interference with religion, and from the promises of the Proclamation, the law being a cause of annoyance and molestation, it being anomalous that a husband should commit a rape upon his wife, the marriage relations being unhappy in case of prosecution, reform being put back and agreement between reformers and anti-reformers being made impossible." The other Hindu member, Rao Bahadur K. L. Nulkar of Bombay, however, "somewhat redeemed the name of educated India by taking a resolute stand in favour of the Bill" emphasising its protective aspect [*Indu-Prakash*, January 19, 1891 3]. A select committee including both the Hindu members was then appointed to review the question, and presented its report, suggesting minor amendments, on March 6, 1891, while Mitter submitted a minute of dissent. On March 19, 1891, after a day long debate of well reasoned and incisive speeches, the Age of Consent Act was passed, and offences under it were made triable only by district magistrates (whose posts were reserved for the British).

The manifestation of the third element that of nation-wide public agitation about the consent legislation, had paralleled both these other developments. The general contemporary perception was that the Bombay presidency "had no business to show any dissatisfaction" (presumably for having initiated the demand for reform), that only Bengal exhibited "any real feeling of dissatisfaction", while Madras wisely "went in heartily for reform" [*Mahratta*, May 10, 1891 4]. In fact, however, the Bombay presidency had pioneered social agitation side by side with reform. One of the earliest reactions to Malabari's campaign was an orthodox Hindu protest meeting at Madhavbag in Bombay in 1886. History later repeated itself: the constitution of Malabari's English committee resulted immediately in the Tulsibag meeting (at Pune in October 1890), and the introduction of the bill in another meeting at Madhavbag in Bombay (in early February 1891). The reformers' prompt counter-offensive consisted of public meetings (in February 1891) at Javerbag in Bombay and at Krida Bhuvan in Pune. A spate of memorials was sent to the viceroy by the conveners of these and other similar meetings. To these was added a much publicised appeal by several educated women of Bombay petitioning the queen empress for reform in the Hindu marriage customs [*Mahratta*, October 5 and December 14, 1890].⁹ Protest meetings against the bill

were held also at Jalgaon, Ahmednagar, Nagpur, and Surat in February 1891 [*Mahratta*, February 22, 1891 4]. The actual passage of the act in March 1891 did not stem the flow of agitation, and protests not only continued but even intensified. For example, a resolution was passed at Solapur to send a deputation to Britain to enlist public opinion against the act, so that eventually the British parliament could be pressurised to direct the Indian government to repeal it [*Sudharak*, March 30, 1891 2]. Professor (later Lokmanya) Bal Gangadhar Tilak moved a resolution at the Bombay provincial conference blaming the government for utter disregard of public opinion in passing the act [*Mahratta*, May 17, 1891].

By all accounts the Bengal presidency exhibited the most violent reaction. Calcutta was swept by a 'mad fury' and almost 'convulsed' by 'an unseemly agitation'. Soon the anti-bill agitation was 'spreading like wild fire' throughout Bengal [*Indu-Prakash*, January 19, 1891 4, February 2, 1891 4]. A 'monster mass meeting' at the Calcutta Maidan in late February attracted a vast assembly of "Hindu, Mahomedan, Jain, Buddha and other communities of Calcutta and neighbourhood", reported a telegram. "Even the blindest supporters of the bill admit Calcutta had never seen such spectacle" [*Mahratta*, March 1, 1891 4]. The opposite side countered this mass mobilisation by distributing pro reform pamphlets and holding meetings [*Indu Prakash*, February 16, 1891 3, March 9 1891 3].

In the Madras presidency, a public protest meeting was organised by Raja Sir T. Madhav Rao in November 1890 at which an open clash occurred between him and Dewan Bahadur R. Raghunath Rao [*Mahratta*, November 23, 1890 3, December 14, 1890 3]. (T. Madhav Rao, once an ardent champion of the women's cause reversed his position completely on all the related reform issues, including the age of consent.) The allegation of a lukewarm opposition in Madras was further dispelled by its anti-reform spokesman A. Sankariah (president of the Madras Hindu Sabha and a former judge and magistrate) by stressing that "This act is virtually a missionary attack on the modesty, virtue and holy sacraments of the native females. His protest was supported by influential residents of the south such as the secretary to the social conference of south India, some members of the royal family as well as the ex-dewan of Travancore and a member of the Madras legislative council [*Mahratta*, May 10 1891 4].

Similar protests took other parts of the country. At a public meeting in Ameer Pandit Shyamji Krishna Varma (a barrister at law and one time lecturer in Sanskrit at Oxford) attacked the bill using both the Proclamation argument and the religious argument (reviewed below) [*Mahratta*, February 22 1891 4].

Concerted nation-wide action supporting reform had in the meanwhile been undertaken by the organisers of the third social

conference held at Bombay in December 1889. The resolution moved at the conference by Justice Mahadev Govind Ranade stressed not only the ill effects of early completion of marriage but also the discrepancy in the Penal Code regarding the age of consent in different cases. The resolution read as follows: "That, in the opinion of this conference the distinction made by the Penal Code between the general age of consent (12 years) laid down in Section 90, and the special age prescribed in clause 5 and the exception in Section 175 [i.e. 10 years] is both unnecessary and indefensible, and that with a view to prevent early completion of marriages which leads to the impairment of physical health of both husband and wife, and to the growth of a weakly progeny, cohabitation before the wife is 12 years old should be punishable as a criminal offence, and that every effort should be made by awakening public conscience to the grave dangers incurred to postpone the completion of marriage till the age of 14 at least, as being in accordance with the dictates of our ancient medical works and modern science and countenanced by the approved sentiment and practice of the country" [Ranade 1915 42].

The fourth social conference was convened at Calcutta in December 1890 while legislative measures were already under active consideration so that only a brief and general resolution was adopted touching upon the issue. That this conference is of the opinion that the practice of child marriage be discouraged by public sentiment, and that within the sphere of the various caste and communities strenuous efforts be made to postpone the celebration of marriage rites till 12 in the case of girls and 18 in the case of boys, and the consummation of the marriage till after they attain the ages of 14 and 20 respectively and that the members of the various social reform societies in the country should in their own cases themselves see that those limits of age are realised in actual practice and public opinion educated to advance these limits still higher. [*Sudharak*, January 12 1891 2].

III

The Controversy

In the considerably wide spectrum of opinion which was articulated during the controversy three staunch positions emerged. At one extreme was the self-styled orthodox or anti-reform faction (or 'party') which maintained that the contemporary marriage practices posed no problem and could not or need not be changed partly because they were derived from the ancient sacred texts and partly because they suited the existing social conditions. This faction was represented mostly by shastris and pandits, as for example by Ramshastri Apte of Pune in the Bombay presidency and Pandit Sridhar Larkchuramani of Calcutta in the Bengal presidency.

At the opposite pole was the reformers' faction claiming that the ancient texts had been misconstrued and should be rightly interpreted and followed, which would itself introduce improvement, and that also on the grounds of the welfare of women and of society at large, reform should be introduced, if necessary, through government legislation. The champions of this faction included Dr (later Sir) Ramkrishna Gopal Bhandarkar, Justice Ranade, Justice Kashinath Trimbak Telang, Prof Gopal Ganesh Agarkar, Rao Bahadur Krishnaji Laxman Nulkar, and others in the Bombay presidency, and Dewan Bahadur R Raghunath Rao of Madras.

Somewhere in the middle, according to *Indu-Prakash* was a third faction, that of the 'reactionists', which supported limited reform to be achieved strictly and solely through influencing public opinion. The paper insisted that 'the real fight' was not between the reformers and the orthodox, but "between reformers and reactionists, the latter a class of men as well educated as the former, and who by their beliefs and conduct are quite as much outside the pale of true orthodoxy as the first, but who wish to pose as leaders of the orthodox" [November 3, 1890 3]. Bal Gangadhar Tilak and Prof Jinsivale of Pune were identified as belonging to this faction. By the same token, T Madhav Rao and A Sankariah of Madras, and Romesh Chunder Mitter of Calcutta can be classified as reactionists. In effect, however, it was basically a cleavage between the orthodox faction (most vocally supported by the reactionists) and the reformers.

The controversy itself hinged on the following basic issues: (1) whether the ancient Hindu law prescribed child marriage and early completion of marriage as mandatory (labelled by the orthodox as the 'religion in danger argument'), (2) whether contemporary practice, derived from hallowed tradition, sanctioned early marriage and consummation, (3) whether child marriage resulted in harmful effects for the girl bride, her family, and society as a whole (the 'physiological argument'), (4) whether, if reform should prove to be necessary, it should come through voluntary action (the 'self-help argument') or through government legislation, (5) whether the proposed legislation violated the promise of non-interference made by the Proclamation of 1858 (the 'Proclamation argument'), and (6) whether the proposed bill would indeed succeed in protecting girl brides.

A few prefatory observations are necessary at this juncture. First, the controversy can not be viewed as a conflict between the proponents and opponents of the patriarchal ideology. Both factions subscribed to the basic patriarchal premises, the difference was that of degree, with the reformers adopting a humane perspective with regard to women but within the confines of the latter's generally subservient role, as mentioned above. Perhaps the best statement of this position came from Sir William Hunter in

a letter to the *London Times*: "How to secure for their wives and daughters the old safety of dependence with a larger measure of the freedom of modern independence, and how to effect the transition with the least disruption of religious tradition and of family life—this is the fundamental problem of Indian domestic reform" [*Indu Prakash*, October 20, 1890 3].

Secondly, given the number and complexity of the interrelated issues involved, some fluidity of positions was inevitable, and resulted, on occasion, in seemingly strange convergences and divergences across the factions. This was most prominent in the cases of Tilak in the Bombay and T Madhav Rao in the Madras presidency.¹⁰ However, by the time the bill was actually introduced the positions had crystallised firmly and battle lines drawn clearly.

Thirdly, the style and terminology employed in describing physiological functions were quite explicit in the Marathi and presumably other vernacular press (stamped by the graphic and precise vocabulary of the liberally cited Sanskrit texts) to an extent unimaginable in today's public debates and journalistic writings. *Indu Prakash* was moved to bemoan this publication of a very private family matter, in a Marathi editorial entitled 'The Scope of the Consent Bill Agitation': "A topic too embarrassing to discuss openly among the members of any decent family, and a decision about postponing the conception ceremony, customarily made solely with the consent of the parents and without even a thought of consulting the concerned parties—these have now come for deliberation before high officials in a foreign country and caused gigantic public meetings and agitation throughout the country, because we ourselves have not made any effort for self improvement" [March 16, 1891 2 *].¹¹ The English language press attempted to maintain delicacy by resorting to veiled phrases such as 'the occurrence of a certain event' and 'the certain well known sign' to refer to the start of menstruation.

Fourthly, while the agitation started as a social and religious debate, its political repercussions for the nationalist struggle were not slow in manifesting themselves.

Lastly, although the British opinion by and large, supported both the raising of the age limit for cohabitation (and also for marriage in general) as well as government legislation to achieve this, there were a few dissenting voices which were well publicised by the orthodox faction. An excellent representative example of the latter was Frederick Pincott who published a lengthy essay on the Hindu marriage agitation ending with conclusions which covered practically the whole battery of opposition arguments. That an early marriage ceremony followed by actual marriage at adolescence is compulsory on Hindus, in obedience to the prescriptions of their religion: "That it is a custom founded on the laws of nature, and is especially suitable to tropic regions." "That it has existed for

thousands of years and has been the cause of the good order, peace and happiness which characterises Indian homes"; "That it has preserved the modesty and womanly virtues of Indian women"; "That English marriage customs are lowering to woman-kind, and are directly responsible for some of the worst features of English social life"; "That the proposed Age of Consent Bill would be an engine of oppression, and would be most of all injurious to the women whom it professes to protect"; "That the bulk of the people of India, both educated and uneducated, are thoroughly opposed to the change"; and "That the change could be forced on the people of India only at the cost of an amount of disorganisation and discontent out of all proportions to even the imaginary benefits contemplated" [*Mahratta*, May 24, 1891 5].

THE "RELIGION IN DANGER" ARGUMENT

The question as to whether the proposed bill would involve a violation of the Hindu religious injunctions and thus threaten the Hindu marriage institution itself was considerably complicated by the fact that many of the sacred texts contained vague and sometimes internally inconsistent statements, and also contradicted one another on vital points. Two opposite interpretations were possible and were, in fact, advanced. The orthodox interpretation insisted on pre-pubertal marriages as well as mandatory intercourse after every monthly period. The reformist interpretation was essentially liberal and humane, and designed to omit the element of coercion.

On the orthodox side, Ram Shastri Apte adduced evidence from 14 'shastras' to prove that "the girl who sees her menses in her father's house (before marriage) is impure, her father is guilty of killing of the embryo 'bhrunahatya' [Gidumal, 1889 78]. As a corollary, the same sin of foeticide was visited upon the husband who failed to consummate marriage immediately after the first monthly period and to have intercourse after every subsequent period, and portions of the sacred texts were also cited to this effect. In the words of Pandit Tarkachuramani of Calcutta: "The 'garbhadhan' rite has to be performed on the first occurrence of that event (i.e., menstruation). This is the first 'sanskara' enjoined upon the Hindoos, and the non observance of this first 'sanskara' renders the performance of all other 'sanskaras' of not much avail" [*Mahratta*, January 25, 1891 6]. Logically this represented the essence of patriarchal thinking since a woman's primary function was procreation, every post menstrual fertile period was to be utilised, starting with the very first such period in a woman's life. Failure to do so meant failure to conceive, which was tantamount to killing a potential foetus.

The reformers' more humane position stressed the distinction between girlhood and womanhood which rested on criteria other

than the mere start of menstruation. But this position had to be made credible and palatable by disguising it in a religious garb and offering counter-evidence from the same 'shastras'. In the words of G S Khaparde, the people were to be persuaded and met on their own ground "If they accept the 'shastras', we accept them too, but interpret them in the light of the knowledge we have acquired", though without distortion [Chintamani, 1901 144]. A systematic effort was launched to restore the 'shastras' to their original accuracy and purity by weeding out later interpolations, and to resolve contradictions on a logical basis. The red thread running through their arguments was, in the words of R Raghunath Rao, that "Infant marriages are not sanctioned by the Hindu 'shastras', nor were they in use in India a few hundred years ago. On the contrary the marriages of undeveloped girls are in a way prohibited by them" [Gidumal, 1889 73]. Ranade wrote a scholarly essay [in Gidumal, 1889 299-314] tracing ancient history and attributing the rigidification of the marriage system to gradual societal decay. During the 'Sutra' period, marriage was a sacrament which presupposed the age of discretion on both sides; choice rather than parental pressure was the norm, a girl could refuse to abide by her father's choice (as in the cases of Savitri, Rukmini, and Subhadra), and royal families allowed their daughters the choice of a mate through 'svayamvara'. The 'Smriti' period introduced a series of constraints and restrictions, reflected in a corresponding reinterpretation of old texts, so that the choice of remaining unmarried came to be denied to women, and pre-pubertal marriages of daughters were made mandatory for fathers and guardians at the risk of damnation. Ranade concluded, on the authority of nearly 30 text writers of repute, that the normal and customary ages for marriage and consummation were 12 and 16 respectively for girls, and 18 and 25 for boys. In order to underscore that the reinstatement of these age limits would neither violate the religious prescriptions, nor disturb existing social mores, he added "Those who seek reform in this matter do not desire to turn marriage into an affair of mutual romantic love. They do not want to thrust aside the parental authority, or to diminish the sense of responsibility now felt. They advocate a return from modern corruptions to the real sense of the old 'Smriti' texts, and their request is therefore fairly entitled to consideration" [Ranade in Gidumal, 1889 314]. Obviously, the reformers were also under a compulsion to re-establish their credentials as practising Hindus and as responsible family men.

Paradoxically, ammunition for the reformers was provided by Manu through his oft-cited verse instructing a girl to wait for three years after puberty, for her father to find a husband for her, or otherwise to choose a suitable husband herself. Similar verses were found in the texts of Baudhayana, Ashvalayana, Sushruta and others to prove

that in ancient times a girl was allowed to remain unmarried for up to three years after attaining puberty, and that when a girl was married before puberty, two later rituals were prescribed. Of these, the 'prajapatya' was a day-time rite to be performed immediately on her attainment of puberty in order to confirm her entry into her husband's 'gotra', and the 'garbhadhan' rite was to be performed at night to mark the beginning of married life. The latter ritual could be deferred for up to three years after the girl's attainment of puberty. Thus the instruction for the husband to have intercourse with his wife after every monthly course was understood to be 'permissive' and not 'mandatory'. These arguments were decisively presented by Bhandarkar during an elaborate discussion of the relative validity of the various texts and their contradictory commands. He concluded that "the consummation of marriage only when the girl has fully developed is quite in keeping with the spirit of the 'rishis' legislators, as the begetting of a son able to do credit to the father is their sole object and its early consummation is entirely opposed to their spirit as the result of it is barrenness or weak and sickly children" [Sudharak, January 26, 1891 3]. The most extreme injunction in this regard was that of Parasara who allowed only a few exceptions (such as the husband's absence, the wife's ill health etc.) to the otherwise rigid rule regarding mandatory intercourse after every monthly period. The reformers claimed that the wife's lack of physical maturity was implicitly included in this list of legitimate exceptions. A long controversy was carried on between Bhandarkar and Tilak on some of these interpretations, Tilak maintaining, *inter alia*, that the 'prajapatya' and the 'garbhadhan' ceremonies were to be performed in immediate succession (i.e. within 24 hours) on the conclusion of the girl's first menstruation.¹⁴

Different authorities past and present, were invoked in the quest for an acceptable interpretation. Mitter insisted that the final authority in Bengal was Raghunandana whose commentary favoured the orthodox faction. The reformers promptly advanced proof that he was in fact in agreement with their own reading of the sacred texts [Indu Prakash, January 26, 1891 3].

Charges of insincerity and hypocrisy were also handed about. The reformers emphasised that both Brihaspati and Baudhayana have prescribed relatively minor rituals, or the expenditure of a very small sum of money to atone for the sin of violating the injunction. The orthodox retorted that the provision of a penalty was no reason to force a practising Hindu to persist in committing a sin. Upon which Indu Prakash [January 26 1891 3] asked "In how many respects do these people, who talk so loudly about religion not break the ordinances of their religion more binding than the present one?"

But perhaps the most significant challenge to the orthodox stance came from the

reformers' examination of the inter-relationship between religion and morality. The Indu Prakash [February, 1891 3] stated the issue bluntly "It is impossible to think that our educated men are so depraved as to consider consummation of marriage before the twelfth year of the wife an absolutely indispensable necessity. That a religion should demand the subjection of a girl of eight, ten, or twelve to the sensual embraces of a man or that it imposes a duty upon a man of carnally knowing his wife at the first occurrence of a certain event, however tender her age, seems to us highly preposterous. [T]hose who affirm such wicked barbarities of our religion are its worst enemies". And again "[I]n the hallowed name of religion they are asking government to countenance a barbarity. Does the Hindu religion, we ask, command the perpetration of this barbarous cruelty on young girls of tender age?" [Indu Prakash, February 16, 1891 3].

CUSTOM AND TRADITION

The orthodox and the reactionists had a second line of defence: they invoked the support of tradition or contemporary custom ('rudhi') as having weightage equal to or even greater than the sacred texts ('shastras') which were amenable to different interpretations. The sanction of current social custom was crucial to their argument because the existence of religious sanctions or even the religious component of a custom was sometimes dubious and the reformers argued that "whether a girl of ten or twelve should or should not be allowed to be treated as wife by the husband" was not a religious but a social question [Indu Prakash, October 27 1890 4].

Opinions regarding the extent of child marriage itself varied in the Bombay presidency. Rao Sahib V N Mandlik denied the existence of "any such general early marriage system prevalent, as can be remedied by government" [Gidumal, 1889 27]. This view was echoed by A Sankariah: "Freedom to marry girls and widows at any age is not denied now, and was not denied at any time, and the agitators are not just and even honest in interfering with those who do not religiously, or socially approve of that freedom" [Gidumal, 1889 1]. Some claimed that the custom prevailed only in the higher castes which formed a small minority while others (as, for example, C Ramchandra Aiyar, sub-judge of Madurai) argued that since the Brahmin minority served as a model for the other castes (especially in restrictive practices regarding women) reform at the top was essential [Gidumal 1889 2]. It was also conceded that the compulsion about pre-pubertal marriage of girls drove many poor fathers (lacking the necessary dowry to secure good matches) to sell their daughters to unsuitable or old men.

Statistical data were marshalled from the 1881 Census and showed that the per cent

tages of married (and widowed) Hindu girls and boys under 10 years were, respectively, as follows: 11 Berar 21.7 and 4, in the Bengal presidency 13.9 and 5.6, in the Bombay presidency 10.5 and 2.5, in the central provinces 8 and 2.6, in the north western provinces 5.4 and 2.4, in the Madras presidency 4.5 and 0.8, and in Punjab 3.5 and 1.1 [Cudumal, 1889 18].

A voluminous debate also centred on the average age at menarche for Indian girls. According to the *Sudharak* [February 16, 1891, reprinted in Agarkar, 1984 425], only 4 per cent of Indian girls reached puberty before the age of 12, so that the proposed bill would affect a very small minority of marriages. Dr S W Kane cited Vagbhat, a great authority in Sanskrit medicine, to the effect that "the period of menstruation in the woman begins with the age of 12 and ends with the age of 50". The logical conclusion, therefore, was that the cases of girls starting menstruation before 12 should be considered abnormal and treated as exceptions [Indu Prakash, March 3, 1891 3].

The prevalence of the custom of immediate post pubertal consummation of marriage was far more difficult to assess. The *Sudharak* challenged the orthodox faction to produce evidence as to whether it was customary to excommunicate or otherwise penalise with a 'pravashchitta' those who failed to consummate marriage within 16 days of the bride's first menses [January 12, 1891, reprinted in Agarkar, 1981 409]. The *Indu Prakash* similarly denied that "there is such an absolutely invariable custom" [February 16, 1891 3].

Particularly sensitive in this connection were the revelations of pre-pubertal consummation of marriage. The orthodox faction tended to deny this occurrence outright, as being sinful according to the 'shastras'. This was emphasised, for example, by Jarkachuramani (regarding Bengal), in his letter to the Statesman of Calcutta [Mahratta, January 25, 1891 6]. However, the *Mahratta* claimed that the introduction of the bill was followed by ample disclosures of the extent of premature cohabitation among the lower socio-economic strata of Bengal. Responsibility was attributed to 'the ignorant mothers in law' who encouraged premature union of the young couples [February 8, 1891 1]. Mitter himself admitted that premature cohabitation was a matter of general practice in Bengal [Indu Prakash, March 16, 1891 3]. Nulkar, in his speech during the final debate on the bill, cited Dr Chevers' *Manual of Medical Jurisprudence for Bengal* (first published in 1856 with several subsequent editions) where he described "the artificial means employed to fit child wives for the earliest possible intercourse with their husbands". Matters were made worse by the use of physical force in such cases. Nulkar also referred to Basu, surgeon major and civil surgeon at Mymensingh, who had recently published a letter in the *Indian Mirror* of Calcutta citing the instance of a nine year old girl who died of

injuries inflicted during cohabitation, and another instance of a girl under 12 who was suffocated to death by her husband to stop her screaming in agony during cohabitation [Indu Prakash, April 13, 1891 4] 11.

In general, however, many of those who advocated late completion of marriage, supported an early marriage ceremony which was to be considered more in the nature of a betrothal. Their reasoning, again, stemmed from the basic patriarchal values: first, that it facilitated the girl bride's adaptation as a devoted wife and an integral part of the husband's household, and secondly, that late marriages would introduce an element of individual choice into what was essentially a family matter. This would be additionally risky because women were, for a variety of reasons, considered to be incapable of making the right choice. The first argument was stated in a mild form by Bhandarkar [Cudumal, 1889 21 2]. He maintained that child marriages were not necessarily ill-assorted, because the parents on both sides ensured compatibility of background, and because the process of growing up as husband and wife reinforced mutual affection and adaptability. The argument was buttressed by C. Subbaraya Aiyar, a judge from Ernakulam: "Early marriages, brought about under the discriminating and fostering care of Hindu parents, have not failed to lead to happy unions, securing to the married couples social and domestic felicity" [Cudumal, 1889 3].

Thus it was felt that a change in the custom of child marriage itself was not a pre-condition for a possible postponement of consummation. According to Tilak, the domestic supervision of elders was sufficient to prevent early contact between the couple. Furthermore, the evils of early consummation could hardly be laid at the door of boy husbands: such atrocities were usually committed by older remarried widowers (the bride being always, by definition, a pre-pubertal girl). It was therefore suggested that an upper age limit for the remarriage of widowers should be fixed at 40 or 45 years [Kesari, September 30, 1890, reprinted in Tilak, 1976 239].

The truth of this argument was conceded also by the reformers and incorporated in one of the resolutions adopted by the fourth social conference (December 1890). It stated that "in the opinion of the conference, the practice of men of more than 40 years of age marrying young girls below 12 is discountenanced by the 'shastras' and is extremely prejudicial to the interests of the community, and that the power of free adoption given by the law leaves no excuse for such ill-assorted marriages, and the conference, therefore, affirms the necessity of actively discouraging all marriages, where the difference of age between the parties exceeds 30 years" [Sudharak, January 12, 1891 2].

Although the focal point of the physiological argument was the physical harm to the girl bride, the reformers also voiced

wider concerns affecting her family, through her resultant barrenness or the birth of weak, sickly children and affecting the society at large which consisted increasingly of a population weak in physique, intellect, and morals, which could therefore be easily kept under subjugation by a foreign colonial power. The implication seemed to be that an investment in the girl-bride's health would yield familial and societal benefits. Both sides marshalled ancient and modern medical authorities to reinforce their arguments.

Injury to Girl Brides

The image of the girl bride as a victim (potential or real), and as an individual entitled to better physical treatment at the hands of her husband, was a new and radical element injected into the debate by the reformers.

The orthodox faction had consistently maintained that the onset of puberty (indicated by menstruation) was a clear sign given by nature that the girl was fit for married life and for motherhood. It was therefore highly improbable, if not impossible, that she would be harmed by cohabitation. Thus an article by 'Medicus' in the *Mahratta* [March 15, 1891 2] claimed that the "commencement of menstruation indicates in all animals the same degree of sexual desire or capacity for intercourse with males of the same kind or race", that there was no proof to show that 'early intercourse [i.e. during the girl's 11th year or later] prevents the further or full development of girls'—and further that the first born infants were generally weaker and more exposed to risk irrespective of whether the mother was a young Indian girl or a full grown European woman.

Some among the orthodox admitted that damage to girls because of early intercourse could not be ruled out, but minimised its extent. Thus Surgeon Major Kirtikar, in a somewhat facetious letter to the *Bombay Gazette*, wrote "Although I object positively to early intercourse I say that in most cases it is neither a matter of 'brutality' nor 'cruelty', but leads to a certain moral and physical deterioration after the lapse of a long time. It is therefore a sheer misuse of terms to compare it with the burning of a woman, or the murder of a child—to all which acts it has been compared. There is hardly a bad custom in existence which does not lead to moral and physical deterioration. Talking of physical deterioration 'tight lacing' has been the ruin of many a young frame. It has sent many a blooming girl to an untimely grave. Is it to be put down by transportation for life?" (emphasis in the original) [Mahratta, February 22, 1891 4].

The reformers cited the ancient medical authority Sushruta: "If a man of less than 25 years begets a child to a woman of less than 16 years, it remains in the womb. If it is born, it does not live long, and if it lives at all, it is weak. Therefore the marriage should not be consummated while the girl

is a child." An almost identical verse from Vagbhat was also quoted [Sudharak, May 18 1891-2]

Corroboration also came from modern medical science. Dr Modendralal Sircar emphasised that "while early maternity results in giving birth to short-lived or unhealthy children, it at the same time seriously compromises the health of the mother also. A host of complaints from which our females suffer life-long, or to which they fall early victims, arise from the evils of early marriage—namely, early pubescence and early maternity" [Gidumal, 1889 246]. The reformers quoted several medical doctors to confirm that early pubescence was undoubtedly induced by early marriage and could not be attributed to India's hot climate as was popularly believed [Gidumal, 1889 246 58].

Western medicine entered the fray most strongly through British medical doctors who favoured reform. Dr Peechy Phipson's talk in Bombay on 'The Physiological Effects of Early Marriage' emphasised the distinction between puberty and nubility. She clarified that although the conventional notion of puberty was based on the first menstruation, the 'true' or 'complete' puberty was reached by a girl only by about her 20th year when the body and mind were fully developed and "when alone a woman attains the capacity for maternity" (completion of marriage at any age earlier than this was therefore harmful [Indu Prakash, October 27, 1890 3]).

Perhaps the most sensational and shocking input into the debate was made by a group of 55 British lady doctors through a disclosure of the brutality to which girl wives were subjected. In an appeal sent to government, they adduced as evidence 13 cases which they had received for medical treatment [Sudharak, November 17, 1890 2 also Indu Prakash, April 13, 1891 4]. With the exception of one older girl, all the others were between seven and 12 years of age, and all were examined within a day or two of the completion of marriage. The common physical injuries included severe haemorrhage, lacerated flesh, crushed pelvic bones, temporary or permanent paralysis of the lower limbs, in the case of a seven year old girl the result was death. One of these girls, 10 years old, was unable to stand or walk, and had crawled to the hospital on her hands and knees. In three of these cases, information was added about their husbands: one was 'about forty years of age, weighing not less than 11 stone', another demanded custody of his wife after one day in hospital 'for his lawful use', and the third 'had two other wives and spoke very fine English'.

Harm to Family and Society

When the area of concern was expanded by the reformers from the girl bride to encompass the family and society as a whole, echoes of Malabari's initial arguments became clearly discernible. Thus Ranade stated that "early marriage leads to early

consummation, and thence to the physical deterioration of the race, that it sits as a heavy weight on our rising generation, enchains their aspiration, denies them the romance and freedom of youth, cools their love of study, checks enterprise, and generally dwarfs their growth, and fills the country with pauperism, bred of over population by weaklings and sickly people, and lastly that it leads in many cases to all the horrors of early widowhood" [Gidumal, 1889 14].

Such was added to the fire by the sanitary commissioner's report of 1890 showing that the deaths of children under five years of age formed 43 per cent of the total number of deaths (in Bombay city). This provoked Indu Prakash to admit that such strong condemnation was well deserved in view of "the evils arising from early marriage, aggravated by our defective system of bringing up children. The painful truth was that "early marriages do result in the physical deterioration of our progeny, and render us thereby unfit for various walks of life, where physical activities no less than intellectual ones are necessary for success" [July 7, 1890 3]. This led to anxiety over the alleged condition of the Hindus who were said to be becoming shorter and physically weaker day by day, so that the father's strength was not visible in the son, and the son's not visible in the grandson, one additional result being that Indian scholars died prematurely [Indu Prakash, October 20 1890 3]. Referring to Peechy Phipson's lecture, the same paper commented "The evils which the doctor portrays as resulting from this pernicious custom, viz, sterility and ill health to the mother, puny and sickly, disfigured and deformed children, and degeneration of the race are too grave to be lightly passed on" [October 27, 1890 3].

An extension of this argument with an explicit reference to genetic inferiority was presented by Dr Smyth of the Madras Medical College in an opening address to his students. His appeal was both to the community and to the government to stop the custom of early marriage which was "homicidal in as much as it leads to sickness and early death and which resulted in "degeneracy of offspring". "Many children are non viable and others are mentally and physically incapable. All originality is suppressed. The imitative faculty alone is preserved". Smyth touched a raw point by saying that "a people born out of early marriage are unfit for self government" and that "a respectable type of the human race" could be produced only through adult marriages. "Consideration of the claim for self government on the part of these is, therefore, deferred for five generations. If in the meantime this community takes responsible steps to raise a proper stamp of human beings by marrying only adult females and that too only after the most careful selection, I shall leave it on record that the then secretary of state do seriously consider the advisability of placing the community on an equal footing with the rest of the inhabitants of

the empire", he concluded [Indu-Prakash, October 27, 1890 3].

The picture of a degenerate and unfit Hindu/Indian society described by Peechy Phipson as 'children of children' and by Smyth as 'infant-born' [Indu-Prakash, October 27, 1890 3], and stigmatised further as undeserving of political power, was one that hit both the social and the political reformers alike.¹⁴ Inevitably in its wake came intense soul-searching and introspection among the reformers. The Sudharak expressed shame because "we turn women into 'mothers' while they are still 'girls'; and as a result they, we, and our children have become weak, sickly, unintelligent, and lacking in strength, courage, energy, and longevity. Also, for hundreds of years we have been the slaves of an alien people who are superior to us in physical strength, and follow their wishes like animals under their control" [November 17, 1890 2*].

THE AGENCY FOR INTRODUCING CHANGE

The awareness of political subjugation and humiliated national pride ran as an undercurrent through the entire debate. Initially even the pro reform fiction was cautious about allowing the government to enter into what was essentially a domestic social matter of the Hindus. The fear that this would prove to be the thin end of the wedge and lead to socio religious subjugation as well was ever present. Thus Bhandarkar admitted "I would not avoid the evil [of child marriage], and secure the good, by a legislative measure" [Gidumal, 1889 22]. Similarly, Khaparde opposed legislation on the grounds that "such reforms should spring from the people, and should not be forced on them, for the appearance of force disinclined people to all reform, and this made matters worse" [cited in Chintamani, 1901 143]. This coincided with Tilak's persistent stand that reform which was imposed upon people through law could not be effective because it could neither ease family pressures upon the young couple, nor help the young couple to control its emotions; only education and knowledge could bring about this change [Aesari editorial, September 2 1890, reprinted in Tilak 1976 235]. These were familiar variations of the eternal debate about change imposed from above and change springing voluntarily from the grassroots.

The orthodox (or more accurately 'reactionist') faction retained its staunch belief in the need for self help and in "the efficacy of the force of moral persuasion and personal character of our preaching reformers and the leaders of our society" which would achieve more and permanent benefits for the society than legislation or coercion could. This was regarded as the only true way to work the movement from within [Maharatta, October 12 1890 2]. The three forces of education, persuasion and example are sufficient to destroy superstition, and to place

society on an improved basis" [*Mahratta*, January 18, 1891: 4].

The same sentiments surfaced later in Sir Thomas Munro's deposition before a committee of the House of Commons: "while sympathising strongly with social reform in India I have not seen any way to approve of the recent governmental interference with domestic life. I consider that given education and political freedom, such changes as the Hindu society needs, would be brought about by the communities themselves. England has as much to learn from India as she has to teach that country ..." [*Mahratta*, September 6, 1891: 3]. Sir Charles Bernard was reported to have "deprecated England's action relative to child marriages in India", believing that a remedy should be "attained by the people themselves, and ... that natives of India should be allowed to work out their own social, commercial and political regeneration" [*Mahratta*, February 14, 1891: 4].

Some Indian enthusiasts of self-help, however, quickly discovered that this was easier said than done. A candid admission of disillusionment came from Daji Bhikaji Khare, a Bombay lawyer who had 'defected' from the anti legislation lobby, that the society was incapable of initiating reform, that the protest against government interference was merely an argument to counter the reformers, and that all reforms introduced thus far had been some form of imposition from the government and not the result of voluntary action. The logical conclusion was that the government's leadership role should also be extended into social matters [*Indu-Prakash*, October, 20, 1890: 3]. Predictably, considerable weight was lent to this argument by official British opinion, including, among others, that of Sir William Hunter [*Mahratta*, October 19, 1890: 1]. Some Indian reformers phrased this differently, insisting that 'reform from within' was "a very sweet and tempting phrase, but without any truth in it" and that a 'stimulant from without' was required to activate the dormant society from within [*Indu-Prakash*, March 3, 1891: 3].

The reformers had marshalled an array of arguments in support of legislation. Firstly, they exposed the selectiveness of the anti-reformers' protest—the latter's vocal opposition to the Consent legislation was ill-matched by their willing and even eager acceptance of government assistance in matters of education, vocational training, municipal reforms, control of alcoholism and of prostitution, etc [*Sudharak*, February 17, 1890: 1; February 20, 1890: 1]. Secondly, they insisted that the bill, far from being coercive itself, would remove coercion currently practised on small boys and girls by their parents and guardians. Thus a law which granted freedom could not be regarded as a law of force and injustice [*Sudharak*, February 10, 1890: 1]. Thirdly, to the anti-reformers' argument that cases of early completion of marriage were too rare to warrant legislation, the reformers replied that cases

of suicide were also rare but constituted a legal offence, and although the practice of 'sati' had disappeared, the law abolishing 'sati' had not been deleted. They further claimed that the Age of Consent Act was perhaps even more acutely needed than the Abolition of the Sutte Act, because the former concerned situations of greater coercion as well as sinful and beastly behaviour [*Indu-Prakash*, July 21, 1890: 2]. Finally, the reformers justified the state's right to interfere in family matters, on the ground that marriage was a social matter on par with other social relations. An assault by a husband on his wife causing hurt was a punishable act whether or not it was done in the performance of his marital function. "The act is not self-relating. It has reference to another individual. Therefore a restraint upon it is not an interference with personal liberty, but protection of another person from harm" [*Indu-Prakash*, January 12, 1891: 4]. The bill was seen as 'a protective measure' and "it is the function of the government to afford protection to any of its subjects who may need protection" [*Indu-Prakash*, January 19, 1891: 3].

This ideological approach, raising wives, and women in general, from a subordinate status to that of equality with all other citizens, and therefore entitled to equal protection, was perhaps the most important contribution to the women's cause.

THE PROCLAMATION ARGUMENT, OR RELIGION vs LAW AND MORALITY

The anti-reform argument which the British government itself was most vulnerable to was the Proclamation argument which challenged the very constitutional legitimacy of the bill. Queen Victoria's Proclamation of 1858 had guaranteed non-interference by the British government in the religious and social affairs of its Indian citizens:

We hold ourselves bound to the natives of our Indian territories by the same obligations of duty which bind us to all our other subjects ... Firmly relying ourselves on the truth of Christianity, and acknowledging with gratitude the solace of religion, we disclaim alike the right and the desire to impose our convictions on any of our subjects. We declare it to be our royal will and pleasure that none be in any wise favoured, none molested or disquieted by reason of their religious faith or observance, but that all shall alike enjoy the equal and impartial protection of the law; and we do strictly charge and enjoin all those who may be in authority under us, that they abstain from all interference with the religious belief or worship of any of our subjects on pain of our highest displeasure [cited in *Indu-Prakash*, January 19, 1891: 3].

As a key document in the debate, the Proclamation also, like the Hindu sacred books, was open to a variety of interpretations. Salient among them were the government's conflicting duties to refrain from religious interference but to provide protection. The government resolved the dilemma in favour

of protection by counterpoising the conflict between religion and morality.

The obvious orthodox charge was that the bill amounted to government interference in Hindu social and religious matters in contravention to its own promises. This charge found support from an unexpected British quarter, though rather late in the day. Frederick Pincott, claimed that the new act would inflict an unjustifiable penalty upon "two hundred millions of innocent people, living lives of purity before God and man, in obedience to the precepts of their religion, the commands of their law-givers, and the immemorial custom of their ancestors"; and that it would sweep away in a few weeks "the whole social fabric of one-sixth of the globe" [*Mahratta*, May 17, 1891: 6].

The reformers also accused the British government, of being too cautious and even cowardly about introducing reform through law, due to the constant awareness of its own alien status and fear of causing disaffection. Otherwise, it would have ended such "marital subjugation" long ago as had been done in the western countries [*Sudharak*, February 10, 1890: 2]. In fact, the reformers went further and, seemingly paradoxically, appealed to the government in the name of Christian principles to protect Indian girls of tender age. *Indu-Prakash* found it "a matter of great regret that a government which calls itself Christian and boasts of its ability to protect human freedom should tolerate such cases and not even provide a law to prevent them" [July 21, 1890 *].

Opinion in Britain was also split along the same lines, except that the British interventionists' argument was tinged with the 'white man's burden' ideology. Among the vocal supporters of the legislation were Cardinal Manning and Mrs Fawcett, both members of Malabari's English Committee. Cardinal Manning claimed that the government could not be accused of religious interference because the customs in question were basically social in nature and not religious. "We are dealing with no matter of conscience but with only a social tradition contrary to the law of nature, which is universal and supreme". He envisioned the British government as charged with a mission in India, and entrusted with the righteous duty to use its unlimited power to stop 'barbarous and injurious practices', such as 'sati', female infanticide, and now, child marriage [*Indu-Prakash*, December 22, 1890: 3]. Mrs Fawcett concurred that such practices had been prohibited by earlier legislation which had forced the 'instinctive conscience' of the western civilisation upon the Indians. This had become inevitable again because "we could not sanction in one part of the Queen's dominions what was treated as murder in another part of them. ... [A] government writes itself incompetent and untrustworthy that leaves the weak to be destroyed by the strong, and the future mothers of the race to be sacrificed physically and mentally to one of the most per-

nicious customs that ever affected a nation" [*Indu-Prakash*, December 22, 1890 3]

Legal experts in India also underscored the government's obligations Telang held that it was "the bounden duty of the legislature" to pass the bill "in the interests of humanity and of the worldly progress of the communities committed to its charge, and for such a purpose as the present, to disregard, if need be, the Hindu 'shastras' The Queen's Proclamation neither can get rid of that duty nor does it even profess to do so The 'shastras' too neither can nor profess to stand in the way of the state's doing the duty" [*Indu Prakash*, February 2, 1891 3] Nulkar interpreted the Proclamation only to mean that the Christian religion should not be imposed upon her majesty's subjects, but that the Indian government remained under "the obligation to secure to all her majesty's subjects in India the enjoyment of equal and impartial protection of the law" [*Indu Prakash*, April 13, 1891 4]

The closest scrutiny of the Proclamation argument came during the deliberations in the viceroy's council Lord Lansdowne justified the bill on the grounds that where religious practices were opposed to individual safety and public peace, and were "condemned by every system of law and morality in the world it is religion and not morality which must give way" and that the non essentials of religion could be sacrificed in the interests of morality as long as "the great fundamental principles of the religion concerned were not disturbed" [*Sudharak* March 23 1891 2 emphasis in the original]

LAW ENFORCEMENT AND LAW SUITS

The perspectives on the Age of Consent Bill were so dichotomous that the orthodox insisted upon it being a new British law causing unwarranted intervention in Indian family matters, while the reformers presented it as a British amendment in the existing British law which had already been imposed on Indian society

The ground had been prepared for this reformist argument by Gidumal in a pamphlet [reprinted in Gidumal 1889 281 8] summarising the provisions of the Indian Penal Code regarding the age of consent and comparing them with those of the English Criminal Law According to the Penal Code the offence of rape was committed only when a husband had intercourse with his wife who was under 10 years of age with or without her consent and the offence was punishable with transportation for life according to Section 376 No offence was committed if the wife was 10 years old irrespective of consent (Section 375) A person other than the husband, having intercourse with a girl who was 10 years old with her consent, was not punishable Finally a girl under 12 years of age was not competent to consent to the commission of any offence upon her or in respect of her except that of rape or seduction (Section 90 and 375) According to English law, intercourse with a

girl under 13, with or without her consent, was punishable with penal servitude for life, and intercourse with a girl over 13 and under 16 with or without her consent, was punishable with 10 years' rigorous imprisonment Gidumal called this 'a crying inequality'

The *Mahratta* promptly retorted by saying that Section 90 of the Indian Penal Code may treat a girl under 12 as incapable of giving consent but marriage considerably affects the relations between the parties and alters the moral standpoint altogether, so that the question of rape does not arise Also, a comparison of Indian and British laws was meaningless because the law can not be identical in two countries which differ so much in their physical and moral conditions and because the legal age limit at marriage for girls in Britain was 12 [February 3 1889 12]

The validity of the concept of 'consent within marriage' was a crucial issue The *Mahratta* [March 17 1889 4] cited a case which was decided in November 1888 by the Queen's Bench division of the high court in Britain where Judge Pollock had observed that sexual communication between married persons is 'by virtue of an irrevocable privilege conferred once for all on the husband at the time of the marriage and not at all by virtue of consent given upon each act of communication as is the case between unmarried persons' The paper went on to add that according to the law in Britain

Consent or no consent a husband has a right to the person of his wife and he can be convicted if at all of hurt or grievous hurt It pointed out that the Indian Penal Code was framed on the model of English law with just sufficient alteration to suit Indian society by setting 10 years as the minimum age limit for cohabitation in view of the prevalence of child marriage

A challenge to the husband's total rights over his wife was perceived by the orthodox as a loss of individual (male) freedom Thus according to Kirtikar the new bill amounted to a loss of personal freedom it means the annihilation of the British liberty which I consider is the glory of the British rule [*Mahratta* February 22 1891 4] The *Mahratta* followed this line of thought further The Brahmins we know are fighting for freedom and any measure that places restrictions upon the liberties of anybody cannot be acceptable to them In trying to remove the alleged inequalities the amended bill creates new ones [March 15 1891 2] The reformers disposed of these and similar objections by asking 'What hardship does a husband suffer if he is asked to put his marital rights in abeyance until the subject of his rights becomes physically fit for the enforcement?' [*Indu Prakash* February 16 1891 3]

Another objection was that the bill placed husbands and seducers in the same category The *Mahratta* [February 1 1891 7] cited R Ghosh's letter to the *Statesman* of Calcutta in which he claimed that since there were

rarely any cases of seduction in India, the legislation was "gratuitous and superfluous", while the section applicable to husbands was "obtrusive in the highest degree Then, we are utterly at a loss to understand from what standpoint—national, moral or legal—the lustful seducers of a guileless and yielding virgin, and the passionate husband of a loving wife are to be placed under the same category and alike to be branded as a criminal of the blackest dye"

In sum, this faction was convinced that the bill had created a new offence The *Hindu Patriot* of Calcutta claimed that "The fact is, the marriage sacrament is not complete, unless what is known as the conceptual ceremony is performed The bill, therefore strikes at the very root of the Hindu marriage law by limiting the age of consent to twelve" [*Mahratta*, January 18, 1891 5]

The salient orthodox objections were presented by Mitter during the debate in the legislative council [*Mahratta*, January 18, 1891 6 7] (1) The existing law was adequate for protecting girl brides (2) Puberty was a far more reliable criterion of physical maturity than a numerical age limit (3) The husband whose wife reached puberty before the age of 12 was faced with the dilemma as to whether to go to prison (for breaking the British law) or to go to hell (for violating Hindu sacred law) (4) If the husband was sentenced for breaking the British law and sent to prison or transported for life, it would lead to the almost civil death of a Hindu wife Thus "there is the hardship of the law punishing the wife for the guilt of her husband (5) The law would enable the police to terrorise the people (6) Hostile relatives or neighbours would exploit the law and lodge false complaints

The reformers on their side, presented an entirely new perspective that the marriage ceremony was not an unproblematic observance of sacred laws or age old customs into which British law was interfering On the contrary marriage often led to incidents which called for legal protection because harm unjust harm most fatal harm is occasionally done to Hindu child wives by their husbands prematurely claiming to exercise so called marital rights upon their persons [*Indu Prakash* January 18 1891 3]

At the third social conference (Bombay, 1889) the first resolution centred primarily around the discrepancy in the Penal Code regarding the age limit at which a girl may properly be treated as an adult woman In the Penal Code itself the general age of consent was laid down at 12 (Section 90) the same was true in the case of assault (Section 350) while in the case of certain offences it was as high as 14 or 16 (Sections 361 and 373) Pointing to these contradictions Ranade argued 'I take my stand on the Penal Code of the country, and on the gravity or otherwise of the several classes of offences and on this basis I contend that if the consent of a girl does not avail a man

who assaults her or robs her or cheats her or kidnaps her, if she is below 12 in some cases, and below 14 or 16 years in age in other cases, *pari passu*, it should not equally avail a stranger, or even a husband, when the offence is rape, and the girl is less than 12 years old" [Ranade, 1915 93 4]. He concluded by saying that the reformers did not go out of their way to seek the help of the law, but sought to amend the law which had already interfered detrimentally, and "to establish a desirable harmony between the law and our most approved practice" [Ranade, 1915 95]. In fact, Ranade and other reformers conceded that 12 (the general age of consent in the Penal Code) was considered to be too low a limit outside the Hindu community and even within it, but left the question to the legislative authorities.

Sir Andrew Scoble, in introducing the Age of Consent Bill which was to raise the protected age for married as well as unmarried girls, hastened to state at the outset that the bill created no new offence. He also discussed the argument that the nature of the marital relations rendered it impossible for a man to commit a rape upon his own wife, because the carnal knowledge of the wife could not be unlawful in view of the matrimonial consent which she had given. He stressed that marital intercourse may in fact, be unlawful under certain circumstances, and the Penal Code had therefore made provisions because "the check of the law may be necessary to restrain men from taking advantage of their marital right prematurely." He further maintained that the state had an unquestionable right and duty to interfere, "for the protection of any class of subjects, where a proved necessity exists for such interference" and stated that against this background the object of the bill was two fold: to protect female children from immature prostitution and from premature cohabitation [Maharatta January 18, 1891 5 6].

Ultimately, the bill was enacted in March 1891 and represented the first step towards protecting girl brides from physical assault. The complementary measure to protect girls from becoming girl brides had to wait another four decades when the minimum age at marriage for girls and boys was fixed at 14 and 18, respectively by the Child Marriage Restraint Act (or Sarda Act) of 1929 which came into effect in 1930 [Rathbone, 1934 43].

The enforcement of the Consent Act was another thorny issue. Firstly it was argued that it was difficult to ascertain a girl's age given the faulty system of registration of births and the fact that not all parents maintained their children's horoscopes. Secondly a physical examination of girls by medical doctors was considered distasteful. Thirdly a wife (at any age) was highly unlikely to lodge a complaint or testify against her husband. Fourthly a nightmarish scenario was painted in which the police had the powers to invade the bedroom. Finally it was claimed that hostile relatives or neighbours could

use this chance to make false allegations to settle personal scores. The last two objections were disposed of by the reformers by stressing the possibility of enacting certain provisions, such as making the offence non cognisable, and permitting bail in cases where the offence did not result in serious crimes [Ranade, 1915 102].

The two most highly publicised law suits pertaining to the early completion of marriage occurred in Bengal. The first of these was the 'Calcutta child-wife murder case' of 1889 (prior to the Consent Act), mentioned above. The consistent tendency of the orthodox faction (and of the judiciary) was to exonerate the husband concerned. Thus the *Mahratta*, in its first report of the case, claimed that "It is ignorance that has much more to answer for in such cases than any violent desire to assert conjugal rights" [July 6, 1890 1]. The paper went further and insisted that a "poor innocent child has been literally murdered by her husband" only because her foolish parents "blindly yoked their tender girl to a man of thirty years. The sin of her death will lie on their heads no doubt but it will also lie on the society which sanctions such cruel sacrifice" [July 6, 1890 4]. Everybody except the 'murderer husband' himself seemed to be the culprit.

The husband was ultimately sentenced to only one year's rigorous imprisonment for 'causing grievous hurt by a rash and negligent act' (which, according to the *Mahratta*, proved the adequacy of the existing legal provisions). Admitting that the punishment was lenient, the paper cited the judge's reasoning: "However, it has to be borne in mind that the husband had no intention of hurting his wife. He thought and rightly so that he was entitled to make use of his wife for the gratification of his passion. He belonged to a low class of society and had not the fine sensibilities as well as the chivalrous instincts which generally save better men from such deeds in spite of temptations" [August 3, 1890 4]. The judge further explained that the husband was sentenced for causing grievous hurt, because under the existing law, the husband was not guilty of rape as the wife was over 10 years of age [Maharatta August 10, 1890 2].

In the second well publicised case of June 1891, also in Calcutta, 'the first victim' of the Age of Consent Act was a Muslim man of about 20 charged with having caused the death of his wife, about 10 years old. The husband contrived to be alone in the house with his wife one night assaulted her, and was horrified to see her bruised and disfigured body. In a state of panic, he hanged her from the ceiling in order to stage a suicide. The coroner's jury held that he had injured her and hanged her but at the same time added the rider that he was at that time so inflamed by passion as to be unable to understand that death would probably result from hanging. In the sessions court, the jury found the husband not guilty of murder. The judge disagreed and sent the case to the high court. Here some members

of the court held that the husband was at that time in such a mental state that he might not have realised what he was doing. Out of deference to this opinion, the sentence was reduced to transportation for life [Maharatta, June 14 1891 2].

At the same time, the orthodox faction continued to reiterate the fear of the new act being abused. This fear was realised, according to the *Mahratta*, in the first case filed in Pune under the act in November 1891. It was suspected to be a false allegation by the wife's relatives, motivated by monetary considerations, and the husband concerned was sent to jail allegedly on insufficient evidence [November 8, 1891 3, November 15, 1891 4]. A crop of similar cases continued to be reported in Bengal and elsewhere.

IV

Political Repercussions

In the socio political climate of the closing decade of the 19th century, one sure way of marginalising women's issues was to politicise them. The debate over the relative priority and the guiding principles of social or political reform was already raging, especially between Telang and Tilak in the Bombay Presidency. The opponents of reform appealed to patriotic sentiments for mobilising resistance on grounds of foreign interference in religion, while the reformers delinked the two issues and advised their 'educated countrymen' not to be swayed by such misleading appeals. 'Let no thoughts of pseudo patriotism weigh upon their minds, and induce them to appear to believe a creed which from conviction they have discarded' [Indu Prakash, February 2, 1891 3].

While the equation of political reform with social orthodoxy was in the process of being established, the anti reformers' Proclamation argument was also a thinly veiled threat that government interference—which, moreover, involved a breach of royal promise—would not be passively tolerated. This potentially rebellious threat was buttressed by open allegations that the government itself was, directly or indirectly encouraging its Indian officials to demand the Age of Consent legislation so as to legitimise its own intervention. The *Hindu Patriot* claimed that Telang in Bombay and Satyendranath Tagore in Calcutta had been allowed to take part in the support agitation with impunity, while the 'pandits' of the Calcutta Sanskrit College had been prohibited from joining the protest agitation, and the *Amrit Bazar Patrika* of Calcutta and the *Mahratta* of Pune also echoed the charge of collusion, which was vehemently denied with evidence by the reformers [Indu Prakash, March 30, 1891 3].

The fear that the new legislation would have unforeseen political repercussions was shared also by British opinion in India and in Britain. Pincott's paper opposing reform was favourably received by several news

papers in Britain, and the *Evening News and Post* (April 19, 1891) warned that the "most serious blow to be struck at our rule in the East in the near future" will probably be delivered "by the hands of Englishmen acting under the stimulus of a fraudulently manufactured public opinion. [T]he passage of the Act would be a crime and a blunder of the first magnitude and would give a sharper blow to the stability of our Indian Empire than can be dealt by a dozen small wars" and a hundred petty uprisings [*Mahratta*, July 26, 1891 8].

However, there were clear limits to gestures of rebellion, sedition being a serious offence. At the fifth social conference (held at Nagpur in December 1891), G S Khaparde admitted in his presidential address that he had opposed the bill on the grounds that social reform should originate within the society and not be imposed from without, but also insisted that "now that the bill is law, it is wrong to fight against it. To throw dirt at it now is, in my opinion, little short of—from one point of view—sedition" [Chintamani, 1901 143].

In fact, a few months earlier the Bengal paper the *Bangabasi* had been prosecuted for criticising the Age of Consent Act in articles published in its issues of March 28, May 16 and June 6. According to the report in the *Mahratta* [August 16, 1891 3 5], one of the offending paragraphs in translation as read in court said: "If the English ruler wishes, he can deprive us of our property, insult our families, give them trouble and can obstruct us in the exercise of our religion, usages and observances. The English viceroy, governor general Lansdowne Bahadur, the other day, in the legislative council in outspoken voice loudly with swelling bosom proclaimed this very matter." Other articles were entitled 'The Revealed Form of the English Ruler' and 'An Outspoken Policy Is the Best for Uncivilised Person'. This report in the *Mahratta* itself was an exercise in tight rope walking. Its criticism of the government action as 'unwise and ill advised' was balanced by its commendation for 'the liberal minded and high souled statesman at the head of Government, brought up in the glorious tradition of a free and outspoken press at home'. At the same time, the paper carefully stressed the generally known and intensely bitter anti act reaction in Bengal, and the belief of its people that "the act would interfere with the sacredness of marital relations on which the whole fabric of Indian society" or that of any other society rests [August 16, 1891 4].

On the one hand, the anti reformers claimed that the government had introduced the act under pressure from the British pro reform opinion which had been misled by Indian reformers, and wanted social issues to be kept in abeyance while promoting political reform. On the other hand, the Indian reformers expressed an equal and opposite reaction, making political reform contingent upon social reform. A O Hume, the 'father of the Congress', declared that

he assumed that the large majority of the Congress party supported the bill, "were it otherwise, he would wash his hands off the Congress", and advised the opponents to desist from such discreditable conduct [*Indu Prakash*, February 2, 1891 4]. Prof Selby issued a warning that the protest against the bill by educated people was suicidal and would have adverse political consequences, while according to Rev Evans, "this Age of Consent Bill opposition by so many of the educated people of Bengal will hurl back the Congress movement a century" [*Indu Prakash*, February 16, 1891 3].

While the day was won by the social reformers who rejoiced in the passage of the Age of Consent Act in 1891, the days and years to come were claimed by the champions of political reform who succeeded in stalling further social change. The Consent Act ensured legal protection for girl brides, and the related controversy introduced a more humane perspective on their condition but its fall out was that the cause of women's emancipation was relegated to the background over the next few decades.

Notes

[This article is an off shoot of the research done for a paper presented at the Fourth International Conference on Maharashtra Culture and Society on the theme 'Images of Women and the Feminine in Maharashtra' held at Arizona State University on April 6 8 1991. While the conference paper focused on the perspectives on women and was confined to the Maharashtra region (see Kosambi 1991 in the references below) the present article has a wider scope. It aims at a cross regional coverage of the interrelated social religious legal and political issues.]

- 1 The bill was applicable also to unmarried girls but the controversy disregarded them and concentrated only on married girls. Hence the focus of this essay on girl brides.
- 2 The proposed bill impacted upon the Hindus most strongly although it was to apply to all other religious communities also, many of which had adopted the Hindu practice of early marriage. We have therefore concentrated on the Hindu controversy only.
- 3 What is reviewed here is not the debate regarding child marriage *per se*, but only that portion of it which was intertwined with the question of early consummation of marriage. It may be mentioned at this juncture that predictably strict adherence to these practices on religious grounds was confined mainly to the upper castes.
- 4 For a detailed discussion of the ancient Hindu texts and the nature of Hindu patriarchy, see Mies [1980].
- 5 This concurred with the British view that the wife's consent was implicit in a marriage. The point of divergence between the two perspectives was the fixing of an appropriate minimum age limit for cohabitation and for marriage itself.
- 6 A more elaborate treatment of this aspect in the context of Maharashtra is given in Kosambi [198b].
- 7 By Maharashtra is meant the Marathi

speaking region which was then fragmented into parts of the Bombay presidency, the central provinces and Berar, and the Hyderabad state. The chief reason for concentrating on Maharashtra is the author's familiarity with leadership and the *Sudharak* and the *Indu Prakash* which were socially progressive and politically liberal, associated respectively with Agarkar and Ranade. However all these papers published frequent reports of events in other parts of the country and also cited extracts from other papers either in English original or in translation.

- 8 The Parsis were the descendants of Persian refugees who had settled in Gujarat from the 8th century onward and adopted many local customs while retaining their Zoroastrian religion. They flourished as a successful and progressive community especially from the 17th century onward under British patronage, and migrated in great numbers to Bombay city.
- 9 In the words of the *Mahratta*, the appeal was 'a missile from the Malabar camp, and Mr Ranade is credited to be its author' [October 5 1890 6]. Women themselves remained, by and large, invisible in this entire controversy as they did in debating other measures designed for their emancipation. This aspect has been given attention in Kosambi [1988 and 1991].
- 10 Tilak had presented an advanced reform programme before the Tursabag meeting, but reversed his stand during the meeting. Later, at an informal meeting with the reformers, he recapitulated his position again. Reporting this, the *Indu Prakash* commented: "He is an earnest sincere man, whatever may be said of his consistency" [November 17 1890 4]. Similarly *Indu Prakash* mourned the change in Madhav Rao that "It is not possible to reconcile Sir Madhavrao's present pronouncements with the views he expressed a few years ago except on the grounds of loss of intellectual power" due to 'advancing age' [December 15, 1890 3]. Their paths, however, were to diverge permanently soon thereafter.
- 11 All quotations marked with an asterisk are translated by the present author from the Marathi original.
- 12 This particular debate acquired acrimonious overtones. Bhandarkar, in his final reply to Tilak, commented: "I have been carrying on literary controversies since 1864 but never did I hitherto meet with an opponent who treated me with such studied discourtesy as Mr Tilak has been doing" [*Sudharak*, February 23, 1891 2].
- 13 The general tendency of the Marathi and Anglo Marathi press was to dissociate Maharashtra from this practice which was believed to prevail largely, if not exclusively in Bengal. However, a case had been reported two years earlier in Bombay, involving a 47 year old man charged with assaulting his seven or eight years old wife who made an unsuccessful attempt at suicide. Both were brought before the magistrate who declared his incapacity to protect the child. It was further revealed in court that the girl's father had agreed to this marriage on the promise of receiving a monthly sum of Rs. 20 from the man. The *Indu Prakash* [April 29, 1889 3] published

a public appeal by R Raghunath Rao of Madras, based on this incident, and also wrote a Marathi editorial entitled 'The Slave Trade in India' [May 6, 1889]

- 14 By political reformers are meant those who gave political reform priority over social reform. Tilak who belonged to this category, however, insisted that it was demonstrably not the feeble condition of the Hindus but their divisiveness which facilitated British political expansion [Aesari, February 9, 1892, reprinted in Tilak, 1976: 250]

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New Industrial Policy

Questions of Efficient Growth and Social Objectives

J C Sandesara

India's industrial policy and planning have had a mix of economic and social objectives. The economic objective is growth and the social objectives have been located in the sphere of encouragement of small industry, promotion of regional balance, prevention of concentration, etc. What is there in the New Industrial Policy Statement to further these social objectives? Arising out of the response to this question is a supplementary question. How otherwise are the social objectives proposed to be promoted?

THE New Industrial Policy (NIP) was tabled in parliament on July 24, 1991. The NIP purports to raise industrial efficiency to the international level and, mainly through it, accelerate industrial growth. What are the sources of increase in efficiency and production, as could be gleaned from the NIP? This question is answered in Section II.

India's industrial policy and planning has a mix of economic and social objectives. The economic objective is growth and social objectives are in the spheres of small industry, regional balance, concentration, etc. What is there for the latter in the NIP? Arising out of our response to this question is a supplementary question. How otherwise will social objective be promoted? Discussion of two questions is attempted in Section III.

Before, however, we take up these questions, a brief account of the main points of the NIP is in order and is presented in the following section.

I

New Industrial Policy

The NIP relates to industrial licensing policy, foreign investment, foreign technology agreements, public sector policy and Monopolies and Restrictive Trade Practices (MRTP) Act. Since the NIP is very recent and is widely publicised as also because of limited space, we take it that the reader is familiar with the basic objectives of these policies, and the considerations which have necessitated changes in the existing provisions in these areas. So this ground is not covered here. However, in order to enable the reader to appreciate fully our response to these questions, we present here, somewhat tersely, the main features of the NIP.

Industrial licensing is abolished for all projects except for a limited number of industries related to security and strategic concerns, social reasons, hazardous chemicals, environmental reasons and luxury consumption goods. The number of such industries is eighteen.¹ The licensing provisions would not apply to small scale units manufacturing any of the above items reserved for exclusive production in small scale sector.

In projects where imported capital goods are required, automatic clearance will be given in cases where foreign exchange availability is ensured through foreign equity and if value (CIF) of imported capital goods is less than 25 per cent of total value of plant

and equipment subject to a ceiling of Rs 2 crore.

In locations other than cities of more than 1 million population, there will be no requirement of obtaining industrial approvals from the central government except for the industries subject to compulsory licensing. In respect of bigger cities (of more than 1 million) non polluting industries like electronics, printing etc. will be permitted to be located outside 25 kms of the peripherals.

The mandatory convertibility clause will not be applicable for term loans from the financial institutions for new projects.

Broad banding will be permitted to the existing units if it is done without additional investment. Similarly the exemption from licensing will apply to all substantial expansion of existing units.

Approval will be given of direct foreign investment up to 51 per cent foreign equity in high priority industries without any bottleneck. Such finance will be given if foreign equity cover the foreign exchange requirement for imported capital goods. The number of such priority industries is 34. Other foreign equity proposals including proposals involving 51 per cent foreign equity which do not meet this criteria will however require prior clearance. Foreign equity proposals need not necessarily be accompanied by foreign technology agreement.

To provide access to international markets, majority foreign equity holding, up to 51 per cent will be allowed for trading companies primarily in a few exports.

A special empowered board will be constituted to negotiate with a number of large international firms and approve direct foreign investment in select areas.

Automatic permission will be given for foreign technology agreements in the high priority 34 industries referred to above, up to a lump sum payment of Rs 1 crore, 5 per cent royalty on domestic sales and 8 per cent for exports subject to total payments of 8 per cent of sales (over a 10 year period from the date of agreement or seven years from commencement of production). For other industries, automatic permission will be given if no free foreign exchange is required for any payments.

For hiring foreign technicians and for foreign testing of indigenously developed technologies, no permission will be necessary.

The number of industries reserved for public sector is eight.² There is no bar in opening these areas for the private sector.

Government will review the existing portfolio of public investment. Although the industries for this review are not identified by product, the characteristics are specified. They include industries based on low technology, small scale and non strategic areas, inefficient and unproductive areas, areas with low or nil social considerations and areas when private sector is sufficiently developed. Although it is not specified, enterprises from such industries may well be subject to closures, liquidation, rehabilitation or full part privatisation or ownership/management.

Attempts will be made to make the public sector that will then remain more efficient in various ways. There will be greater commitment of the government to make public sector enterprises in the reserve category more growth oriented and dynamic (relative to other public sector enterprises). The sick enterprises will be referred to the Board of Industrial and Financial Reconstruction (BIFR) or some such body to be thought of for formulation of rehabilitation/revival package with due regard to the interests of workers. A part of the government's shareholding will be divested in favour of mutual funds, financial institutions, workers and general public. The boards of public sector enterprises would be made more professional and given greater autonomy. There will be greater thrust on performance improvement through Memoranda of Understanding (MOU) system and to facilitate a fuller monitoring MOUs will be tabled in parliament.

The MRTP act will be amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. This eliminates the requirement of prior approval of the central government for expansion, establishment of new undertaking, merger etc. and for appointment of certain directors. The provisions regarding restrictions on acquisition and transfer of shares will be incorporated in the companies act.

Emphasis will now be placed on controlling and regulating monopolistic, restrictive and unfair trade practices. For this the MRTP act will be suitably amended and the MRTP commission's powers increased.

II Efficiency and Growth

The changes outlined above purport to raise efficiency and accelerate production of industry. What are the sources for the same?

These changes seek to serve this objective in five different ways. First, a number of changes in industrial licensing policy, foreign investment, foreign technology agreements and MRTP act are such as do away with the prior clearance of the government. In such cases, project time and, therefore, project cost will be reduced. This will free the material and human resources for more productive uses than for cultivating contacts with persons with power and influence to get such clearances. Thus, the input cost per unit of output in the proposals which are freed from prior clearance requirements will go down and thus efficiency will be increased.

Second, the changes in respect of foreign investment and foreign technology agreements are also designed to attract capital technology, and marketing and managerial expertise from abroad. This will lead to additions of scarce resources in the Indian economy. Inasmuch as these resources are also more efficient industrial production will increase both through higher productivity of these resources as well as through their additionality.

Third, some changes such as regards public sector may increase the allocative efficiency. Consider for example the proposal to reduce the number of industries reserved for public sector to eight from 17 listed in Schedule A of the Industrial Policy Resolution, 1956 (IPR). The opening of the nine industries for the private sector is in a way an opening for the sector which has given, by and large, a better account of itself. Closures/liquidations or rehabilitation of the sick/weak public sector enterprises that may follow from the recommendations of the BIFR or some such other body to be thought of, would also free the resources for the other, more productive uses. Similarly, privatisation may make for improved efficiency of the public sector, through it being subjected to the stock market discipline.

Fourth, other measures in this area such as purposeful formulation and implementation of MOU and its monitoring, professionalisation and greater autonomy may be expected to improve the performance of the enterprises that will remain in the public sector.

Fifth, greater emphasis on controlling and regulating monopolistic, restrictive and unfair trade practices and the strengthening of the powers of the MRTP commission will curb anti-competitive behaviour of firms in the monopolistic, oligopolistic and ineffectively competitive markets and thus promote competition and through it efficiency.

The question of efficiency and growth may be examined further by referring to two cases—one very recent and the other a bit distant.

The 1991-92 budget of the government of India has proposed reduction in depreciation allowance permissible to the corporate sector from 33% to 25 per cent and an increase in corporate tax from 40 to 45 per cent. It also raised excise duties on a large number of industrial products. And yet, the stock markets have been booming since then. An explanation suggested here is that the bearish tendency of the budget was counter-voiled by the liberalisation policies and procedures of the NIP which also was announced on the day of the budget, yielding to a boom in stock markets.

The second reference relates to the industrial growth experience of the period since the late 1970s which has witnessed a high rate of growth of industrial production of 8 per cent per annum in a sustained way. This period also witnessed a large number of liberalising changes in policies and procedures affecting industry. Thus, for example, the industrial policy of 1973 identified high priority areas where investments from large industrial houses and foreign companies were permitted. The industrial policy of 1980 emphasised the need of promoting competition in domestic market, technological upgradation, exports and foreign investment in high technology areas. In 1985 and 1986, to subserve these and related objectives a number of policy and procedural changes were introduced. Finally, in 1990 the government announced further liberalisation in respect of licensing and foreign investment and in the definition of small industry.

This period also witnessed liberalisation of policies and procedures in other areas as well—trade, finance, fiscal policy etc. Also the share of private investment relative to public investment has increased in our five-year plans.¹

Although these changes of policies and procedures cannot be quantitatively related to the high rate of industrial growth of this period, they surely seem to have played a major role in contributing to that growth. The explanations offered by two perceptive analysts of the growth experience of this period include importantly the liberalisation policies pursued during this period.

Thus, the logic of the NIP, the response of stock markets to it and the experience of liberalisation—all lead us to believe that the NIP along with liberalisations in other areas paved the way for increased efficiency and higher rates of growth in a sustained way, of the order of say, 10 per cent per annum during the medium term. However, in the very short run, as the economic agents will be busy making adjustments to these changes, growth may slow down.

A final point before we turn to the second question in the following section. Change is immanent in growth and development, and it is facilitated if economic agents directly responsible for promoting growth and efficiency have the required flexibility to deal with the emerging challenges and opportunities. While recent liberalisations have

made for considerable flexibility in a number of areas, flexibility in the field of employment and industrial relations, especially in the organised sector of secondary and tertiary activity, hardly exists or exists minimally. If we wish to capitalise further on the gains from flexibility emerging from other areas, some serious thought needs to be given to this area.

Of late, employment growth has slackened. The NIP makes many jobs in government departments/corporations redundant.⁶ This may also happen in industry, and that many workers may not be needed in the same old jobs. These workers cannot be left uncared for.

One way is to provide reasonable compensation to the workers who have lost or are prone to lose their jobs. The other, though not the alternative, way is to rehabilitate such workers by placing them in new jobs in the enterprise industries and locations that are growing. So a programme of rehabilitation for such workers—through transmission of information on expanding activities, retraining them for the new skills that may be required in the expanding enterprises and industries and giving them hardship allowances for moving to new areas—is needed. This programme may be funded by industry workers trade unions, and central/state governments, and may be administered and monitored by a board with membership drawn among others, from the funding agencies. In this connection, the recent experience of some European countries which have had rehabilitation experience of workers who had lost or were prone to lose their jobs in declining industries may be carefully analysed and appropriate lessons drawn for formulating our policies.

III Social Objectives

We now look at the social objectives of industrial policy and planning enunciated in the IPR and the five-year plans in the context of the NIP.

Included in these objectives are greater emphasis on public sector relative to private sector and faster expansion of basic and key good industries than of other industries, prevention of concentration of economic power in private hands, regional balance and promotion of small industry.

It must be confessed that there is precious little in the NIP to subserve these objectives. In fact, in the short run, the NIP will go counter to these objectives. Thus, for example, the reduction in the number of industries reserved for the public sector, and closures/liquidations and proposed privatisation of some public sector enterprises reduce the area of public sector. Moreover, to the extent that the public sector is mostly in the basic and key industries, the lessened importance of the public sector will also slow down the growth of basic and key goods industries.

The amendment of the MRTP act to remove the threshold limits of assets in

respect of MRTP companies runs counter to the objective of prevention of concentration of economic power in private hands.

Also, liberalisation of licensing policies and procedures in regard to the location of projects reinforces the attraction of the already developed regions, and thus goes against the regional balance objective.

Finally, the NIP package unleashes a strong dose of competitive forces as regards licensing, foreign investment, foreign technology agreements, public sector and the MRTP act. All these cannot but affect the existing, mostly less advantageously placed, small scale sector adversely. However, it needs to be added that the NIP has promised that a package for the small and tiny sectors of the industry will be announced shortly. A final view on this sector must therefore be deferred till then.

The short answer to our second question, namely, what is there in the NIPP for social objectives, is, to put it no more strongly, by and large, little.

Arising out of this response is a supplementary question: How otherwise will social objectives be promoted in future? We answer this question leisurely referring to the developments in industrial policy and performance on economic and social objectives since the early days of planning.

It needs to be stated at the outset that our objectives are varied and mutually conflicting, and *inter se* priorities are not specified. One implication of this is that anything can always be defended or justified in terms of one or the other objective. Thus, for example, the location of a large plant in an industrially backward area by a very large private company can be commended on the basis of the objective of reducing disparities in the distribution of industrial activity but can be criticised on the ground of accentuating concentration of economic power in private hands or also on the ground of slackening industrial growth (in view of pre-emption of some resources for investment in infrastructure in the backward area when bereft of it, instead of investing them fully in manufacturing).

It will perhaps not be seriously disputed that on paper while all objectives have received equal emphasis throughout the last 40 years, in practice it is the economic objective of rapid industrial growth (coupled with special emphasis on basic and heavy industries and on their production in public sector, the latter two until recently) which has been pursued more vigorously than other objectives. The implication of this position is that in case of conflict among these objectives, the question of priority has been settled in favour of these objectives. This seems to be specially true for a large part of the planning period except for a brief interlude of four or five years beginning 1969. So at the government level, the objective of rapid industrial growth can be said to have reigned supreme and other objectives to have got low priority. This point is argued in detail elsewhere,⁷ by referring to

the allocation of outlays in plans and to the adoption of various legislative and other measures to promote these objectives and will, therefore, not bear repetition here.

The last 40 years have seen a rate of industrial growth of about 6 per cent per annum. And the performance on other social, low priority objectives during this period has, in general, been in the directions expected of the objectives. Industrial production has been greatly diversified, sector wise and industry wise; modern small industry has emerged as a major sector to reckon with; inter-state disparities as also intra-state disparities in industrially developed states, have narrowed and concentration of economic power in private hands has declined. There is no doubt that the specific policies and measures on behalf of the social objectives have played a role in producing these results. But the more significant role may have been played by high growth itself through its percolation effects. If this interpretation is accepted, the role of industrial growth as a propeller of social objectives comes in its own right.⁸

The message of the above discussion is that inasmuch as the NIP is growth promoting mainly through improvement in efficiency of industrial production, even as it contains little to promote social objectives it may be expected eventually to subserve almost all of the social objectives as well (as the preceding growth promoting policies and measures have done) except in regard to the objective of better expansion of the public sector relative to the private sector.

IV

Conclusion

Finally, the conclusions and some speculation.

It is well known that there is a time-lap between change of policy and its percolation in production. Policies have to be followed by measures and both have to be appreciated in the right spirit and followed up by investment decisions, investments and production by the economic agents to seize the opportunities thrown up by the changes. In view of this during this period of adjustment say of one or two years production may not only not respond positively to the NIP but it may even slow down. But after that period on the topic of the NIP elaborated and in the experience of previous liberalising policies outlined, in this paper industrial growth may be expected to accelerate in a sustained manner outpacing the figure of 8 per cent of the 1980s. And this growth along with policies to promote social objectives will also reinforce the tendencies of improved performance on almost all of the objectives except in the sphere of public sector.

The speculation relates to the role and response of government at the centre and the prime ministers to the economic policy changes especially during the last decade and a half. During this period the economic

policies and procedures have been increasingly liberalised, and simplified, and the country has been governed at the centre by different political parties, and the governments of these parties have been headed by a number of prime ministers. This period witnessed the Congress(I) Party government thrice, and the Janata Party, the National Front and the Samajwadi Party governments once each, and these governments have been headed by seven prime ministers. Which perhaps underline the diminished role of ideologies of parties and governments and of the personal inclinations of prime ministers to these ideologies. One is inclined to guess that these changes were designed on pragmatic considerations to adjust to or accelerate the developments of scale, technology and taste that have been taking place all over the world from which India could not have remained immune. The collapse of faith in the communist system of thought and the adoption of the market oriented policies in almost all communist countries of the world and the desire of these countries to break away from the earlier autarkical policies and to integrate their economies with the economies of the rest of the world especially with the advanced capitalist countries, is also a movement of the same kind as the one seen above in the Indian context.

Notes

[This article was prepared before the announcement of the new policy for the small scale sector which the author proposes to cover in a further note.]

1. The 18 industries for which industrial licensing is compulsory are (1) coal and lignite, (2) petroleum (other than crude) and its distillation products, (3) distillation and brewing of alcoholic drinks, (4) sugar, (5) animal fats and oils, (6) cigars and cigarettes of tobacco and manufactured tobacco substitutes, (7) asbestos and asbestos based products, (8) plywood, decorative veneers and other wood based products such as particle board, medium density fibre board, block board, (9) raw hides and skins, leather, chamois leather and patent leather, (10) tanned or dressed furskins, (11) motor cars, (12) paper and newspapers except bagasse based units, (13) electronic aerospace and defence equipment, all types, (14) industrial explosives including detonating fuse, safety fuse, gun powder, nitrocellulose and matches, (15) hazardous chemicals, (16) drugs and pharmaceuticals (according to drug policy), (17) entertainment electronic (VCRs, colour TVs, CD players, tape recorders), and (18) white goods (domestic refrigerators, domestic dishwashing machines, programmable domestic washing machines, microwave ovens, air conditioners).

As of June 1989, industrial licensing was compulsory for 27 industries. Of these, only 11 remain in the above list, namely, numbers 1, 3, 4, 5, 7, 8, 9, 11, 13, 14 and 15. Seven new industries (which were not there in the

above 27 named against numbers 2, 6, 10, 12, 16, 17 and 18) are added by the present change

On the other hand, 16 of the 27 industries do not figure in new list. These are (1) textiles, (2) milk foods, etc., (3) matches, (4) slitting/confectionery of photo-sensitised material for jumbo rolls, (5) telecommunication equipment, etc., (6) computer peripherals, (7) micro-processor based industrial control instrumentation system, and eight to 16 different types of metal based products relating to nine industries.

- 2 The 34 industries for 51 per cent foreign equity approval and automatic approval of foreign technology agreements are: (1) metallurgical industries, (2) boilers and steam generating plants, (3) prime movers (other than electrical generators), (4) electrical equipment, (5) transportation, (6) industrial machinery, (7) machine tools, etc., (8) agricultural machinery, (9) earth moving machinery, (10) industrial instruments, (11) scientific and electro medical instruments and laboratory equipment, (12) nitrogenous and phosphatic fertilisers, (13) chemicals (other than fertilisers), (14) drugs and pharmaceuticals, (15) paper and pulp including paper products and industrial laminates, (16) automobile tires and tubes, (17) plate glass, (18) ceramics, (19) cement products, (20) high technology reproduction and multiplication equipment, (21) carbon and carbon products, (22) pre-tensioned high pressure RCC pipes, (23) rubber machinery, (24) printing machinery, (25) welding electrodes other than those for welding mild steel, (26) industrial synthetic diamonds, (27) photo-synthesis improvers, (28) extraction and upgrading of minor oils, (29) pre-fabricated building material, (30) soya products, (31) certified high yielding hybrid seeds and synthetic seeds etc., (32) all food processing industries other than milk food related foods and flour, but excluding the items reserved for small scale sector, (33) all items of packaging for food processing industries excluding the items reserved for small scale sector, and (34) hotels and tourism related industry.

A number of products are specified under almost all of the above 34 industries which for want of space are not included here, and the list is restricted to naming the 30 broad industry groups.

- 3 The eight industries reserved for the public sector are: (1) arms and ammunition and allied items of defence equipment, defence aircraft and warships, (2) atomic energy, (3) coal and lignite, (4) mineral oils, (5) mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond, (6) mining of copper, lead, zinc, tin, molybdenum and wolfram, (7) minerals specified in the schedule to the Atomic Energy (control of production and use) Order 1953, and (8) railway transport.

It may be recalled that the Industrial Policy Resolution 1956 had three categories of industry: Schedule A (17 industries reserved for public sector), Schedule B (12 industries where private sector was expected to supplement the effort of the state) and other industries left for the private sector.

Of the 17 industries of Schedule A, only the above eight remain in the reserve category. The nine industries left out are: (1) iron and steel, (2) heavy casting and forging of iron and steel, (3) heavy plant and machinery, (4) heavy electrical plant and machinery, (5) aircraft, (6) air transport, (7) ship building, (8) telephones and telephone cable and related products, and (9) generation and distribution of electricity.

- 4 Consider, for example, these statistics: Private investment as a proportion of total investment in our five year plans has been rising from 36 to 39 and 43 to 48 per cent in the fourth, the fifth, the sixth and the seventh plans. Centre for Monitoring Indian Economy, *The Liberalisation Process*, Bombay 1986, Table 2.2, p 17.

- 5 See Isher Judge Ahluwalia, *Industrial Growth in India: Stagnation since the Mid Sixties* Delhi 1985 and 'The Role of Policy in Industrial Development' in P R Brahmananda and V R Panchamukhi (ed) *The Development Process of the Indian Economy* Delhi 1987. Also, R Nagaraj, 'Industrial Growth: Further Evidence and Towards an Explanation and Issues', *Economic and Political Weekly*, Bombay

October 13, 1990.

- 6 *India Today*, New Delhi, July 31, 1991, has given the following numbers of the persons employed in some government departments/corporations concerned with foreign trade: Chief Controller of Imports and Exports 3,000, Directorate General of Supplies and Disposals 4,500, State Trading Corporation and Metals Trading Corporation 6,000; and Directorate General of Technical Development 1,100. It is clear that with liberalisation of external trade, a very large number of jobs from these organisations become redundant. Similarly, liberalisation of industrial policies and procedures and other liberalisations will also make a number of jobs in other government departments/corporations also redundant.

- 7 J C Sandesara, 'Small Scale Industrialisation: The Indian Experience', *Economic and Political Weekly*, Bombay, March 26, 1988, especially Section I.

- 8 For statistical evidence and its interpretation on the points made in this para, reference is invited to J C Sandesara, *Indian Industrialisation since Independence: Tendencies, Interpretations and Issues*, Sage Publications, New Delhi, (forthcoming).

TAX DEDUCTORS/ TAXPAYERS

With effect from 28.2.91 Form 16B has been prescribed for TDS Certificates in respect of the following:

- Interest other than interest on securities
- Winnings from lotteries, cross word puzzles and horse races
- Payments to contractors or sub-contractors
- Payments to non-resident sportsmen and sports associations
- Other sums U/s 195
- Income of Foreign Companies referred to in Section 196A (2)

For the convenience of the tax deductors/taxpayers use of old **FORM No. 16** in lieu of form 16B has been permitted till **31.12.91**.



INCOME TAX DEPARTMENT
Directorate of Income-tax
(R.S.P. & P.R.)
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davp 91/252

Role of Public and Private Sectors in India's Development

Selected Simulations from a Macroeconometric Model

Kalyan Raipuria
Rajesh Mehta

The authors' analysis shows that the present discussion in the country on the role of the public and private sectors in the economy is misplaced. While the public sector needs reforms, the possibilities of substitution by the private sector are extremely limited given the stage and the structure of the economy. The strategy of their complementary roles in promoting the growth of the economy remains valid. While there is scope for improving the production function of both the sectors, the channels and instruments of increasing the role of the private sector in the non agricultural sector need careful consideration if changes are not to lead to crises of growth and balance of payments.

I

Introduction

THE purpose of this paper is to discuss the effects of different options, brought out in terms of specific scenarios of change in the role of public and private sectors, in the light of the past performance and now apparent limits of the public sector discussed in Section II. The emphasis of analysis is on the quantitative framework of the economy at macro level for which specific and feasible scenario need to be considered. Thus Section III covers specific scenarios of change in the roles of the public and private sectors. The macro econometric model adopted and the results of simulation of scenarios with the model are discussed in Section IV. On the basis of the above, certain issues are raised in Section V which are for discussion by the policy makers of both the public and the private sectors and society at large for future perspectives.

II

Emerging Roles of Public and Private Sectors and Approach to Analysis

Public sector in a developing economy like India has a critical role in building up basic infrastructure and the core industrial base. That this sector should always be in the forefront to lead is a necessity given our social and economic structure: that public sector can continue to play a dominant role without generating surpluses for its development is, however, an ideological fixation of mind.

But, at the same time, privatisation in the United Kingdom and other countries, and recent developments in socialist Europe, with oft-quoted *glasnost* and *perestroika* (and now *uskornie* or 'acceleration'), which is a far cry so far) should not lead us to advocate across the board graduation of the role of the public sector and loosening of the planning mechanism. We should not lose sight of the achievements of a welfare state in the UK

and the removal of poverty and assurance of employment and minimum level of living in Socialist Europe compared to the continuing poverty, very low per capita incomes and huge open and disguised unemployment in the country.

The share of the public sector in total GDP (1989-90) at less than 30 per cent means that Indian economy is predominantly private, that its share in investment hovers around 45 per cent means that the public sector is critical for growth.¹

The share of output of state owned (central and sub national government) enterprises in GDP varies widely among countries. The share is higher in total investment and accounted for more than 20 per cent in 13 of the 19 developing countries selected for study. In Burma, Venezuela and Zambia, their share of total investment was more than half in 1984. In case of India, the share in industrial output works out to about 30 per cent while that in total invested capital of industry works out to much higher than half (52.5 per cent).

In respect of sector wise production as Table 1 shows, the public sector remains dominant in sectors like fuel, metals, nitrogenous fertilisers and communication equipment. These are the sectors wherein public ownership is high (more than 50 per cent) in many other countries, developed (e.g. Austria, France, Italy, Portugal and Sweden) and developing (e.g. Brazil, Ghana, Pakistan, Tunisia and Zambia).²

The role of the public sector in achieving import substitution in major sectors/products since the First Plan, shown in Table 2, needs to be recognised.

What is important to note for the present discussion is that public investment is based on significant budgetary support, substantial draft on private household and foreign savings and may not be conducive to an efficient and substantial growth process in the country. The share of the public sector in gross savings at less than 10 per cent and net savings being substantially negative imply critical problem of resource mobilisation for future growth.

While several high level groups within government have gone into the above problem and certain measures have been taken, it is recognised that substantially is already under doubt from both, though related, resource and efficiency angles. As an alternative, what is suggested is not only reform but change in the role of the public sector in favour of the private sector.

But the suggested change could mean different options including partial disinvestment, transfer of ownership to private sector, transfer of management to private professionals and setting new units only in private sector. These may involve crucial choices. Thus the changes need to be discussed in the light of socio economic benefits and cost to the economy as a whole in the medium term, if not in the very long run, keeping in view the basic objectives of the economy. The question can also be raised whether the private sector is prepared to share the increased responsibility in an agreeable operational policy framework. The question also is what would be its sources of financing?

Options, of course, include reform in public sector. Presently, there are 244 central public enterprises with total investment of Rs 99,315 crore (1989-90), but their profits aggregate Rs 3,782 crore only. Out of 244, 131 are profit making (profits Rs 5,741 crore), 98 are loss making (loss Rs 1,959 crore) and 15 are no profit no-loss. It is found that a 5 per cent improvement in the physical performance means increase in profits of Rs 5,000 crore. Furthermore, increased efficiency in loss making enterprises may fetch Rs 1,100 crore. Certain policy measures have been under way in this regard as the issue has been examined by various formal groups set up by the government. These can go on. But what is generally suggested is that public sector needs to be cut in size, exposed to competition and asked to yield returns to sustain its crucial role in future in certain areas including public utilities.³

What are the real possibilities and what are the implications of change in India need careful examination in the macro context. This is attempted in the following sections.

through scenario formulation and their simulation with a macro econometric model to have comparative advantage of consistency and magnitudes in results

III

Selected Scenarios for Simulation

Considering the various suggestions afloat for change in the roles of public/private sectors, in respect of change in ownership, sector of operation and financing, the following scenarios are selected for simulation

(A) Reduced level and share of public investment, i.e. crowding out of public sector (by 25 per cent). This could be done through certain measures including freezing of all borrowings

The reduced level of public sector investment and thus its share in total investment is examined to see how it affects given the observed behavioural relationships of the economy, and the growth process and to check if there is a real possibility of private sector crowding in. This is a major scenario for analysis to see that any reduction in public sector investment does not bring down the momentum of overall growth at the present low levels of per capita income

(B) Increase in the share of private sector in non agricultural economy on the margin, as part of Plan projections of investment and foreign inflows

Given the fact that agriculture is already in the private sector, this scenario aims to check if increased role of private sector leads to distortion in the growth process and, on the margin, in the non agricultural sector, including infrastructure, infeasible level of

imports and other foreign exchange expenditure

(C) Increase in the share of private sector through substantial increase in foreign direct (private) investment (FDI) inflows, in the non agricultural sector

The aim in this scenario building and simulation is to examine the role of increased foreign investment flows in the private sector in the non agricultural sector and its economy wide impact. The level of foreign investment assumed is US \$ 1 billion annually

(D) Privatisation in terms of transfer of substantial assets of public sector in non agricultural sector to the private sector

This scenario examines the effect of disinvestment of equity of the public enterprises in favour of private sector, assuming that the means devised to implement this would be acceptable to the government and the private investors, and that this will absolve the government of the responsibility of increasing budgetary support every year in the face of substantial fiscal deficit, and/or increasing borrowings through bonds normal (13 per cent interest) and tax free (9 per cent interest) by public enterprises, given the problem of not so encouraging growth of internal resources

IV

The Model and Results of Simulation of Scenarios

The results presented in this paper are based on a macro econometric model for India developed by Mehta and Sinha.⁶ The Annexure gives the model specification. The

model has emphasis *inter alia* of three aspects, (i) external trade, (ii) public sector, and (iii) economic liberalisation. The model consists of 44 equations of which 21 are behavioural equations which have been categorised in six sub sets, viz, (a) expenditure (b) production, (c) public sector, (d) trade, (e) money and prices, and (f) foodgrains

The total number of variables in the model is 83. The parameters of each equation have been estimated using data for the period 1951-52 to 1985-86. The figures are at 1970-71 prices. The salient features of the model, which have been incorporated for the first time in macro-econometric modelling for India, are (i) the disaggregation of the public sector by the type of sectors and different categories (administrative, department and non departmental undertakings), (ii) the role of credit, and (iii) the asymmetric impact of custom tariffs on import prices

The credibility of the estimated framework was checked before the simulation results were obtained. Since the parameters of the estimated model might have changed during the *ex post* sample periods, the validity of the model was also checked for the period 1986-88. The simulation results have been carried out by a dynamic inter active simulation procedure

It should be noted that the present model is exploratory in nature and requires further refinement in formulation, estimation and simulation in the context of privatisation. It calls for improvement in its specification by incorporating disaggregate sectors for domestic external demand by public and private sectors for different industrial groups, and labour block

TABLE I. SHARE OF PUBLIC SECTOR IN INDIA'S NATIONAL PRODUCTION OF CORE ITEMS: 1968-69, 1984-85 AND 1989-90

| Item | Unit | National Production | | | Public Sector's Production | | | Per Cent Share of Public Sector in National Production | | |
|--------------------------|-------------|---------------------|--------------------|---------------------|----------------------------|---------------------|---------------------|--|---------|---------|
| | | Base Year IV Plan | Base Year VII Plan | End Year VII Plan | 1968-69 | 1984-85 | 1989-90 | 1968-69 | 1984-85 | 1989-90 |
| | | 1968-69 | 1984-85 | 1989-90 | 6 | 7 | 8 | 9 | 10 | 11 |
| 1 Fuel | | | | | | | | | | |
| (i) Coal | Mill tonnes | 71.40 | 147.29 | 200.89 ^a | 12.61 | 143.70 ^d | 197.13 ^d | 17.66 | 97.56 | 98.13 |
| (ii) Lignite | do | 3.98 | 7.11 | 12.80 ^e | 3.98 | 7.11 | 12.80 | 100.00 | 100.00 | 100.00 |
| (iii) Petroleum crude | do | 6.06 | 29.00 | 34.09 | 3.08 | 29.00 | 34.09 | 50.83 | 100.00 | 100.00 |
| 2 Basic Metal Industries | | | | | | | | | | |
| (i) Steel ingots | do | 6.51 | 8.30 | 14.17 ^d | 3.72 | 6.25 | 8.27 | 57.14 | 75.30 | 58.36 |
| (ii) Saleable steel | do | 4.70 | 7.00 | 12.61 ^e | 2.62 | 5.28 | 7.06 | 55.74 | 75.43 | 55.99 |
| 3 Non Ferrous Metals | | | | | | | | | | |
| (i) Aluminium | Thoutonnes | 125.30 | 276.49 | 427.11 | Nil | 87.36 | 225.58 | | 31.60 | 52.82 |
| (ii) Copper | do | 9.50 | 41.02 | 50.90 | | 41.02 | 50.90 | | 100.00 | 100.00 |
| (iii) Lead | do | 1.90 | 14.16 | 23.10 | 1.90 | 14.16 | 23.10 | 100.00 | 100.00 | 100.00 |
| (iv) Zinc | do | 17.00 | 57.63 | 75.22 | 13.70 | 50.80 | 65.00 | 80.59 | 88.15 | 86.41 |
| 4 Fertilisers | | | | | | | | | | |
| (i) Nitrogenous | do | 543 | 3917 | 6747 | 401 | 1845 | 2888 | 73.85 | 47.11 | 42.80 |
| (ii) Phosphatic | do | 210 | 1264 | 1796 | 53 | 34 | 440 | 25.24 | 27.30 | 24.50 |
| 5 Electric Equipment | | | | | | | | | | |
| (i) Telephones | Lakh Nos | NA | 5506 | 5807 | | 5506 | 5807 | — | 100.00 | 100.00 |
| (ii) Teleprinters | Numbers | 5012 | 7680 | 2112 | 5012 | 7680 | 2112 | 100.00 | 100.00 | 100.00 |

Notes: a Includes CIL/SCCL/TISCO/HISCO/DVC, b Includes Singareni Collieries, c Includes Gujarat production, d Includes production of ingots/concast billets by electric arc furnace units, e Includes production of secondary producers, i.e. mini-steel plants and re-rollers

Source: Bureau of Public Enterprises, *Public Enterprises Survey*, various issues

Due to this reason, simulation for all the scenarios mentioned in the last section could not be attempted satisfactorily. The results for three scenarios for which the model could be simulated are reported in Table 3 along with the base solution. In what follows these are briefly discussed.

Scenario A: Decline in the level of public sector investment by 25 per cent, from Rs 5,307 crore to Rs 4,027 crore (43.3 per cent of Rs 9,300 crore), leads to decline in private sector investment level by 10 per cent, that is, to reduced crowding-in effect. A 25 per cent decline in the public sector investment leads to decline in the private sector investment by 10 per cent. In the changed scenario the share of public investment in baseline scenario is 43.3 per cent. Hence the decline in total investment is 20 per cent. Similar results have been obtained earlier also in certain studies. The above decline in public sector and thus private sector investment leads to decline in national output by 1.3 per cent which is not an insignificant result. In a developing country like India, any trends of declining rate of investment are not welcome because they would lead to unwelcome recessions in the economy. Furthermore, it was found that this scenario leads to the lowering of deficit financing but a rise in prices by 4 per cent is the result due to demand factors.

Scenario A1: In this scenario the decline in public sector investment is imposed on the non-agriculture sector only. The results of this scenario are not different from that of the last scenario. The decline in investment

and output levels from the base solution is prominent in only non-agriculture sector. What is notable is that the decline in the level of consumption expenditure is not so significant as in the last scenario.

Scenario D: In this scenario the impact of increase in private sector investment due to foreign direct investment (FDI) flows are examined. The major limitations of the model in regard to this scenario need to be noted. Firstly, that the model being short-run does not take into account the impact of profit transfers which may take place over

the period. Secondly, the model does not consider the economic impact of FDI on domestic investment. What the results, given the limitations, show is that this scenario leads to increase in the GDP level by 2 per cent, and increase in per capita personal disposal income by 1.5 per cent. But these are accompanied by increase in the levels of prices as well as amount of trade deficit. Total imports increase by 33 per cent compared to the base level scenario and the increase in exports being negligible, leads to the increase in trade deficit by 25 per cent.

TABLE 3. ROLE OF PUBLIC PRIVATE SECTORS IN INDIAN ECONOMY: ALTERNATE SCENARIOS
Per Cent Deviation from Base Level Scenario

| Variable | Base Level Scenario | Sc. A ^a Pub Inv Declines by 25 Per Cent | Sc. A1 ^a Pub Inv in Non Agr Declines by 25 Per Cent | Sc. C ^b Pvt Inv Increases by \$ 1 billion by FDI |
|----------|---------------------|---|---|--|
| CONS70 | 37103.23 | 1603 | 1508 | 2400 |
| COV170 | 6583.97 | 3216 | 3133 | 4573 |
| CNPF70 | 48547.51 | 1373 | 1339 | 1857 |
| INV70 | 11207.16 | 16737 | 15126 | 17306 |
| INVPK70 | 1570.16 | 4153 | 4102 | |
| INVPNA70 | 4317.27 | 11600 | 11600 | |
| INVCNA70 | 4652.72 | | | |
| MT70 | 339.31 | 36906 | 33532 | 34416 |
| KEV70 | 10114.19 | 1180 | 1135 | 3674 |
| TAXI70 | 5579.18 | 9292 | 8612 | 7476 |
| YPI70 | 43780.86 | 2396 | 2292 | 2390 |
| GDP70 | 5586.51 | 1270 | 1236 | 1957 |

Note: (a) INVC: Assumed independent in this scenario.

(b) INVPNA70: Assumed independent in this scenario.

TABLE 3. IMPORT SUBSTITUTION: MAJOR PRODUCTS IN INDIA OVER THE PLANS
(Per cent change in import in total supplies)

| Products | First Plan end 1955-56 | Second Plan end 1960-61 | Third Plan end 1965-66 | Fourth Plan end 1973-74 | Variation Col (5) Col (2) | Fifth Plan end 1978-79 | Sixth Plan end 1984-85 | Seventh Plan end 1989-90 | Variation Col (9) Col (2) |
|---------------------------------|------------------------|-------------------------|------------------------|-------------------------|---------------------------|------------------------|------------------------|--------------------------|---------------------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Consumption goods: | | | | | | | | | |
| (a) Foodgrains | 17 | 4 | 1 | 43 | 26 | () | 10 | 34 | 17 |
| (b) Edible oils | | | | 48 | 48 | 197 | 228 | 194 | 146* |
| POL and products | | | | | | | | | |
| (a) Petroleum** | 938 | 946 | 66 | 708 | 230 | 564 | 355 | 365 | 573 |
| (b) Petroleum products | 321 | 303 | 231 | 208 | 113 | 129 | 126 | 127 | -194 |
| Chemical/petrochemical products | | | | | | | | | |
| (a) Nitrogenous fertilisers | 398 | 803 | 58 | 383 | 15 | 360 | 513 | | 398 |
| (b) Soda ash | 625 | 1277 | 254 | 05 | 620 | N | N | N | 625 |
| (c) Ammonium sulphate | 341 | 473 | 60 | 71 | 20 | 05 | N | N | -361 |
| (d) Man-made fibre and yarn | 207 | 254 | 60 | 31 | 176 | 350 | 112 | 51 | 156 |
| Steel and machinery | | | | | | | | | |
| (a) Iron and steel | 399 | 357 | 167 | 185 | 214 | 148 | 154 | 231 | -168 |
| (b) Machinery*** | 410 ^a | 407 ^a | 283 | 170 ^d | 240 | 102 | 199 ^b | 218 ^b | -192 |
| Others | | | | | | | | | |
| (a) Aluminium | 635 | 531 | 256 | 11 | 624 | 122 | 186 | - | -635 |
| (b) Newsprint | 952 | 760 | 33 | 05 | 267 | 853 | 5236 | 400 | -552 |
| (c) Paper and paper board | 269 | 72 | 45 | 23 | 246 | 15 | 166 | 26 | -243 |

Notes: Total supplies = production + imports - exports. N: Negligible. () Means net export.

* Variation over col 5.

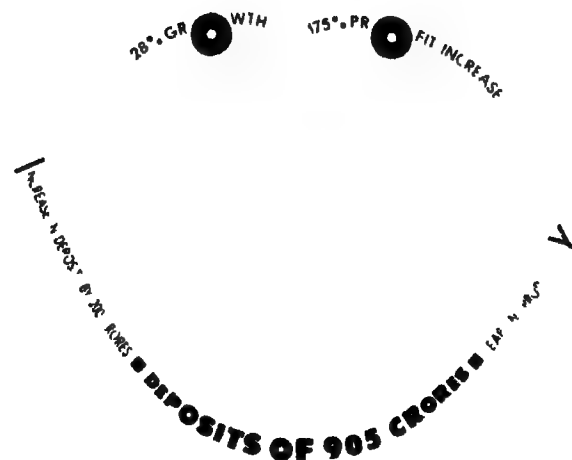
** wrt refinery throughput.

*** Import as percentage of gross investment in machinery and equipment in real terms.

(a) 1970-71 base up to Fifth Plan and

(b) 1980-81 base for subsequent period.

Source: Compiled from issues of *Annual Plans* (Planning Commission), *Economic Survey* (Ministry of Finance), and *Annual Reports* of the concerned ministries/departments.



The end of another successful financial year. Showing a spectacular Rs. 200 crores increase in deposits. With a growth rate of over 28%. Phenomenal when compared to the national average of 13.7%. A year in which profits grew by as much as 175%. And Capital & Reserves appreciated by 46%.

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| | | | | (Rupees in lakhs) | |
|-----------|---|-----------|-----------|-------------------|-----------|
| 31-3-1990 | LIABILITIES | 31-3-1991 | 31-3-1990 | ASSETS | 31-3-1991 |
| 300.00 | Capital | 505.00 | 1 | 1 | 19971.02 |
| 529.83 | Reserve Fund and Other Reserve | 709.11 | 1 | 1 | 701.40 |
| 70518.70 | Deposits and Other Accounts | 90478.06 | 100 | 1 | NIL |
| 2885.88 | Borrowing from Other Bank by Corporate Agents etc. | 3674.71 | 2 | 1 | 27694.63 |
| 104.04 | Bills Payable | 928.37 | 170 | 1 | 45649.22 |
| 2575.29 | Bills for Collection and other bills | 3068.98 | 2 | 1 | 3068.98 |
| 966.17 | Other Liabilities | 1748.51 | 89 | 1 | 4161.16 |
| 3189.3 | Acceptances, Discounts and other Obligations per cent | 4161.16 | 1 | 1 | 394.17 |
| 40.71 | Balance of Profit for payment of dividend | 67.30 | 141 | 1 | 244.56 |
| | | | 4 | 1 | 3428.80 |
| | | | | 1 | 25.26 |
| 82109.93 | TOTAL | 105339.20 | 1 | 1 | 105339.20 |

| | | | | (Rupees in lakhs) | |
|-----------|-------------------------------------|-----------|-----------|-------------------|-----------|
| 31-3-1990 | EXPENDITURE | 31-3-1991 | 31-3-1990 | INCOME | 31-3-1991 |
| 4984.37 | Interest Paid on Deposits and Loans | 6070.44 | 11 | 1 | 9040.93 |
| 2700.31 | Salaries & Allowances | 2617.37 | 4 | 1 | 506.39 |
| 815.03 | Operational Expenditure | 1041.92 | 5 | 1 | 87.81 |
| 91.63 | Balance of Profit | 252.09 | 1 | 1 | 0.06 |
| | | | 16 | 1 | 346.63 |
| 8591.34 | TOTAL | 9981.82 | 1 | 1 | 9981.82 |

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Annexure

A MACROECONOMETRIC MODEL OF INDIA

The estimated model by Mehta and Sinha (1989) including its sub sets of equations along with the definitional identities is given below. The model has been deliberately restricted to a moderate size so that its causal networks can be seen clearly, and simulations can be undertaken with alternative values of exogenous variables. Its general equilibrium impact multipliers, if derived, can be used for evaluating consequences of different policies.

Each equation has been estimated separately using OLS method. The negative numerical subscript in parentheses refers to the order of lag, and figures beneath the co-efficients and within parentheses are *t* values. The sample consists of 34 years' data.

I Real Expenditure Subset

| | | | | | | | |
|------------|---|---------|--|---------------|--------|-----------------------|--------------------|
| (1) CONS | - | 241.20 | 216.33 D + (0.0268 | 0.0029 D) | TASS | + (0.4035 + 0.3054 D) | YPD |
| NPOP | | (5.96) | (1.36) | (1.43) | (0.13) | NPOP | (4.47) (1.95) NPOP |
| (2) INVPA | - | 412.66 | + 0.0460 GDPA + 0.6207 SUBA | + 5.8150 CRPA | | | |
| | | (2.89) | (1.92) | (2.10) | (3.06) | | |
| (3) INVPNA | = | 1322.19 | + 0.4500 INVGNA + 0.4638 CRPB | | | | |
| | | | (2.2) | (1.24) | | | |
| (4) INVA | | | INVPA + (INVGAID + INVGAID) | | | | |
| (5) INVNA | | | INVPNA + INVGNA | | | | |
| (6) INV | | | GNPF CONS GOVT XT + MT + TAXI (SUBA + SUBNA) | | | | |
| (7) KA | | | KA(1) + INVA DELPA | | | | |
| (8) KNA | | | KNA(1) + INVNA DELPNA | | | | |
| (9) K | | | KA + KNA | | | | |
| (10) YPD | | | YNNP RIV + TAXI + OTRP | | | | |
| (11) YNNP | | | GNPI (DEPA + DELPNA) | | | | |
| (12) GNPI | | | GDPF + NIA | | | | |

II Public Sector Subset

| | | | | | | | |
|---------------|--|----------|-----------------------------------|----------------------------|------------------|--------|--------|
| (13) INVGNA | | 1778.17 | + 0.1242 YIAR + 0.1195 CRGB | | | | |
| | | (7.59) | (14.19) | (0.89) | | | |
| (14) INVGNAID | | | INVGNA INVGNAID | | | | |
| (15) INVGAD | | | INV INVGNA INVPA INVPNA - INVGAID | | | | |
| (16) INVGAD | | | INVGNAID + INVGAD | | | | |
| (17) RIV | | 2537.58 | + 0.1951 YNNP + 0.3684 REVI (1) | | | | |
| | | (5.10) | (5.69) | (3.13) | | | |
| (18) MDUIT | | 587.3287 | + 18.7175 TRR + 0.3123 MT | | | | |
| | | (3.58) | (2.84) | (37.34) | | | |
| (19) OIAXI | | 2137.113 | + 851.0625 D + (0.1605 | 0.0322 D) YNNP | | | |
| | | (12.71) | (1.61) | (5.81) | (2.65) | | |
| (20) TAXI | | | MDUIT + OIAXI | | | | |
| (21) IAXD | | 238.9 | + 1486.69 D + (0.0418 | 0.0313 D) YNNP | | | |
| | | (1.02) | (5.99) | (14.28) | (5.46) | | |
| (22) CRGB | | | REVI TAXI IAXD | | | | |
| (23) GOVT | | 2253.41 | + 4964.19 D + (0.1607 | + 0.0780 D) YNNP + (0.1272 | + 0.1949 D) REVI | | |
| | | (7.92) | (5.38) | (9.02) | (1.76) | (1.82) | (1.29) |
| (24) SAVG | | | REVI GOVT (SUBA + SUBNA) OIAXI | | | | |
| (25) DEFC | | | INVGAD SAVG FAU BRG | | | | |

III External Trade Subset

| | | | | | | | |
|---------------------|--|---------|--|-----------------------------|--|-----------------|---|
| (26) MIQ | | 3.87 | + 8.27 D + (0.0091 | 0.1117 D) AIDRS + (0.0099 | + 0.0395 D) P _{ml} P _i | (0.9205 | 0.01218 D) CSE |
| | | (1.89) | (2.59) | (3.49) | (1.45) | (0.70) | (2.12) |
| (27) MIV | | | MIQ P _{ml} P _{ml} | | | | |
| (28) MNIME | | 1292.06 | + 4952.63 D + (0.2414 | + 0.6079 D) IAL + (0.0996 | + 0.5355 D) INV | (2.7801 | + 3.7456 D) P _m P _i |
| | | (1.10) | (1.15) | (0.57) | (0.43) | (1.14) | (2.81) |
| (29) MT | | | MIV + (MNFME + MNFSC) | | | | |
| (30) XTIME | | 1192.70 | + 5.0592 Y _{ws} + 0.2870 P _v P _{vn} | | | | |
| | | (7.24) | (21.50) | (0.1) | (0.90) | | |
| (31) XT | | | XTIME + XTSC | | | | |
| (32) P _m | | 12.6070 | + 216.0488 D + (1.6722 | 0.5976 D) P _v | (3.3266 | + 1.2516 D) TRR | |
| | | (1.09) | (3.21) | (5.47) | (2.00) | (2.45) | (0.47) |
| (33) P _v | | 63.218 | + 257.9531 D + (12.2781 | + 32.8569 D) EXRI + (0.7524 | 0.0729 D) P _{ml} | | |
| | | (8.27) | (10.31) | (9.00) | (12.28) | (8.73) | (0.70) |

IV Production Subset

| | | | | | | | |
|------------|---|--------|---|-------------------------|------------------|--------|--------|
| (34) GDPA | - | 4536 | 31896 D + (0.1528 | 0.1337 D) KA + (119.429 | + 214.406 D) GAS | | |
| | | (1.06) | (3.38) | (3.72) | (2.08) | (3.61) | (3.42) |
| (35) GDPNA | | | exp (4.4150 + 0.4369 ln KNA + 0.1708 ln I NA) | | | | |
| | | | (3.01) | (0.21) | | | |
| (36) GDPF | | | GDPA + GDPNA | | | | |

V Money and Prices

| | | | | | | | |
|---------------------|---|---------|--|-------------------------|--|--|---------|
| (37) MS | - | 204.97 | + 0.3333 DEF + 0.2524 (CRGB + CRPB) | + 0.9788 M ^s | | | |
| | | (0.77) | (1.63) | (2.01) | | | (14.77) |
| (38) MR | | | MS + TID | | | | |
| (39) P _y | | 28.7795 | + 0.3330 P _y (1) + 0.0038 M ^s + 0.2396 P _{id} | | | | |
| | | (4.38) | (2.10) | | | | (2.54) |

VI Foodgrains Subset

| | | | | | | | |
|---------------------|---|---------|--|--------|--------|--|--------|
| (40) QF | - | 114.94 | + 1.0841 GASF + 2.6577 ZF + 0.0035 (P _i P _i) (1) + 0.092 QF (1) | | | | |
| | | (4.15) | (3.75) | (3.48) | (0.10) | | (0.62) |
| (41) SF | - | | QF + CSF | | | | |
| (42) SFM | - | | SF + MFQ | | | | |
| (43) P _i | = | 55.89 | + 0.0012 MR + 0.0026 (1) QF + 0.5134 P _{pr} | | | | |
| | | (13.13) | (4.23) | (4.40) | | | (2.47) |
| (44) DF | = | 2978.75 | + 0.4164 YPD + 33.43 NPOP | | | | |
| | | (2.08) | (6.72) | (0.55) | | | (1.16) |

The following is an alphabetical list of the endogenous variables, exogenous variables and dummy variables appearing in the model. Unless otherwise indicated, all monetary variables are crores rupees, and stock variables are at the end of last financial year.

| <i>Endogenous Variables</i> | | | | | |
|-----------------------------|--|----------------------------|--|------------------------------|---|
| CONS | Private final consumption expenditure | P_f | Index number of wholesale price of foodgrains (1970-71 = 100) | INVGNAND | Gross investment in public sector in non-agriculture, non-departmental undertakings. |
| DF | Consumption of foodgrains | P_m | Unit value index of the imports (1970-71 = 100) | LNA | Total labour force in non-agriculture (million) |
| DEFG | Deficit finance of government budget | P_x | Index number of unit value of exports (1970-71 = 100) | MNFSC | Value of imports other than foodgrains from centrally planned economies. |
| GDPA | Gross domestic product in agriculture sector at FC | P_y | Index of implicit price deflator of GDP (1970-71 = 100) | NPOP | Total population (crore) |
| GDPNA | Gross domestic product in non-agriculture sector at FC | QI | Net production of foodgrains (million tonnes) | NIA | Net income from abroad |
| GOVT | Government expenditure on goods and services | REV | Total revenue receipts of government | OEXG | Other government expenditure such as current transfers to other sectors mainly education, calamities, etc. |
| GNPF | Gross national product at FC | SAVG ₁ | Saving of general government (administration + departmental enterprises) | P_{adm} | Administrative price index |
| INV | Gross investment | SF | Total availability of food grains net of imports (mn tonnes) | P_{mi} | Index of import price of foodgrains (1970-71 = 100) |
| INVA | Gross investment in agriculture | SFM | Total availability of foodgrains (million tonnes) | P_{m1} | Procurement price index for wheat (1970-71 = 100) |
| INVNA | Gross investment in non agriculture | TAXD | Direct taxes | P_c | Unit value index of exports of competitive countries (i.e., non oil developing countries) |
| INVGD | Investment in general government (i.e., administration and departmental enterprises) | TAXI | Total indirect taxes | P_v | General price index of customer countries (1970-71 = 100) — weighted average of major importers |
| INVPA | Gross investment in private sector agriculture | XI | Total exports | | |
| INVPNA | Gross investment in private sector non agriculture | XIME | Total exports to the market economy | | |
| INVQAD | Gross investment in public sector in agriculture | YNNP | Net national product at FC | SUBA | Govt subsidies to agriculture sector |
| INVGNA | Gross investment in public sector, non agriculture | YPD | Personal disposable income | SUBNA | Govt subsidies to non agriculture sector |
| INVGNAD | Gross investment in public sector in non agriculture | | | IASS | Total assets inclusive of liquid assets |
| | departmental undertakings | <i>Exogenous Variables</i> | | ID | Time deposits at current prices |
| K | Total capital stock | AIDRS | PI 480 and other aid | IRR | Average tariff rates for imports |
| KA | Capital stock in agriculture | BRC | Net borrowings of the government | NFSC | Total exports to centrally planned economies |
| KNA | Capital stock in non agriculture | CRGB | Credit to the public sector by banks | YIAR | Target value of domestic income |
| MDUI | Total receipt from custom duties (imports) | CRPB | Credit to the private sector by banks | Y | Index of GNP at FC of customer countries at constant prices (1970-71 = 100) — weighted average of major importers |
| MFQ | Quantity of foodgrains imports (million tonnes) | CRPA | Total credit to the agriculture sector | ZI | Irrigation ratio (foodgrains only) |
| MFV | Value of imports of foodgrains | CSF | Change in stocks of foodgrains | | |
| MN-FME | Value of imports other than foodgrains from market economies | DLPA | Depreciation in the agriculture sector Rs per US \$ | | |
| MT | Total imports | EXRI | Foreign aid utilised (net of PI 480) | | |
| MR | Total monetary resources at current prices | FAU | Gross area sown (thousand hectares) | | |
| MS | Total monetary supply at current price | GAS | Gross area sown under foodgrains (thousand hectares) | | |
| OCRG | Other revenues, i.e., income from entrepreneurship and property | GASF | Gross area sown under foodgrains (thousand hectares) | | |
| OTAXI | Other indirect taxes excluding import duties collections | INVGAND | Gross investment in public sector in agriculture, non departmental enterprises | | |
| | | | | <i>Dummy Variables, etc.</i> | |
| | | | | δ | Dummy variables for structural change 1975 onwards |
| | | | | P_{om1} | Average price of the imported foodgrains in the base period, i.e., 1970-71. |

V Certain Issues

Our analysis shows that the present discussion in the country on the relative role of public and private sectors in the economy is misplaced. While the public sector needs reforms, the possibilities of substitution by private sector may be extremely limited given the stage and the structure of the economy. The strategy of their complementary roles in promoting growth of the economy remains valid. There is scope for improving the production function of both the sectors. Furthermore, the channels and instruments of increasing the role of the private sector in the non-agricultural sector need careful consideration as changes must not lead to crises of growth and balance of payments.

The following major issues can be raised. Without substantial change in the relative roles of public and private sectors, what concrete measures need consideration for reform? How to design future development planning which combines their roles for raising efficiency and growth? What should be the changes in the sectoral emphasis to achieve the above objectives, keeping in view that both the sectors need to grow in harmony and at the same time provide support for the accepted objectives of achieving faster growth, maximum employment, generation and long term self reliance.

A number of issues arise in respect of financing. Whether public sector has really crowded out the private sector in the recent past given its observed realisation of capital market financing. Is financial deregulation a pre-requisite for increased role of private enterprises in material sector? Furthermore, given the constrained conventional inflows from abroad, how to combine domestic and foreign financing to minimise future balance of payments liabilities.

The issues raised above based on a macro

level quantitative exercise may be compared with certain non issues being raised in the discussion of the kind based on qualitative and micro level thinking.

Notes

[This paper has been prepared in the authors' personal capacity and the views expressed here may not be those of their organisations.]

1 It may be of interest to note that as much as about 14 per cent of GDP is allocated as public sector outlay, among the ministries/departments and the states, according to sectors by the Planning Commission, given the important ratios of Indian economy (base line scenario) as

- (i) gross domestic savings/GDP: 20 per cent
- (ii) gross investment/GDP: 22 per cent
- (iii) public sector investment/total investment: 48 per cent
- (iv) public sector outlay/total outlay: about 50 per cent and
- (v) public sector outlay/public sector investment: 1.16 accounted by revenue expenditure part included in the Plans incurred by the centre and states.

2 World Bank, *World Development Report 1985*, Figure 4.4, p. 67.

3 Central Statistical Organisation, *Annual Survey of Industries 1986-89*, Summary Results for Factor Sector, Ministry of Planning (1990).

4 World Bank, *World Development Report 1987*, Figure 4.4, p. 6.

5 A discussion on the relative yielding returns and hence the future development is provided in K. D. Raipuria, 'Resource Mobilisation for Public Sector Development', *Economic and Political Weekly*, January 19, 1991. Paper was originally prepared for the conference of chief executives of central public enterprises held in August 1990.

6 R. Mehta and N. Sinha (1989), 'External Trade, Public Sector and Indian Economy: A Macroeconometric Study', Inter-Link

Country Model System organised by RIS and Escap, February 1984, New Delhi.

7 K. Krishnamurthy et al., for example, examined the complementarity as well as crowding-out effects of public sector for different industries. The results indicate that there is complementarity particularly observed in the late seventies. In one of the scenarios, Krishnamurthy concludes: "The increase in public investment, tones up activity all round. It increases growth rate of output of all sectors, private real investment in agriculture and industry and private savings" (emphasis ours). See 'Inflation and Growth: A Model for India', *Indian Economic Review*, XIX/1, January-June, 1984.

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Unhelpful Disappointments

Rudolf C Heredia

THERE is perhaps little any one can do about Sujit K Das's disappointment with 'Social Medicine for Holistic Health' (*EPW*, April 6), since it seems to come from a self-confessed "intellectual limitation" that derisively dismisses contrary points of view as "intellectual mumbo-jumbo". Rather I'll try to address the substantive issues he has raised.

Firstly, regarding definitions the WHO definition of health he rejects as western is precisely the basis for a comprehensive health policy as proposed by the study group of the ICSSR and the ICMR in *Health for All* (Indian Institute of Education, Pune, 1981). Residual definitions, i.e. defining something by what it is *not*, are much less helpful for broad policy making. Thus 'poverty' can be defined as the 'absence of wealth', or in terms of exploitative and unjust social structures. The second broadens the concept beyond the mere economic without negating it. However, the development policies that derive from these two understandings of poverty would be radically different. This is what the development debate is all about. What we need now is a medical version of the same.

Moreover, qualitative definitions can be operationalised with very specific indicators. These must be creatively contextualised. It would be more precise to use 'absence of disease' or even its incidence, as one indicator of health, not a comprehensive or even a practical definition, much less a description of it.

Secondly, regarding scientific medicine and the bio medical model, which derives from it and has so completely appropriated modern medicine rather than a rejection in toto, what is being stressed are its limitations. When uncritically accepted this model is counter productive. It needs to be extended and deepened. If health is understood only as a matter of 'biology', then these limitations go unrecognised. But can we reduce human beings to their biology in such a vital matter as health? Are there not other dimensions, e.g. psychological and social? But then again this will depend on how health is defined.

Moreover, faith in modern science, medical or otherwise, has been radically questioned not only in the developed but in the developing world too. Pritish Nandy and Claude Alvares have written eloquently on this. How much of the ecological crisis has been precipitated by blind faith in the omnipotence of science and technology? Medical science too needs a critical review, to uncover more precisely where it helps and where it hinders unless of course one believes

that there can be no such thing as a bad science.

Further, science and the technology foster their own inherent dynamic that impinges on society and culture. This negates the idea of a value neutral science. Even an apparently neutral technology can have unintended effects. Think of the way Galileo's or Descartes' scientific theories have affected renaissance thinking. Or the way computers and media have changed modern politics. Unless we are aware of such influences we will never be able to control them. Energy provides a ready illustration. No amount of political will can decentralise nuclear energy. Its very scale and character demands the contrary for efficiency and safety. Bio gas is the exact opposite. It would be disingenuous to deny the effect of centralised and decentralised sources of energy on a society.

Certainly access to the health care system of a society will also depend on its political structure. Equality of access in one will depend on the equality of empowerment in the other. But to think that this can be brought about by a liberal democracy defined in terms of 'freedom and self-determination' is to be blind to the post independence experience of this country. What is needed is a 'participative democracy', not a 'plebiscitary' one as Rajni Kothari says. And hi tech, capital intensive technology, does not lend itself to this. Medical technology is no exception.

It is precisely the urgency of our situation that demands a theoretical perspective to comprehend in order to respond to it, creatively and constructively. A mere precipitate 'ad hocism' does neither. Practical models are needed and some are already at hand, e.g. with the Medico Friends Circle. But these cannot be sustained without a theory to justify them and inspire a multiplier effect. My article tried to do this. If it fails it will be for reasons other than the one that disappointed Das.

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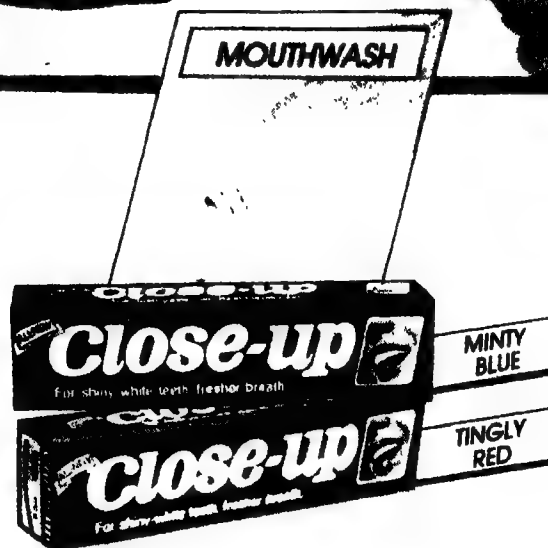
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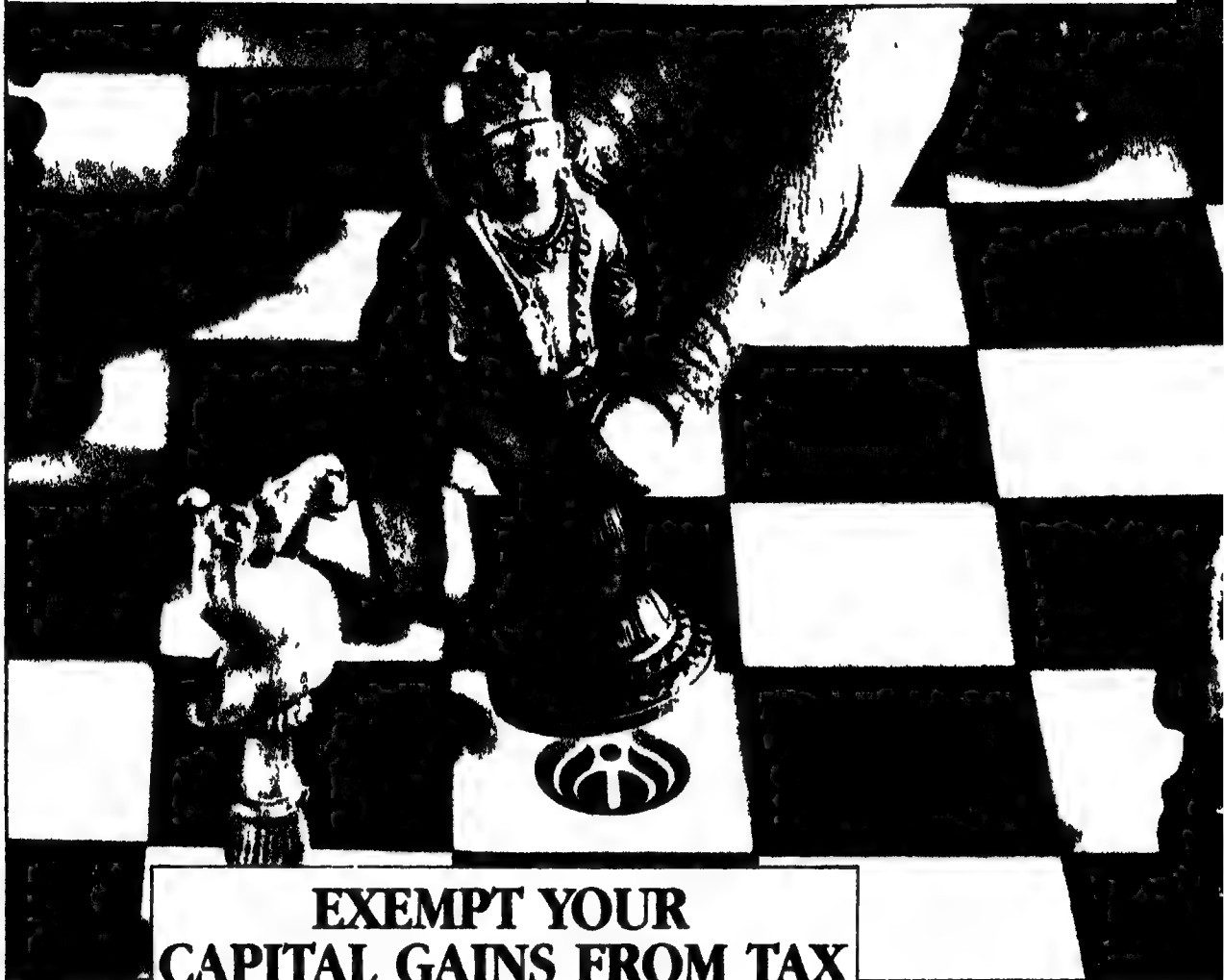
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ECONOMIC AND POLITICAL

WEEKLY

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August 17, 1999

■ **AMBEDKAR'S LEGACY TO DALITS:
HAVE PROMISES BEEN KEPT?**

■ **PRESS COUNCIL REPORT ON ARMY
IN KASHMIR**

■ **RISE OF KULAK POWER AND
CASTE STRUGGLE IN NORTH INDIA**

■ **RIGHT TO WORK: THE WHY AND
THE WHERETOFORE**

■ **LOK SABHA ELECTIONS: MESSAGE
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Capitalism and Caste

While the rise of the political power of kulaks is associated with the development of capitalism in agriculture, there is no one-to-one correspondence between the two. It is only when, after the development of capitalism in agriculture, the kulaks' class interests come into clash with those of the ruling class that the seed of political struggle between the two is sown. In India this process gets complicated because of traditional feudal identities related to caste and religion. An overview of the rise of kulak power and caste struggle in different parts of north India.

1923

Ambedkar's Legacy

Ambedkar's legacy to the Dalits is primarily the constitutional safeguards for the scheduled castes and the celebration of his birth centenary should be the occasion to examine if the nation has really honoured the legacy or reneged on its promises to honour it. An assessment of the performance of various measures undertaken in pursuance of the constitutional safeguards for SCs.

1911

'Right to Work'

Seventy per cent of the people below the poverty line are concentrated in eight states where agriculture is rainfed, where the degradation of the land has reached dismal proportions and where the productivity of farm labour is very low. How will the 'right to work' concept help in this situation?

1893

Whose Say-So?

The Press Council's report on Kashmir has become a convenient tool to pillory human rights groups who are charged with being duped by the say-so of alleged victims and propagandists. But is not the report itself one-sided, based as it is on the say-so of the army?

1899

Marxism's Crisis

Marxism's strength lay in its claim to be a critical theory with practical intent. If this claim is no longer convincing, what is at the root of the crisis?

1934

Not Many Flowers

There are three major obstacles to the realisation of democracy in China today.

1905

Bihar Elections

The 1991 Lok Sabha elections in Bihar will be remembered as a watershed because the people refused to be swayed by non-issues and chose to vote on the real issues which affect their day-to-day lives.

1895

Colonial Science

The production and growth of science in colonial India had the objective of furthering colonial interests. British-sponsored science was, by its very nature, field science and its agenda was decided on grounds of political and commercial gain.

1927

Puzzled Pundits

The stock market is experiencing an unprecedented boom which has confounded not only political and economic pundits but also experienced marketmen.

1887

Communal Politics

The BJP's position on Hindu-Muslim relations has undergone considerable change during the decade of its existence, with the Mandal agitation acting as a spur to the party's current phase of communal politics.

1901

Communists and Demand for Pakistan

THIS refers to the letter of Ajit Roy on 'Communists and Demand for Pakistan' (June 22)

Roy's main contention is that "[Communists] never supported Pakistan but only the demand for the right of self determination of 'the various nationalities, such as Pathans, western Punjabis (dominantly Muslim), Sikhs, Sindhis, Hindustanis, Rajasthanis, Gujaratis, Bengalis, Assamese, Beharis, Oriyas, Andhras, Tamils, Karnatakas, Keralas, etc so that 'free India of tomorrow would be a federation or union of autonomous states' "

But from when did western Punjabis become a separate nationality? Just because they were Muslims? Jinnah's point was exactly that—the Muslims are a separate nation. And what about the Bengalis mentioned above? Are not they then by the same standard two separate nationalities as Jinnah thought? Yes, and the communists thought the same. The above quotation of Ajit Roy is from the resolution passed by the enlarged plenum of the central committee of the Communist Party of India (CPI) on September 19, 1942 and confirmed by the first congress of the CPI in May 1943. In that resolution, it is later also stated that "in the case of the Bengali Muslims of the eastern and northern districts of Bengal where they form an overwhelming majority, they may form themselves into an autonomous region in the state of Bengal or may form a separate state. Such a declaration therefore concedes the just essence of the Pakistan demand. Then it is added that it "has nothing in common with the separatist theory of dividing India into two nations on the basis of religion"

The report by G. Adhikari then, suprema of the CPI before the same plenum was more explicit. In its concluding section the report clearly stated "Our solution concedes to Sind, NW F Province, Punjab and eastern districts of Bengal the right of self determination to the point of secession. This means these states whose exact boundaries would be determined by the people later, can be autonomous and sovereign and form the federation within an Indian Union or they may secede and form their federation without" (emphasis added). I hope it does not need explanation that this "federation

without" means Jinnah's Pakistan.

Though the 1943 resolution maintained the facade of free India as a "federation or union of autonomous states", by 1945 even that facade was no more necessary. In the resolution of the CPI of December 1945 it is clarified "We recognise the freedom urge behind the Pakistan demand. Our stand would guarantee complete self determination to national units with Muslim majority and enable them to form a separate federation if they so desire" (emphasis added).

When the partition scheme was finalised after the Mountbatten Award, the CPI in its political resolution of June 1947 stated, "[British imperialism's] utter weakness has forced it to make important concessions to the urgent demands of the national liberation movement such as for example

(a) Transfer of power to Congress and League governments on dominion status basis by August 15.

The resolution added "the two popular governments and constituent assemblies are the strategic weapons in the hands of national leadership.

So the CPI accepted the formation of two separate governments as a victory for the national movement. And the CPI never

raised its voice for annulment of partition, rather the above mentioned resolution's call for "Indian unity" meant "establishment of friendly relations between Pakistan and India."

After all this, some respected communists will tell us again that they did not support the demand for Pakistan. These dry pages of history, I am sure, will then be interpreted in a more imaginative 'dialectical' way by communist intellectuals to erase their guilt at being a party to the partition of India. But the real human memories would keep alive the truth. My mother residing in a small east Bengal town, Kishoregunj, still remembers 14th of August 1947. On that day communist party workers went from house to house of Hindu families to force them to raise the Pakistani national flag and even bought the flags from their own pockets. The communists to appease Islamic fundamentalists still practise the two nation theory. They created a new Muslim majority district in Kerala. But in communist West Bengal a reference to the right of self determination for Gorkhaland or Jharkhand will put you in the reactionary anti-patriotic camp.

M. RAY

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Losing Battle

THE index of wholesale prices has risen by 2.3 per cent in the fortnight following the presentation of the budget for 1991-92 and the annual rate of inflation, as measured by the price index for the week ended August 3, has gone up to 12.9 per cent. Control of inflationary pressures in the economy is ostensibly a major objective of the government's economic policies and, towards that end, reduction of the budgetary gap, whether denoted by the conventional concept of deficit financing or by the IMF World Bank favoured ideologically weighted concept of the fiscal deficit, was the principal, in fact almost the sole, focus of the budgetary sums unveiled by the finance minister in parliament on July 24. But already the many contradictions in the government's efforts to bring inflation under control are beginning to be exposed.

Monetary expansion in the economy has, it is true, vastly outpaced the growth of real output year after year. It is a fact also that this expansion has been fuelled to a considerable extent by the widening gap in the government's budgetary operations. At the same time, a marked feature of the particular measure, which the government has now chosen to adopt to reduce the budgetary gap and deal with the other economic problems facing it is their potential for imparting a strong cost push impetus to inflation.

The implications of last month's devaluation of the rupee for costs and prices across a wide range of industries and products are already manifest and this process will go on as, under the so called flexible exchange rate policy, the exchange value of the rupee continues to be eroded as has been continually happening for the last so many years. Equally unavoidable will be the consequences of the increases, those already effected as well as those on the anvil, in the administered price of major industrial intermediates such as petroleum products, coal and steel, among others. Having decided at the outset to eschew placing the burden of balancing the budget on the shoulders of the rich and the relatively well off through measures to raise the yields from direct taxes—notwithstanding all the available evidence that what these sections of the population are made to part with in the form of income and other direct taxes has been coming down precipitately as a proportion of their buoyant incomes and wealth—the finance minister has had no option but to resort to increases in administered prices and to persist with the established pattern relying overwhelmingly on indirect taxes for raising additional tax revenue. The expected yield from all the direct taxes as a proportion of the government's total gross tax revenue in 1991-92 is in fact lower at 19.8 per cent compared to 20.7 per cent in 1990-91 as per the revised estimates for the year. And this is inclusive of the receipts of Rs 535 crore expected from the tax on the interest incomes of financial institutions which, though included in direct tax receipts by the finance minister, is being passed on to the borrowers from the

banks and the financial institutions in the form of enhanced interest charges, thereby adding to the trend of rising interest rates which cannot but push up costs across the board.

The finance minister has, in his budget speech, also promised to compensate farmers for the increase in the price of fertilisers through increased procurement prices payable by the government. This was quite a cavalier posture to strike, especially after the experience of last year. The government's *Economic Survey* frankly acknowledges that the substantial increases in procurement prices allowed last year and the consequent increases in issue prices had set the trends for the open market prices. As is well known, the rise in the prices of foodgrains, and of cereals especially, made a major contribution to the overall price rise in 1990-91.

All told, then, on the prices front what the government hopes to gain on the swins by its deficit cutting exercises in the budget it is likely to more than lose on the roundabouts as a result of its other economic policy measures. In fact, the upward pressure on prices exerted by the latter is bound, as the year progresses, to undermine the government's efforts to contain the budgetary gap as well. After all, in 1990-91, according to the revised estimates for the year, the fiscal deficit exceeded the figure provided for in the budget by Rs 6,536 crore and the budgetary deficit overshot the budgetary mark by Rs 3,566

crore. In the current year, given the likelihood of a slowing down of the rate of growth of the economy from 5.4 per cent to around 3.5 per cent, in any case the disjunction between monetary expansion and the growth of output might not be appreciably repaired even if the finance minister's optimism in regard to the containment of the budgetary deficit were to be substantially realised.

Already, in the budget as formulated, it is programmes such as those for employment generation which have borne the brunt of the pruning of government expenditure required to meet the IMF's specifications with regard to fiscal management. But with the budgetary arithmetic thrown into disarray by the growing momentum of the price rise and with the IMF proving intractable on the subject of the level of the fiscal deficit, it is government expenditure on programmes directed at the relatively poorer sections of the population which will take a further beating. Sophisticated advocates of structural adjustment and IMF conditionalities have been apt to point out that what the IMF is asking for is after all only that aggregate government expenditure be contained to restore the fiscal balance, not for particular item of expenditure to be cut, and that if the government is so concerned about social welfare and justice, it is open to it to protect the relevant heads of expenditure at the expense of the others. The trouble is that the rest of the IMF's package of economic policy measures effectively ensures that this just will not happen.

KARNATAKA

Survival Tactics

IF chief minister S Bangarappa has been granted a reprieve, it is certainly not because of any particular political or executive skills on his part. In fact, his manner and actions seem to have been calculated to sharpen the opposition to him providing it with the right kind of ammunition. To begin with he was not a popular choice after the peremptory removal of Veerendra Patil. If the change could be carried through it was only because of Rajiv Gandhi, whose style of functioning brooked no opposition.

Bangarappa began his innings typically by mass transfers of civil servants. This provoked much criticism and many bureaucrats reportedly sought transfers out of the state on the plea that they were not being allowed to carry out their duties properly. By June, after the elections, this began to be held up as an important illustration of Bangarappa's mismanagement, especially when the Mysore police commissioner, who had been investigating the case of the deputy commissioner of police accused of killing a factory worker was transferred together with two other officers who had been assisting him in the investigation.

Bangarappa had by this time chalked up other 'successes'. One such was the granting of leases for granite quarrying to 220 private parties circumventing an earlier high court order. Although the grants were stayed, in the fortnight it took to get the process going, more than 2,000 acres of land had already been taken over by private parties.

July brought the Cauvery issue to the fore and Bangarappa saw an opportunity to redeem his position among certain sections of the electorate. Unfortunately, either he had not reckoned with the repercussions or had miscalculated the centre's inclinations. The Cauvery ordinance, while on the one hand it was seen as a bold step, also became a convenient weapon for the dissident group to use against him. If the central leadership had been embarrassed by the passage of the ordinance, it could hardly have been less so by the dissidents' trek to Delhi to seek the chief minister's dismissal.

Bangarappa sought to soothe ruffled feathers by expanding his cabinet by the addition of 13 members. While it now had a better representation from the vocal and powerful Lingayat and Vokkaliga communities as well as from the Veerendra Patil group, Bangarappa had in fact made imply sure that it was a 'low weight' cabinet. Senior leaders were either left out, not consulted or given marginal and unimportant ministries. For instance, four senior ministers, K H Patil, K S Nagaiahanna, B Basavalingappa and Puttaswamy Gowda who had their portfolios

changed twice in the course of nine months were now shunted off to ministries where they could have little say. The phone-tapping issue, especially the fact that several MPs had also been victims, should really have put the finishing touch to the campaign of the dissidents or the 'save the Congress' group as they call themselves. Why Bangarappa continues to hold office is, therefore, more because of the set of circumstances which the central leadership of the party is having to grapple with from its precarious perch than anything else. Perhaps it may lead the Karnataka leader into some ruminations—that Rajiv Gandhi's style of functioning is ineffective and counter-productive without Rajiv Gandhi at the centre, figuratively and politically.

EXCHANGE EARNINGS

Piecemeal Approach

UNDER the head 'incentives for earning foreign exchange', the memorandum explaining the provisions of the Finance Bill lists three changes in the existing rules covering the treatment of foreign exchange earnings: first, extending to processed minerals and ores the concession of full deductibility of export profits under section 80 HHC; second, granting of full deductibility to export of software; and third, extending the benefit of section 80-O to non-corporate tax payers also of 50 per cent deduction in respect of income received in convertible foreign exchange by way of royalties, commission, fees, etc. This last concession is, as is pointed out by the finance minister in his budget speech, presently available only to the corporate sector.

Let us start with a general observation about the distinction the existing provision on concessions to exports attempts to draw between commodity exports and service exports. While earnings from the former are sought to be fully exempted, those from the latter are selectively given a partial exemption of 50 to 75 per cent. This discrimination against the latter type of exchange earnings has little rationale. In fact, there is a strong case for doing exactly the opposite, namely, extending a higher concession to earnings from service exports because such exports would normally entail minimum of foreign exchange cost. In other words, the import content of such exports would tend to be minimal.

Coming to specific provisions, while the extension of the benefit of full tax exemption to earnings from the export of processed minerals and ores is a step in the right direction, can the question be avoided as to why earnings from the export of minerals and ores should be denied this benefit? One answer that can be anticipated is that by drawing the distinction between processed and unprocessed mine-

erals, the objective is to encourage value addition before the minerals are exported. But then are we at all linking the concession to the extent of processing or value addition? There is no indication to this effect in the memorandum. Isn't there a danger of firms resorting to superficial processing resulting in little value addition to qualify for total tax exemption? That the incentive to resort to some such subterfuge will be quite strong cannot be ruled out.

As regards the extension of full tax exemption to earnings from the export of software, regardless of whether such export was through magnetic media or on paper or through satellite data link or through consultancy even if delivered at the location of the foreign client outside India, this is tantamount to a recognition, however delayed, that there are at least some service exports which can be treated on par with commodity exports.

But this piecemeal approach will have to be abandoned if the objective is to maximise exchange earnings, be they from the export of commodities, processed, partially processed or even unprocessed, or from the export of services. In fact the extension to non-corporate tax payers of the benefit of section 80-O allowing partial tax exemption with respect to income from royalties, commission, technical fees, etc, serves to underline the fragmented approach being followed with respect to service exports. This approach is further exemplified by the provisions of sections 80-R, RR and RRA, which attempt to grant partial exemption to certain categories of professional income derived from foreign sources. These provisions draw highly questionable distinctions between professions and professions and between government servants and other professionals, distinctions that should never have been drawn in the first instance and which ought to be done away with immediately in the name of fairness. More importantly, the case is overwhelming for treating all foreign exchange earnings received within the country on par.

POLITICS

Mock Battle

THE BJP-Congress duel—or is it a duet?—centring on the sudden patriotic outburst of the scion of the Scindia house, collusive or otherwise, may not be so unwelcome to either, whatever the initial embarrassment. Their earlier collaboration in the election of the Lok Sabha speaker had caused raised eye brows, not only among sections of the public, but also in the ranks of both parties as well. Since another round of collaboration—in the election of the deputy speaker—was on the slate, there was an urgent need for at least a partial refurbishing of their fighting images vis-a-vis the other party,

before the BJP's turn came for the cashing in of the IOU from the Congress for getting its candidate in the chair of the deputy speaker. What, however, provoked Madhavrao Scindia's outburst at his Lucknow press conference is not definitively known so far, but he certainly gave the BJP a good opening for demonstrating its righteous indignation in the Lok Sabha for three days running. It relented only on the eve of the deputy speaker's election, seizing upon a rather vague assurance given by the speaker. With the election of the deputy speaker out of the way the BJP relaunches its onslaughts against Scindia, outside parliament this time and with some violence by its musclemen. After this demonstration of its oppositionist role *vis-à-vis* the ruling party, the BJP again cools down—L. K. Advani resuming his practised visage of sweet reasonableness.

The mock heroics on both sides can hardly deceive any discerning observer. Truly, neither is the house of Scindia a paragon of patriotic virtues, historically speaking, nor even particularly committed to secular democratic values, nor are the BJP, *nee* Jana Sangh, leaders very chary in attaching the stigma of treachery to their political adversaries, whose records of patriotic self sacrifice are, at least, more confirmed than theirs. Possibly such mock battles will recur in the coming days while the minority ruling party and the main opposition party in the Lok Sabha collaborate with each other in reinforcing the new economic regime under IMF guardianship.

This, of course, does not mean that either of the two sides is unanimous in pursuing this somewhat subtle, tactics. There are already deep rumblings against this in the Congress ranks. But without strong public opprobrium, the sliding of the Congress leaders into a liaison with the BJP may not be stemmed.

NRI REMITTANCES

Why This Neglect?

THE announcement in his budget speech by finance minister Manmohan Singh of an impending "comprehensive review of policies and procedures bearing on non-resident Indian investments", on the basis of which he intended to make further relaxations "in order to remove all procedural difficulties and impediments to the setting up of industrial and other venture by non-resident Indians" is significant in itself in several respects. In addition, the budget speech also announced the government's intention to establish a chief commissioner for non-resident Indians to serve as a focal point of the government's efforts to attract NRI investment.

The significance of the above announcements lies principally in that (i) the emphasis

is intended clearly to be on NRI investments, including investment in housing and real estate, even though for certain types of investment, as for example in residential housing, the proceeds from sale and rental income may be made non-repatriable, and (ii) direct private transfers made by NRIs in the form of remittances are conspicuous for the lack of any mention, even though it is through direct private transfers that the country has received foreign exchange far, far in excess of the inflow in the form of NRI deposits and investments put together. (Taking the decade of the 80s, the ratio of remittances to NRI deposits and investments works out to 2 to 1.) Furthermore, remittances do not carry the obligation of repatriation at any future date. So there is no danger of reverse flight of funds and that too at the most awkward of times as has reportedly happened in recent weeks and months in the case of NRI deposits.

Of course, a view could be taken that remittances by their very nature are bound to flow in anyway and that therefore there is nothing much that is called for to be done by government to stimulate any further increase in them. To take this view is not only defeatist but also shows utter obliviousness of the reality with respect to the pervasiveness of illegal channels of private transfers of funds.

The ground situation is that for various reasons the transfer of funds through illegal channels has been on the increase and has become very pervasive. The existence of the 'havala' market and the widening gap between the 'havala' rate and the official exchange rate are reflections of this ground situation. On empirical grounds also the stagnation in remittance inflows in recent years, despite the growing stock of overseas workers from India, even though the rate of increase had slowed down considerably in recent years, points to the likelihood of increasing diversion of private transfers to illegal channels.

A view could also be taken that what ever needs to be done in regard to private transfers belongs to the realm of enforcement and policing of regulations. That enforcement alone may have considerable scope for improvement cannot be gainsaid. Still a lot also could be done to improve the facilities for transfer of funds through banks. One reason often given for our NRI workers being drawn to the 'havala' market is that not only do they receive better exchange rates but they also are assured of much prompter and better service—like door to door delivery within three to five days of collection—than what the banks offer. It is not forget that our post offices still deliver money orders from door to door.

Should not the finance minister's proposed review of policies and procedure cover also those concerning NRI remittances? Is it not possible also to consider

extending to NRI remittances the benefit of import entitlement in the form of EXIM scrips, particularly when the entitlement has now been delinked from the import content of exports? Isn't that one way, a tried way at that, of offering a better exchange rate?

JHARKHAND

Little Advance

THOUGH all the major political parties operating in tribal Bihar compete with each other in demanding a separate Jharkhand state the project seems incapable of making any headway. The latest to hop on to the separate state bandwagon is the Congress with the Chhotanagpur and Santhal Pargana Regional Congress Committee (CSPRCC) president I. Mochi Rai Munda announcing the launch of a campaign with a view to achieving this goal. This espousal of Jharkhand statehood from the most unlikely quarters is scarcely a cause for surprise since this is the only cause that accounts for the success of even so opportunistic an outfit as the Jharkhand Mukti Morcha (JMM). The CSPRCC had been set up in 1990 to counter the JMM but found the issue too emotive and was in consequence relegated to insignificance by the latter. Joining the cause is the only available course. The Janata Dal victory in the state in 1991 is largely attributable to an alliance with the JMM while the BJP which performed remarkably well in tribal Bihar in the 1990 assembly elections on the platform of a Vananchal state suffered a setback this time largely because the party unit from the region broke away to form the Sampurna Kranti Dal.

But this rise in the strength of converts seems to be of little consequence. The general political consensus on the issue reveals the significance of the 14 parliamentary constituencies in the region and conceals the endless intrigue of the main protagonists. The source of the latest round of friction is the Jharkhand Area Development Council Bill which empowers the state government to dissolve the Chhotanagpur and Santhal Pargana Development Authority and replace it with a Jharkhand Development Council. Predictably all except the immediate beneficiaries have denounced the bill. The All Jharkhand Students Union's lone representative in the assembly has tendered his resignation on the ground that the council cannot be a substitute for separate statehood. He also added the mandatory allegation of a sellout by JMM leaders Shibu Soren and Suraj Mandal. While both Soren and Mandal have yet to make any public pronouncement on the bill another section of the JMM leadership led by general secretary Shailendra Mahato has denounced the bill vociferously, all but confirming the split in the JMM that its leadership is at pains

It is entirely possible that the bill is a logical fallout of the rivalry within the JMM between the Santhal Pargana-based Soren-Mandal group and the Singhbhum-based Mahato group. Mahato who had opposed the JMM's growing alliance with the Janata Dal had recently retreated from the separate state demand and settled for the Jharkhand Vikas Parishad as a first step on tactical grounds. But he has made it clear that a separate and independent administrative machinery, independent budget, education board, freedom in appointments and direct receipt of central allocation by the council are conditions for accepting a council.

What the bill provides for nowhere approaches these conditions. The bill, which fills in for a similar ordinance promulgated before the elections but which was aborted by the denial of the governor's assent, empowers the chief minister to nominate the chairman and vice chairman of the council. The term of the members of the council, included among whom are the finance minister, the planning minister and the welfare minister, is subject to the pleasure of the government. The plans drafted by the council will be submitted to the government for approval. Grants to the council will be deposited in the Jharkhand Development Council Fund. And finally the council can be dissolved by the government without furnishing reasons.

It is clear that none of these will ensure autonomy for the region even though all the major appointments are reserved exclusively for tribals. The whole seemingly pointless exercise of dismantling an already existing body to be replaced by another body which does not in any way represent a qualitative advance points to the mala fide intentions of the government. By doling out largesse in the form of appointments with duration, determined by the state government, co-opted members of the movement are kept on a short leash. Likewise the JMM or at least that segment of its leadership which is susceptible to the temptations of office can project the council as a significant advance. All the while the deliberately thwarted goal of statehood can continue to form the basis of tribal mobilisation.

BANGLADESH

Return to Parliamentary Politics

WITH the passing of the constitution amendment bill earlier this month, Bangladesh has reinstated the parliamentary form of government after 14 years. The bill, which had a stormy passage, was introduced in June and at times it had seemed that the reform would not go through at all. With this a phase in Bangladesh politics which began with the overthrow

of a state by a popular movement comes to an end.

Although at that time there was a common understanding among all the parties (other than the Jatiya Party) that a change in the form of government would be brought about quickly, the Bangladesh National Party was clearly in two minds about it, so much so that the Awami League attempted to pre-empt the issue by giving notice of presenting a bill to the effect in the recently-concluded session. This it did a week after the BNP had finally got its act together on the issue and tabled a constitution amendment bill. A final push was no doubt delivered by the unscheduled address to the nation by the president justice Shahbuddin Ahmed, just before the start of the session in which he expressed strong disapproval of the inaction on the political reform front which made it impossible to lay down office by October when, according to the constitution, he would need to call for presidential elections.

There were four major differences in the two bills. First, the League while agreeing to the president becoming a titular head elected by the members of parliament insisted that the elections must be conducted by the election commission and not by the speaker as suggested by the BNP. Secondly, while it agreed to the provision whereby non MPs could be inducted into the government, their proportion not exceeding one fifth of the number of MPs, it held that these members must seek election to parliament within a period of six months. Thirdly, it objected to BNP's stringent disqualification measures for MPs who had been dismissed by the party and had resigned from parliament. The BNP bill proposed that the MPs be disqualified from active politics (that is seeking election to parliament) for a period of five years. The League felt that this lowered the status of MPs who were more than just party members and represented a constituency to whom they were responsible. Fourthly, the BNP insisted that the reform must be carried through by a referendum and the League did not think this was necessary.

It is therefore quite significant that the 15 party select committee of parliament could unanimously come up with a consensus bill. In effect, the League has given in on the referendum and the induction of non MPs, but with a reduced proportion. The BNP has conceded the demand that the presidential elections be conducted by the election commission and has given up its insistence on the debarment of dismissed MPs from active politics for five years. The bill will now have to be carried through by a referendum and the presidential elections will have to be held soon so that the president can relinquish office. Clearly, the BNP has been able to turn the tables on the League and has wrested the initiative.

TWENTY YEARS AGO

EPW, August 14, 1971

It is necessary to repeat the tautology that the ruling group in any country sees foreign policy as a means of defending, preserving or extending its own internal—and consequently the country's external—interests. Looked at in that perspective, one of the more important reasons for the government's formalisation of its links with Russia, could perhaps be to reinforce the country's political system and structure. [This] will make it easier for the government to externalise internal political threats by harping on the China bogey.

The treaty with the Soviet Union has, if only temporarily, changed the entire domestic climate of opinion regarding the government's Bangladesh and foreign policies. In parliament, there has been a variety of emphases in welcoming the treaty but hardly any detracting views. Indira Gandhi has again with a good sense of timing disarmed her political opponents, this time through a compact with friends abroad.

To [the Russians] Indira Gandhi and her government are ideal allies: politically stable, temperamentally cautious, ideologically progressive enough and most important, willing to listen to Russian advice. The Soviet Union most probably sees the treaty primarily as a way to cooling the political climate in the subcontinent. From the Russian viewpoint, the treaty is the other side of the coin to American aid to and subsequent influence over Pakistan.

Just like in 1965 there seems to be a convergence of Russo-American interests as far as South Asia is concerned, with the difference that this time the Russians and Americans are jointly working towards the stabilisation of a situation which they consider too fluid and dangerous for their comfort. The US-Soviet reasoning is singularly unwelcome: big powers cannot allow small powers to drag them into confrontations with each other.

The longer term implications for the country's foreign policy are even more unsavoury. We have been drawn further into the unmeshing bondage of the superpowers. The sentiments that were expressed by India at the conference of non-aligned nations at Lusaka about the need for economic and political self-reliance will now be even more remote from reality. Due to the formalisation of links with a superpower, India's attempts to bring about closer commercial and political ties with 'non-aligned' countries in Africa and Latin America will be regarded with some suspicion by those countries. As for Sino-Indian relations, the Russians will insist on saying whether and when India should try to normalise relations with China, assuming that India itself is at all concerned about improving relations with Peking.

Pundits Proved Wrong

D P Sharma

THE stock market is experiencing an unprecedented boom. Few could have imagined that a market, which had got badly mauled by the nasty fall from its October peak and had been convalescing for over five months in an environment fouled by grave political uncertainties and the rapidly deteriorating balance of payments position, could make the kind of dash it has—moving well beyond its previous all-time high mark. The way the stock market balloon has been soaring of late has confounded not only political and economic pundits but also experienced marketmen.

The fall from the October 9 high had indeed been staggering. By January 25 the BSE sensitive index had come down from 1602.6 to 947.14, retracing almost two thirds of the preceding spectacular rise from 659.3 to 1602.6. And Dalal Street has had to live through the worst ever payments crisis precipitated in no small measure by the gross inadequacies of the stock exchange infrastructure to monitor the enormous increase in the volume of business (official and unofficial) and ensure completion of settlements, work relating to specified as well as non-specified scrips according to the stipulated schedule. The recovery from the January low was slow and halting. The BSE sensitive index registered a rise of 34 per cent till the end of June and the national index rose 12.8 per cent.

The market scene underwent a dramatic transformation during July with the BSE sensitive index recording a rise of 32.2 per cent and the national index moving up by 28.2 per cent. The accompanying tables bring out the changes in equity price indices since January 25 when the market stood at its lowest after the fall from the October 9 peak.

The phenomenal upsurge in equity price indices in spite of substantial institutional selling, especially by the Unit Trust of India and the sustained buoyancy in the volume of business despite curbs on trading reflects the stock market's endorsement of the unqualified welcome accorded by industry and trade to the series of initiatives taken by the government in respect of policies relating to exchange rates, industrial licensing, foreign investment, foreign technology agreements, public sector policy MRTP Act, fiscal strategy and import export trade.

The business community has every reason to feel jubilant over the government's decision to minimise bureaucratic control and remove several bottlenecks coming in the way of exports, industrial expansion and competition. Entrepreneurs will now enjoy considerable freedom to take investment decisions on the basis of their commercial

judgment.

Very briefly stated, the main ingredients of the policy package include (a) abolition of industrial licensing for all projects, except those in specified industries, irrespective of levels of investment; (b) allowing private sector investment in as many as 10 areas so far reserved for the public sector; (c) scrapping of assets limits in respect of MRTP companies; (d) automatic approval of foreign technology agreement as well as foreign equity participation up to 51 per cent in high priority industries; (e) automatic clearance for import of capital goods where foreign exchange is covered by foreign equity; (f) scrapping of convertibility clause which enabled financial institutions to convert loan into equity; (g) disinvestment of government equity in public sector undertakings to mutual fund and financial institutions; and (h) permitting flotation of mutual funds in the private sector. All this implies a basic change in the premises of economic regulation.

There are quite a number of proposals which are of direct relevance for the stock market. These include additional facility for transfer of funds by banks, tax concessions to off shore funds, increase in tax exemption for capital gains, increase in fertiliser prices, withdrawal of sugar subsidy and a radical trade policy aimed at boosting exports.

Political pundits and economists have seldom enjoyed much respect for their market judgment. But they can scarcely be faulted for watching with amazement the flight of the stock market balloon. The political scenario has many worrisome aspects. The minority Congress government at the centre with wrangles within the ruling party is unlikely to find it easy to combat forces of disintegration and disorder as also to steer clear of pressures from vested interests so as to be able to effectively implement the package of economic reforms. To what extent devaluation, liberal trade and industrial policies and the fiscal strategy spelt out by the union finance minister will help achieve macro economic adjustment, lure adequate foreign investment and bring about the much desired improvement in the balance of payments position, only time will tell. To cite from the finance minister's budget speech, the crisis in the economy is both acute and deep. We have not experienced anything similar in the history of independent India.

The spectacular rise in equity prices can not be dismissed as the doing of a few professional speculators commanding vast resources. The widely varying performance of industry group indices compiled by *The Economic Times* suggests that

speculators/investors keep a close watch over the changing fortunes of different industries and industrial units. The spurt in the shares of cement, shipping and fertiliser companies reflects the market's assessment of the implications of the various budget proposals and devaluation.

The country's premier stock exchange, Bombay, is said to be dominated by speculative elements. It might come as a surprise to many that among the regional equity price indices the sharpest rise has occurred in Delhi (91.7 per cent) followed by Madras (61.6 per cent), Ahmedabad (58.5 per cent), Bombay (54.6 per cent) and Calcutta (44.8 per cent).

While one might not like to question the market's collective judgment in pushing up equity prices to the prevailing high levels—the BSE sensitive index stands 6.5 per cent above its October high—it is quite likely that once the market takes a pause to do some serious introspection it may feel compelled to give due attention to the uncongenial political climate, hike in the lending rates by the financial institutions and the impact of the hike in the corporate tax and reduction in the depreciation rate. The recent rise in prices has indeed been very sharp. Going by the high bid/ask rates the technical position of the market is becoming increasingly suspect. When the market will pause to allow technical forces have their full play is anybody's guess.

TABLE 1
(Per cent)

| | BSE Sensitive | National |
|---|---------------|----------|
| Rise from January low till June end | 34.0 | 28.0 |
| Rise during July | 32.2 | 28.2 |
| Rise between July 22 and 29 | 15.4 | 13.1 |
| Rise between July 22 and August 14 | 20.0 | 16.2 |
| August 14 high compared with October 9 high | +6.5 | 5.2 |

TABLE 2: RISE IN SHARE PRICES INDEX BY INDUSTRY GROUPS FROM JANUARY LOW TILL AUGUST 14

| | (Per Cent) |
|---------------------------|------------|
| Cement | 109.0 |
| Pharmaceuticals | 92.9 |
| Cotton textiles | 79.1 |
| Manmade fibres | 74.4 |
| Tyres and tubes | 74.1 |
| Basic metals | 60.4 |
| Transport vehicles | 56.3 |
| Fertilisers and chemicals | 47.2 |
| Food products | 46.6 |
| Engineering goods | 34.9 |
| Plantations | 31.8 |

Note: All indices made new high on August 17.
Source: *The Economic Times*

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- Risk factors pertaining to raw material and foreign markets will have bearing on profitability
- Income tax benefits under Section 80B(1) to the Company and under Sections 80I and 80M to the shareholders as well as Wealth Tax Benefits to the shareholders
- Listing at Madras and Bombay Stock Exchanges

FINANCIAL HIGHLIGHTS

(Rs. in Lakhs)

| | 1989-90 | 1990-91 |
|------------------------------|--------------------------------|---------|
| | (Consolidated for three firms) | |
| Export Sales | 1560 | 2184 |
| Profit before Tax | 61 | 87 |
| Profit after Tax | 61 | 87 |
| PAT to Sales | 3.9% | 4.0% |
| Capital | | 149 |
| Reserves & surplus | | 112 |
| Net worth | | 261 |
| Debt-Equity | | 1:2.1 |
| Earnings per share (Rs) | | 6.26 |
| Cash Earnings per share (Rs) | | 7.12 |
| Book value of share (Rs) | | 18.00 |

* In the above figures, the figures for 1990-91 are preliminary and are subject to audit and confirmation after the completion of the financial year.

* As per PRISM (as of 30th Sept. 1991) in MPEDA publication. If the company does not receive the minimum subscription of 90% of the issued amount, the entire subscription will be refunded to the applicants within 90 days from the closure of this issue. If there is a delay in refund of such amount by more than 10 days, the company will pay interest @ 15% per annum for the delayed period.

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**Issue opens on
5th Sept. '91**

Accent on Modernisation

TATA IRON AND STEEL (TISCO), the biggest private sector company in terms of assets and the second biggest in terms of turnover, suffered a setback in saleable steel production in the year ended March 1991. The adverse factors affecting production included disturbances disrupting the flow of raw materials to the steel works and the movement of finished steel from the plant and erratic power supply. Production of saleable steel at 1.9 million tonnes was lower compared to 1.913 million tonnes achieved in the previous year. The higher internal construction requirements for continuing large modernisation programme resulted in a decline in sales by 4,800 tonnes at 1.64 million tonnes as against 1.688 million tonnes in the previous year.

However, in value terms, the company's net turnover achieved a record figure of Rs 1991.54 crore, registering an increase of 8 per cent over the previous year. This was

mainly due to partial full year impact of steel price increases. Better product mix and production of value added items through conversion arrangements with rerollers also contributed to the increased turnover. Export earnings at Rs 207 crore showed a substantial improvement of 41 per cent over Rs 147 crore in the previous year in spite of a loss of Rs 65 crore worth of business due to the Gulf crisis. Steel and engineering exports witnessed an improvement of 67 per cent.

With an increase of 35 per cent, profits before tax scaled a new high at Rs 235 crore. Lower interest charges in 1990-91 were mainly due to the one time substantial interest payment on the fully and partly convertible debentures in 1989-90 as also on the total application money received on these debentures. The increase in profits after tax was only nominal at 8 per cent due to a phenomenal increase of 186 per cent in tax provision arising out

of restriction of depreciation allowance to 75 per cent of that claimable. Dividend on equity shares was raised to 31 per cent from 30 per cent in the previous year.

The company has undertaken a Rs 2,000 crore expansion cum modernisation programme. It includes a new one million tonnes per annum capacity blast furnace, one million tonnes capacity hot strip mill, power facilities to generate nearly 100 MW and a 1.73 million tonnes per annum cement unit. The blast furnace is expected to be commissioned during the first half of 1992. The cement plants which will be located at Sonadih in Madhya Pradesh and Jehobra in Bihar are expected to be commissioned by the end of 1992. The Steel Development Fund Committee recently auctioned a Rs 680 crore loan to partly finance the expansion scheme. With a view of providing additional working capital, the company extended the date of maturity of its 15 per cent secured non-convertible debentures aggregating to Rs 75 crore for a period of seven years beginning from September 17.

The funds flow during 1990-91 amounted to Rs 693 crore of which cash generated from operations formed 43 per cent. Of the remaining sale of investments accounted for 32 per cent and borrowing formed 24 per cent and the rest came by way of share capital issued on conversion. Nearly 94 per cent of the funds were utilised towards capital expenditure.

The company's effort towards conservation of energy yielded good results. Improvements in coke quality accompanied by higher sinter proportion in the blast furnace burden and increased blast humidification resulted in energy efficiency in blast furnace operation. Further, coal injection introduced in one blast furnace enabled replacement of scarce and expensive coke.

The Week's Companies

(Rs lakh)

| Financial Indicators | TISCO | | IISCO | | Bellary Steels and Alloys | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------------------|---------------|
| | 1990 March | 1991 March | 1990 March | 1991 March | 1990 March | 1991 March |
| Income expenses/profits | | | | | | |
| 1 Net sales | 184926 | 199154 | 161713 | 209900 | 7087 | 2841 |
| 2 Other income | 15859 | 18832 | 6324 | 94 | 17 | 12 |
| 3 Raw material consumed | 41575 | 4538 | 97438 | 381 | 154 | 2039 |
| 4 Power and fuel | 17861 | 12090 | 4314 | 6 | 17 | 214 |
| 5 Other manufacturing expenses | 19270 | 22224 | 8557 | 10858 | 7 | 11 |
| 6 Labour cost | 35404 | 39854 | 22691 | 745 | 34 | 48 |
| 7 Other expenses | 56291 | 53111 | 10434 | 3404 | 149 | 226 |
| 8 Operating profits | 41186 | 48609 | 27085 | 37144 | 25 | 406 |
| 9 Interest charges | 11724 | 11093 | 363 | 807 | 93 | 11 |
| 10 Gross profits | 29467 | 37516 | 19720 | 2885 | 158 | 735 |
| 11 Depreciation | 11879 | 13703 | 4891 | 547 | 48 | 61 |
| 12 Profits before tax | 17583 | 23813 | 14829 | 234 | 70 | 14 |
| 13 Tax provision | 2730 | 7800 | 455 | 358 | 17 | 5 |
| 14 Profits after tax | 14853 | 16013 | 10254 | 147 | 58 | 10 |
| 15 Dividends | 5059 | 7134 | 3126 | 14 | | 3 |
| Liabilities/assets | | | | | | |
| 16 Paid up capital | 22943 | 22989 | 10444 | 1088 | 54 | 379 |
| 17 Reserves and surplus | 110311 | 119427 | 3380 | 4771 | 66 | 31 |
| 18 Long term loans | 101553 | 11835(a) | 48883(1) | 1573 | 323 | 154 |
| 19 Short term loan | | | | | 400 | 657 |
| 20 Current liabilities | 6658 | 88322 | 5876 | 4 | 2103 | 1256 |
| 21 Gross fixed assets | 206276 | 270329 | 91486 | 100833 | 69 | 1264 |
| 22 Accumulated depreciation | 86267 | 98950 | 43070 | 3817 | 241 | 168 |
| 23 Inventories | 52075 | 59722 | 35025 | 1464 | 880 | 1942 |
| Of which finished goods | 25133 | 28222 | 17254 | 770 | 219 | 416 |
| 24 Receivables | 22110 | 28549 | 30032 | 4554 | 84 | 249 |
| 25 Loans and advances | 24144 | 28502 | 11083 | 19436 | 59 | 134 |
| 26 Cash and bank balance | 3495 | 3740 | 567 | 6603 | 116 | 886 |
| 27 Investments | 79532 | 57186 | 30348 | 10858 | | |
| 28 Other assets | 29 | 30 | | | 1662 | 54 |
| 29 Total liabilities/asset | 301394 | 349108 | 155473 | 18005 | 3239 | 4361 |
| Key financial ratios | | | | | | |
| 30 Turnover ratio | 0.61 | 0.57 | 1.04 | 1.1 | 0.64 | 0.65 |
| 31 Return on sales | 15.93 | 18.84 | 12.19 | 7 | 7.57 | 8.27 |
| 32 Return on investment (%) | 9.78 | 10.75 | 12.68 | 16.4 | 4.88 | 5.39 |
| 33 Return on equity (%) | 11.15 | 11.24 | 21.22 | 24.36 | 14.04 | 24.35 |
| 34 Book value per share (Rs) | 57.90 | 61.88 | 47.00 | 56.00 | 12.10 | 18.59 |
| 35 Earning per share | 8.81(b) | 6.96 | 9.87 | 13.69 | 1.70 | 4.52 |
| 36 Current market price (Rs) | | 233.00 | | 261.75 | | 45.00 |
| 37 Price/earnings ratio | | 33.47 | | 17.08 | | 9.96 |

(a) Includes short term loans (b) Calculated on the effective capital during the year

IISCO

Record Turnover

TATA ENGINEERING AND LOCOMOTIVE (IISCO) which emerged as the biggest company in terms of turnover in the private corporate sector in 1990-91 continued to maintain its market leadership in medium commercial vehicles (MCV) and light commercial vehicles (LCV). With a 17 per cent increase of 15 per cent in sales the market share in MCV rose to 71 per cent. Similarly with an increase of 62 per cent in the sales of LCV, IISCO achieved a market share of 35 per cent. Tata Mobile production also increased. Sales of spare parts for commercial vehicles registered an increase of 17 per cent. The

excavator division sold 217 machines against the production of 206 machines, resulting in a zero inventory at the end of the year

In value terms, net sales of the company showed a significant improvement of 30 per cent. Although there was a substantial increase in the cost of new materials (36.3 per cent), power and fuel (45 per cent) and labour (27.4 per cent) the company was able to maintain the overall expenses to sale ratio at 0.92:1.

Export earnings of the company including deemed exports, registered an increase of 28 per cent to Rs 131 crore in 1990-91. The company exported 4,420 vehicles against 3,529 vehicles in 1989-90. The company plans to export steel castings for excavators to its foreign collaborators Hitachi Construction Machinery, Japan from 1991-92. The company is a net foreign exchange earner.

Operating profits of the company increased by 37 per cent and profits before tax spurred by 58 per cent over the previous year. However, profits after tax moved up by only 38 per cent due to increase in tax provision. Improvement in operating profits enabled a higher interest coverage ratio of 4.54 in 1990-91 as compared to 3.68 in 1989-90. The company distributed a higher dividend of Rs 4 per share compared to Rs 3 per share in the previous year. However, the pay-out ratio, i.e., dividend as percentage of profits after tax, remained lower at 29.2 per cent compared to 30.5 per cent in the previous year, resulting in higher retention during the year under review.

The company continued its efforts to make improvements in the range of vehicles. The hydraulic excavator was upgraded with the introduction of the new 'FX' series with know-how from Hitachi. The range of earth moving equipment was widened with the launching of TWE 3036 Tata front end wheel loader. The company plans to rationalise its product mix of commercial vehicles to improve safety and fuel efficiency and lower emission levels. According to the company, modernisation and upgradation of technology was continuing to improve productivity and reduce cost through design and material optimisation. The launch of the new Tata Sport and Tata Estate is planned during the current financial year. The manufacturing facilities at Lucknow are expected to be commissioned by March 1992.

Funds flow during 1990-91 was estimated at Rs 391.21 crore. Funds generated from operations formed 50 per cent of the total, while the remaining were raised through sale of investments. As much as 63 per cent of the funds was utilised for working capital requirements while 25 per cent was used for capital expenditure.

BELLARY STEELS AND ALLOYS Towards Self-reliance

BELLARY STEELS AND ALLOYS, a mini steel manufacturing company, achieved significant growth in production and sales in the year ended March 1991. Production of billets reached 36,187 tonnes as against 28,110 tonnes in the previous year, indicating a growth of 29 per cent. Capacity utilisation increased from 59 per cent in 1989-90 to 75 per cent in 1990-91. Net sales registered an increase of 36 per cent. Despite an increase in the cost of raw materials (30 per cent), power and fuel (24 per cent) and labour (41 per cent), operating profits registered a significant improvement of 62 per cent. The company was able to reduce its expenses to sales ratio from 1.04:1 to 1.01:1 in 1990-91. Profits before tax and after tax grew phenomenally by 149 per cent and 191 per cent respectively over the previous year. The improvement in profits enabled the company to pay a maiden dividend at the rate of 10 per cent on equity shares.

There was a rise in the major profitability ratios. Gross return on investment increased from 4.88 per cent to 5.39 per cent while gross return on turnover improved to 5.27 per cent from 7.57 per cent. Turnover ratio remained almost steady at 0.65:1. Return on shareholders' capital was marked up from 14.04 per cent to 24.35 per cent.

The company depended heavily on imports for its raw materials. Of the total raw material consumption of Rs 19.92 crore, as much as 79 per cent was imported. According to the company, efforts are being made to maximise use of indigenously available sponge iron as a substitute for imported raw materials. The company expects to achieve 85-90 per cent capacity utilisation in 1991-92 and also to introduce high value added alloy steel.

The company plans to implement a coal-based sponge iron project with a capacity of 60,000 tonnes per annum with two kilns at an estimated capital outlay of Rs 45 crore. The project will not only ensure adequate supply of sponge iron but also save foreign exchange. The plant is scheduled to start production in October 1992. With the ladle refining facilities and the installation of the captive sponge iron projects, the company expects to show further improvements.

To augment long term resources for financing the sponge iron project and to meet working capital requirements and strengthen the capital base, the company proposes to enter the capital market during September-December with 14 per cent secured fully convertible debentures aggregating Rs 550.50 lakh on rights basis to

existing shareholders and also issue 14 per cent secured partly convertible debentures of the value of Rs 550.50 lakh.

Funds flow during the year was estimated at Rs 10.49 crore. External sources formed 80 per cent of this total. Interest coverage rates remained lower at 2.37 compared to 2.70 in the previous year.

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IG Petrochemicals

IG PETROCHEMICALS (IGPL), a 100 per cent export-oriented unit promoted by Mysore Petro Chemicals, is coming out with a public issue of 1,06,10,000 equity shares of Rs 10 each at par aggregating Rs 1,061 lakh. The issue will open on September 9. The company is setting up India's largest phthalic anhydride (PAN) plant at Jalga in Maharashtra. With a licensed capacity of 45,000 tpa, IGPL will be the only international scale PAN plant in the country. IGPL has a technical and financial collaboration with Lurgi GmbH of Germany. Under the agreement, apart from participating in the equity of IGPL, Lurgi will also assure the export of IGPL's production for five years at prevailing international prices through an associate company Metallgesellschaft (Hong Kong). This five year arrangement is to the extent of 100 per cent in the first year and 75 per cent in the next four years with an option to extend it by another five years. IGPL plant will use the process developed by Wacker Chemie GmbH and licensed by Lurgi for the production of PAN. This is a low energy process for which Lurgi will supply a special catalyst developed by Wacker Chemie and which guarantees the purity of PAN at 99.85 per cent and a yield of 106 to 107 per cent of the feedstock. For the IGPL project, Lurgi has supplied the plant and equipment and provided the know how and basic engineering. The detailed engineering project management including supervision of construction is being provided at the site by Humphreys and Glasgow Consultants. Mysore Petro Chemicals (MPCI), a well established profit making company with its plant at Raichur in Karnataka is a leading producer of PAN in the country. In 1990, MPCI paid a dividend of 40 per cent. The company has a substantial share of the domestic market in the various application industries such as PVC, paints, varnishes, coating inks, dye intermediates etc. Since 1986, MPCI has made pioneering inroads into the export market too. The IGPL plant compares favourably with the average international plant size of 35,000 tpa. The size of the plant is important for economics of scale in the manufacture of PAN and has a direct bearing on its competitive strength in the world market. PAN is an essential industrial chemical used in the manufacture of plasticizers for PVC, cables, leather, cloth, flooring, tiles and

footwear etc. It is also used for manufacturing alkyds in the paint industry and the production of certain varieties of dyes and pigments. The international demand for PAN is growing steadily and IGPL does not expect any difficulty in marketing its product. The project implementation is in full swing and installation is expected to be completed by December. Allowing one month for commissioning and trial runs, commercial production is expected to commence in the first quarter of 1992. The total project cost is Rs 618.5 lakh with Rs 900 lakh as the promoters' contribution in the equity share capital. The present share issue is to meet a part of the project cost. Out of the issue, IGPL is making three preferential offers: Rs 98.05 lakh to the employees of IGPL and MPCI, Rs 106.10 lakh to the shareholders of MPCI and Rs 200 lakh to NRIs. The balance of Rs 618.5 lakh is being offered to the Indian public.

Chembur Patalganga Pipelines

CHIMBUR PATALGANGA PIPELINES (CPPL), a new company is entering the capital market on August 19 with a public issue of 1,48,151 lakh equity shares of Rs 10 each for Rs 481.50 lakh. The total issue worth Rs 870 lakh including shares worth Rs 388.50 lakh reserved for preferential allotment. The company proposes to undertake a project involving the laying of a pipeline from the refinery of Bharat Petroleum Corporation at Chembur for transporting naphtha to the petrochemical complex of Reliance Industries at Patalganga and another pipeline for transporting its turn stream. The pipeline route would cover a distance of approximately 5 km (each way) including a brief stretch of four kms. The total project is estimated at Rs 870 crore. This will be financed by the present issue of Rs 870 crore, contribution from financial institutions Rs 3500 crore from banks Rs 12 crore and uncured advances from Reliance Industries Rs 10 crore. The laying of the pipelines is in progress and the pipelines are expected to be completed by October. The company has entered into a charter hire agreement with RIL for transporting the feedstock through pipelines which is more cost effective. This agreement provides for the company to receive transportation charges per

tonne of feedstock through the pipelines. The company would also have an assured minimum revenue from RIL in case RIL is unable to make available adequate material for transportation.

Alsa Marine and Harvests

ALSA MARINE AND HARVESTS, an existing profit making company engaged in processing and export of marine products and in aquaculture, owns a processing plant near Visakhapatnam which is equipped for production of value added products. The farm near Nellore in Andhra Pradesh on 32 hectares of land is designed for semi intensive culture and its feed is captive produced, conserving a substantial amount of foreign exchange. The company operates leased processing plants at Calcutta, Madras and Cochin. It has captive back up power sources, insulated vans and quality control facilities. The company now proposes to take up an integrated expansion and modernisation programme in two stages with the accent on consolidation and value addition. The first phase of the programme comprises modernisation of the processing facilities near Visakhapatnam, expansion of the aquaculture farm near Nellore and setting up of a new processing plant in Calcutta while under the second phase the company proposes to expand the area under aquaculture by about 150 hectares with a captive hatchery and feed plant. The projects covered by phase one have a very short gestation period inasmuch as they are expected to be completed by the end of this month. That under phase two is scheduled to be completed in January 1992. The estimated project cost is Rs 662 lakh. To finance in part this programme, the company is entering the capital market with a public issue of 20,70,000 equity shares of Rs 10 each at par aggregating Rs 207 lakh. Of this equity shares of Rs 20.69 lakh are earmarked for employees. According to Aliya Pasha chairman, the company was the first to export IQF (individual quick freezing) shrimp and cooked shrimp from the east coast and for the year ended March 1991 the value added exports accounted for about 20 per cent of the total sales of Rs 2184 lakh and this is targeted at more than 50 per cent for the current year. The subscription list will open on September 5.

Students' Rights

A G Noorani

A recent Supreme Court disposition clarifies some legal issues regarding the rights and duties of students and educational institutions and is an addition to the growing corpus of case law on the subject.

THE steady march of case law has resulted in a solid corpus of case law on the rights and duties of students and educational authorities. The Supreme Court's judgment on March 12, 1991 in Maharashtra State Board of Secondary and Higher Secondary Education versus K S Gandhi and others is the latest pronouncement of the court which explains the legal position clearly.

It concerned the secondary exams in March 1990. After the valuation of the answer sheets by examiners, random counter-check by moderators and recounting at the board, the moderators' mark sheets were sent to Pune for feeding the computer to declare the results. It was discovered that the moderators' mark sheets relating to 238 examinees, including 53 respondents in the appeal decided by the Supreme Court, had been tampered with. In consequence 214 examinees who were otherwise to fail would pass while 69 would improve their ranking. The results were withheld. An inquiry followed. Show cause notices were issued to the students in which the facts were fully recited and inspection of the papers was also offered. They were also offered an opportunity of being heard which included the rights of cross examination and of adducing evidence in defence. The candidates appeared before the inquiry officers.

The inquiry was a detailed and thorough one with questionnaires and the rest. The officers submitted their reports to the board whose standing committee decided to withhold the declaration of the results of the students concerned and to debar the 238 students from appearing in the supplementary exams in October 1990 and March 1991 as a measure of punishment. The Bombay High Court, on a writ petition, quashed the notification which announced this decision.

On appeal, a division bench of the Supreme Court consisting of justice N M Kashiwal and K Ramaswamy, set aside the Bombay High Court judgment and order. The key question in the case was the nature of the enquiry that was necessary in law in such a case. It was argued that the students were minors and had no assis-

tance in their defence from their parents or advocates. However, all the students had admitted that there was tampering and its benefit accrued to them. Only, they denied their own or their parents' complicity. The Supreme Court held that circumstantial evidence proved the guilt and the enquiry was adequate. The courts' jurisdiction in such cases is purely supervisory to see that the inquiry was fair and the rules of natural justice were observed. But the courts cannot sit in appeal on the facts and evaluate the evidence for themselves as the Bombay High Court had done.

This exposition of the law applies to all domestic or private or departmental inquiries. The court's exposition therefore deserves to be quoted in full.

It is well settled law that strict rules of the Evidence Act, and the standard of proof envisaged therein do not apply to departmental proceedings or domestic tribunal. It is open to the authorities to receive and place on record all the necessary, relevant, cogent and acceptable material facts though not proved strictly in conformity with the Evidence

Act. The material must be germane and relevant to the facts in issue. In grave cases like forgery, fraud, conspiracy, misappropriation, etc, seldom direct evidence would be available. Only the circumstantial evidence would furnish the proof. In our considered view inference from the evidence and circumstances must be carefully distinguished from conjectures or speculation. The mind is prone to take pleasure to adapt circumstances to one another and even in straining them a little to force them to form parts of one connected whole. There must be evidence direct or circumstantial to deduce necessary inferences in proof of the facts in issue. There can be no inferences unless there are objective facts, direct or circumstantial from which to infer the other fact which it is sought to establish. In some cases the other facts can be inferred, as much as is practical, as if they had been actually observed. In other cases the inferences do not go beyond reasonable probability. If there are no positive proved facts, oral, documentary or circumstantial from which the inferences can be made the method of inference fails and what is left is mere speculation or conjecture. Therefore, when an inference of proof that a fact in dispute has been held established there must be some material facts or circumstances on record from which such an inference could be drawn. The standard of proof is not proof beyond reasonable doubt 'but' the preponderance of probabilities tending to draw an inference that the fact must be more probable. Standard of proof cannot be put in a straitjacket formula. No mathematical formula could be laid on degree of proof. The probative value could be gauged from facts and circumstances in a given case. The standard of proof is the same both in civil cases and domestic enquiries.

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Right to Work: The Why and the Wheretofore

Arun Ghosh

'Right to work' is not a laughable concept. It can and must be implemented. But it calls for certain pre-conditions, the most vital of which is democratic decentralisation, introduction of panchayati raj and the devolution of socio-economic development authority to democratically-elected local bodies.

THE other day, I ran into a distinguished economist—in fact, one of the most distinguished in the country—for whom I have high regard. I felt flattered when he said he had read the pieces on the Eighth Plan—spread over January 19 May 11—in these columns, and I was pleased when he told me that he generally agreed with the Eighth Plan approach and proposals outlined therein. But there was a snag. He did not believe in the recommendation regarding the right to work. In fact, he was totally opposed to the concept in principle. And where we met, there was no opportunity for discussion.

Essentially, the right to work implies that every adult citizen should have the right to do physical labour for eight hours per day at the minimum wage. In that sense, it is akin to the Maharashtra's Employment Guarantee Scheme (EGS). It does not mean that every citizen would be entitled to demand government employment nor employment of his choice. It does imply though that throughout the country, every citizen should have the right to earn the minimum wage by providing eight hours physical labour within a reasonable distance from where he lives.

Why do we need the right to work? Apart from the considerable underemployment that exists today, there is also increasing unemployment of the overt type. According to the 1987-88 NSS, visible unemployment was roughly 6 per cent of the workforce in rural areas and as much as 9 per cent in urban areas. In the latter case, much of this unemployment pertains to the educated unemployed, and the unemployed in this instance may not necessarily qualify for assistance under the scheme. For them, one has to think of alternatives, for the growth of the educated unemployed is a grave potential threat to the harmonious working of the economic system. However, a section of the urban unemployed also consists of landless rural labour flocking to neighbouring towns in search of employment.

Apart from overt 'unemployment', there is also considerable underemployment/low productivity employment. In part, this is a result of the inadequacy of

organisational support for traditional crafts for the artisan, the handloom weaver. This class of producers is denied credit, has little access to raw materials, and has now to face competition of mill output where the latter has the facility of subsidised credit, infrastructural support, and other advantages—all provided at the cost of the taxpayer. To digress for a moment, the volatilities of the 'modernisation' of the economy must be reminded that they should be made to pay for 'social security', which means a straightforward dole to the unemployed. On the other hand, certain shifts in policy can provide employment opportunities to the artisans in their traditional crafts and enable them to compete. But we would never bother to even consider these shifts in policy unless we are faced with the reality that in the absence of worthwhile self employment, these millions of craftsmen would, under the right to work, be knocking at our doors and demanding work at the minimum wage. So the right to work is necessary even to force us to change some of our policies, and such right has to be accompanied by measures which will help a vast majority of self-employed people to continue with their vocations at a higher level of productivity and income. But this is to anticipate the discussion that will follow. There are other pre-conditions to the successful implementation of the right to work.

It is important to go back to the need for a guarantee to the right to work. As per a detailed state-wise study based on consumption expenditure in the rural areas as obtained from the NSS, B. S. Minhas has found that in 1987-88, some 43 per cent of the rural population was below the poverty line (nailing the error in the Planning Commission estimates—based on a scalar up gradation of the consumption of all categories of households, using the quotient of the difference between the NSS estimates of household consumption and the CSO estimates of private consumption wherein the break-up of the urban, rural distribution of output is also highly arbitrary). Indeed, Minhas has written extensively on the er-

roneous methodology used in framing the Planning Commission estimates, and this point need not delay us here.

The brief point is that the extent of poverty in rural areas, even as late as 1987-88 (40 years after independence) should be unacceptable to any society. The other stark reality is that 70 per cent of the people below the poverty line are concentrated in eight states, where agriculture is rain fed, where the degradation of the land—arising from a variety of reasons—has reached dismal proportions, and where the productivity of farm labour therefore is quite poor.

How will the right to work help in the above situation? There is need for massive investment in infrastructure for the rural areas, for land levelling, for contour bunding, for tree planting for small (or minor) irrigation works depending on the topography of each area—a small check dam or weir here, a pond there, the restoration of past works which have fallen into disuse, the planting of grasses on the slopes to prevent soil erosion and the formation of gullies, and to generally improve the moisture retention capacity of the soil where the rain gods oblige by a downpour lasting only over two or three months. There are so many other types of rural infrastructure that we need: all-weather roads to every village, school buildings, buildings for health care, et al. We urbanites, especially those living in New Delhi or Bombay, seem to forget that now, with television reaching out to distant parts of the country, the social awareness and the resentment of large sections of the population are beginning to create tensions which are now a threat to our very survival as a nation state. No forces of 'internal security' can keep this upsurge down; in fact, we are wasting our resources on both defence and internal security, when the real problem lies with the distorted development, the increasing inequality of income, the social inequities, in fact, the abysmal conditions under which large sections of the population live.

We keep talking of the need to raise the productivity of labour. How can one expect eight hours of hard physical work from people suffering from malnutrition, and probably also some wasting disease because of the dirty, polluted water they have to drink? How can we expect skills to develop when most of the deprived sections of the population are uneducated? We talk of low labour productivity, but never about poor management of our factories. Indeed, the management of the economy leaves much to be desired, because our policies tend to neglect the welfare of the majority of the population.

The upper crust of Indian society has ensured its welfare—no matter what the

rate of inflation—through the Fourth Pay Commission. The cost to the nation by way of increases in pay and dearness allowances of the civil servants, employees of public enterprises and universities, colleges, and officially-aided schools, exceeds by a fair margin, the likely cost of a nation-wide employment guarantee scheme. And if one were to consider the 'covert' subsidies enjoyed by the affluent sections of the population (see, in this context, Mundle and Rao in *EPW*, May 11), the total amount of such subsidies would be several times the amount required for the implementation of an employment guarantee scheme. For us, the beneficiaries of the development programme initiated in the country in the fifties, opposition to the Employment Guarantee Scheme smacks of:

The simple plan,

That they shall have who have the power,

And they shall keep who can

And, it is not as if we need to create infrastructure only in the rural areas. Apart from a very few towns—New Delhi, Bombay, Bangalore, Hyderabad, and maybe a few other cities—the urban amenities available are pitiable. Even in these metropolitan areas, there are large sections of slum- and pavement-dwellers. What we need is a 'continuum' of prosperous villages, vibrant smaller (mandi) towns processing the agricultural produce of the neighbouring villages, and prosperous industrial townships. This would again require a lot of labour.

There is need for the deployment of labour for the improvement of both rural and urban infrastructure. And with a large population of unemployed and under-employed persons, if we cannot deploy this labour force to change the face of the country, we are poor managers of the economy, no matter how reputed we are in the international community in neo-classical economics.

And therein lies the problem. For too long we have tried to manage everything from Delhi. We have never considered the need to decentralise. But New Delhi cannot operate an all-India employment guarantee scheme. Even the bold initiative taken by Maharashtra indicates that we cannot take on such responsibilities, with full success, even at the state level. We need to decentralise further. We need to entrust the task of local development to the people. This means, we must firmly establish and strengthen the process of democratisation through the panchayat system (in rural areas) and municipalities (in urban areas). There must be some ground rules for the democratisation of the system. There must be regular elections to the panchayats; there must be periodic meetings of the gram sabha wherein all adults in the village (or cluster of villages) will be members; all major decisions shall be ratified by the gram

sabha; all decisions taken by the panchayat samitis (at all levels) must be displayed prominently on the notice boards of the panchayat offices; and the panchayats must be assisted by all the scientific inputs that we have at our command.

The only way the right to work can be translated into reality (in the rural areas) would be to take up local 'watershed area planning', which in most parts of the country would require considerable input of physical labour. The planning effort would require the help of civil engineers, land use experts, geologists, agronomists, maybe other experts. Such effort can be considerably aided by satellite imagery and aerial photographs. In 1990, it was estimated that an expenditure of Rs 100 crore would be enough to provide for the 'mapping' of the entire country through satellite imagery and aerial photographs. We already have a number of central government agencies doing this work; and the results are invariably demonstrated in New Delhi, to diverse groups of officials. What we need is to reach these maps to the local authorities, to help them plan better (In fact, satellite imagery pinpoints even the areas where subsoil water is available, or where shoals are emerging in rivers/oceans.)

So, the first pre-requisite to operating an employment guarantee scheme is decentralisation. And the only way to have democratic decentralisation is to foster the panchayat system. Rajiv Gandhi talked about it. V P Singh talked about it. Somewhere down the line, both Chandra Shekhar and P V Narasimha Rao appear to have given the go-by to the concept, even though, the Congress ostensibly swears by Rajiv Gandhi's policies. The current priorities are different. We have to have an IMF loan to continue 'business as usual' for the next few years. And the reduction of the fiscal deficit and fundamental trade reform are two of the main planks of IMF 'conditionality'.

Kirit Parikh, in an article in *The Economic Times* recently suggested that we give a try to trade reform, but that such a policy must be accompanied by an employment guarantee scheme. And, in his view, the EGS can be implemented by cutting down the many implicit subsidies we today extend to the affluent sections of the people.

The present discussion is not on all the policies that the government of India should pursue. It is limited to the issue of the 'right to work'. The brief point that is, that the right to work (or its variant, the EGS) can and should be implemented. But it calls for certain pre-conditions. The first is democratic decentralisation, introduction of the panchayat raj, and the devolution of socio-economic development authority to democratically-elected local bodies. There would arise the need

to also devolve the funds required by the local authorities to implement the EGS, and to use the EGS as a means of local area development. In two or three years, as the effects of such area planning begin to bear fruit, there will arise opportunities of productive employment on the farm, processing of farm produce, dairying, poultry keeping, sericulture, handloom weaving, and a hundred other vocations.

In 1990, it was estimated that on an all-India level, the cost of the EGS may be around Rs 13,000 crore per annum (at 1989-90 prices). Over the Eighth Plan period, a sum of Rs 65,000 crore would have sufficed. In fact, gradually, the pressure on the EGS should come down. Today, the amount required—at current prices—may well be much higher, may be some Rs 16,000 crore or more per annum.

But what is the amount we are spending on covert subsidies for the affluent? On defence? On internal security? And what is the total amount we are spending on centrally-sponsored schemes? The latter alone is close to Rs 5,000 crore per annum. That amount, if devolved to the local panchayats, would lead to more efficient use of the funds. It is a commonplace about public finance that taxes are best collected centrally; the delivery of social services is best organised in a decentralised manner.

So, part of the funds required for implementing the right to work can come merely by rearranging some of the present transfers. What we need to do is to convert such transfers/subsidies (like JRY, IRDP) into investments. For the rest, the balance of the funds can come from cuts in the covert subsidies to the affluent sections of the population. And the reduction in the fiscal deficit can come from the tempering of outlays on defence and internal security, together with improved tax collection and higher taxation of elitist consumption goods.

The right to work is not a laughable concept. It is a concept which needs to be set out as one of the major tasks of the government. It is a concept which, if implemented properly, can change the face of the country. It is a concept which requires both courage to implement, and sagacity in regard to the manner of its implementation. After all, the NREP and the RLDP, and latter the JRY and the NRY, were all intended to partially solve the problem of rural/urban unemployment. But (a) half-hearted measures would not do; and (b) the scheme cannot succeed if it remains a centrally-sponsored scheme. We need to decentralise.

And since India is essentially a federal entity, the unity and integrity of the country—a pet catchword of all politicians—can be maintained only by democratic decentralisation of the body politic, of the devolution of the requisite funds for local area development planning, to be implemented through the EGS.

Lok Sabha Elections: Message from Bihar

Indu Bharti

Though the country may be suffering from a fractured polity characterised by cynicism, confusion and a tendency for the voters to get swayed by non-issues, the people of Bihar chose in the recent Lok Sabha elections to vote on real issues which affect their day-to-day lives and accordingly gave a clear mandate to the NF-Left combine

THE 1991 Lok Sabha elections in Bihar will be remembered as a watershed. Not because of the countrywide headlines about the highly exaggerated allegations of electoral malpractices and violence. And certainly not for the headlines concerning the Election Commission's (dubious) activism in the state. But for the crucial message hidden in the election results which was not headlined: indeed was ignored by the media. The crucial message is that even though the country may be suffering from a fractured polity characterised by cynicism, confusion and a tendency for the people to get swayed by non-issues, the people of Bihar have chosen to vote on real issues which affect their day-to-day lives and accordingly have given a clear cut mandate to the NF-Left combine. The results show that not only did the pro Congress(I) and pro BJP wave sweeping northern and southern India stop at the borders of Bihar, but also that the people of the state, though suffering from economic deprivation and social backwardness for long, are more mature than those in other parts of the country when it comes to politics. For not only did the electorate in Bihar reject the communal appeals of the BJP and the Congress(I)'s notion of stability but it was also not swayed by the latter's attempts to make electoral capital out of the assassination of its leader. This is evidenced by the voting pattern in Bihar as shown in Table 1.

Only 17.6 per cent of the voters who cast their votes preferred the BJP and thus the party which had increased its share of the votes by 9.7 per cent at the all India level could register in Bihar an increase of 5.9 per cent only over its share of the votes in the 1989 polls. The Congress(I) suffered a 5.5 per cent erosion in its share of the votes as compared to a decline of only 1.8 per cent at the all India level.

The NF-Left combine polled 47.4 per cent of the votes and was thus well ahead of even the combined vote share (40.2 per cent) of the Congress(I) and BJP. The NF-Left combine suffered an erosion of 3.6 per cent in its share of votes in Bihar but this was markedly lower than the all

India erosion of 5.5 per cent. The combine suffered. But since the 1991 figures concern only 47 constituencies and the electoral process for seven more, involving around 13 per cent of the electorates, six of which happen to be NF-Left strongholds, the share of NF-Left votes is bound to go up.

The rejection of the Congress(I) and the BJP was also reflected in the fewer number of seats won. The NF-Left combine has already won 42 out of 48 seats for which results have been declared, while at Munger also the CPI candidate has emerged on top at the end of counting though the Election Commission has not yet declared the result. The BJP has won only five seats and came second in 15 others. The Congress(I) has just managed to open its account with one seat and came second in 23 others. The party wise tally is given in Table 2.

The NF-Left combine lost three of the seats won in 1989 but gained four new seats in this election. The Congress(I) lost all the four seats it had won in 1989 but gained one seat. Buxisarai where repolling was held in as many as 56 booths in the second round of polling. The BJP lost as many as six of the nine seats it had won in 1989 and as and when elections for two other seats won by it i.e. Patna and Gaya are held it may turn out to have lost as many as eight. The IPI lost the lone Arrah seat it had won in 1989 and gained none (Table 3).

The debacle of the non NF-Left parties is reflected in the larger number of security deposits forfeited as well. The Congress(I) forfeited its security deposits in over 30 seats while the BJP had to suffer this ignominy in around 40 seats. The Samajwadi Janata Party (SJP), which had fielded some of its stalwarts from Bihar, ended up losing the security deposits of 50 of the 52 candidates fielded by it.

This kind of results cannot be explained away by allegations of booth capturing, misuse of state machinery or caste politics as has been sought to be done in the popular media. These election results in fact provide a clue to an understanding of the complexities of a polity in transi-

tion. Bihar is a state where caste and class are almost synonymous and class-caste divisions have been sharpening due to a variety of factors. The economy and society of the state are largely agrarian and are characterised by wide inequalities, exploitation and oppression. More than one-third of the workforce here does not get even what is needed to keep body and soul together and around 50 per cent of the people survive below the poverty line. At the time of independence Bihar was fourth in terms of per capita income, but today it is at the bottom, below even Arunachal Pradesh, and its per capita income is not even half the national average. The dominance of the upper castes in every walk of life is complete. The fight of the underprivileged to undo the wrongs done to them by the ruling classes has been waged at two levels. While the middle peasantry/middle castes have been fighting the upper caste landlords, the dalit agricultural labourers have been fighting both since they are exploited by both.

During the 1989-90 elections the people fed up with the long spell of Congress(I) misrule had elected the non Congress(I) parties. But after the NF government's fall over the question of reservation for central government jobs and its firm stand on the question of secularism, the NF-Left parties decided to make the question of social justice the main plank of their election strategy. To avoid any split of the non Congress(I), non BJP votes they arrived at a complete seat adjustment: the Janata Dal got 37, the CPI 8, CPI(M) 2, the MCC 1 and JMM 6.

The NF-Left combine's slogan of social justice, though painted in the media as the Janata Dal's attempt at dividing the state on caste lines, proved to be a hit with the people for a variety of reasons. In Bihar the middle and backward castes have been fighting against their oppression and exploitation from the days of the Triveni Sanstha in the 1920s and 30s and a section of the middle castes which by the 60s had emerged as the new rich class has been striving since then to replace the upper caste feudal lords as the ruling class. In the late 60s they had a taste of power with the formation of a non Congress coalition government in the state. But the upper caste dominated bureaucracy did not let it function for the full term. When they again got a government of their choice in late 70s they fought for a larger share in the bureaucracy and, after a protracted battle, the karpoori formula was devised which provided reservation in state government jobs to these caste groups and to women and economically backward upper castes. The next step for them was to increase their share in central govern-

ment jobs and for this they have been fighting ever since the Mandal Commission recommended reservation in central government jobs for the backward castes. The Congress(I) and the BJP, supported by the media, tried their best to create an impression among the Kurmis and Koeries, the two middle castes which, like the Yadavs have become prosperous in some parts of the state, that the Janata Dal was basically a Yadav party and that their interests could not be protected by it. To woo the non-Yadav backward votes they even gave a larger share of party tickets to these castes. While the JD had given about one-fourth of its tickets to Yadavs, the Congress(I) gave only 9.3 per cent to Yadavs, and 16.6 per cent to non-Yadavs, the BJP gave 14.8 per cent to Yadavs, and 16.7 per cent to non-Yadavs (see *EPW*, June 1-8, 1991, p 1377). But these attempts to split the middle caste votes and woo the non-Yadav castes failed and the polarisation of the backward classes in favour of the NF-Left combine was complete.

Equally sharp was the drift of the forward castes away from the NF-Left. The urban middle class, consisting of government employees, intellectuals and professionals, has tended to change its loyalties depending upon immediate issues. In 1989, as in 1977, it had overwhelmingly voted for Janata Dal and BJP candidates. But this time the majority of them turned away from the JD due to what it perceived as the 'mandalisation' attempts of the JD. Only the liberals among the upper castes, who have been steadfast supporters of non-Congress, non-BJP parties and secular elements, remained with the NF-Left combine.

The beneficiary of this drift away from the NF-Left was the BJP which has given as many as 45 per cent of its tickets, the largest share among all the parties, to the forward castes and which has emerged as the new darling of the middle class. The remote chances of Congress(I) forming the government at the centre and the Hinduisation campaign of the BJP convinced the caste Hindus that their interests could be better protected by the BJP. And so the caste Hindu voters of Congress(I) also drifted away from it and adopted the BJP, while the forward caste supporters of JD, enraged at the NF government's decision to implement the Mandal Commission's recommendations, had already adopted the BJP. And so the share of BJP votes increased while that of Congress(I)

declined as seen above.

But despite an almost 6 per cent increase in votes it lost six of the nine seats it had won in 1989 and could retain only one, Khunti, while elections in two others, Patna and Gaya, have been countermanded. In this election the BJP in Bihar has been confined to south Bihar, winning Dhanbad, Ranchi, Khunti, Lohardaga and Palamu. Out of these, it could wrest the Dhanbad seat, from where it had fielded Rita Verma, wife of the slain S P Randhir Verma, defeating the MCC candidate, A K Roy, only because the JMM had also put up a candidate, violating the seat adjustment under which the Dhanbad seat had been given to Roy. Similarly, the BJP could win the Palamu seat because the IPF, which was left out of the NF-Left combine, also had a candidate there so that the entire Left votes did not go to the NF-Left combine's candidate. BJP's success from three other seats, namely, Ranchi, Khunti and Lohardaga was largely because of the poor organisation of the JMM which worked to the disadvantage of the NF-Left combine's candidate and it is entirely baseless to say that the BJP owes its success in south Bihar to the slogan of Vananchal which has proved to be a hit with the tribals.

Tribal votes, however, did play a crucial role in the success of the NF-Left combine. The slogan of social justice not only promised the end of brazen exploitation and oppression of the tribals but also the fulfilment of their long-cherished desire of having a state of their own, since all the constituents of the NF-Left combine, barring the CPI(M), which in any case does not have any presence in tribal Bihar, had endorsed the demand for a Jharkhand state. The result was that the JMM, fighting this election as an NF partner, achieved complete success and all its six candidates won by handsome margins. It wrested the Singhbhum seat from the Congress(I). The biggest success of the JD-JMM-CPI alliance was, however, seen in Hazaribagh from where the BJP MP, Yadunath Pandey, notorious for his role in communal riots, was defeated by the CPI candidate. This was possible only because of the backward, Muslim and secular upper caste votes together with the tribal votes.

The issue before the Muslims in this election was clear. On the one hand was the chimera of stability promised by the Congress(I), a party which though it pro-

fesses secularism has a communal record no better than that of the BJP, and the spectre of being relegated to the status of second rate citizens in the Hindu nation of the BJP. On the other was the NF-Left combine the secular credentials of which were truly unblemished and which had given 15 per cent of its tickets to Muslims against 11 per cent by the Congress(I). And its slogan of social justice promised a continuance of the secular structure of the polity and society in which Muslims would have a status on par with the majority community. The fact that the Janata Dal government in the state took a firm stand on the communal question and prevented any major communal flare-up even as neighbouring UP was being ravaged by communal violence and the courage it showed last October in arresting L K Advani and thus stopping his campaign for Hinduisation of the polity had further strengthened the secular credentials of the NF-Left combine in the eyes of the Muslims. So they voted *en masse* for NF-Left candidates.

In the Janata Dal's scheme of social justice, however, there is apparently no place for crucial issues like land reforms and payment of minimum wages—issues which concern the most underprivileged, exploited and oppressed sections of the society, i.e., agricultural labourers who belong to the dalit castes. Nowhere in the election campaign were these issues or for that matter that of massacres by landlords raised by JD candidates and leaders. In fact the Janata Dal and Left parties did the opposite. Ramakhan Singh Yadav, the man behind the Tiskhora carnage, was given a JD ticket from Arrah by chief

TABLE 2: FINAL TALLY

| Parties | 1989 | 1991 |
|-------------|------|------|
| Janata Dal | 31 | 28 |
| JMM | 3 | 6 |
| CPI | 4 | 8* |
| CPI(M) | 1 | 1 |
| MCC | 1 | — |
| IPF | 1 | — |
| BJP | 9 | 5 |
| Congress(I) | 4 | 1 |
| Total | 54 | 49** |

Notes: * Includes Munger where at the end of counting, the CPI candidate stood much ahead of his nearest rival. The Election Commission is yet to officially declare the result.

** Election to five constituencies countermanded.

TABLE 1: PERCENTAGE SHARE OF VOTES POLLED

| State | NF-Left | | | BJP | | | Congress(I) | | | Others | | |
|-----------|---------|------|--------------|------|------|--------------|-------------|------|--------------|--------|------|--------------|
| | 1989 | 1991 | Change (+/-) | 1989 | 1991 | Change (+/-) | 1989 | 1991 | Change (+/-) | 1989 | 1991 | Change (+/-) |
| Bihar | 51.0 | 47.4 | -3.6 | 11.7 | 17.6 | +5.9 | 28.1 | 22.6 | -5.5 | 9.2 | 12.3 | +3.1 |
| All-India | 34.2 | 28.7 | -5.5 | 11.5 | 21.2 | +9.7 | 41.6 | 39.8 | -1.8 | 12.7 | 10.3 | -2.4 |

Note: 1991 figures for Bihar are based on figures for 47 constituencies.

minister Laloo Prasad who also solicited the assistance of Jwala Prasad, the notorious Rajput landlord of Bihta who is the main accused in a number of cases of massacres of poor labourers

The IPF and various factions of the CPI(ML) have done considerable work among the dalits. The benefits of their work, however, appear to have gone to Janata Dal candidates this time. And in many areas, where the dalits stood behind the IPF candidates, they were not allowed to vote. This was particularly so in the villages of central Bihar where IPF had put up a commendable performance in the 1989-90 elections. Previously it used to be the upper caste landlords who used to snatch the dalits' right to vote. This time it was the new landlords from the middle castes, the kulak lobby, which did this.

And this brings us to another message of the election results: the kulaks have finally replaced the feudal landlords as the ruling class in Bihar. In spite of the popular base of the NF-Left combine's victory, it is the richer sections of the middle castes, Yadavs, Kurmis, Koeries, etc., who are the dominant force in the Janata Dal and who with the slogan of social justice have been able to form an alliance with the middle peasantry, the overwhelming majority of whom happen to be their fellow caste men. A section of the erstwhile ruling class, the landowning class belonging to Rajput caste, has also allied with these sections. Since this alliance is secular in its outlook, it has been able to get the support of the minorities and the secular minded upper castes as well. And since the Janata Dal government in Bihar appeared to hold out the prospect of championing the cause of Bihar's neglect by the centre more effectively, a section of the upper caste intelligentsia also supported it.

The traditional Left parties, the CPI and CPI(M), may have gone for a common front with the NF at the national level due to other factors, but the complete seat adjustment that they forged with the Janata Dal in Bihar, even though it required the CPI to leave the prestigious and politically significant seat of Patna where its candidate had already filed his nomination papers and started campaigning, was influenced by the striving of the middle peasantry, which dominates the CPI, to ally with the richer peasantry in order to

further its own class interests. This is corroborated by the contrast in the CPI's stand over seat adjustment in two seats, Patna and Jehanabad. The CPI chose to leave Patna, where it lost by only about 25,000 votes in 1989 but which it had won as many as three times in the past, to the Janata Dal which had come fifth, even behind the IPF, and had not been able to even save its security deposit in the 1989 election. In sharp contrast, the CPI rejected the IPF's offer of forming a Left front first and then going for an alliance with the JD and JMM to form a broad Left democratic front. In the process, the CPI refused to leave the Jehanabad seat for the IPF. During the last Lok Sabha election the IPF had polled more than 1.5 lakh votes at Jehanabad and stood third behind the CPI, which had won the seat, and Congress(I). In the subsequent elections for the vidhan sabha, the IPF's share of votes increased further and its candidate won from one of the six vidhan sabha segments and stood second in four others while the CPI was relegated to third position. Had the CPI left the Jehanabad seat for the IPF and supported the IPF candidate from Arrah who had won the seat in 1989, the latter would have withdrawn its candidates from 14 other Lok Sabha constituencies. What is more, this would have led to the formation of a Left front in Bihar which not only would have been favourable for further growth of Left forces in the state but which would have been in a better bargaining position while negotiating for seat adjustment with the Janata Dal.

What prevented the CPI from doing so was the fact that the IPF champions the cause of the poorest sections of society whose interests in the immediate context are in contradiction with those of the middle peasantry which the CPI has come to represent and it was in the common interest of the CPI and Janata Dal to undermine the IPF. The election results however confirm that the IPF is a force to reckon with in Bihar. Though it lost the Arrah seat it had won in 1989, it was able to poll 1.16 lakh votes in Arrah and 1.13 lakh votes in Jehanabad. In three other Lok Sabha constituencies also, its candidates secured between 50,000 and one lakh votes.

The elections also showed that class consciousness has further developed and sharpened among the people in Bihar and

caste consciousness has taken a back seat. Contrary to the allegations that the Laloo Prasad government has divided the state on caste lines, people in constituency after constituency walked out of the caste barriers while exercising their franchise. For instance, in Sitamarhi all the Bania voters voted for the JD candidate belonging to the Yadav caste despite the fact that the Congress(I) had fielded a Bania candidate. At Godda the BJP had a Yadav candidate in Janardan Yadav, but all the Yadav voters voted for Suraj Mandal, a Bania by caste, of JMM. In central Bihar where Yadavs and Kurmis often fight violently while competing for supremacy, the Kurmis voted for Yadav candidates—for instance, in Nalanda. In Darbhanga the Yadavs voted for the NF-Left candidate, a Muslim, even though then central minister Hukumdeo Narayan Yadav was the candidate of the BJP. At Chhapra the JD as well as BJP and Congress(I) had Yadav candidates, but the Yadavs voted for the JD candidate.

Clearly, despite all the pre-poll forecasts of a split in the backward caste votes, there was complete polarisation of the middle and backward castes in favour of the NF-Left candidates, regardless of their caste affiliations. This does not however mean that voters of a particular middle caste necessarily voted for a fellow middle caste candidate. At many places they voted for upper caste candidates. For instance, the BJP had fielded a Yadav candidate at Banka, but the Yadavs voted for the Rajput candidate of Janata Dal. At Madhubani also the BJP had a backward caste candidate, but the backward votes went to the Brahmin candidate of CPI. Similarly in Shivahar, Maharajganj, Vaishali, Balia and Aurangabad, the middle and backward castes voted for NF-Left candidates belonging to the upper castes. In fact barring Rita Verma from Dhanbad, only those upper caste candidates won who were NF-Left candidates. Middle and backward castes voted for dalit candidates in the reserved constituencies in the same manner.

Voters also walked out of community barriers to vote for the NF-Left candidates. The classic cases are the Bettiah and Katihar constituencies. In these constituencies both the NF-Left and Congress(I) had fielded Muslim candidates and it was widely believed that the Muslim votes will split while there would be consolidation of Hindu votes in favour of the BJP so that its candidates would win. But neither such a split nor such consolidation took place and the Muslims, the middle and backward castes, the dalits and the secular upper caste voters voted *en bloc* for the NF-Left which won both these seats. Obviously the voters broke out of their caste affiliations and rallied behind JD-Left candidates because the combine, by espousing the cause of social justice, was expressing their class aspirations.

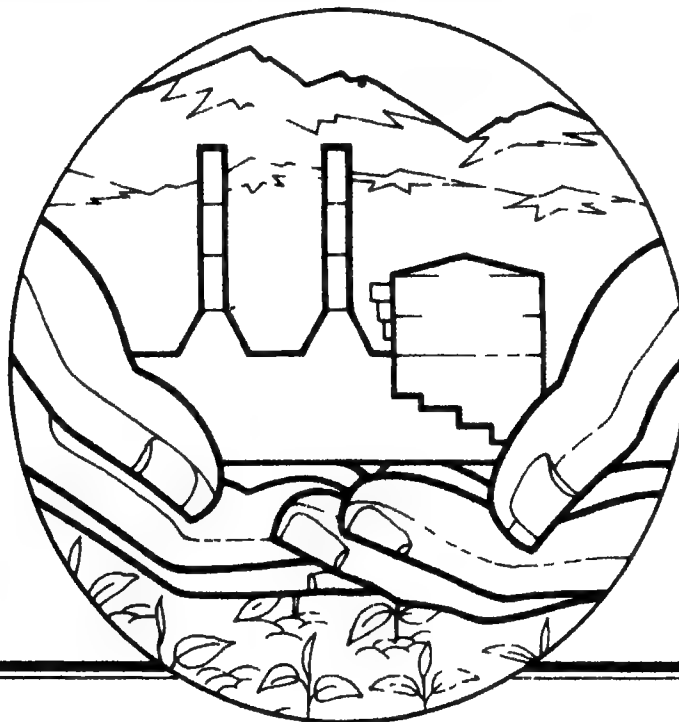
TABLE 3 SEATS GAINED OR LOST BY PARTIES

| Parties | Won in 1989 | Loss | 1991 Gain | Total Won |
|-------------|-------------|------|-----------|-----------|
| NF-Left | 40 | 1 | 4 | 43 |
| BJP | 9 | 6 | 4 | 5 |
| Congress(I) | 4 | 4 | 1 | 1 |
| IPF | 1 | | | — |

Note: Seats held in 1989 added to loss/gain in 1991 does not equal total seats won in 1991 because of the countermanded seats

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Press Council Report on Army in Kashmir

Rita Manchanda

Even if the Kunan-Poshpara rape incident had been concocted and the "women tutored and coerced into making statements derogatory to their own honour and dignity", the Verghese Committee, which arrived at this conclusion, would have lent its investigation more weight had it displayed less of an overt bias towards the army version

THE army has effected a virtual coup in the latest Press Council report 'Crisis and Credibility' on Kashmir. They have got the country's ace liberal B G Verghese to give a clean chit to the army and in passing, to the paramilitary forces in the valley. Editorial writers have hailed it for exposing as a 'massive hoax' reports of army excesses and atrocities in the valley. The Bharatiya Janata Party has demanded an apology from the doyen of the civil libertarians justice V M Tarkunde for supporting anti-national elements in maligning the security forces in Kashmir.

Human rights groups are supposedly in the dock. And the adjudicator in this curious trial of human rights groups vs the army is B G Verghese. On the invitation of the army a three member committee was appointed by the Press Council to look into reports of army excesses. One member, the elderly journalist Jamna Akhtar Das was unable to travel to the valley and is not a signatory of the report. K Vikram Rao is cited as co-author of the report but as he is better known for his trade union proclivities rather than his journalistic activities it is evident that the report rests on the credentials of Verghese.

Most human rights groups would have described him as a sympathiser if not an activist. And Verghese now admonishes these groups for being duped by 'the say so of alleged victims and propagandists' masterminded by Pakistan. But as a far from demoralised V M Tarkunde retorted "is the report not also based on the say so of the army? Is it not equally one-sided?"

The report spans the period March 1990 to May 1991 and examines some half a dozen incidents of reported excesses. Verghese acknowledged that in the selection of the incidents he was influenced by the news clippings sent to the committee last winter. In addition the committee included the alleged Kunan Poshpara gang rape and the killings of infiltrators at Dudhi as they were seen as the most heinous examples of army excesses. Moreover, these had been given the maximum publicity, Verghese explained. Both were found to be without foundation.

Human rights groups are, however, a little sceptical about the choice of incidents. Why does Verghese or rather the army show no interest in such alleged incidents

of army excess as in Panzgam in Pulwama district on June 9 1990 or the rape and molestation of women in Kupwara town during a search and cordon operation on June 11 or the Trehgam incident on June 10, asks Dinesh Mohan of the Committee for Initiative on Kashmir. These have been well documented in the all women's committee report Kashmir Imprisoned published by CIK.

As for the killings of 73 'militants' at Dudhi near the line of control last May reports in the press had alleged that the youths had been massacred in a mass encounter or that these infiltrators had been killed when they could have been arrested. Suspicion was further fuelled by the fact that the bodies were not brought back to the valley. In an effort to defuse tension the high court asked the administration to publish their photographs in the local press. Modifying the order, the Supreme Court ordered that the photographs be displayed at offices of the district magistrate and police stations in the valley for inspection of relatives and friends from June 10 to 18.

Verghese unhesitatingly concludes on the basis of what the authorities disclose to him that the allegations were unfounded. Would he have been so certain if he knew that the advertisement alerting people about the photographs appeared in the popular Urdu daily *41 safa* only on June 14. Moreover according to a letter sent to the *TOI* (which was not published) and humoured by two residents of Srinagar the majority of the names of the dead listed indicated that they were from the Doda Kishtwar area of Jammu division a day's journey from Srinagar where 11 photographs were displayed. While night curfew is continuous on June 12 there was day curfew and on June 13 and 14 the civil curfew of the militants. June 15 strike by the state employees and June 16 was a Sunday. On June 18 the photographs were withdrawn. The people of Doda Kishtwar therefore, never had a chance to identify the photographs.

In the Kunan Poshpara incident 23 to 100 women were reported to have been raped by the army during a search and cordon operation last February. Verghese committee, however, found the charge of rape 'completely untrue'. Why? Because

of the delay in reporting the incident; the villagers having signed the NOC (no objection certificate) after the raid; the fluctuating number of rape victims, the inconsistencies in the testimonies of some of the villagers interviewed by the committee and finally, "would troops on a hazardous search and cordon operation in a village known to be harbouring militants nonchalantly spend the night carousing and raping?"

It is quite possible that the Kunan-Poshpara rape incident was concocted and the "women tutored and coerced into making statements derogatory to their own honour and dignity". But the Verghese Committee might have lent its own investigation more weight had it displayed less of an overt bias towards the army version.

Verghese chooses to dismiss the account of the JK police constable who accompanied the army party and that of the block medical officer who examined 32 women. He found injuries like abrasion on the chest and abdomen which however were attributed to the village folk hugging 'kangris'. Did the men have similar abrasions? Verghese says he never thought to inquire. The medical report says that in the case of the three unmarried girls their hymen was torn. But Verghese in a statement reminiscent of standard police style defence states,—"it could be the result of natural factors, injury or premarital sex".

In the report Verghese refers to a group of four to five young girls who were pointed out to the visiting committee as victims of rape. "They stood in full gaze of some young men idling nearby. They seemed quite unashamed to be lined up in public." Verghese stressed as if it clinched the lie of rape. They were very young girls victims of an incident that took place more than three months before. Does Verghese want to suggest that they the victims should not come out in public?

A massive hoax orchestrated by the militant groups and their mentors abroad is how the committee described the Kunan Poshpara rape. It is part of the sustained strategy by Pakistan to get the Kashmir issue inscribed on the international agenda when it has failed to do so on a politico-legal basis. "Otherwise why should the Srinagar based newspaper, *41 safa* in its May issue reprint an English report filed much earlier by UPI correspondent Ghulam Nabi Khayal along with a human rights group report also in English about an incident that took place in February." Verghese said waving the copy of *41 safa*. What the authorities forgot to tell Verghese was that *41 safa* regularly carries English language articles and editorials once a week.

It is no one's argument that there is not a propaganda war afoot in which human rights violations prominently figure. And clearly for Verghese the driving force behind his determination to counter

reports of human rights excesses is the "human rights conditionalities" the USA seeks to impose on India. "As a result of these reports the US Congress now dares to suggest that training in human rights must be made a part of the advanced training programme for visiting Indian defence personnel. At a recent seminar on Kashmir in Washington one English participant spoke about Kashmir being a colony of India," he said in an outraged tone.

But Verghese by jumbling together human rights groups of all hues, local, national and international does serious injustice. After all as Tarkunde at a recent press conference explained, on behalf of the Co-ordination Committee on Kashmir he had called for a judicial inquiry into Kunan-Poshpara rape and had himself not pronounced any judgment on it.

There is no denying that separating fact from propaganda in the valley is a daunting task for any journalist or human rights groups as was highlighted last month when militants of the Muslim Janbaz Force holding the two Swedish hostages staged an elaborate drama complete with photographs of one Swede wounded in the leg by the security forces.

As Srinagar-based correspondent Ghulam Nabi Khayal readily admitted, "there are only two ways in which you can go to the affected area, either the militants take you or the security forces". And reports appropriately reflect the bias of who escorts you. Besides, any local journalist who challenges the militants does so at enormous personal risk. *Al Safa* editor Shaban Vakil dared to criticise the militants and was executed.

Tarkunde too readily spoke of the limitations under which human rights groups operate. "Very often the other side refuses to talk to us," he said. He had no quarrel with the need for greater rigour in investigating human rights violations, especially in a situation where they are grist to the propaganda mill. But the press council report would have earned more credibility had it demonstrated a similar rigour in its own investigation into army excesses.

Other than Kunan-Poshpara, the committee did not bother to personally visit the scene of the other incidents of alleged excesses though its blanket judgment about the charges being concocted or grossly exaggerated remained unqualified.

Regarding the Pazipora rape incident of August 1990, the committee did not find the time during its two day visit to the valley to go to the area. Instead it juxtaposed the army's defence with a pastiche of news clippings, reports from national and international human rights organisations. Apparently the committee did not consider it necessary to read the integral text of these reports, relying upon the army's potted version.

Sukhmani Singh's report on the Pazipora rape in *The Illustrated Weekly* entitled, 'Protectors or Predators' is dismissed by the committee as many of the women

cited by her in the rape story did not exist. The alleged rape of Saba (26) described in the report is challenged because according to the army Saba is 45 years, denies being raped and her husband Ghulam Ahmed Bhat is alive. Had Verghese read the original story he might have seen that there were two Sabas, one a woman of 50 who was hit by the police but not raped and another Saba (26) whose husband was shot dead by the army before she was raped.

Sukhmani quotes a doctor in the Kupwara district saying that the five women brought to her from Pazipora "were all definitely victims of rape" and the cases registered with the police. But the doctor's evidence is held worthless because she had not prepared their medical reports even a couple of weeks later. Verghese who finds no difficulty in showing empathy towards the overstrained security forces, apparently did not think the doctor's comments quoted in Singh's article about feeling intimidated by the security forces was worth considering.

Verghese Committee made no effort to contact Sukhmani Singh. Quite inexplicably the committee refused to look at the reports of the human rights groups which it was so ready to castigate. "We offered him our reports but he ignored them", Tarkunde complained.

Overawed by the army opening up its barricaded archives, the committee was apparently prepared to accept without any crosschecking the army's version whether it was the Jengpora incident or the alleged firing by the army on demonstrators at Zakura in March 1990.

Although the committee refers to the account of the two incidents in the CIK's 'India's Kashmir War' Verghese does not appear to have read them otherwise he would be aware that despite the army's court of inquiry justifying the Jengpora incident as one in which an escort party fired in self defence upon a mob to ensure the safety of children in a school bus, "the government ordered registration of cases against the erring military personnel involved."

On the strength of eyewitnesses the CIK had charged that the army had fired on demonstrators who had been returning home in buses. The report of the army inquiry was described as false since all schools were closed in the valley and in any case there was no school near the spot of the firing. Since the school was open the Verghese Committee dismissed the report of alleged excesses. Verghese did not think it necessary to call upon the CIK and ask it to present its evidence.

Had he done so he might have found that the school had been opened in the morning to enable senior students to take their exams. According to the army version the two army vehicles were carrying 37 children of class I to X. The firing took place in the afternoon after 3 pm when the children would have all been back

home. Also people travelling from the topography of Srinagar argue that it is highly improbable that an army school bus bound for the Badami Bagh school would be moving towards Jengpora on the national highway leading to Baramulla.

Moreover, Radio Kashmir in its 745 news bulletin of March 1, 1990 made no mention of an army school vehicle or of a firing in self defence. Instead it refers to the army firing on a 'passenger bus'.

As for Zakura firing, the Verghese Committee claims that there is no police record of deaths whereas the CIK report cites an FIR Zakura police station made in the presence of M A Abbas, deputy commissioner, Srinagar (ARC-police no 89, 899204-Register No 2 Roznamcha, March 1, 1990, Thana Police Chowki, Zakura).

The press council report concludes that excesses where they have taken place have been inquired into and action taken. Yet its own annexure shows that court martials have been held in only seven cases and even in these 'severe displeasure' is the punishment even if it involves deaths in police custody. In an incident where rape is proven the JC (J) is severely reprimanded (i.e. loses three promotions) and the NC (N) and jawan dismissed.

The committee insists that its brief was limited to army excesses but as the 'faux' fighting a terrorist insurgency is indivisible, it briefly touched upon the paramilitary forces and pronounced "overreaction on occasion" towards or groups of men who go berserk under the strain. But what is the value of an assessment which relies exclusively on the version of the DCI, or DIG CRPI and BSI?

"The real excesses are committed by the paramilitary forces not the army", Tarkunde insists. But the Verghese Committee would have us believe that the reports are gross exaggerations. As an example he cites:

"In early 1990 when a certain incident that stirred great excitement was alleged in Srinagar, the governor Jagmohan issued a public notice asking for the names of those killed so that compensation might be paid to the bereaved families. There was no response. The alleged deaths were concoctions."

Surely we should be informed which incident is being referred to especially as it bears the burden of the judgment of gross exaggeration about excesses by the paramilitary forces. Was it the one in which the people of the valley publicly vowed not to accept any compensation from the state as a show of protest?

The report has become a convenient tool to pillory the human rights groups and columnists are full of righteous indignation at the "dirty tricks against the army". Would they be so strident had they actually read the rather bulky report? Who indeed has fallen victim to the 'say so' of the people or the army, the human rights groups or the Verghese Committee?

BJP's Changing View of Hindu-Muslim Relations

Kameshwar Choudhary

The BJP's position on Hindu-Muslim relations has undergone considerable metamorphosis in the decade of its existence with the Mandal agitation acting as a spur to its current phase of communal politics

WITH its inception in 1980 the Bharatiya Janata Party strove to distance itself from its progenitor, the Bharatiya Jan Sangh which was popularly known as a Brahmin Bania based political party. The BJP wished to spread its wings to cover all sections of the population and emerge as an alternative force in Indian politics. For this, it was essential to befriend the Muslims as well.

In the beginning the BJP laid some emphasis on fostering communal harmony and social cohesion. While elaborating its concept of 'positive secularism' in 1980 the party stood for "full protection of the life and property of the minorities" [1]. In his presidential address to the National Council (NC) of the party in 1982 Atal Behari Vajpayee advised the opposition parties to "resist the temptation of compromising with religious and communal fanaticism simply to get power. He asserted,

Only to the extent that we are able to insulate administration, politics and election from the corrosive influence of caste, community and creed would we be able to strengthen national unity.

Further, taking note of the communal violence in Baroda, Invadrum and Delhi the National Executive (NE) of the BJP passed a resolution on Communal Harmony and Social Cohesion in 1983. The NE stated that it was "seriously exercised over the growing communal and caste tensions in different parts of the country often leading to violence both against person and property. It held

No religion encourages or condones hatred or violence against one's fellow beings. A Hindu, Muslim, Christian or whoever maimed or killed is an Indian disabled or lost. Life and property lost is not just Hindu loss or Muslim loss but a national loss.

It was asserted that promotion of communal and social cohesion and harmony and protection of the weaker sections was to a member of the party, an article of faith. Moreover, the NE called upon every member of the party to strive, in particular, to

- (1) Keep a watchful eye on tensions building up or situations which were likely to endanger communal peace and harmony,
- (2) Take immediate and appropriate steps to defuse the tension and neutralise

the situation and
(3) Plunge courageously into the defence of the life and property of innocent people and make utmost personal sacrifice to this end [2].

In his presidential address to the NC session at Pune in 1984, Vajpayee noted the increasing number, frequency and intensity of communal riots in the country. He suggested that if communal riots were to be checked the present set up which is the root cause of politicisation of police and criminals' influence in politics would have to be changed. He added that strengthening the feeling of Indian nationalism in order to defeat communalism would also be possible only then.

Further in its Lok Sabha election manifesto of 1984 the party held

Unity in diversity has been the hallmark of Indian culture, which is a *unique multi-hued synthesis* of the cultural contributions made over the centuries by different peoples and religions (emphasis added).

It also asserted that "the very idea of a theocratic state is alien to Indian political history. It observed that in the Indian tradition the state has made no distinction between one citizen and another on the basis of his religion. Hence when India became independent in 1947 it was declared a secular state. Moreover the party made a pledge to guarantee all minorities linguistic and religious peace and security and full opportunities for progress and development.

With the Shah Bano case in 1985 the BJP started stiffening its stand towards the Muslims. In its resolution in January 1986 the NE of the party strongly condemned the virulent campaign launched against the Supreme Court by the Muslim League and the Jamaat-e-Islami following the court's judgment in the Shah Bano case. It affirmed that the verdict of the court was pre-eminently just and sensible. The NE rejected the Muslim League view that this judgment was an interference in the religious affairs of the Muslims. Moreover it held that the move to amend the law by the Rajiv Gandhi government to placate the Muslims was "retrograde, anti woman and a surrender to obscurantism and bigotry". Hence, the party demanded "the amendment pro-

posal be abandoned forthwith".

In his presidential address to the plenary session of the party in May 1986, I. K. Advani said that the Rajiv government had capitulated to "the vicious campaign unleashed by the Muslim League and Jamaat-e-Islami against the judgment" by introducing a bill in parliament to nullify the Supreme Court judgment in the Shah Bano case. He observed that the Muslim Women Bill ran counter to the Directive Principle of the Constitution (Article 44) enjoining the state to develop a uniform civil code, violated Articles 14 and 15 of the Constitution, and disrupted the existing uniformity in the field of criminal law. Moreover, Advani reiterated the earlier position of the party that "theocracy is alien to Indian political history". He stated that in the Indian tradition the state respected all religions equally (*sarva dharma sambhav*) and made no distinction between one citizen and another on the ground of religion. According to him the BJP subscribed to this positive concept of secularism. He added "communalism is bad, whether of the majority or of the minority".

DUAL STRANDS

In his presidential address to the NC session of the party in January 1987, Advani took pains to (mis)interpret Jawaharlal Nehru's idea of national unity and observed that the latter considered ancient (Hindu) culture as the 'substratum' for national unity without using the word Hindu [3]. As earlier he proclaimed that theocracy was alien to traditional Hindu polity. Moreover, he stated that

indifference to India's common culture on the one hand and a conscious pampering and promotion of a minority complex (by the Congress I) in the minorities on the other, had led to dangerous strains in society (emphasis added) [3].

Further Advani elaborated on the concept of 'minorityism' and hinted at its dangers. In this context he cited Gopal Singh who defined minorityism in broad terms in his work *India, My India* (1986). According to Singh

One would hate to live and participate in a society where one is condemned to the status of a permanent statutory minority for reasons only of birth and all that goes with it: religion, sex, caste, colour or place of birth within the same national home [3]. He proceeds

If the minorities start thinking and acting in communal terms the majority of necessity will also begin to think and act likewise. And the minorities in such a context will suffer the most, not the majority [3].

Advani summed up minorityism as 'promoting minority complex among the minorities serving neither national interest nor even minority interest'. Moreover, he charged that "for many politicians and intellectuals, secularism is

only a euphemism to cloak their allergy to Hinduism" Hence, he gave a call to reject (such) 'pseudo-secularism'

Thus, we find dual strands in Advani's (read BJP) thinking. He makes just a symbolic reference to India's common culture. In reality, he identifies the Indian nation with the ancient Hindu culture to the exclusion of the medieval composite culture. Moreover, he exudes pride in India's constitutional version of secularism, but, at the same time, raises the bogey of 'minorityism' and vehemently attacks the so-called pseudo-secularism.

FROM BABRI MASJID TO TEMPLE

The early party documents reveal that it recognised the existence of the Babri masjid at Ayodhya without any reservations. In the opening remarks at the NE meeting of the party in December 1986/January 1987, Advani strongly condemned the call given by the All-India Muslim Majlis e Mushawarat to "boycott republic day celebrations in protest against the Babri masjid issue".

Moreover, in the report on election strategy presented to the NE in April 1987 at Rohtak, Y Rajpal noted the need of preparing "a detailed pamphlet on scandals during Congress(I) regime" which included *inter alia* "the Babri masjid issue".

Hence, on the question of the Ayodhya dispute the BJP referred only to the Babri masjid in 1986 and 1987. It made no mention of any temple or 'janmabhoomi' in its party documents then.

In June 1989 the NE of the BJP adopted at Palampur (HP) its first detailed resolution on the Ayodhya dispute when the main point of reference in the dispute changed from the Babri masjid to the Ram Janmabhoomi temple. The party commented that the ongoing debate on the 'Ram Janmabhoomi issue' highlighted "the callous unconcern which the Congress party in particular, and the other political parties in general, betray towards the sentiments of the overwhelming majority in this country—the Hindus". Moreover, it was claimed that the BJP and the Vishwa Hindu Parishad (VHP) represented "the Hindu point of view" in the negotiations with the government. Further, the BJP categorically held Babar responsible for destroying the temple at Ayodhya and constructing a mosque in its place. The Palampur resolution asserted,

According to all available records the Moghul emperor Babar visited Ayodhya in 1528, destroyed the temple situated at the site believed to be Ram Janmasthan, and constructed a mosque in its place (emphasis added).

But this firm conviction of the BJP regarding Babar's direct involvement is controverted in the same resolution of the party which states,

it [a court of law] cannot adjudicate as to whether Babar did actually invade Ayodhya, destroyed a temple and built a mosque in its place.

It was also noted that the Muslim League lobby in the country had acquired "a new militancy and aggressiveness". This lobby had launched a campaign against the Supreme Court judgment in the Shah Bano case which had led the government to annul the verdict through legislation. "Having thus tasted blood", the party resolution commented, "this lobby set up the Babri Masjid Action Committee, mounted a vicious assault on the decisions of the Faizabad court, gave a call to boycott the republic day celebrations and organised a rally in front of parliament house giving threats of violence".

The Palampur resolution expressed its appreciation for the type of secularism practised by Jawaharlal Nehru, Vallabhbhai Patel and Rajendra Prasad. The party admired them for extending support to the restoration of the 'great Somnath Temple' at Prabhas Ratan in Gujarat with the blessings of Gandhiji. In this context, the party cited particularly the opinions expressed by the then home minister Patel who noted "both strong and widespread" sentiments of the Hindus for restoration of the Somnath temple and the idol therein.

Moreover, the party reiterated that theocracy was alien to our history and tradition. It observed,

Secularism, according to our constitution makers, meant *sarva dharma sama bhava*. It did not connote an irreligious state. It certainly did not mean rejection of our history and cultural heritage (emphasis in original).

The party put its demands before the government thus:

The sentiments of the people must be respected, and *Rama Janmasthan handed over to the Hindus*—if possible through a negotiated settlement, or else by legislation. Litigation certainly is no answer (emphasis added).

With the Palampur resolution of the BJP the point of reference over the Ayodhya dispute changed from the Babri masjid to the Ram temple. The party proclaimed itself to be the champion of the Hindu point of view on the issue. By demanding the handing over of Ram Janmasthan to the Hindus it took over the leadership of the campaign, at least in principle, from the VHP for temple construction at Ayodhya. But with regard to its demand that the government follow the Nehru line in the case of the Ayodhya dispute, the party, in reality, stood on shaky ground. It was the Nehru administration which locked the gates of the disputed structure at Ayodhya in 1951 on the grounds of maintaining law and order. Had the government pursued the Nehru line on the Ayodhya tangle it would not even have opened the gates of the disputed

structure, leave alone talk of construction of temple at the site. Thus, BJP's position in this respect is self-defeating.

SPIKING MUSLIM AGGRESSIVENESS

In his speech delivered in the Rajya Sabha in August 1989 while participating in a debate on communalism, Advani narrated three essential attributes of secularism/secular state: (i) A secular state rejects theocracy. There is no official religion. (ii) A secular state does not discriminate between one citizen and another on grounds of religion. It guarantees equality to all. (iii) A secular state guarantees full freedom of faith and worship. [4]

According to Advani the Indian constitution embodied all these features. He observed that what was done in 1950 was "the only right Constitution that could be created". He said,

We could not have theocracy. We could not think in terms of the minorities being second class citizens. In India, every single citizen, irrespective of whether he is a Hindu, whether he is a Muslim, whether he is a Christian, whether he is a Parsi, is equal, they are all equal.

Moreover, he pointed out that (i) A secular state was not an irreligious state. At least, as far as the constituent assembly was concerned, it did not think of secularism as denoting something like irreligion or anti religion. (ii) Religiosity was not communalism. A person could be ardently religious but not communal. For example, Gandhiji was a man of religion essentially, but beyond communalism, and (iii) Secularism did not mean disowning our past history or heritage or culture. This was a brilliant exposition of the liberal view of secularism.

In the same breath, however, he took an exclusivist and circumscribed view of Indian culture and heritage. By our heritage and culture he meant only the ancient Hindu heritage and culture to the exclusion of the culture and heritage of other religious communities in India, e.g., Muslims, Sikhs, Christians, Jains and Buddhists. He stated,

When I refer to heritage and culture, it certainly comprehends the *Vedas*, the *Mahabharat* and the *Ramayana*, and all that ancient literature. Whenever one talks about these there are reactions as to why he is talking of what is essentially Hindu. Yes, it may be essentially Hindu but it is Indian history, Indian culture and Indian heritage (emphasis added).

Advani also erroneously drew a parallel between the Somnath issue and the Ayodhya dispute just as had been done in the Palampur resolution. He expected the Rajiv government to adopt "the same positive approach to the problem of Ayodhya that the Nehru government and the Sardar Patel government had to the problem of Somnath". Moreover, regar-

ding the Ayodhya dispute, he said that it was "not a controversy merely between a temple and a mosque" and that it was "wrong for anyone to try to pitch Ram against Babar". He asserted, "There is nothing sacred about Babar. He was an invader. He came from outside."

Advani tactfully skirted the question of the court verdict on Ayodhya dispute while remaining firm on its non-acceptance by his party. According to him, his party had never said that it would not accept a court verdict. What it had said was that "the nature of the controversy is such that a court verdict will not solve the problem." He added that it was only a negotiated settlement that could solve this problem, not litigation. "Litigation is no solution", he averred. Moreover, he assured the Rajya Sabha that on the question of maintaining harmony and peace he was "entirely with the government".

However, Advani blamed the Rajiv government for succumbing to the campaign launched by the Muslim fundamentalists against the Supreme Court judgment on the Shah Bano case. He cited it as an illustration of the practice of appeasing the minorities and promoting a minority complex in them and warned against such acts of 'minorityism'.

Further, the BJP held that "today secularism means a premium on minorityism". In his presidential address to the NC session of the party in Bombay in September 1989, Advani observed that for most politicians in the country "secularism has become just a device for garnering bloc minority votes". This involved, he continued, their desire to appease minorities and flaunt their "allergy to Hinduism and every thing associated with the word Hindu". He noted that the utterances and activities of some elements among the minorities were becoming "increasingly aggressive" and were "ominously reminiscent of the pre-1947 years". He considered their growth "extremely dangerous for national unity". Hence, he exhorted, "These threats have to be met head-on, and squarely spiked". In response to the charge of playing a Hindu communal card he asserted at the NE meeting of the party in Bombay in September 1989 that "Let not such accusations ever put us on the defensive". Thus, we find that the BJP held, in theory, a liberal view of secularism. But at the same time it took an exclusivist view of Indian culture and heritage and adopted an aggressive stance towards the Muslims.

LOK SABHA ELECTIONS, 1989

But the aggressive posture of the BJP towards the Muslims was dampened during the Lok Sabha elections which was held towards the end of 1989. This was done by the party as a tactical step to defeat the Congress(I) and facilitate an understanding with the National Front so as to enhance its electoral prospects

simultaneously.

In its 1989 election manifesto, the BJP criticised the Congress(I). Reversal of the court verdict on the Shah Bano case was seen as an act putting a premium on communalism and obscurantism. The Congress(I) government's keenness to recognise Urdu as second official language in Uttar Pradesh was thought to be more for cornering Muslim votes than promoting the Urdu language. Moreover, it was observed that by not allowing "the rebuilding of the Ram Janma Mandir in Ayodhya" the government had allowed tensions to rise and gravely strained social harmony.

Moreover, the party reiterated in the manifesto its commitment to the concept of 'positive secularism'. It stuck to the motto of "justice for all and appeasement of none". It restated the idea of a theocratic state being anathema to the Indian mind. It held that the state had the duty to guarantee 'justice and security' to all minorities. However, the party vaguely referred to its idea of 'minorityism' by saying that it was imperative that minorities do not develop a minority complex.

The year 1990 witnessed further shifts in the position of the BJP on the Ayodhya tangle, particularly after the Mandal declaration. The BJP found its social base, both actual and potential, threatened. It saw that the Hindus were getting polarised into two warring groups of forward and backward castes on the Mandal issue. This was going to foil the gameplan of the BJP to emerge as the only alternative to the Congress(I) and assume power at the centre sometime in the near future.

To counter this Mandal mobilisation of the OBCs by the Janata Dal, the BJP acquired full leadership of the campaign for temple construction at Ayodhya. Advani flouted his own earlier assurance given to the Rajya Sabha of maintaining communal peace and harmony. He undertook the Toyota 'rathayatra' for mobilising and homogenising the whole Hindu community behind the banner of the BJP by using the issue of Ram temple construction at the disputed site at Ayodhya. His main motive was clearly political and electoral rather than religious. While speaking at a convention in New Delhi after the 'rathayatra' Advani is reported to have declared,

I am a political leader. People think I have become Advani baba. But, I am not a religious person. Our workers should know we have not converted into a religious organisation. We are a political organisation, fighting pseudo secularism (emphasis added) (The Times of India, December 25, 1990).

Moreover, during his 'rathayatra', Advani made scathing reference to the havoc caused by the Mandal report which drew cheers from the crowds. While talking to Swapna Dasgupta, he said that the 'rathayatra' had "taken away the cynicism" of the middle class (read upper caste)

students that had been fostered by the Mandal Commission[5].

Further, the resolution passed in October 1990 by the NE of the BJP observed that the issue of temple construction at the site of the Babri mosque was "not a communal issue" but "a matter of national honour calculated to promote national reconciliation". The party considered the 'rathayatra' "a great act of national integration". Though, as is well known, the 'rathayatra' left behind a trail of communal conflagrations and generated unprecedented communal tension all over the country. Instead, the BJP charged the Janata Dal government of communalising the issue. It blamed some leaders of the ruling JD-NF for whipping up communal passions leading to rioting. Finally, irrespective of the consequences of the Ayodhya campaign, it was painfully apparent during the 'rathayatra' itself, according to Swapna Dasgupta that "it is Mr Advani who has come to be identified as the real leader of the movement", although the BJP leader continued to insist that it was the VHP that was leading the Ram Janmabhoomi movement[5].

The October resolution (1990) of the BJP for the first time came up with the novel idea of 'non-masjid'. It held that the Ayodhya dispute is "between a mandir and a non-masjid" and by implication not between a masjid and a mandir and, thus, it now refused to recognise the existing Babri mosque at Ayodhya. The party advanced strange logic in this regard. It was argued that "the mosque built by Babar [sic]" was abandoned in 1936 and after which no 'namaz' was offered there. Hence, there was no more a mosque at the site. Moreover, it was added that since at least 1949, 'poojas' and 'parikramas' have been regularly going on near the site, hence, the 'mandir'.

The resolution (October 1990) also noted VHP's offer to the Muslims to "relocate the 'masjid' structure elsewhere" for building of Ram temple at the place. Moreover, it called upon the V P Singh government to "honour the sentiment of the people and allow a temple to be built at the 'janmasthan'". The BJP warned the government that if it failed to do so or it disrupted the 'rathayatra', the party would withdraw its support to government.

Further, after the arrest of Advani in Bihar the NE of the BJP adopted a resolution in November 1990 regarding the Ram mandir at Ayodhya. Contrary to the actual facts, it held that the 'rathayatra' was evidence of "national unity and national regeneration". It demanded facilities for early construction of Ram Janma Mandir at Ram Janmasthan to defuse the tension and redeem national honour. Moreover, the party rededicated itself to "the sacred task of rebuilding the Ram Janma Mandir at Ram Janmasthan". The party asked the Muslims to "come out of their isolation and join the national mainstream and find security and honour in peace with

Hindus" (emphasis added) Thus, 1990 marks a big shift in the posture adopted by the BJP with regard to the Ayodhya dispute

HINDU NATIONALISM AND HISTORICAL ANIMOSITY

In his presidential address to the Fifth National Convention of the party at Jaipur in February 1991 Murli Manohar Joshi reiterated the party's adherence to its Palampur resolution of 1989. He affirmed that "either the issue (the Ayodhya dispute) could be settled by mutual discussion or the government could make a law to hand over the site to the Ram Janmabhoomi Mukti Nyas". The party rigidly stuck to its position of constructing the temple at the disputed site. Hence, all its talk of a need for mutual discussion and debate on the issue was merely an insincere ritualistic exercise to erect a secular facade and hide its militant Hindu face. Moreover, Joshi expressed his party's big brotherly approach when he called the Muslims 'brethren' and at the same time advised them to "give up their claim of the Babri masjid and extend willing co-operation in the construction of the temple".

Joshi made a small change in the party's stand on who was to blame for the Babri mosque issue. Earlier the party held that Babar visited Ayodhya in 1528, destroyed the temple situated at the Ram Janmasthan and constructed a mosque at the place. But, now, Joshi stated that it was Babar "on whose orders the temple standing at the birth place was destroyed and replaced by a mosque structure" (emphasis added). This change was probably made to partially rectify the party's position in line with the incontrovertible historical fact mentioned in the epitaph at the disputed mosque that "this descending place of the angels was built by the fortunate noble Mir Baqi". Joshi hailed the 'rathayatra' undertaken by Advani as "the second historic 'vatra' after Mahatma Gandhi's Dandi March".

Further Joshi acknowledged that the BJP suggested the "respectful shifting of the (mosque) structure to another site" for temple construction. Earlier this offer was said to have been made by the VHP to camouflage the essentially uncompromising and aggressive posture of the party on the Ayodhya issue. Joshi made a ritualistic reference to India's constitutional secularism. As earlier he claimed that India was never a theocratic state. He regarded secularism as a fundamental feature of the Indian constitution and polity which treated all modes of worship with equal respect. However, while adorning the broad vision of the Indian mind he equated it only with the Hindu culture in a circuitous manner. He said

The Indian mind never accepted the theocratic form of state. The truth of the matter is that Hindu culture is synonymous with the co-existence of various spiritual and

intellectual experience (emphasis added)

This idea of spiritual co-existence, in reality, asserted the dominance of Hindu culture over others, including a coercive and confrontationalist attitude towards the Muslims as is evident from party's insistence on the relocation of the mosque.

The BJP has also made an important shift with regard to Nehru's secular credentials. Earlier documents of the party appreciated the secular policy of the Nehru government. Nehru, Patel and Prasad were admired particularly for the approach they adopted on the issue of the Somnath temple. But in his 1991 presidential speech Joshi charged all governments after independence with "appeasement of minorities" and practising 'minorityism'. He stated,

Unfortunately during the last forty five years secularism has come to mean appeasement of minorities. This has led to 'minorityism' (emphasis added). Hence, now, even Nehru and his colleagues were not spared the criticism of having practised minorityism.

Further, the BJP's Lok Sabha election manifesto of 1991 shows its continuing commitments to the construction of the temple and Hindu nationalism and extension of Hindu-Muslim divide. The party reasserted its determination to build Ram mandir at Janmasthan by "relocating superimposed Babri structure with due respect". It is intriguing to note the kind of 'due respect' the party wants to show to the Babri masjid through its relocation.

In the manifesto, the BJP upheld that construction of *Shri Ram mandir* at Janmasthan is a symbol of the vindication of *our cultural heritage and national self respect* (emphasis added).

This clearly implies that the party identifies Indian nationalism only with the Hindu heritage to the exclusion of that of other religious communities living in India since ages.

The manifesto also reveals the supercilious attitude of the party, particularly towards the Muslim minorities. Against the backdrop of extensive communal riots the manifesto refers only in general terms to ensuring justice for all citizens and for all sections of society, whereas in earlier manifestos the party stood for ensuring both "justice and security" especially to the minorities [6].

Finally, in the 1991 manifesto, the BJP has come out with a new hypothesis with regard to the historical relations of Hindus and Muslims in India. It observes that Hindus and Muslims are "blood brothers" but "on account of historical reasons their relationship has not been harmonious" and, thus, turns the present communalisation of politics into an historical animosity between the two communities.

In the history of over one decade of the BJP there have been significant departures in its position on the question of Hindu-Muslim relations in India. In the begin-

ning (i.e., the period, 1980-89), the party laid some emphasis on fostering communal comity and cohesion. But with the Shah Bano case in 1985 the BJP started stiffening its attitude towards the Muslims. While it proclaimed pride in India's constitutional secularism, it also raised bogey of 'minorityism' and 'pseudo-secularism'. In 1986 and 1987, the BJP documents referred only to the Babri 'masjid'. But with the Palampur resolution of the party adopted in 1989, the mandir became the main point of reference. Appreciating the Nehruvian secularism, particularly on the issue of the Somnath temple, the party demanded that the government hand over Ram Janmasthan to the Hindus. After the declaration of implementation of the Mandal recommendations by the V P Singh government, the BJP realised that its gameplan of emerging as the alternative to the Congress(I) was going to be foiled. It adopted a strident posture on the question of temple construction at the disputed site at Ayodhya to homogenise and mobilise all the Hindus under its banner. The party also refused to recognise even the existence of the Babri mosque and called it 'non masjid'. Moreover, it adopted a paternalistic attitude to the Muslims and asked them to find security by accepting Hindu domination. In 1991 it asked them to give up their claims to the Babri masjid and co-operate in the construction of the Ram temple at the site. Moreover, the Indian constitution was showered with praise for its secular principles to camouflage the uncompromising, militant and confrontational attitude of the party towards the Muslims. Now, even the Nehru administration was included in the list of the practitioners of 'minorityism'. Lastly in the elections of 1991 the party stuck to its commitment to build the Ram temple at the disputed site. It kept harping on Hindu nationalism. Moreover, it extended the current communal tension and conflict into an historical animosity between the communities through misinterpretation of history. It is indeed ironical that the BJP now proposes to work "to make all Indians fraternal and friendly once again".

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Democracy and China

J Bruce Jacobs

Before the Beijing massacre many felt that China had no democratic tradition and its national conditions did not suit democracy. Now that the Chinese people have clearly expressed their desire for democracy, it is necessary to re-examine these notions

THE question of democracy in China has great importance for the world today. This article cannot provide a detailed analysis of 'democracy' but most readers will agree with two propositions. First, China's so-called 'socialist democracy' is not a form of genuine democracy, and second, 'democracy' and 'dictatorship' are two opposing concepts. Even Mao Zedong's so-called 'democratic dictatorship' actually separated the concepts of 'democracy' and 'dictatorship', providing the 'people' with 'democratic centralism' and the 'enemy' with 'dictatorship'.

Deng Xiaoping has clearly stated that the Chinese mainland cannot establish democracy. In late December 1986 he said:

When we talk about democracy we cannot mechanically copy bourgeois democracy. If China does not have the leadership of the Chinese Communist Party and if China does not engage in socialism China has no future. With respect to dictatorial methods, we must not only talk about them we must also use them when necessary (Deng Xiaoping, December 30, 1986).

Before the Beijing massacre of June 4, 1989, many Chinese and some foreign scholars felt that China had no democratic tradition and that its national conditions did not suit democracy. Now that the Chinese people including workers and peasants have expressed their desire for freedom, democracy and participation in the process of government policy formulation, etc, these notions must be re-examined.

Western democratic theory has two main currents. The first stresses 'equality', while the second emphasises 'freedom' or 'human rights'. Persons accentuating 'equality' attach importance to majorities determining the choice of leaders and the policies to be implemented. Those emphasising 'freedom' or 'human rights' highlight the importance of protecting minority rights. These two western democratic currents contain a contradiction: if a majority decide to eliminate the basic human rights of a minority, what happens? Different democratic systems give different answers, but a genuine democratic system must guarantee human rights in order to avoid becoming a dictatorship. Hitler and Mussolini both used

democratic electoral methods to win elections, but then both established dreadful dictatorships. The failure of many German and Italian citizens to attach sufficient importance to the human rights of their compatriots contributed greatly, among other reasons, to the establishment of these fascist regimes. Similarly in the establishment of the Soviet and Chinese communist dictatorships, many who supported the revolution allowed the revolution to use illegal methods to swallow the enemy. Later they discovered that the revolution used the same methods to swallow themselves.

Since the American and French revolutions of the late 18th century, 'equality' has become a basic, widely accepted concept in world political theory. But, in the history of world thought, the concept of 'equality' developed only in the modern era; it is *not* a natural concept. On the contrary, before the American and French revolutions, all complex societies accepted *inequality* as a basic principle. Obvious examples include the feudal societies of Europe and Japan and the caste system of India.

'Everyone is equal' does not mean 'everyone is the same'. Clearly each individual has his or her own talents. A may run quickly, B can lift a heavy load, C can bear children and breast feed, while D can calculate sums both quickly and accurately. Because each individual is different, we cannot create a society in which every person is absolutely equal. But we can seek to implement two extremely important types of equality. First, everyone must be equal before the law and politically. Second, each individual must be given 'equal opportunity' to develop fully his or her own abilities and aspirations. Although we often consider 'equal opportunity' an important part of American democratic tradition, in the world's history of ideas the concept originally came from China.

In discussing the democratisation of a society, we must clearly distinguish between two related but different concepts: 'liberalisation' and 'democratisation'. By 'liberalisation' I mean expanding the scope of freedom of speech, freedom of expression, 'freedom of assembly, etc.

(This 'liberalisation' differs significantly from Deng Xiaoping's 'bourgeois liberalisation', a term the communist leadership in China uses to attack western ideas and to perpetuate the dictatorial communist system.) From the Third Plenum of the Eleventh Central Committee in December 1978, which set China on its post-Mao road of reform, until the Beijing Massacre of June 4, 1989, China undeniably underwent a considerable amount of 'liberalisation'. Since 1969 Taiwan too has had substantial 'liberalisation'. 'Democracy' naturally encompasses the expansion of freedoms but it must also incorporate another necessary condition: if the majority of voters support an opposition party, the ruling party must peacefully relinquish power to its opponents. The Beijing Massacre verified the frequent statement of the Chinese Communist Party leadership that it will not relinquish power to other people or parties. Although Taiwan underwent considerable liberalisation under the leadership of the late Jiang Jingguo (Chiang Chung-kuo), the Nationalist Party (Kuomintang) also clearly would not relinquish power to an opposition. Taiwan is now entering a new political era, but we must wait and see if the Nationalist Party allows the majority of citizens to choose the ruling party before deciding whether or not this new political era is democratic.

Those afraid of democracy generally fear lack of stability. In 1986 Deng Xiaoping said:

Ever one can recall, when the National People's Congress in 1980 passed the resolution rescinding the article concerning 'the four great freedoms of speaking out freely, airing views fully, holding arena debates, and writing big character posters'. Why did we do this? Because there was a tide of liberalising thought. If we engage in liberalisation it will destroy our stable and unified political situation. If we lack a stable and unified political situation, we cannot enact our con-

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struction (Speech at Sixth Plenum of Twelfth Central Committee).

In reality, those criticising democracy underestimate its strength. In a democratic system, the citizens give 'feedback' about the government's policies and the performance of officials. This 'feedback' gives a democracy considerable strength. Mao Zedong's theory of the 'mass line' recognised this fact, but in reality he did not implement it. This resulted in tragedies, horrendous in world history, such as the Great Leap Forward during which 20 million people died.

Democracy has another prerequisite. In sport, teams must accept the rules of the game. Similarly, when implementing democracy, citizens and leaders must accept the rules of the political system—its constitution, laws and conventions. A democratic political system requires a large majority of citizens and leaders to accept the system's 'legitimacy'; otherwise, there is little hope.

DEMOCRATIC ELEMENTS IN CHINESE TRADITION

Although many people assert that China lacks a democratic tradition, Chinese culture clearly has democratic elements. The thought of Confucius contains elements of equality. Confucius said that everyone was similar when born and became differentiated owing to diverse habits and education. Confucius did not consider the class origin of applicants when choosing students.

Mencius, second only to Confucius in Chinese intellectual history, also had many democratic ideas. According to Mencius, the people were the most important component of a nation. The land and grain spirits came next, while the leaders were the least important. (*Mengzi*, Book Jinxi VII-B, Chapter 14). At the time of Mencius, the 4th century BC, many people said that the state was the most important element of the world, but Mencius believed the individual was the most important element (*Mengzi*, Book Lilou IV—A, Chapter 5). Historically, many Chinese leaders have claimed the 'mandate of heaven'. Mencius clearly stated that 'heaven' first listens to the people before appointing a leader (*Mengzi*, Book Wanzhang V-A, Chapter 5). He also said the common people could rebel to overthrow a ruler lacking virtue because a ruler lacking virtue lacks the qualifications to be a ruler and hence is not a ruler (*Mengzi*, Book Lianghuiwang I-B, chapter 8). An important critic and intellectual opponent of Mencius, Mo Zi, also had important elements of democratic thought. His concept of 'universal love' ('*jian'ai*') is quite similar to 'equality'.

China not only had many democratic elements in its history of ideas, in prac-

tice the imperial Chinese system also encompassed substantial 'equal opportunity'. In pre-modern history, Chinese society led the world in institutionalised vertical social mobility. During the Ming Dynasty (1368-1644), almost one half of those obtaining the highest imperial 'jinshi' degree had no degree holder of any kind among their ancestors in the three previous generations. In other words, these people rose to the pinnacle of power from fairly modest circumstances. During the Qing Dynasty (1644-1911), almost one-fifth of 'jinshi' degree holders had no degree holder among their ancestors for three generations (*The Ladder of Success in Imperial China: Aspects of Social Mobility, 1368-1911* by Ping-ti Ho, Columbia University Press, 1962). These statistics demonstrate that considerable 'equal opportunity' existed historically in China in practice as well as in theory.

Why then is it impossible for China to institute democracy now? Three important obstacles exist. First, the dictatorial machine of the Chinese Communist Party will not allow democracy to develop. The machine, which readily uses violence to protect itself, is not easy to oppose. The low level of education among the Chinese people and their lack of democratic habits presents a second obstacle. Sun Yat-sen, the founder of the Nationalist Party, generally has a reputation for unrealistic schemes, but he did have one sensible political theory. He argued that before establishing 'constitutional government', one must first unify the nation and then institute 'political tutelage'. Although the Nationalist Party used 'political tutelage' to justify dictatorship during the Nanjing (Nanking) Decade (1927-1937), Sun Yat-sen's basic theory was correct. In the past 30 years, as the educational levels in Taiwan have risen, the demands for democracy have increased.

The third obstacle is Chinese intellectuals. This may surprise readers who know that most leaders of the democracy movement in Tiananmen Square were intellectuals. Earlier, I noted that a certain 'equal opportunity' existed in imperial Chinese society. However, imperial China emphatically did not have an egalitarian society and after receiving an imperial degree, a person obtained very high social status as part of the 'gentry'. Many contemporary Chinese intellectuals retain this type of thinking and still have a sense of superiority with respect to workers and peasants. They believe they have 'ability' and ought to govern. Although these intellectuals say they support 'democracy', actually they look down on workers and peasants and do not respect the peasants' and workers' opinions. In a genuine democracy, each person must have an equal vote. The desire of many Chinese

intellectuals to decide the interests of workers and peasants on behalf of the workers and peasants is not true democracy and, in essence, does not differ from the present dictatorial regime. I have lived with Chinese peasants for extended periods of time and discovered they clearly understand policies which affect them and are often more practical than intellectuals.

Notes

- 1 See Mao Zedong, 'On the People's Democratic Dictatorship' (June 30, 1949): "We take away the right of the reactionaries to speak and only allow the people to have the right to speak." See also Mao Zedong, 'On the Correct Handling of Contradictions among the People' (February 27, 1957): "The first function of dictatorship is to repress the nation's domestic reactionary class... the system of dictatorship is not suitable for use among the people... among the people we must implement the system of democratic-centralism". (All quotations are translated from the original Chinese.)
- 2 The Chinese Constitution contains this concept. "All citizens of the People's Republic of China are equal before the law" (Constitution dated December 4, 1982, Art 33, paragraph 2). The Chinese Election Law, in making urban votes four, five, and eight times the value of rural votes, actually conflicts with the Chinese Constitution. See J Bruce Jacobs, 'Elections in China', *The Australian Journal of Chinese Affairs*, No 25 (January 1991), 171-199, especially pp 176-181.

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Nation, Community and Naipaul's India

Akeel Bilgrami

India: A Million Mutinies Now by V S Naipaul; Viking 1991.

THE obscurities and passions surrounding the concept of a nation afflict some populations more than others for reasons that are so complex and so entrenched that it seems almost too much to ask for diagnosis, leave alone cure. V S Naipaul, pondering contemporary India in his new book *India: A Million Mutinies Now*, is not depressed by this fact. And, as one has come to expect from him, does not much bother to make an effort at diagnosis. Instead he offers a series of detailed interviews with persons chosen as typical of some aspiring community or interest group (Muslims, Hindus, Sikhs, Kashmiris, Punjabis, Tamils, women, communists, 'untouchables' ...) and by the end of a long book he expresses a tentative optimism about his ancestral homeland on the ground that at least these passions and these ill-understood issues are being harnessed into political and social momentum—even if often in the form of sectarian hatred and violence.

This is Naipaul's third book on India. The first, *An Area of Darkness* written in 1962 on his first visit, is a somewhat hysterical response to the pervasive poverty and superstition and cruelty he encountered. Writing now almost 30 years later, he admits, with disarming candour, to a neurosis underlying that initial perception: "... my ancestors had left as indentured servants for the sugar estates of Guyana and Trinidad. I had carried in my bones that idea of abjectness and defeat and shame. It was the idea I had taken to India on that slow journey by train and ship in 1962; it was the source of my nerves." The second book, *India: A Wounded Civilisation* written in 1975 during Indira Gandhi's reign, sedates the earlier pessimism, but having sedated it, nurses it devotedly through the book. The people he meets are still defeated and backward, they have not yet found their wills and their national identity.

These books succeeded in annoying many Indians. They annoyed a large class of readers because Indians have always been a little defensive about criticism from outsiders, and Naipaul undoubtedly did speak with the prose and the mentality of a floundering foreigner. But it also annoyed some because his cultural commentary typically combines an effortless contemptuousness with an almost deliberately cultivated but, all the same, monumental ignorance of the historical and institutional sources of a culture's surface presentation. The present book will appease the first kind of reader because it is much more generous than the earlier books, and it is no longer in the shrill voice of a high-strung, reactive, alien sensibility. The second kind of reader will still stamp about in exasperation. The contempt has been withdrawn but the indif-

ference to explanation pervades the book.

Naipaul's theme is recognisably the theme that dominates India's public life. It is, in his own words: "A million mutinies, supported by twenty kinds of group excess, sectarian excess, religious excess, regional excess ..." contrasted with "a central will, a central intellect, a national idea."

The book concludes with a comment on this theme of contrast. "The Indian Union was greater than the sum of its parts; and many of these movements of excess strengthened the Indian state, defining it as a source of law and civility and reasonableness. ... And—strange irony—the mutinies were not to be wished away. They were part of the beginning of a new way for millions, part of India's growth, part of its restoration."

Naipaul's instinctive conclusion may be sound. But there is nothing in this book which gives him the right to the conclusion.

In independent nation-states, nationalist sentiment against existing governments has taken two opposing forms: the demand for secession (as, for example, in various regions of India, Pakistan and the Soviet Union) and the demand for unification (as in Germany and, from time to time, in west Asia). The former is often due to a perception by particular ethnic communities of central government domination, especially when the central government is itself dominated by a single ethnic community (more true of the Soviet Union and Pakistan than India). The latter is usually a response to a perception of an external imposition of boundaries as in Germany, or, among other things, to a perceived threat from an external enemy in their midst such as Israel in the Arab world.

Writers on India make a ritualistic observation of India's diversity. But the reason why India presents a particularly difficult and complex picture is that these two forms of nationalist sentiment co-exist and criss-cross in a complex dialectic, which needs study and analysis.

The demand for secession in India is hard to assess because any impartial and sober observer must acknowledge both the dubious workability of break-away regional nations as well as acknowledge the undeniable source of grievance in the regions against obsessively meddlesome and short-sighted central governments, which persistently ignore considerations of regional autonomy and self-governance in favour of immediate political and electoral gains. This pattern is particularly vivid, for instance, in Punjab where the extremist Sikh element was actually initially encouraged by Indira Gandhi's government so as to undermine the popularity of the moderate Sikh party, the Akali Dal and, in turn, to promote the influence of her

own regional Congress Party. When the extremists grew in strength as a result of this tired and cynical 'divide and conquer' policy, she cracked down on them with a ferocity and ineptitude which led directly to the incendiary situation which we have been witnessing for the last several years. For similar reasons, successive central governments are much to blame for why regional movements in Kashmir and Assam have turned from demanding greater autonomy to demanding wholesale independence.

The movement towards unification in India is found in religious rather than ethnic communities, most particularly the Hindus who comprise 80 per cent of the population. The issue has nothing to do with boundaries but with the claims to a unified Hinduism which has begun to define itself as a monolith with a view to seeking protection against what is perceived to be an increasing loss of identity and power in the face of the rights won by the Muslims as a minority in a secular nation. Here too the electoral ambitions of Indira Gandhi's Congress Party have initiated the problem as we see it today. Communal tension between Hindus and Muslims has existed ever since the British first introduced separate electorates in the provinces. It came to a head in the partition of India due to the manipulation of the Muslim masses by the Muslim League under Mohammad Ali Jinnah, and to the inability of the (officially) secular-minded Congress Party leadership to convince the Muslims that they had a secure place in a post-independent India. Though communal tensions and riots have persisted through the period of independence, the present threat to secularism within India began to take shape in the 1980s.

Indira Gandhi, who had long claimed popular support for her party with the empty electoral slogan 'remove poverty' (as if one could contest on the platform 'retain poverty!'), was fast losing that support not least because poverty was manifestly not being removed. In the facet of this loss of a populist secular base, she and her son Sanjay Gandhi decided to cultivate the support of the majority religious community, first against the Sikhs and then more carefully and subtly against the Muslims. After her assassination, her other son and prime minister, Rajiv Gandhi continued with this electoral strategy, playing into Hindu revivalist sentiments over the issue of the mosque at Ayodhya during the last national polls. This has created a political atmosphere in which the blatantly Hindu and anti-secular Bharatiya Janata Party can now flex its muscles and demand Hindu raj. In the last elections the Congress Party and the BJP more or less openly appealed to the idea

of an India under Hindu rule in order to win seats and offices

The idea of a monolithic and majoritarian Hinduism is a wholly mythical construct. As myths will, it goes back a long way into the recesses of Indian history and has helped to perpetuate the most remarkably resilient inegalitarian social formation in the world. It is the product of a sustained effort over centuries on the part of the upper castes to sustain their hold not only on the bases of political power but on the Hindu psyche.

This Brahmanical ascendancy had its ancient origins in a priesthood which made its alliances with kings and their officials as well as with the landed gentry. Through the control of religious ritual and the language of ritual—Sanskrit—and with the force of the Kshatriyas (the predominantly military caste) behind them it gradually created a nation-wide hegemony for the upper castes. Under both the feudal rulers during the period of Muslim rule and later in the colonial state, upper caste Hindus flourished in the state apparatus, and today they by and large dominate the executive and economic governance of the country both at the centre and in many regions—especially in the so called 'cow belt'—where they occupy most of the offices and positions in the bureaucracy, industry and the academy.

What is remarkable about this abiding control over the centres of power is that through the centuries it gave rise to a Brahmanical ideological tradition which co-opted all efforts at the reform of Hinduism from the Arya Samaj movement in the north to the Brahmo Samaj movement in Bengal, even intellectual and social movements which started with the avowed intention to raise the status and the political consciousness of the lower castes deteriorated into either elitist or anti-Muslim organisations. In the process of such a pan-Indian ideological construction, not only were the lower castes silenced, but there was also a deliberate obscuring of the highly differentiated local histories and diverse vernacular religious traditions in which caste divisions played no significant religious and social role.

The construction steadily erased the legacy and the roots of heterodox religious and populist movements from the ancient Bhakti cults to more recent syncretic movements such as the cults of Kabir and Guru Nanak. (A similar process of elitist construction and erasure of local heterodox traditions—though of course without the specific caste orientation of Hinduism—informed the rise of the urban professional classes in the Muslim community, a process which culminated in the anti-secular developments within the Muslim League and led to the creation of Pakistan.)

There is, then, a double dissimulation. The pan-Indian Brahmanical ideological tradition, which pretends to speak for a unified Hinduism and which to a large extent defines itself today against the secular concessions to religious minorities, is based on a denial of two quite different things. On the one hand, it refuses to acknowledge the

deeply inegalitarian caste divisions which characterise the Hindu society which it has come to represent and, on the other hand, it denies a historical place to the multifarious local Hinduisms which it has slowly erased and which flourished through Indian history without any particular hostility to secular conceptions nor any place for the hierarchy of caste.

The frenzied communal passion of the Hindus and the Muslims that have been unleashed in the last year can only be understood against the background of this construction of a false unity.

India adopted a secular national polity after independence and has maintained it with hazard over the last 44 years. There have been eruptions of Hindu-Muslim violence from time to time in different parts of the country in which the Muslims who are the overwhelming minority, have tended to suffer the greater destruction. In the last year or more, however, there has been sustained communal extremity unlike anything since the days just before and after partition. Things have now veered to a crisis because it is this conflict which provides the most readily available sustained distraction from recent efforts to expose the myth of a unified majoritarian Hindu society.

Towards the end of his brief tenancy as prime minister V. P. Singh declared his intention to implement the suggestions of the Mandal Commission Report which concluded that 27 per cent of central and local government jobs should be reserved for these disadvantaged Hindus. The decision to implement this was a bold move to strike an initial blow to upper caste domination, especially in the states of the cow belt. It finally went beyond the empty legislative devices which have formally outcast casteism and it gave substance to the hitherto hypocritical rhetoric of social equality which all parties produce before each election. In a word, it exposed and attacked the myth of a monolithic Hinduism by acknowledging in deed rather than word that caste inequalities exist at the very heart of the nation's centres of power.

Middle and upper class Hindus in these states who, not surprisingly, coincide with the privileged castes, responded to Singh's decision with such hysteria and public violence that it gave rise to a panic within his own ruling party. There were substantial defections from it in parliament and he was forced out of government. But toppling the government did not by itself make the issue that the Mandal Commission addressed go away. So the Bharatiya Janata Party which represents the more or less prosperous Hindus of these regions is making every effort to make it go away by campaigning, with greater vehemence than any party has dared to do at any prior period, on the revivalist platform of a Hindu raj. It claims that the glorious period of a pre-Islamic Hindu India must be revived, and argues that the morale and united strength of Hindus is being daily undermined by the secular concessions granted to the minorities by the leaders of post-independent India. The fact that the unity never really existed is being covered

over once again by pointing to a longstanding external enemy within, which if only it was suppressed, the distant and glorious past of a robust Hinduism would be India's again.

The immediate symbolic ploy in this devious strategy fastens on the wretched question of a mosque in the town of Ayodhya. The Bharatiya Janata Party vows that, if elected, it will correct a historical injustice against the Hindus by destroying the mosque and building a temple in its place.

India's most distinguished historians have categorically denied that there is a shred of evidence for these historical claims and cited the Archaeological Survey of India's reports of excavations in this area. In a letter to *The Times of India*, they concluded "It is a debasement of history to distort these events for present day communal propaganda."

Ayodhya has become the symbol of India's struggle for a secular future. By asking that Hindus recognise the strength of their majority status and vote them in on the mandate of Hinduising India, the BJP is trying to enact one of democracy's most elementary paradoxes: that one can exploit democratic institutions and civil liberties to subvert those very things. If the BJP is successful and sticks to its word, the minorities will rightly see this as the end of secular citizenship and will begin to think the unthinkable: a second partition!

Here is a good question. For 17 initial years the leadership of independent India fell into the hands of India's greatest public figure, arguably greater (on the questions being discussed) than Mahatma Gandhi. At any rate his vision of a modern, secular India was conceded by even his most vocal critics to be a genuine and honourable commitment. A comparison with Pakistan after the untimely death of Jinnah (who perversely had much the same vision as Nehru for the newly created Muslim nation), and a comparison with what might have happened if other leaders such as Vallabhbhai Patel had been at the helm in India, must allow the conclusion that to a considerable extent Nehru did succeed. But if we look around us today we can only judge the secular success of his long rule as, at best, a holding process.

The question then, is why did Nehru's vision fail to take hold? This is a large and complicated question. But a simple and central fact upon which a fuller answer must build is simply that Nehru was the leader of a party which from the very beginning despite all its secular and egalitarian pronouncements, did not make any serious effort to destroy the consolidations of Brahmanical power and ideology that I sketched earlier. Though it would be unfair to compare the Congress Party with the communally oriented nationalist campaign of the Muslim League, the fact is that from the earliest phases of the independence movement it appealed to the symbolism of a Brahmanical Hindu culture to mobilise the masses and often when it made gestures of support to Muslims in order to recruit them, it did so in ways that encouraged the most retrograde element in the Muslim com-

community, as in Gandhi's support of the Khilafat movement—a move echoed by Rajiv Gandhi's recent self-seeking support of the thoroughly reactionary Muslim Women's Bill—thus encouraging a communal ethos among the minorities as well.

Since Nehru's passing, his familial heirs not only gave up the holding process, they began to reassert the importance of that mythical Hindu construction in order to win votes.

Just as the Islamisation programme is a desperate appeal to a spurious unifying ideology by the Punjabi community to retain its hegemony in Pakistan against increasing demands by the other ethnic communities, the present reassertion of a unified Hinduism and the extreme communal feeling it has generated in the country's heartland is the desperate counter by middle-class Hindus against any popular feeling that might develop for a more socially egalitarian and casteless society. Islam, being a doctrinal religion, makes it easier for the rulers of Pakistan to make this move. They can distract from the urgent needs and demands of their people by appealing directly to the political pretensions of portions of the *Koran* and its medieval interpretation in the Sharia. But Hinduism is not a doctrinal religion and for Hindus to make the same claims, its leaders must appeal to history, the pre-Islamic 'golden age', which, as I said, has been carefully constructed upon a deliberate falsification of diverse religious traditions.

The only party which holds out hope for India's secular ideals is V P Singh's Janata Dal and its scatter of smaller and more left-wing partners. India is stuck with coalition politics for a while to come. But Singh has not defected from his promise to pursue the aspirations voiced in the Mandal Commission. There is, no doubt, much that is problematic about his position. He has been accused of having adopted these ideals to build a popular base among the lower castes against rivals in his party. That may well have been so. There is also the worry that what he has opened up is more caste-oriented politics and more communal hatred. But this is a worry that accompanies all such aspirations and should not detract from the genuine initial achievement, however small and however preliminary, of the stand he has taken. The fact is that he has directly called into question the infinite survival of one of the most fantastic forms of social evil in the history of the world, the Hindu caste system. He has, whatever his motives, opened up the possibility of a Muslim/lower caste axis and, in doing so, has revived the possibility of many cultured, grassroots political alliances which would unsettle the myth that India's national unity *can only* be imposed from the top by an upper-caste, middle-class, pan-Indian ruling elite.

The idea of the Indian nation, which has never been as precarious as it is now, needs such a redefinition of the process by which unity can be retained. The federal unity that comes from diverse co-existing cultural traditions without inequalities in social formations

is far more likely to pull India out of the present crisis of nationhood than a mythical unity with caste inequalities at its very core. Such a redefinition of unity alone will remove the neurotic obsession of governments with centrist power. It alone will allow for a framework of central government which readily concedes cultural and political autonomy to the regions. In the dialectic of secessionist and unificationist nationalist sentiments with which I began, such a redefinition of unity alone will pre-empt the secessionist threat.

If the forces that Singh's stand have released can eventually shape such a transformation in the very ideal of an Indian union, then, on his central theme, Naipaul may be right to find heart in the recent rise of multifarious aspirations and mutinies among the people of India. But to say this is to say something much more nuanced and much more guarded than what Naipaul himself concludes. Since his book offers no understanding of how these aspirations are caught up in an entrenched institutional and ideological framework, the optimism he actually sounds will be heard as something indiscriminate and perverse.

Indiscriminate, because his wide-ranging conversations with aspiring individuals, by themselves, reveal nothing of what is needed for the optimism to be borne out, nor, therefore, how fragile and conditional it ought to be. Perverse, because, it will seem to many that after two excoriating accounts written in periods of relative stability in India, he is now applauding from the sidelines just when India is terrifyingly on the verge of a breakdown of governance and of a surrender of the values of modernity that have so far defined its self-conception.

He says: "What the minorities were helping to define was the strength of the general intellectual life, and the wholeness and humanism of the values to which all Indians could appeal." Even at first sight—and the book only gives us a first sight, even if from different angles this is a numbing falsehood. The antics of the BJP and the reactionary and defensive response of the Muslims are as far from the "wholeness and humanism of values" as any political movement can be. The demands of the Sikhs for an independent Khalistan are the demands of a minority in Punjab which have been artificially created by the electoral ambitions of political parties. It is a shallow political sensibility that rests with the thought that demands induced by these means are a sign of "intellectual strength."

Naipaul's method in the study of a culture has a simple dialectic in this book. Time and again he begins with some brief observation of what some community seems like from the outside; then proceeds to step inside by letting one or two of its members speak to him of their lives, their political and personal triumphs and tribulations. The conversations are clearly meant both to redeem and revise the initial observation by adding a very specific kind of phenomenology—a personal voice telling a personal but representative history—which Naipaul then sums up in

another brief concluding description.

About the Sikhs, for example, he says initially: "To most people what had happened in the Punjab was a pure tragedy, and not easy to understand. From the outside, it seemed that the Sikhs had brought this tragedy on themselves, manufacturing grievances out of their great success in India. It was as if there was some intellectual or emotional flaw in the community, as if in their fast, unbroken rise over the last century there had developed a lack of balance between their material achievement and their internal life, so that, though in one way so adventurous and forward-looking, in another way they remained close to their tribal and country origins." Or, after chatting with one of his Muslim protagonists, he concludes with the comment: "His orthodox faith was the one pure thing he had to hold on to. He couldn't imagine life without it. It was a stringent faith. It shut out television; it had no room for heretics. All the many rules and celebrations and proscriptions were part of the completeness of Anwar's world. Take away one practice, and everything was threatened; everything might start to unravel. It was correct, for instance for Muslim men to pee squatting; and I heard later from someone who worked with Anwar, that Anwar insisted on doing this at the modern urinals in his place of work, though it created problems for him."

The "manufactured grievance", the "tragedy" of the Sikhs is nowhere evaluated—not even by the Sikhs he interviews—as being a grievance, to a large extent, manufactured by the Congress Party high command in New Delhi, nowhere diagnosed as a tragedy, of the failure of federal rule. His colourful gloss on the insular withdrawal of Anwar and other Muslims into the shell of their religion is nowhere situated in the larger picture of a struggle between a minority and the will of an elite to perpetuate a majoritarian myth. Their withdrawal reflects a very specific form of defensiveness and adaptive failure on the part of Indian Muslims, issuing from its place in a very specific ongoing historical and political context; but this is nowhere divulged. These are just two examples of a recurring lack throughout this long book. The interviews and portraits do not lack charm, and they will often move you, but they will frustrate you with their lack of intellectual substance. Naipaul's theme is too large and deep-going for this limited method.

So, in this book, something simple about Naipaul gets vividly exposed perhaps, for the first time. For years, as I said, his impatience and his seeming contempt for the cultures he wrote about, irritated readers who had some familiarity with those cultures. This book's attentive sympathy demonstrates, in retrospect, that those flaws were superficial. Without their distraction, we can see more clearly now that the gap created by the ambitiousness of his subjects on the one hand and his intellectual limitations on the other, has always been the deeper source of his shortcomings as a writer of non-fiction.

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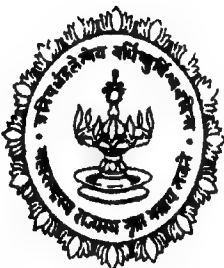
Freedom can be meaningful only when social and economic equality is ensured for all citizens.

With this objective at heart, Maharashtra has been forging ahead for the last 31 years. That is why the common man is the focal point of the State's developmental efforts. Under the dynamic and farsighted leadership of the Chief Minister, Shri Sudhakar Rao Naik, who assumed office in June this year, Maharashtra continues its march towards the attainment of this end.

Maharashtra is determined to follow the path lit by its illustrious sages and seers like Sant Dnyaneshwar, Mahatma Phule and Dr. Babasaheb Ambedkar who continue to inspire us towards establishing a society based on equality and brotherhood. Our visionary former Chief Ministers like the late Shri Yashwantrao Chavan, Shri Vasant Rao Naik and Shri Vasantdada Patil have already laid solid foundations for making Maharashtra a progressive and an egalitarian State.

Some of the programmes being vigorously implemented for fulfilling this aim are

- * Employment Guarantee Scheme assuring work to the needy farm-hands
- * Loan Waiver to marginal and landless farmers
- * Development of Horticulture on 10 lac hectares of fallow land during the Eighth Five Year Plan
- * Massive Assistance for Development of horticulture, pastures and agro-forestry on lands of small holders and farmers of Scheduled Castes and Scheduled Tribes
- * Impetus to food-processing industry based on horticulture
- * Special Action Plan for the development of the Adivasis in Gadchiroli, Chandrapur, Dhule, Nanded and Yavatmal districts
- * Implementation of "Rural Development through Manpower Scheme" in over 400 villages
- * Indira Gandhi Assistance Scheme for the Aged Landless labourers
- * Record success in production of foodgrains, cotton and sugarcane
- * Strengthening of Public Distribution System for checking rising prices
- * Special plan for total literacy in six districts
- * Daily per head incentive allowance to parents belonging to the Scheduled Castes, Scheduled Tribes, Nomadic Tribes and those below poverty line to induce them to send their daughters to primary schools
- * Provision of Rs. 2,500 crores in Eighth Five year Plan to remove regional imbalance



On this auspicious occasion of the 45th anniversary of our freedom, let us rededicate ourselves to the progress and prosperity of Maharashtra and to the unity and strength of India.

DG I PR

Ambedkar's Legacy to Dalits

Has the Nation Reneged on Its Promises?

P Radhakrishnan

Ambedkar contemplated various means for liberating the Dalits and enabling their deliverance from deprivation and social stigma to development and social respect but his legacy to the Dalits is primarily the constitutional safeguards for the scheduled castes. This paper takes stock of the fate of this legacy with a view to establishing if the nation has honoured it or reneged on its commitments.

DAI ITS, meaning 'broken or oppressed', is a synonym for the depressed classes' (DCs). Both these terms are now too loosely and indiscriminately applied to an assortment of social groups, variously labelled as oppressed, deprived, downtrodden, disabled disadvantaged, weaker sections, other backward classes (OBCs), minorities, scheduled tribes (STs), untouchables, scheduled castes (SCs), Harijans and so on.

The lumping of all these groups and the use of the terms DCs and Dalits as 'catch all' categories are for at least two reasons. First, the failure to grasp the magnitude of the disparate socio-cultural, educational and economic conditions of these groups. Second, as a ploy of self-serving politicians pretending to be the protagonists of backward classes for invidiously extending the constitutional safeguards meant for the real Dalits to the less deserving groups as well. In either case the losers are undoubtedly the really deprived and disabled bottom groups which alone are Dalits.

In this connection it is pertinent to recall B. R. Ambedkar's usage of the term DCs. That was in the limited sense of untouchables.¹ Among other things in his written statements and oral evidence before the Simon (Indian Statutory) Commission of 1928 and the Round Table Conferences of 1930-31 and their subcommittees he made it explicit that he was using DCs and untouchables as convertible terms. More often than not, he preferred to address the untouchables as just untouchables as though to remind them of their plight as a 'besieged', 'broken', and 'dehumanised' people. If he addressed them as DCs it was primarily because this term was already in circulation as a British officialese covering the untouchables and a few other groups such as the aboriginal and hill tribes.

But when occasion arose Ambedkar did not hesitate to condemn this usage. Thus, in a supplementary memorandum on the claims of the DCs for special representation submitted (along with Rao Bahadur R. Srinivasan) on November 4, 1931 to the Minorities Subcommittee of the Second Round Table Conference, he made it clear that the term DCs was degrading and contemptuous, and its use objectionable to the members of the concerned class and others interested in them. So, he demanded its

substitution with the less derogatory 'non-caste Hindus', 'protestant Hindus', or 'non-conformist Hindus' or some such appellation. In his note on the untouchables, submitted on May 1, 1932, to the Indian Franchise (Lothian) Committee of the same conference, Ambedkar again objected to the use of this term. He also noted that the term had led to a great deal of confusion in the census as it included other groups who were not strictly untouchables. Therefore, he insisted on describing the untouchables by the more expressive term 'exterior castes' or 'excluded castes' [see Government of Maharashtra 1982, 2: 474, 499, 500, 672].

While Ambedkar had no difficulty in accepting the British officialese SCs (or scheduled classes) as they were also known then) as incorporated into the Government of India Act of 1935, he detested Gandhi's grandiloquent appellation Harijans. In January 1938 when the Bombay legislative council refused to accept an amendment for deletion of this term from the Local Boards Act Amendment Bill, Ambedkar along with members of his Republican Party walked out of the house. The reasoning of B. K. Gaikwad, who moved the amendment, was that through several conferences the untouchables had voiced their opposition to this usage. If they were people of God, that is Harijans were the touchables monsters, he asked [see Keer 1987, 301-02, also Government of Maharashtra 1982, 2: 127-28].

In view of the fact that untouchables have been the largest category and the most depressed and downtrodden of all the bottom groups of Indian society, and in keeping with Ambedkar's usage of the DCs only with reference to the untouchables, the term DCs as well as its vernacular equivalent Dalits is used here in the limited sense of untouchables or their constitutional equivalent SCs. Such a restricted usage also assumes significance because of Ambedkar's role as the greatest of all the hitherto leaders of the untouchables who launched a life-long crusade for their liberation from centuries-old enslavement and ostracism.

Ambedkar contemplated various means for liberating the Dalits. However, it was primarily through the numerous safeguards incorporated into the Indian constitution, of which he himself was the chief architect, that he hoped to arm them with political

power, to improve their socio-economic, educational, and cultural conditions, and to actualise their gradual deliverance from rhetoric to reality, from deprivation to development, from social stigma and suffering to social respect, solace, and equality.

As Ambedkar's legacy to Dalits is thus primarily the constitutional safeguards for the SCs, the celebration of his birth centenary year should at least serve as an occasion to take stock of the fate of his legacy, and to ascertain if the nation has really honoured it or reneged on its promises to honour it. This calls for an examination of the performance of the various measures undertaken in pursuance of these safeguards.

CONSTITUTIONAL SAFEGUARDS

The specific constitutional provisions intended to safeguard the interests of the SCs are on the abolition of untouchability and prohibition on its practice in any form (Article 17), prohibition of 'begar' or forced or bonded labour (Article 23), consideration of the claims of the SCs (and the STs) in appointments to services and posts in connection with the affairs of the union or a state (Article 335), and reservation of seats in proportion to their numbers for the SCs (and the STs) in the Lok Sabha (Article 330) and in the Vidhan Sabhas (Article 332).

Some of the other provisions also reinforce the status of the SCs as a 'protected weaker section'. They include the departures from the anti-discriminatory and formal equality provisions of the constitution, empowering the state to make any provision for the advancement of any socially and educationally backward class of citizens (Article 15(4)) and for the reservation of appointments or posts in favour of any backward class of citizens which in the opinion of the state is not adequately represented (Article 16(4)). They also include the directive in Article 46 that the state shall promote with special care the educational and economic interests of the weaker sections of the people, and in particular, of the SCs and the STs, and shall protect them from social injustice and all forms of exploitation.²

For analytical purposes the measures undertaken in pursuance of the various constitutional provisions for the SCs may be treated under three broad categories, namely,

TABLE 1 PCR CASES IN STATES BY SC POPULATION

| SN | States/PCR Cases | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | Yearly Average | Population Per Cent |
|-------|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------|---------------------|
| 1 | Andhra Pradesh | | | | | | | | | | | |
| | No | 89 | 151 | 144 | 168 | 238 | 263 | 385 | 269 | NA | 190 | 7.6 |
| | Per cent | 3.3 | 3.6 | 2.9 | 3.9 | 5.9 | 6.5 | 9.6 | 7.1 | NA | 4.9 | |
| 2 | Bihar | | | | | | | | | | | |
| | No | 2 | 51 | 36 | 17 | 17 | 28 | 16 | 11 | 18 | 22 | 9.7 |
| | Per cent | 0.1 | 1.2 | 0.7 | 0.4 | 0.4 | 0.7 | 0.4 | 0.3 | 0.7 | 0.6 | |
| 3 | Gujarat | | | | | | | | | | | |
| | No | 570 | 716 | 506 | 408 | 281 | 347 | 386 | 271 | 169 | 406 | 2.3 |
| | Per cent | 20.9 | 17.0 | 10.3 | 9.5 | 6.9 | 8.5 | 9.6 | 7.2 | 6.8 | 10.6 | |
| 4 | Haryana | | | | | | | | | | | |
| | No | 5 | 5 | 3 | 1 | 6 | 5 | 5 | 0 | NA | 3 | 2.4 |
| | Per cent | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | NA | 0.1 | |
| 5 | Himachal Pradesh | | | | | | | | | | | |
| | No | NA | 30 | 18 | 14 | 16 | 6 | 6 | 4 | 7 | 11 | 1.0 |
| | Per cent | NA | 0.7 | 0.4 | 0.3 | 0.4 | 0.1 | 0.1 | 0.1 | 0.3 | 0.3 | |
| 6 | Karnataka | | | | | | | | | | | |
| | No | 329 | 426 | 550 | 488 | 581 | 674 | 567 | 532 | 659 | 534 | 5.3 |
| | Per cent | 12.1 | 10.1 | 11.2 | 11.4 | 14.3 | 16.6 | 14.1 | 14.1 | 26.7 | 13.9 | |
| 7 | Kerala | | | | | | | | | | | |
| | No | 32 | 49 | 46 | 29 | 38 | 29 | 37 | 37 | 41 | 38 | 2.4 |
| | Per cent | 1.2 | 1.2 | 0.9 | 0.7 | 0.9 | 0.7 | 0.9 | 1.0 | 1.7 | 1.0 | |
| 8 | Madhya Pradesh | | | | | | | | | | | |
| | No | 321 | 398 | 307 | 247 | 237 | 317 | 390 | 370 | NA | 290 | 7.0 |
| | Per cent | 11.8 | 9.4 | 6.3 | 5.8 | 5.9 | 8.3 | 9.7 | 9.8 | NA | 7.6 | |
| 9 | Maharashtra | | | | | | | | | | | |
| | No | 266 | 1283 | 1604 | 1576 | 998 | 769 | 558 | 510 | NA | 840 | 4.3 |
| | Per cent | 9.8 | 30.4 | 32.7 | 36.9 | 24.6 | 18.9 | 13.9 | 13.5 | NA | 21.9 | |
| 10 | Orissa | | | | | | | | | | | |
| | No | 49 | 106 | 151 | 147 | 106 | 125 | 90 | NA | 48 | 96 | 3.7 |
| | Per cent | 1.8 | 2.5 | 3.1 | 3.4 | 2.6 | 3.1 | 2.2 | NA | 1.6 | 2.5 | |
| 11 | Punjab | | | | | | | | | | | |
| | No | 7 | 5 | 0 | 5 | 0 | 4 | 0 | NA | | 3 | 4.3 |
| | Per cent | 0.3 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | NA | 0.1 | 0.1 | |
| 12 | Rajasthan | | | | | | | | | | | |
| | No | 119 | 168 | 136 | 124 | 173 | 186 | 193 | 168 | 207 | 164 | 5.6 |
| | Per cent | 4.4 | 4.0 | 2.8 | 2.9 | 4.3 | 4.6 | 4.8 | 4.4 | 8.4 | 4.3 | |
| 13 | Tamil Nadu | | | | | | | | | | | |
| | No | 792 | 547 | 1157 | 858 | 1136 | 1105 | 1205 | 1402 | 1380 | 1054 | 8.5 |
| | Per cent | 29.1 | 13.0 | 23.6 | 20.1 | 28.0 | 27.2 | 30.0 | 37.1 | 31.5 | 27.5 | |
| 14 | Uttar Pradesh | | | | | | | | | | | |
| | No | 143 | 287 | 251 | 191 | 224 | 186 | 173 | 208 | NA | 185 | 22.4 |
| | Per cent | 5.2 | 6.8 | 5.1 | 4.5 | 5.5 | 4.6 | 4.3 | 5.5 | NA | 4.8 | |
| 15 | West Bengal | | | | | | | | | | | |
| | No | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 11.5 |
| | Per cent | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Total | | | | | | | | | | | | |
| | No | 2724 | 4222 | 4909 | 4274 | 4051 | 4064 | 4011 | 3782 | 2471 | 3834 | 98.0 |
| | Per cent | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | |

Note NA Not available Table shows only the fresh cases for each year Population per cent as per 1981 census

Source Tabulated from Reports of the Commissioner and the Commission for SCs and STs 1978-79 to 1985-86

TABLE 2 PCR CASES BY NATURE OF DISPOSAL ALL INDIA

| Year | Police | | | Total Cases for Disposal | Courts | | | | | |
|----------------|--------------------------------|-------------------------|----------------------------|--------------------------------|-----------|-----------|-------|---|---|---|
| | Total Cases for Disposal | Challenged In Number | As Per Cent to Total | | Convicted | Acquitted | Total | Disposals | | |
| | | | | | | | | Column 8 as Per Cent of Column 5 | Column 6 as Per Cent of Column 8 | Column 6 as Per Cent of Column 2 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 1977 | 2799 | 1325 | 47.3 | 5193 | 551 | 1463 | 2014 | 38.8 | 27.4 | 19.7 |
| 1978 | 4976 | 3751 | 75.4 | 7704 | 490 | 2002 | 2492 | 32.3 | 19.7 | 9.8 |
| 1979 | 4769 | 2662 | 55.8 | 5827 | 261 | 1069 | 1330 | 22.8 | 19.6 | 5.5 |
| 1980 | 5230 | 3550 | 67.9 | 9129 | 1267 | 2866 | 4133 | 45.3 | 30.7 | 24.2 |
| 1981 | 4783 | 2865 | 59.9 | 7860 | 441 | 2085 | 2526 | 32.1 | 17.5 | 9.2 |
| 1982 | 4777 | 2665 | 55.8 | 7212 | 199 | 1633 | 1832 | 25.4 | 10.9 | 4.2 |
| 1983 | 4829 | 2902 | 60.1 | 9249 | 243 | 1707 | 1950 | 21.1 | 12.5 | 5.0 |
| 1984 | 4261 | 2708 | 63.6 | 8414 | 325 | 1781 | 2106 | 25.0 | 15.4 | 7.6 |
| 1985 | 2789 | 1926 | 69.1 | 3892 | 97 | 1294 | 1391 | 35.7 | 7.0 | 3.5 |
| Yearly average | 4157 | 2706 | 62.1 | 7164 | 430 | 1767 | 2197 | 30.7 | 19.6 | 9.9 |

Note The Table does not contain data for 1984 and 1985 for a number of states as shown in Table 1

Source As in Table 1

TABLE 3 PCR CASES BY NATURE OF DISPOSAL 1985

| SN | State | Police | | | Total Cases for Disposal | Courts | | | | | |
|----|------------|--------------------------------|------------|----------------------------|--------------------------------|-----------|-----------|-------|---|---|---|
| | | Total Cases for Disposal | Challenged | | | Convicted | Acquitted | Total | Disposals | | |
| | | | In Number | As Per Cent to Total | | | | | Column 9 as Per Cent of Column 6 | Column 7 as Per Cent of Column 9 | Column 7 as Per Cent of Column 1 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 1 | Gujarat | 179 | 153 | 85.5 | 484 | 2 | 200 | 202 | 41.7 | 1.0 | 1.1 |
| 2 | Karnataka | 765 | 591 | 77.3 | 568 | 2 | 21 | 23 | 4.0 | 8.7 | 0.3 |
| 3 | Kerala | 44 | 24 | 54.5 | 81 | 0 | 31 | 31 | 38.3 | 0.0 | 0.0 |
| 4 | Orissa | 121 | 66 | 54.5 | 405 | 2 | 34 | 36 | 8.9 | 5.6 | 1.7 |
| 5 | Rajasthan | 216 | 108 | 50.0 | 446 | 38 | 17 | 55 | 12.3 | 69.1 | 17.6 |
| 6 | Tamil Nadu | 1393 | 944 | 67.8 | 1853 | 50 | 982 | 1032 | 55.7 | 4.8 | 3.6 |
| | Total | 2718 | 1886 | 69.4 | 3837 | 94 | 1285 | 1379 | 35.9 | 6.8 | 3.5 |

Source: Tabulated from the Commission for SCs and STs 8th report 1985-86

TABLE 4 ATROCITY CASES AGAINST SCs BY STATES AND SC POPULATION

| SN | States/Atrocity Cases | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | Yearly Average | Population Per Cent |
|----|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------------|------------------------|
| 1 | Andhra Pradesh | | | | | | | | | | | |
| | No | 102 | 110 | 92 | 152 | 206 | 213 | 181 | 190 | 166 | 157 | 7.6 |
| | Per cent | 0.9 | 0.7 | 0.7 | 1.1 | 1.5 | 1.4 | 1.2 | 1.1 | 1.1 | 1.1 | |
| 2 | Bihar | | | | | | | | | | | |
| | No | 681 | 1911 | 2153 | 1890 | 1983 | 2073 | 1809 | 1845 | 1402 | 1750 | 9.7 |
| | Per cent | 6.3 | 12.7 | 15.6 | 13.8 | 14.0 | 13.8 | 12.2 | 11.1 | 9.3 | 12.7 | |
| 3 | Gujarat | | | | | | | | | | | |
| | No | 331 | 540 | 475 | 498 | 654 | 455 | 476 | 690 | 750 | 541 | 2.3 |
| | Per cent | 3.0 | 3.6 | 3.4 | 3.6 | 4.6 | 3.0 | 3.2 | 4.2 | 5.0 | 3.8 | |
| 4 | Haryana | | | | | | | | | | | |
| | No | 26 | 66 | 80 | 78 | 74 | 144 | 113 | 120 | 117 | 91 | 2.4 |
| | Per cent | 0.2 | 0.4 | 0.6 | 0.6 | 0.5 | 1.0 | 0.8 | 0.7 | 0.8 | 0.6 | |
| 5 | Himachal Pradesh | | | | | | | | | | | |
| | No | 42 | 66 | 83 | 68 | 69 | 73 | 47 | 56 | 49 | 61 | 1.0 |
| | Per cent | 0.4 | 0.4 | 0.6 | 0.5 | 0.5 | 0.5 | 0.3 | 0.3 | 0.3 | 0.4 | |
| 6 | Karnataka | | | | | | | | | | | |
| | No | 59 | 376 | 500 | 377 | 397 | 363 | 194 | 169 | 294 | 303 | 5.3 |
| | Per cent | 0.5 | 2.5 | 3.6 | 2.7 | 2.8 | 2.4 | 1.3 | 1.0 | 2.0 | 2.1 | |
| 7 | Kerala | | | | | | | | | | | |
| | No | 233 | 767 | 887 | 478 | 260 | 145 | 149 | 148 | 300 | 374 | 2.4 |
| | Per cent | 2.1 | 5.1 | 6.4 | 3.5 | 1.8 | 1.0 | 1.0 | 0.9 | 2.0 | 2.6 | |
| 8 | Madhya Pradesh | | | | | | | | | | | |
| | No | 3366 | 3240 | 3866 | 387 | 4033 | 4749 | 5292 | 6128 | 4890 | 4382 | 7.0 |
| | Per cent | 31.0 | 21.5 | 27.9 | 28.2 | 28.5 | 31.7 | 35.7 | 37.0 | 32.6 | 30.6 | |
| 9 | Maharashtra | | | | | | | | | | | |
| | No | 570 | 1053 | 503 | 518 | 695 | 680 | 704 | 579 | 428 | 637 | 4.3 |
| | Per cent | 5.2 | 7.0 | 3.6 | 3.8 | 4.9 | 4.5 | 4.8 | 3.5 | 2.9 | 4.4 | |
| 10 | Orissa | | | | | | | | | | | |
| | No | 69 | 135 | 43 | 80 | 80 | 150 | 46 | 46 | 159 | 90 | 3.7 |
| | Per cent | 0.6 | 0.9 | 0.3 | 0.6 | 0.6 | 1.0 | 0.3 | 0.3 | 1.1 | 0.6 | |
| 11 | Punjab | | | | | | | | | | | |
| | No | 84 | 84 | 171 | 79 | 51 | 73 | 36 | 47 | 32 | 73 | 4.3 |
| | Per cent | 0.8 | 0.6 | 1.2 | 0.6 | 0.4 | 0.5 | 0.2 | 0.3 | 0.2 | 0.5 | |
| 12 | Rajasthan | | | | | | | | | | | |
| | No | 261 | 886 | 760 | 1180 | 1562 | 1731 | 1604 | 1648 | 1437 | 1230 | 5.6 |
| | Per cent | 2.4 | 5.9 | 5.5 | 8.6 | 11.0 | 11.5 | 10.8 | 9.9 | 9.6 | 8.6 | |
| 13 | Tamil Nadu | | | | | | | | | | | |
| | No | 54 | 141 | 115 | 140 | 199 | 153 | 299 | 689 | 841 | 292 | 8.5 |
| | Per cent | 0.5 | 0.9 | 0.8 | 1.0 | 1.4 | 1.0 | 2.0 | 4.2 | 5.6 | 2.0 | |
| 14 | Uttar Pradesh | | | | | | | | | | | |
| | No | 4974 | 5660 | 4102 | 4279 | 3865 | 3977 | 3851 | 4200 | 4135 | 4338 | 22.4 |
| | Per cent | 45.8 | 37.6 | 29.7 | 31.2 | 27.3 | 26.5 | 26.0 | 25.3 | 27.5 | 30.3 | |
| 15 | West Bengal | | | | | | | | | | | |
| | No | 7 | 6 | 2 | 33 | 23 | 17 | 17 | 18 | 11 | 15 | 11.5 |
| | Per cent | 0.1 | 0.0 | 0.0 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | |
| | Total | | | | | | | | | | | |
| | No | 10859 | 15041 | 13832 | 13727 | 14151 | 14996 | 14818 | 16573 | 15011 | 14334 | 98.0 |
| | Per cent | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | |

Note: Population percentage as per 1981 census

Source: As in Table 1

protective, developmental, and preferential. Abolition of untouchability and the disabilities arising out of its practice in any form, and prohibition of bonded labour come under the first category. Various educational schemes such as post matric scholarships and girls hostels under the central sector, and pre-matric stipends, reimbursement of tuition fee, book banks, and hostels under the state sector, special component plans of the centre and states, special central assistance, and the SCs Development Corporations are of the second category. Legislative, educational and employment reservations are of the third category. Of these, the effective implementation of the measures of the first two categories is a precondition for actualising the measures of the third category.⁴

However, the implementation of these measures hitherto has been too ineffective to achieve their intended objectives. This has been brought to light time and again by a number of studies, and in particular, by the commissioner (and also the commission since 1978-79) for SCs and STs.

PERSISTENCE OF UNTOUCHABILITY

The Untouchability (Offences) Act of 1955, was intended to wipe out untouch-

ability and the social disabilities arising out of it, by making its practice in any form punishable under law. But, the total number of cases registered with the police from 1955 to 1970 were only 6778 for the country as a whole, with only 1779 or 26 per cent of them ending up in conviction.⁵

As this act proved to be too weak and inadequate to meet the constitutional requirement, in November 1976 it was amended and amplified as the Protection of Civil Rights (PCR) Act, 1955,⁶ with the resolve to totally eradicate untouchability within five years of its implementation. But, even this act has not fared any better.

Data on PCR cases indicate the persistence of untouchability in virtually all the states.⁷ This is especially so in Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Rajasthan, Tamil Nadu, and sadly enough, even in Ambedkar's home state Maharashtra. The only state reported to be relatively free from untouchability (and from related atrocities against the SCs) is West Bengal (Table 1).

Of the yearly average of PCR cases from 1977 to 1985 only about 62 per cent of those registered with the police were 'challaned' or filed before the courts, only about 31 per cent of those before the courts were disposed

of, and only about 20 per cent of these disposals ended up in conviction. Stated differently, of the total cases registered with the police on an average not even 10 per cent (including cases brought forward) ended up in conviction (Table 2).

If this all-India pattern is any indication of the poor performance of the PCR Act, data available for some of the states indicate that the variations at the state level have been mostly for the worse. Despite a relatively higher percentage of 'challaning' by the police in at least two states (Gujarat and Karnataka), and despite a relatively higher percentage of disposals by the courts in at least one of them (Gujarat) and two others (Kerala and Tamil Nadu), in all the states most of the cases have ended up in acquittals. Stated differently, only less than 9 per cent of the cases before the courts and only less than 4 per cent of the cases registered with the police have ended up in conviction. The relatively smaller proportion of cases 'challaned' by the police and the smaller proportion of disposals by the courts tend to magnify the proportion of convictions in Rajasthan (Table 3).

While the large number of cases pending with the courts is a reflection of the tardy judicial process, the larger number of cases ending up in acquittals is for other reasons as well. As the reports of the commissioner for SCs and STs indicate, these include the weak socio-economic condition of the victims and their witnesses, defective investigation by the police, ineffective or indifferent handling of cases by the prosecution staff, victims yielding to pressures, promises, allurement, or intimidation, and the long drawn out trials which alone can discourage any victim from pursuing the case effectively.

Though the tables give some idea of the persistence of untouchability, they are too inadequate to bring out the real magnitude of this evil. For, more often than not most of the cases go unnoticed and unreported. The seventh report (1984-85) of the Commissioner for SCs and STs noted that quite a large number of the victims do not seek legal

TABLE 5 ATROCITY CASES AGAINST SCs BY TYPE OF ATROCITY, ALL INDIA

| Year | Murder | | Grievous Hurt | | Rape | | Arson | | Others | | Total | |
|----------------|--------|----------|---------------|----------|------|----------|-------|----------|--------|----------|-------|----------|
| | No | Per Cent | No | Per Cent | No | Per Cent | No | Per Cent | No | Per Cent | No | Per Cent |
| 1977 | 334 | 3.1 | 1341 | 12.3 | 332 | 3.1 | 716 | 6.6 | 8156 | 75.0 | 10879 | 100.0 |
| 1978 | 457 | 3.0 | 1582 | 10.5 | 541 | 3.6 | 1203 | 8.0 | 11287 | 74.9 | 15070 | 100.0 |
| 1979 | 388 | 2.8 | 1441 | 10.3 | 430 | 3.1 | 1013 | 7.2 | 10703 | 76.6 | 13975 | 100.0 |
| 1980 | 500 | 3.6 | 1411 | 10.2 | 551 | 4.0 | 991 | 7.1 | 10413 | 75.1 | 13866 | 100.0 |
| 1981 | 493 | 3.4 | 1492 | 10.4 | 604 | 4.2 | 1245 | 8.7 | 10474 | 73.2 | 14308 | 100.0 |
| 1982 | 514 | 3.4 | 1429 | 9.5 | 635 | 4.2 | 1035 | 6.9 | 11441 | 76.0 | 15054 | 100.0 |
| 1983 | 525 | 3.5 | 1362 | 9.2 | 641 | 4.3 | 994 | 6.7 | 11324 | 76.3 | 14846 | 100.0 |
| 1984 | 551 | 3.3 | 1468 | 8.9 | 696 | 4.2 | 988 | 6.0 | 12883 | 77.7 | 16586 | 100.0 |
| 1985 | 489 | 3.3 | 1357 | 9.0 | 674 | 4.5 | 972 | 6.5 | 11525 | 76.7 | 15017 | 100.0 |
| Yearly average | 472 | 3.3 | 1431 | 9.9 | 567 | 3.9 | 1017 | 7.1 | 10912 | 75.8 | 14400 | 100.0 |

Source: As in Table 1

TABLE 6 ATROCITY CASES AGAINST SCs BY NATURE OF DISPOSAL 1985

| SN | States | Police | | | Courts | | | Disposals | | | |
|----|------------------|--------------------------|-----------|----------------------|--------------------------|-----------|-----------|-----------|----------------------------------|----------------------------------|----------------------------------|
| | | Total Cases for Disposal | In Number | As Per Cent to Total | Total Cases for Disposal | Convicted | Acquitted | Total | Column 9 as Per Cent of Column 6 | Column 7 as Per Cent of Column 9 | Column 7 as Per Cent of Column 3 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 1 | Himachal Pradesh | 67 | 48 | 71.6 | 174 | 27 | 51 | 78 | 15.5 | 34.6 | 40.3 |
| 2 | Karnataka | 464 | 337 | 72.6 | 337 | 3 | 77 | 80 | 0.9 | 3.8 | 0.6 |
| 3 | Madhya Pradesh | 6791 | 2526 | 37.2 | 6472 | 277 | 104 | 181 | 4.3 | 72.7 | 4.1 |
| 4 | Maharashtra | 482 | 356 | 73.9 | 1436 | 176 | 364 | 540 | 12.3 | 32.6 | 36.5 |
| 5 | Orissa | 215 | 131 | 60.9 | 505 | 4 | 54 | 58 | 0.8 | 6.9 | 1.9 |
| 6 | Punjab | 33 | 26 | 78.8 | 40 | 2 | 8 | 10 | 5.0 | 20.0 | 6.1 |
| 7 | Rajasthan | 1511 | 1026 | 67.9 | 5905 | 162 | 244 | 406 | 2.7 | 39.9 | 10.7 |
| 8 | Tamil Nadu | 948 | 655 | 69.1 | 1079 | 47 | 419 | 466 | 4.4 | 10.1 | 5.0 |
| 9 | Uttar Pradesh | 4826 | 3017 | 62.5 | 15080 | 803 | 1536 | 2339 | 5.3 | 34.3 | 16.6 |
| | Total | 15337 | 8122 | 53.0 | 31028 | 1501 | 2857 | 4358 | 4.8 | 34.4 | 9.8 |

Source: Tabulated from the Commission for SCs and STs, Eighth report, 1985-86

redress, and that though in states like Bihar and Orissa the problem of untouchability is acute, they have been reporting significantly lower number of cases compared to states like Tamil Nadu, Maharashtra, and Karnataka. The reason for this is not far to seek. Economically the SCs are still dependent on caste Hindus, and as such they do not risk approaching the police.

A survey by the All-India Harijan Sevak Sangh conducted about a decade ago in 1,155 village spread over 12 states, clearly brought out the widespread practice of untouchability in the rural areas in terms of denial of access to the SCs to wells, temples, hotels and restaurants, barbershops, laundries, and so on.⁸ That this evil practice still persists unabated in many areas is evident from the subsequent reports of the Commission/er for SCs and STs. Stating that untouchability persists in one form or the other, particularly in rural areas, the eighth report (1985-86) of the Commission for SCs and STs brought to light instances of discrimination against the SCs even in urban areas, especially in Andhra Pradesh, Bihar, Karnataka, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu, and Uttar Pradesh

PERPETRATION OF ATROCITIES

Closely related to the persistence of untouchability is the perpetration of atrocities⁹ against the SCs. The atrocity cases registered have continued to be relatively more in Bihar, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, and Uttar Pradesh. Of late, there has also been a considerable increase in the number of atrocity cases in some states, especially in Gujarat, Madhya Pradesh, Rajasthan, and Tamil Nadu (Table 4)

Of the different types of atrocity cases registered in the whole country at least one-fourth have involved grievous hurt, followed by arson, rape, and murder (Table 5). The nature of disposal of these cases has not been any better. Data available for some of the states indicate that of the total atrocity cases for disposal by the police during 1985 only about 53 per cent were 'challaned', that of the total cases for disposal by the courts only about 5 per cent were disposed of, and that of these only about 34 per cent ended up in conviction. Stated differently, of the total cases for disposal by the police not even 10 per cent (including cases brought for

ward) ended up in conviction. The performance was especially poor in Karnataka, Madhya Pradesh, Orissa, Punjab, and Tamil Nadu (Table 6)

These cases again do not reflect the real magnitude of atrocities; more so when contrasted against the recurrent press reports from different parts of the country about the crimes on the SCs. The reasons mentioned earlier for the PCR cases also apply to this and to the large number of cases pending with the courts and ending up in acquittal.

As atrocities against the SCs are closely related to untouchability, their perpetration has to be partly explained by the persistence of untouchability and by the increasing resentment of the SCs against the social indignities emanating from its practice in different forms. These include denial of entry into public places of worship, discrimination and differential treatment in hotels and tea-stalls, refusal of service by washermen and barbers, and restriction on movement in certain localities, on wearing sandals, riding horses, and leading marriage processions through certain caste-Hindu localities.

The other major factors listed in the various reports of the Commission/er for SCs and STs include envy of the caste-Hindus for the various welfare measures adopted by the government to ameliorate the socio-economic conditions of the SCs, the wide economic disparities arising out of landlessness, wage labour, bondage, non-payment of fair share of agricultural produce to the SC sharecroppers, forced harvesting of crops, forced eviction of the SCs from their land and house sites, dispute over non-payment of minimum wages prescribed by the state, and land disputes, especially as a result of land reforms and the redistribution of surplus lands.

The reports also reveal that of late many of the atrocities committed have been by some of the affluent sections of the middle caste peasantry—the so called backward classes (OBCs)—who have been the major beneficiaries of agrarian reforms and other rural development programmes and of the resultant changes in the economic and political structure in the villages. It is important to note that, as observed in the seventh report (1984-85) of the Commission for SCs and STs, the incidence of atrocities is relatively lower in states where literacy rates and economic development of the SCs are relatively higher.

ABETMENT OF EXPLOITATIVE BONDAGE

Closely related to the persistence of untouchability and atrocities is the existence of SCs as bonded labourers. As the second report (1979-80) of the Commission for SCs and STs noted, "bonded labourers represent the extreme situation of abject prostration of landless agricultural labourers in the rural economy." The 21st report (1971-73) of the commissioner for SCs and STs described the bonded labour system as follows:

The prominent feature of the system is that

TABLE 7 BONDED LABOURERS IDENTIFIED, RELEASED AND REHABILITATED, 1986

| SN | States | Identified and Freed | Rehabilitated | Percentage |
|----|----------------|----------------------|---------------|------------|
| 1 | Andhra Pradesh | 24788 | 18418 | 74.3 |
| 2 | Bihar | 11002 | 9569 | 87.0 |
| 3 | Gujarat | 62 | 57 | 91.9 |
| 4 | Haryana | 295 | 295 | 100.0 |
| 5 | Karnataka | 62689 | 40033 | 63.9 |
| 6 | Kerala | 823 | 823 | 100.0 |
| 7 | Maharashtra | 780 | 626 | 80.3 |
| 8 | Madhya Pradesh | 4761 | 3630 | 76.2 |
| 9 | Orissa | 42421 | 30256 | 71.3 |
| 10 | Rajasthan | 6836 | 6382 | 93.4 |
| 11 | Tamil Nadu | 33132 | 32517 | 98.1 |
| 12 | Uttar Pradesh | 18334 | 17662 | 96.3 |
| | Total | 205923 | 160268 | 77.8 |

Source: Tabulated from the Commission for SCs and STs, Eighth report

TABLE 8 PERCENTAGE OF SC HHs TO TOTAL HHs AND PER CENT OF AREA OWNED BY THEM TO TOTAL AREA OWNED, 1982

| SN | States | Households | Area Owned | Index of Access to Ownership |
|----|------------------|------------|------------|------------------------------|
| 1 | Haryana | 23.4 | 0.8 | 0.03 |
| 2 | Punjab | 39.3 | 2.1 | 0.05 |
| 3 | Kerala | 13.2 | 2.7 | 0.17 |
| 4 | Bihar | 14.9 | 3.2 | 0.21 |
| 5 | Gujarat | 11.7 | 3.2 | 0.27 |
| 6 | Tamil Nadu | 24.0 | 8.2 | 0.34 |
| 7 | Andhra Pradesh | 22.9 | 7.9 | 0.34 |
| 8 | Maharashtra | 8.5 | 3.5 | 0.41 |
| 9 | Uttar Pradesh | 24.7 | 10.5 | 0.42 |
| 10 | Himachal Pradesh | 28.0 | 13.9 | 0.49 |
| 11 | Karnataka | 17.6 | 8.9 | 0.51 |
| 12 | Orissa | 18.6 | 9.6 | 0.52 |
| 13 | Madhya Pradesh | 14.9 | 7.9 | 0.53 |
| 14 | Rajasthan | 20.1 | 12.5 | 0.62 |
| 15 | West Bengal | 29.5 | 20.6 | 0.70 |
| | All India | 19.7 | 7.9 | 0.40 |

Source: NSS, 37th round, no 330, January-December 1982

a man pledges his person or sometimes a member of his family against a loan. The pledger or his nominee is released only on its discharge. Until then the man himself or the member of the family is required to work for his creditor against his daily meals. Since he gets no money, he has to depend upon someone in the family to procure the sum required for his release and this, of course, is rarely available. The relationship lasts for months and sometimes years, occasionally for an entire life time and not infrequently follows the male heir.

The Bonded Labour System (Abolition) Act of 1976 is intended to abolish this evil prac-

tice, and identify, free, and rehabilitate its victims of whom at least 80 per cent are reported to be SCs and STs. But its implementation has not served this purpose so far. For one thing, under this act the term bonded labour itself is defined in a limited sense. Of this the fifth report (1982-83) of the Commission for SCs and STs wrote:

The very definition of the term 'bonded labour' restricts its meaning so much that its connotation excludes many who are virtually compelled but may not be forced to work as bonded labourers. It is particularly difficult to establish the element of force applied by

the creditors with the result that many labourers are excluded from the meaning of the term though their condition is by no means better than that of others. Because of the apparent loophole in the law, in states like Bihar systems like "attached labour" cannot be brought under the purview of the Bonded Labour System (Abolition) Act, 1976. Terms like "attached labour" are nothing but a euphemism for bonded labour.

For another, the implementation of the act has been far from effective even to release and rehabilitate those bonded labourers who come under its purview. Consequently, in

TABLE 9 DISTRIBUTION OF HOUSEHOLDS AMONG SCs VS NON SCs BY LANDOWNERSHIP CATEGORIES, AREA OWNED AND AVERAGE SIZE OF OWNERSHIP, 1982

| SN | States/Population Categories | Landless Households | Marginal | | Small | | Semi Medium | | Medium | | Large | | Average Size in Hectares |
|-----------|------------------------------|---------------------|------------|------|------------|------|-------------|------|------------|------|------------|------|--------------------------|
| | | | Households | Area | Households | Area | Households | Area | Households | Area | Households | Area | |
| 1 | Andhra Pradesh | | | | | | | | | | | | |
| | SCs | 13.6 | 71.9 | 34.1 | 8.3 | 24.3 | 5.2 | 28.9 | 1.0 | 12.0 | 0.0 | 0.7 | 0.44 |
| | Non SCs | 11.4 | 50.7 | 9.3 | 15.7 | 14.5 | 11.4 | 20.1 | 8.4 | 31.3 | 2.3 | 24.8 | 1.54 |
| 2 | Bihar | | | | | | | | | | | | |
| | SCs | 7.9 | 88.8 | 60.2 | 2.0 | 17.3 | 1.1 | 17.3 | 0.2 | 5.2 | 0.0 | 0.0 | 0.15 |
| | Non SCs | 3.4 | 69.7 | 25.9 | 14.2 | 13.0 | 9.0 | 30.9 | 3.3 | 23.3 | 0.4 | 6.9 | 0.80 |
| 3 | Gujarat | | | | | | | | | | | | |
| | SCs | 23.9 | 62.2 | 17.9 | 3.7 | 12.2 | 8.6 | 44.9 | 1.3 | 15.2 | 0.4 | 9.8 | 0.50 |
| | Non SCs | 15.9 | 37.5 | 6.3 | 14.9 | 16.7 | 15.8 | 21.9 | 12.8 | 40.3 | 3.0 | 20.8 | 2.00 |
| 4 | Haryana | | | | | | | | | | | | |
| | SCs | 10.1 | 88.9 | 33.6 | 0.3 | 6.2 | 0.6 | 25.1 | 0.3 | 35.2 | 0.0 | 0.0 | 0.06 |
| | Non SCs | 4.9 | 39.0 | 4.8 | 20.1 | 13.5 | 17.2 | 21.5 | 16.2 | 45.0 | 2.5 | 15.2 | 2.23 |
| 5 | Himachal Pradesh | | | | | | | | | | | | |
| | SCs | 6.6 | 81.2 | 44.9 | 5.9 | 12.0 | 1.3 | 5.9 | 5.0 | 38.1 | 0.0 | 0.0 | 0.61 |
| | Non SCs | 8.2 | 43.7 | 17.1 | 24.6 | 24.9 | 16.7 | 29.3 | 6.5 | 26.2 | 0.3 | 2.5 | 1.49 |
| 6 | Karnataka | | | | | | | | | | | | |
| | SCs | 14.5 | 60.6 | 12.5 | 12.3 | 17.7 | 8.0 | 25.6 | 2.8 | 21.0 | 1.7 | 23.2 | 0.90 |
| | Non SCs | 13.5 | 36.5 | 5.6 | 17.8 | 13.2 | 18.7 | 25.4 | 10.7 | 32.5 | 2.9 | 23.4 | 1.97 |
| 7 | Kerala | | | | | | | | | | | | |
| | SCs | 16.6 | 83.1 | 92.1 | 0.4 | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.06 |
| | Non SCs | 12.2 | 77.1 | 44.7 | 6.9 | 23.9 | 2.9 | 19.5 | 0.8 | 10.3 | 0.1 | 1.6 | 0.41 |
| 8 | Madhya Pradesh | | | | | | | | | | | | |
| | SCs | 18.1 | 44.3 | 11.3 | 19.0 | 23.1 | 10.0 | 24.7 | 8.5 | 39.3 | 0.1 | 1.6 | 1.08 |
| | Non SCs | 13.7 | 32.6 | 4.6 | 15.8 | 10.5 | 19.7 | 25.2 | 14.7 | 35.3 | 3.5 | 24.3 | 2.22 |
| 9 | Maharashtra | | | | | | | | | | | | |
| | SCs | 26.4 | 46.2 | 9.5 | 12.4 | 22.7 | 10.2 | 34.4 | 4.5 | 27.8 | 0.4 | 5.6 | 0.81 |
| | Non SCs | 20.8 | 32.5 | 4.5 | 15.2 | 10.5 | 15.3 | 20.3 | 12.5 | 36.5 | 3.8 | 28.2 | 2.08 |
| 10 | Orissa | | | | | | | | | | | | |
| | SCs | 7.2 | 75.5 | 33.3 | 11.4 | 31.2 | 4.5 | 20.1 | 1.4 | 12.8 | 0.1 | 2.6 | 0.52 |
| | Non SCs | 7.8 | 54.5 | 18.5 | 23.0 | 29.6 | 10.4 | 25.6 | 3.9 | 20.2 | 0.4 | 6.2 | 1.12 |
| 11 | Punjab | | | | | | | | | | | | |
| | SCs | 6.0 | 91.9 | 42.8 | 0.9 | 16.6 | 1.2 | 35.3 | 0.1 | 5.3 | 0.0 | 0.0 | 0.08 |
| | Non SCs | 6.7 | 40.1 | 4.8 | 16.1 | 10.6 | 18.4 | 22.6 | 16.3 | 43.0 | 2.4 | 19.0 | 2.26 |
| 12 | Rajasthan | | | | | | | | | | | | |
| | SCs | 12.9 | 37.6 | 6.2 | 18.5 | 13.6 | 17.2 | 25.1 | 10.8 | 30.3 | 3.1 | 24.8 | 2.10 |
| | Non SCs | 6.9 | 26.8 | 3.3 | 16.3 | 6.4 | 20.8 | 16.2 | 21.8 | 35.9 | 7.4 | 38.3 | 3.72 |
| 13 | Tamil Nadu | | | | | | | | | | | | |
| | SCs | 14.5 | 80.6 | 53.3 | 3.5 | 22.7 | 0.7 | 9.2 | 0.6 | 14.8 | 0.0 | 0.0 | 0.19 |
| | Non SCs | 20.6 | 57.1 | 20.9 | 13.2 | 27.6 | 6.3 | 24.8 | 2.6 | 21.5 | 0.2 | 5.1 | 0.68 |
| 14 | Uttar Pradesh | | | | | | | | | | | | |
| | SCs | 7.2 | 79.8 | 45.4 | 8.9 | 27.1 | 3.6 | 22.9 | 0.5 | 4.6 | 0.0 | 0.0 | 0.43 |
| | Non SCs | 4.1 | 57.6 | 16.3 | 20.2 | 24.1 | 12.4 | 29.1 | 5.2 | 24.6 | 0.5 | 5.9 | 1.21 |
| 15 | West Bengal | | | | | | | | | | | | |
| | SCs | 19.1 | 67.5 | 34.3 | 9.6 | 34.5 | 2.9 | 19.7 | 0.7 | 11.6 | 0.0 | 0.0 | 0.38 |
| | Non SCs | 16.4 | 63.1 | 29.3 | 12.3 | 27.3 | 6.7 | 29.2 | 1.5 | 12.3 | 0.1 | 1.9 | 0.62 |
| All India | | | | | | | | | | | | | |
| | SCs | 12.6 | 72.4 | 26.3 | 8.4 | 22.6 | 4.5 | 24.2 | 1.8 | 19.2 | 0.3 | 7.7 | 0.51 |
| | Non SCs | 11.0 | 51.1 | 11.0 | 16.2 | 16.0 | 12.3 | 23.3 | 7.6 | 30.7 | 1.7 | 19.0 | 1.46 |

Note: Ownership categories in hectares: Marginal 1.01 - small 1.01 - 2.02, semi medium 2.03 - 4.04, medium 4.05 - 10.12, large = 10.13 +. Figures in all but the last column in per cent.

Source: Tabulated from NSS 37th round, no. 330, January-December 1982.

practice the system still persists in some form or another in many parts of the country.

Data available in the eighth report (1985-86) of the Commission for SCs and STs reveal that as on March 31, 1986 only about 2 lakh bonded labourers were identified and freed, and of them only about 1.6 lakh (78 per cent) were rehabilitated (Table 7). But, if the estimate of bonded labourers in the country at about 22.4 lakh as made by a survey conducted in 1978 by the Gandhi Peace Foundation in collaboration with the National Labour Institute is any indication, by its implementation the act has so far only scratched the surface. Even going by the conservative estimate of 3.4

lakh as made by the 32nd round of the NSS, the implementation of the act has to cover a lot more ground. What is more, due to inadequacies in the rehabilitation scheme and lack of follow up action, even the freed bonded labourers are either back in or on the verge of further bondage. Of this, the fifth report (1982-83) of the Commission for SCs and STs wrote

Rehabilitation measures in many cases do not appear to be sufficient or are adopted unimaginatively. One of the reasons for unimaginative rehabilitation is that, due to poverty, illiteracy and economic backwardness, freed bonded labourers are not in a position to exercise option and preference for

a particular scheme of rehabilitation. In such a situation the field functionaries have to decide for themselves the role of freed bonded labourers, taking a decision about what would be the form of rehabilitation.

As examples the report pointed out that in certain land-based schemes the agricultural land allotted was too inadequate for the maintenance of a family, and that sometimes such land itself was fallow and unfit for cultivation.

ECONOMIC DEPENDENCE

That many of the social disabilities of the SCs are because of their continuing existence as the poorest of the poor is stating the obvious. Available data also point towards this.

In 1982 the SCs owned only about 8 per cent of the total land owned in the rural areas in the country as a whole, though their households accounted for about 20 per cent of the total rural households. The index of their access to land ownership (that is, percentage of area owned divided by percentage of households) reveals that the land owned by them was virtually nil in Haryana and Punjab, and that the ratio of percentage of land owned to the percentage of households was not even one-fourth in Kerala and Bihar, was only between one-fourth and one-half in Gujarat, Andhra Pradesh, Tamil Nadu, Maharashtra, Uttar Pradesh, and Himachal Pradesh, and only between one-half and two-thirds in Karnataka, Madhya Pradesh, Orissa, Rajasthan, and West Bengal (Table 8).

This low access to land, the principal resource and the main source of power, dominance, oppression and exploitation in rural India, has several implications.

First, the higher percentage of landless households among the SCs compared to the rest of the population. This is so in virtually all the states, in particular in Bihar, Gujarat, Haryana, Rajasthan, Kerala, and Madhya Pradesh.

Second, the smaller area of land owned by most of the SC land owning households. In most states the SC households are conspicuous by their absence or negligible presence in the large ownership category, and by their concentration in the marginal ownership category. In Andhra Pradesh, Bihar, Haryana, Himachal Pradesh, Kerala, Orissa, Punjab, Tamil Nadu, and Uttar Pradesh between 72 per cent and 92 per cent of the land owning households among the SCs were in the marginal ownership category as against only between 39 per cent and 58 per cent of the non-SC households in all but Bihar and Kerala.

That the area of land owned by the SC households in the marginal category is too inadequate for their economic use should be only too obvious from the average size of their holdings in all the ownership categories combined. At the all India level, it is only about one-third of that among the non-SCs. At the state level it is even less. This is

TABLE 10 INDUSTRIAL CLASSIFICATION OF SCs VS GENERAL POPULATION

| SN | States/Population Categories | Cultivators | | Agricultural Labourers | | HH Industry Workers | | Other Workers | |
|-----------|------------------------------|-------------|------|------------------------|------|---------------------|------|---------------|------|
| | | 1971 | 1981 | 1971 | 1981 | 1971 | 1981 | 1971 | 1981 |
| 1 | Andhra Pradesh | | | | | | | | |
| | SCs | 14.3 | 17.4 | 71.4 | 68.2 | 1.9 | 1.4 | 12.3 | 12.9 |
| | General | 32.2 | 32.6 | 37.9 | 36.7 | 4.9 | 5.4 | 25.1 | 25.3 |
| 2 | Bihar | | | | | | | | |
| | SCs | 11.4 | 13.6 | 77.2 | 72.9 | 2.2 | 2.2 | 9.2 | 11.4 |
| | General | 43.3 | 43.8 | 38.9 | 35.4 | 2.5 | 3.0 | 15.3 | 17.8 |
| 3 | Gujarat | | | | | | | | |
| | SCs | 18.3 | 16.0 | 46.6 | 41.2 | 5.2 | 5.3 | 29.9 | 37.5 |
| | General | 43.1 | 37.8 | 22.5 | 22.8 | 2.8 | 2.7 | 31.6 | 36.7 |
| 4 | Haryana | | | | | | | | |
| | SCs | 16.1 | 11.9 | 50.4 | 51.3 | 5.2 | 3.6 | 28.3 | 33.5 |
| | General | 49.1 | 45.0 | 16.2 | 16.4 | 3.3 | 3.4 | 31.5 | 35.3 |
| 5 | Himachal Pradesh | | | | | | | | |
| | SCs | 70.5 | 71.7 | 9.4 | 4.9 | 5.8 | 4.1 | 14.3 | 19.3 |
| | General | 70.7 | 69.4 | 1.2 | 2.9 | 2.6 | 2.7 | 22.6 | 25.0 |
| 6 | Kerala | | | | | | | | |
| | SCs | 20.1 | 2.3 | 65.9 | 58.1 | 3.6 | 3.4 | 10.4 | 36.2 |
| | General | 17.8 | 13.2 | 30.7 | 28.2 | 4.3 | 4.1 | 47.2 | 54.5 |
| 7 | Karnataka | | | | | | | | |
| | SCs | 27.9 | 27.4 | 47.1 | 46.2 | 2.6 | 2.8 | 22.2 | 23.6 |
| | General | 40.0 | 38.5 | 26.7 | 26.7 | 4.3 | 4.6 | 29.0 | 30.3 |
| 8 | Madhya Pradesh | | | | | | | | |
| | SCs | 37.5 | 37.0 | 43.7 | 38.7 | 6.3 | 7.0 | 12.6 | 17.4 |
| | General | 52.9 | 52.1 | 26.6 | 24.2 | 3.6 | 3.8 | 16.9 | 19.9 |
| 9 | Maharashtra | | | | | | | | |
| | SCs | 13.1 | 15.6 | 54.7 | 46.8 | 8.0 | 6.4 | 24.3 | 31.2 |
| | General | 35.6 | 34.8 | 29.3 | 26.8 | 3.1 | 3.1 | 32.1 | 35.2 |
| 10 | Orissa | | | | | | | | |
| | SCs | 27.4 | 28.9 | 49.2 | 47.4 | 5.4 | 4.9 | 18.0 | 18.8 |
| | General | 49.2 | 47.0 | 28.3 | 27.7 | 3.6 | 3.5 | 18.9 | 21.9 |
| 11 | Punjab | | | | | | | | |
| | SCs | 10.7 | 6.7 | 58.0 | 60.0 | 4.7 | 3.2 | 26.6 | 30.1 |
| | General | 42.6 | 36.3 | 20.1 | 22.8 | 3.2 | 3.4 | 34.2 | 37.4 |
| 12 | Rajasthan | | | | | | | | |
| | SCs | 53.2 | 52.1 | 21.3 | 17.1 | 6.3 | 5.6 | 19.2 | 25.2 |
| | General | 64.9 | 62.2 | 9.3 | 7.4 | 3.4 | 3.7 | 22.3 | 26.8 |
| 13 | Tamil Nadu | | | | | | | | |
| | SCs | 18.4 | 18.2 | 63.8 | 63.0 | 1.2 | 1.3 | 16.7 | 17.5 |
| | General | 31.2 | 29.4 | 30.5 | 31.5 | 4.5 | 5.1 | 33.7 | 34.0 |
| 14 | Uttar Pradesh | | | | | | | | |
| | SCs | 43.4 | 47.7 | 42.2 | 35.0 | 2.6 | 3.1 | 11.8 | 14.2 |
| | General | 57.4 | 58.0 | 20.0 | 16.3 | 3.7 | 4.4 | 19.0 | 21.3 |
| 15 | West Bengal | | | | | | | | |
| | SCs | 33.4 | 30.2 | 42.6 | 42.7 | 2.1 | 3.0 | 21.9 | 24.2 |
| | General | 32.0 | 30.6 | 26.5 | 24.8 | 2.7 | 4.1 | 38.9 | 40.4 |
| All India | | | | | | | | | |
| | SCs | 27.9 | 28.2 | 51.7 | 48.2 | 3.3 | 3.3 | 17.1 | 20.3 |
| | General | 43.3 | 41.5 | 26.3 | 25.2 | 3.5 | 4.0 | 26.8 | 29.3 |

Note: HH = households. Figures in per cent.

Source: Tabulated from Report of the Commission for SCs and STs, 1982-83.

especially so in Punjab and Haryana, followed by Kerala, Bihar, Gujarat, Andhra Pradesh, Tamil Nadu, and Uttar Pradesh. In fact, even most of the SC households coming under the marginal ownership category should be treated as landless, inasmuch as a large number of the landless SC households have been pushed into this category consequent on the distribution of the often barren surplus and government waste lands. This is especially so in Tamil Nadu, where the percentage of landless households among the SCs appears smaller than that among the non-SCs (Table 9).

Third, the greater incidence of poverty among the SCs, and their greater deprivation by and dependence on the caste-Hindus. As the Planning Commission's Working Group on SCs and STs (1980-85) reported, the SCs have few assets, "are generally unable to avail themselves of the new employment opportunities generated through various economic development pro-

grammes", and "are in fact caught up in a vicious circle in which they are dependent upon their exploiters for their sustenance and are largely denied opportunities to develop the capabilities of attaining an independent livelihood".

Fourth, in the absence of access to land, as either owners or protected tenants, the SCs are forced to eke out a living mostly by working on the land of others as agricultural labourers on daily wages, by attaching themselves to landlords or cultivators, and as bonded labourers, and partly by pursuing their traditional 'unclean' and socially 'low' occupations of sweeping, scavenging, carrying 'nightsoil', leather work, and mat weaving.

According to the 1981 Census, cultivators accounted for only about 28 per cent, whereas agricultural labourers accounted for as much as 48 per cent of the total working population among the SCs. The corresponding percentages among the general popula-

tion (including SCs) were 42 and 23 respectively. The composition of the SC workforce in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Orissa, and Tamil Nadu was more or less of this all-India pattern. In the remaining states, with the exception of Himachal Pradesh and to some extent even Madhya Pradesh, that is, in Bihar, Haryana, Kerala, Punjab, Rajasthan, and Uttar Pradesh, the proportion of cultivators among the SCs was much less and that of the agricultural labourers much more than the corresponding proportions among the general population.

Between 1971 and 1981 there was not any drastic change in the composition of the SC workforce in most states. The only exception is Kerala, where the percentage of SC cultivators dropped from about 21 in 1971 to just 2 in 1981, and of agricultural labourers from 66 to 50, with many persons moving into the category of 'other workers'. In Kerala there was considerable fall in the percentage of agricultural labourers in the general population as well from about 31 to 20 (Table 10). The fragmentation of agricultural holdings and their uneconomic nature, especially after the decade long land reforms implementation of the seventies abolishing landlordism and tenancy, conferring ownership rights on cultivating tenants, and the increasing scarcity of water for agricultural purposes, probably caused this major shift.

EDUCATIONAL CONDITION

As the SCs can take advantage of the measures of the third and most important category of safeguards, especially of employment and educational reservations, only with educational advancement and educational advancement can come about only with socio-economic advancement, their educational condition can be a crucial indicator of their overall status as beneficiaries of the implementation of the various constitutional provisions.

No doubt, there has been some progress in the growth of literacy among the SCs. In 1961 the literacy percentages among them and the general population including them were 10.3, and 24, whereas in 1981 there were 21.4 and 36.2 respectively. Compared to the general population the increase is relatively more significant in Kerala, Himachal Pradesh, Maharashtra, Gujarat and Tamil Nadu.

Despite this increase, the SCs are still far behind the general population (even including them) in most states. This is especially so in the case of women. While the male literacy among the SCs itself is much lower than that among the general population, female literacy is much more so. In fact, female literacy among the SCs is virtually nil or negligible in Bihar, Madhya Pradesh, Orissa, Rajasthan, and Uttar Pradesh, only about one-third of their male literacy at the all-India level, and only less than one-half

TABLE II LITERACY PERCENTAGES OF SCs VS GENERAL POPULATION

| SN | States/Population Categories | Male | | | Female | | | Total | |
|-----------|------------------------------|------|------|------|--------|------|------|-------|------|
| | | 1961 | 1971 | 1981 | 1961 | 1971 | 1981 | 1961 | 1981 |
| 1 | Andhra Pradesh | | | | | | | | |
| | SCs | 13.4 | 15.9 | 24.8 | 3.4 | 5.3 | 10.3 | 8.5 | 17.7 |
| | General | 30.2 | 33.2 | 39.3 | 12.0 | 15.8 | 20.4 | 21.2 | 29.9 |
| 2 | Bihar | | | | | | | | |
| | SCs | 11.2 | 11.9 | 18.0 | 0.9 | 1.0 | 2.5 | 6.5 | 10.4 |
| | General | 29.8 | 30.6 | 38.1 | 6.9 | 8.7 | 13.6 | 18.4 | 26.2 |
| 3 | Gujarat | | | | | | | | |
| | SCs | 33.9 | 39.9 | 53.1 | 10.7 | 15.0 | 25.6 | 22.5 | 39.8 |
| | General | 41.1 | 46.1 | 54.4 | 19.1 | 24.8 | 32.3 | 30.5 | 43.7 |
| 4 | Himachal Pradesh | | | | | | | | |
| | SCs | 14.5 | 27.4 | 41.9 | 2.0 | 9.7 | 20.6 | 8.5 | 31.5 |
| | General | 27.2 | 43.2 | 53.2 | 6.2 | 20.2 | 31.5 | 17.1 | 47.5 |
| 5 | Karnataka | | | | | | | | |
| | SCs | 14.9 | 20.7 | 29.4 | 3.0 | 6.7 | 11.6 | 9.1 | 20.6 |
| | General | 36.1 | 41.6 | 48.8 | 14.2 | 21.0 | 27.7 | 25.4 | 38.5 |
| 6 | Kerala | | | | | | | | |
| | SCs | 31.6 | 47.1 | 62.3 | 17.4 | 33.4 | 49.7 | 24.4 | 56.0 |
| | General | 55.0 | 66.6 | 75.3 | 38.9 | 54.3 | 65.7 | 46.8 | 70.4 |
| 7 | Madhya Pradesh | | | | | | | | |
| | SCs | 14.3 | 20.6 | 30.6 | 1.3 | 3.9 | 6.9 | 7.9 | 19.0 |
| | General | 27.0 | 32.7 | 39.5 | 6.7 | 10.9 | 15.5 | 17.1 | 27.9 |
| 8 | Maharashtra | | | | | | | | |
| | SCs | 25.5 | 37.0 | 48.9 | 5.7 | 17.9 | 21.5 | 15.8 | 35.6 |
| | General | 42.0 | 51.0 | 58.8 | 16.8 | 26.4 | 34.8 | 29.8 | 47.2 |
| 9 | Orissa | | | | | | | | |
| | SCs | 19.8 | 26.0 | 35.3 | 3.4 | 5.2 | 9.4 | 11.6 | 22.4 |
| | General | 34.7 | 38.3 | 47.1 | 8.6 | 13.9 | 21.1 | 21.7 | 34.7 |
| 10 | Rajasthan | | | | | | | | |
| | SCs | 11.7 | 16.4 | 24.4 | 0.8 | 1.3 | 2.7 | 6.4 | 14.0 |
| | General | 23.7 | 28.7 | 36.3 | 5.8 | 8.5 | 11.4 | 15.2 | 19.1 |
| 11 | Tamil Nadu | | | | | | | | |
| | SCs | 23.6 | 32.2 | 40.7 | 5.7 | 11.3 | 18.5 | 14.7 | 29.7 |
| | General | 44.5 | 51.8 | 58.3 | 18.2 | 26.9 | 35.0 | 31.4 | 46.8 |
| 12 | Uttar Pradesh | | | | | | | | |
| | SCs | 12.8 | 17.1 | 24.8 | 1.1 | 2.5 | 3.9 | 7.1 | 15.0 |
| | General | 27.3 | 31.5 | 38.8 | 7.0 | 10.6 | 14.0 | 17.6 | 27.2 |
| 13 | West Bengal | | | | | | | | |
| | SCs | 21.8 | 25.8 | 34.3 | 4.6 | 9.2 | 13.7 | 13.6 | 17.8 |
| | General | 40.1 | 42.8 | 50.7 | 17.0 | 22.4 | 30.3 | 29.3 | 40.9 |
| All India | | | | | | | | | |
| | SCs | 17.0 | 22.4 | 31.1 | 3.3 | 6.4 | 10.9 | 10.3 | 21.4 |
| | General | 34.5 | 39.5 | 46.9 | 13.0 | 18.7 | 24.8 | 24.0 | 36.2 |

Source: Tabulated from Census of India, vol. I, parts VA(i) and IIC (i) of 1961, series I, parts IIA(ii) and VA(ii) of 1971, and series I, part IIB(iii) of 1981.

in all but Kerala, Himachal Pradesh, and Maharashtra. At the all-India level female literacy among the SCs is only about three-fourths of the female literacy among the general population. At the state level, it is even less. Only in Gujarat, Kerala, Himachal Pradesh, and Maharashtra it is above this all-India rate (Table 11).

What is more, literacy, understood in the census' sense of mere ability to read and write, is at best only the base of the educational pyramid, and any growth in it assumes meaning and significance only if it is sustained at the higher levels. But, this has not happened among the SCs.

The available data might give the impres-

sion that in the primary stage the SCs have almost caught up with the general population. But, this may not be true even with a steady increase in enrolment over the years. For, enrolment is just the first step in the educational process. The report on the programme of action on national educational policy, 1986, rightly pointed out that "enrolment by itself is of little importance if children do not continue education beyond even a year many of them not seeing the school for more than a few days". The report noted that nearly 60 per cent of the children drop out between classes I-V and 75 per cent between classes I-VIII and that nearly 22 per cent of the enrolled at the primary

stage are outside 6-11 age group, mostly over-aged. For obvious reasons the corresponding percentages among the SCs must be still higher.

This is partly evident from the lower enrolment ratios of the SCs at the middle stage. Here again there is considerable inter-regional variation. If the available data are any indication,¹⁰ the position is far from satisfactory at least in Andhra Pradesh, Bihar, Haryana, Uttar Pradesh, and West Bengal (Table 12).

As the SCs move up further in the educational ladder, their enrolment ratio also shrinks or their drop out rate increases correspondingly. As the first report (1978-79) of the Commission for SCs and STs noted, for a population of about 15 per cent, at the all India level the percentage of SC students in professional and other educational courses was only 4.3 in 1964-65, and only 5.7 in 1974-75. At the state level, it was only in Maharashtra that their enrolment as percentage of the total enrolment in high school, undergraduate (UG) and post graduate (PG) equalled or exceeded their population percentage in 1976-78. In virtually all other states it was below their population percentage at all the three stages. In the high school itself the position was very bad in all but Gujarat, Kerala, and Tamil Nadu, while in the UG and PG it deteriorated even in these states. The position was especially bad in Andhra Pradesh, Bihar, Karnataka, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal in the case of both UG and PG courses (Table 13). While there might have been some change in these percentages in the subsequent years as well, it would not have been so dramatic as to equalise the educational status of the SCs with the general population. The access of the SCs to higher education is further reduced by the fact that the instructions issued by the government of India for reservation of seats are not followed by a number of states.

REPRESENTATION IN PUBLIC SERVICES

If the SCs are thus still far behind the general population in their educational attainments, it is only to be inferred that they are more so in their representation in public services.

Though the representation of the SCs in the central services has increased over the years in all the four classes of jobs, it is only in class 4 that it has been adequate. In classes 1 to 3, especially in classes 1 and 2, it has been far below their population percentage (Table 14).

Comparison of the data on the representation of the SCs in the services of the states for the earliest and latest available years reveals similar shortfalls, despite an increasing trend over the years.

It is only in Maharashtra that the representation of the SCs has been adequate in all but class 1, and it is only in Gujarat, and Rajasthan that it has been so at least in

TABLE 12 ENROLMENT RATIOS OF STUDENTS AMONG SCs VS GENERAL POPULATION

| SN | States/Population | Classes I-V | | Classes VI-VIII | |
|----|-------------------|-------------|---------|-----------------|---------|
| | | 1972-73 | 1984-85 | 1972-73 | 1984-85 |
| 1 | Andhra Pradesh | | | | |
| | SCs | 67.2 | 146.2 | 16 | 36.6 |
| | General | 72.8 | 104.7 | 73.6 | 44.1 |
| 2 | Bihar | | | | |
| | SCs | 33.9 | 70.6 | 10.6 | 25.5 |
| | General | 54.2 | 86.8 | 61.1 | 34.4 |
| 3 | Gujarat | | | | |
| | SCs | 32.0 | 149.5 | 45.9 | 69.6 |
| | General | 55.6 | 115.6 | 44.0 | 52.7 |
| 4 | Haryana | | | | |
| | SCs | 46.3 | 91.5 | 27.3 | 38.1 |
| | General | 68.7 | 92.1 | 4.5 | 59.5 |
| 5 | Himachal Pradesh | | | | |
| | SCs | 76.0 | 125.0 | 26 | 73.3 |
| | General | 90.3 | 126.8 | 54.7 | 94.2 |
| 6 | Kerala | | | | |
| | SCs | NA | 123.2 | NA | 104.6 |
| | General | 118.8 | 99.6 | 77.2 | 89.8 |
| 7 | Karnataka | | | | |
| | SCs | 63.0 | 38.4 | 19.0 | 123.7 |
| | General | 89.0 | 89.4 | 35.7 | 54.3 |
| 8 | Madhya Pradesh | | | | |
| | SCs | 65.5 | 87.2 | 11.6 | 32.4 |
| | General | 78.2 | 82.3 | 23.6 | 36.2 |
| 9 | Maharashtra | | | | |
| | SCs | NA | 264.8 | NA | 124.9 |
| | General | 97.9 | 131.2 | 43.5 | 68.3 |
| 10 | Orissa | | | | |
| | SCs | 47.3 | 86.6 | 16.8 | 31.1 |
| | General | 65.6 | 89.2 | 22.6 | 35.7 |
| 11 | Punjab | | | | |
| | SCs | 59.6 | 122.6 | 21.9 | 51.9 |
| | General | 86.9 | 105.6 | 49.7 | 64.8 |
| 12 | Rajasthan | | | | |
| | SCs | NA | 48.6 | NA | 50.2 |
| | General | 50.7 | 78.3 | 23.7 | 35.2 |
| 13 | Tamil Nadu | | | | |
| | SCs | 93.4 | 143.7 | 45.4 | 67.4 |
| | General | 109.9 | 136.9 | 49.7 | 72.5 |
| 14 | Uttar Pradesh | | | | |
| | SCs | NA | 68.8 | NA | 28.6 |
| | General | 97.7 | 82.9 | 34.2 | 45.7 |
| 15 | West Bengal | | | | |
| | SCs | 52.5 | 79.7 | 17.8 | 22.7 |
| | General | 81.3 | 98.5 | 33.9 | 53.5 |
| | All India | | | | |
| | SCs | 64.1 | 94.5 | 21.0 | 47.0 |
| | General | 83.5 | 94.1 | 35.6 | 50.6 |

Note NA = not available. Enrolment ratios to the population in corresponding age groups.

Source *Educational Statistics at a Glance, 1973, and 1984-85*, Government of India, Education Department, New Delhi, 1974, and 1986.

classes III and IV. In all other states their representation has been well below their population percentage. Their representation in classes I and 2 has been especially poor in Haryana, Himachal Pradesh, Madhya Pradesh, Orissa, Punjab, Tamil Nadu, Uttar Pradesh, and West Bengal (Table 15)

LIMITATIONS

As the data thus portray a dismal picture of the nation's efforts in honouring Ambedkar's legacy, there is urgent need for streamlining the implementation of the various provisions. For doing this, some of its present limitations have to be borne in mind. These limitations stem from at least nine sources:

(1) The continuing absence of social conscience, a condition so necessary for the implementation of the programmes aimed at eliminating the disabilities of the SCs. In this context it is pertinent to recall Ambedkar's observation that "rights are protected not by law but by the social and moral conscience of society"; that "(i)f social conscience is such that it is prepared to recognise the rights which law chooses to enact, rights will be safe and secure"; and that if the "rights are opposed by the community, no law, no parliament, no judiciary can guarantee them

in the real sense of the word".¹² It is in this sense that the repeated pleas by the Commission/er for SCs and STs for creating awareness among the masses and for involving them in the implementation of the various constitutional provisions have to be understood.

(2) Lack of an appropriate machinery for effectively enforcing the various measures. The official status accorded, and the facilities and personnel made available, to the Commissioner for SCs and STs appointed under Article 338 have not been commensurate with the nature of his responsibility and the enormous magnitude of the problems concerning the SCs and STs. Consequently, he has not been able to function as a 'watch-dog' agency as envisaged in the constitution.¹³

It is as though realising this, and under mounting pressures, that the government of India set up the high-level commission for SCs and STs in 1978. But, as a parallel agency so far it has tended to duplicate the work of the Commissioner for SCs and STs, who incidentally is also its ex-officio secretary. That apart, this commission itself has observed that it is greatly handicapped in performing its functions effectively as it does not enjoy any constitutional status, that its

role has been purely recommendatory, which has made it at times 'a helpless spectator of non-performance and non-compliance'.

Though economic development of the SCs is well recognised as a precondition for overcoming their social disabilities, neither of these agencies is given a clear mandate in this regard, and matters pertaining to policy issues involving the SCs are hardly ever referred to them.

Though both these agencies are expected to monitor the implementation of the various safeguards, even the mere monitoring has been wellnigh impossible for them, and their reports deplore time and again their inability to get the required information from the administrations in the states and union territories even after repeated reminders. The effect of their inability on the SCs is confounded by the long delay in preparing and placing their reports before parliament, leave alone any serious debates on the contents of these reports. Very often the reports themselves are very shoddy devoid of systematic presentation of any complete, reliable and uniform data so necessary for an overall assessment of the performance of the concerned programmes.

(3) The *ad hoc* formulation of development schemes for SCs and STs without any long term perspective and an operationally integrated strategy, as observed by, among others, the Planning Commission's Working Group on SCs and STs (1980-85) and the Commission/er for SCs and STs. Though the special component plan introduced since the Sixth Plan is expected to fill this 'lacuna', so far it has not made much headway.

(4) The meagre and woefully inadequate budget allocations in the successive five year plans for the programmes covering the SCs. As the first report (1978-79) of the Commission for SCs and STs noted, during the first 30 years of planning the SCs and STs were all along left out on the fringe, and the paltry provisions made under the sector of 'welfare of backward classes' hardly accounted for 1 to 2 per cent of the total plan outlays. The situation might not have changed dramatically in the last one decade. In this context the failure of the overall developmental efforts, problems and politics of scarcity, and like Buridan's ass,¹⁴ the state's dilemma of choosing between its alternatives, all call for some serious rethinking.

(5) The misconception of the constitutional provision for taking into account the employment claims of the SCs (and the STs) 'consistently with the maintenance of efficiency of administration' (Article 335). For preventing the abuse of this efficiency clause, the Planning Commission's Working Group mentioned earlier recommended the deletion of the clause itself. That is, however, only a desperate remedy. Consistency with efficiency has to be construed as equipping the disabled well before and even after their entry into services, to work with others on equal footing through a package of practices. The absence of such a package or its weak and inadequate presence, and the

TABLE 13 PERCENTAGE ENROLMENT OF SCs TO TOTAL ENROLMENT, 1976-78

| SN | State | Population Per Cent | HS | UG | PG |
|----|------------------|---------------------|------|------|------|
| 1 | Andhra Pradesh | 14.9 | 7.8 | 7.1 | 7.1 |
| 2 | Bihar | 14.5 | 5.9 | 3.6 | 1.5 |
| 3 | Gujarat | 7.2 | 6.3 | 6.0 | 2.4 |
| 4 | Haryana | 19.1 | 10.2 | 4.6 | 4.6 |
| 5 | Himachal Pradesh | 24.6 | 13.8 | 4.1 | NA |
| 6 | Karnataka | 15.1 | 4.9 | 5.9 | 4.3 |
| 7 | Kerala | 10.0 | 8.5 | 3.8 | 6.4 |
| 8 | Madhya Pradesh | 14.1 | 6.7 | 6.0 | 5.5 |
| 9 | Maharashtra | 7.1 | 9.0 | 9.4 | 11.4 |
| 10 | Orissa | 14.7 | 8.9 | 3.5 | 3.5 |
| 11 | Punjab | 26.9 | 17.9 | 8.7 | 5.8 |
| 12 | Rajasthan | 17.0 | 7.5 | 4.8 | 5.2 |
| 13 | Tamil Nadu | 18.4 | 15.0 | 7.4 | 6.5 |
| 14 | Uttar Pradesh | 21.2 | 10.5 | 10.8 | 10.9 |
| 15 | West Bengal | 22.0 | 7.9 | 11.0 | 6.2 |
| | All India | 15.8 | 9.3 | 7.5 | 7.5 |

Note: Population per cent as per 1981 census. HS - High/higher secondary, UG - Undergraduate, PG - Postgraduate. HS figures for 1976-77, UG and PG figures for 1977-78.

Source: Report of the Commissioner for SCs and STs, 1979-81, part 2.

TABLE 14 PERCENTAGE REPRESENTATION OF SCs IN CENTRAL SERVICES

| Date | Class 1 | Class 2 | Class 3 | Class 4 | Population Per Cent |
|----------|---------|---------|---------|---------|---------------------|
| 1-1-1960 | 1.2 | 2.5 | 7.2 | 17.2 | 14.7 |
| 1-1-1965 | 1.6 | 2.8 | 8.9 | 17.8 | |
| 1-1-1970 | 2.3 | 3.8 | 9.9 | 18.1 | 14.8 |
| 1-1-1975 | 3.4 | 5.0 | 10.7 | 18.6 | |
| 1-1-1984 | 6.9 | 10.4 | 14.0 | 20.2 | 15.8 |

Note: Corresponding population per cent as per the censuses of 1961, 1971 and 1981 respectively.
Source: Government of India. Report of the Planning Commission's Working Group on SCs and STs, 1980-85. Reports of the Commissioner for SCs and STs, 1970-71 to 1979-81, and of the Commission for SCs and STs, 1978-79 to 1985-86.

official attempt to arrive only at a crude statistical equality devoid of the much needed socio-cultural vitality which alone can eventually, if at all, equalise the social life of the SCs with that of the mainstream groups,¹⁴ have reduced the special safeguards to tokenism and mere concessions. In the long run the nemesis of such concessions, as Tawney rightly stated in another context, is death by dilution, if not for the administration which in any case is too big to be swayed or swatted by the small number of SCs, at least for the SCs themselves by indirectly arresting their growth potential for want of motivation and morale.

(6) The 'higher-echelon' nature of the benefits and the lack of access of the SCs, especially those at the lower levels, to the administration, to the political system, and to the judiciary.

(7) The absence of any mechanism for gradually excluding individuals or groups from claiming the benefits of the constitutional provisions for special dispensation

once they have attained measurable self-reliance in terms of inter-generational socio-economic, educational, and occupational attainments or mobility. Such exclusion will prevent the present concentration, and result in the diffusion, of benefits, and gradually even phase out these provisions.

(8) The absence of any mechanism, for providing special attention to the most needy by disaggregating the individual beneficiaries into groups most deserving, least deserving, and so on.

(9) The failure of the provisions, especially those for employment and educational reservations, to penetrate private institutions.

Notes

[Part of the material used here is drawn from an earlier write-up, Radhakrishnan 1990. The author is grateful to C T Kurien and S Neelakantan for their comments on the draft of this paper.]

1 It was in the same sense that M C Rajah, leader of the DCs in Madras presidency,

used the term DCs. He had cautioned that DCs should not be confused with backward classes, inasmuch as the latter are those communities which are only educationally backward but are really high up in the social, economic and religious scales, whereas communities that are called 'Untouchable Classes' and are educationally, economically, and socially backward come under the DCs [Rajah 1925: 4-5].

2 In fact, in some of the recent writings the term Dalits is used in this restricted sense. See for instance, Shah, 1990: 107. Treating the untouchables alone as Dalits, Wilson wrote: "The term *Dalit* is derived from the Sanskrit root *Dal* which means 'to break' or 'to rend asunder' or 'to oppress'. *Dalit*, therefore, means those who are broken or oppressed. But in this particular sense there are ever so many other communities in India who also can rightly be described as Dalits. Oppression as an economic category applies to several communities. But oppression as an economic as well as a social reality applies only to one particular section whose standing as human beings continues to be the fundamental issue even in this post-independent secular and democratic Indian society. They are the so-called Panchamas, the untouchables, scheduled castes etc. Untouchability, poverty, oppression and dehumanisation are the cultural heritage of these Dalits. They can be described as the oppressed of the oppressed and the lowest of the low" [Wilson, 1982: vi].

3 Of these provisions only the legislative reservations have any constitutional time limit. But even these reservations, though originally to expire after 10 years (Article 334), have come to stay as a stable feature of India's state policy through successive constitutional amendments including the latest (62nd) amendment extending the time limit for yet another 10 years from 1990.

4 Of these, the legislative reservations are often seen with cynicism by the SCs themselves due to the lack of commitment of the beneficiaries and their vulnerability to political manipulations. Because of this, and their limited spread effects for the SCs as a whole, these reservations are not discussed here anymore. For discussion of the legislative representation of SCs, see Dushkin 1972, Galanter 1984; Shah 1990.

5 For more details on this act and its limitations, see report of the Commissioner for SCs and STs, 1971-73, 1977-78; and of the Commission for SCs and STs, 1978-79.

6 For the scope of this act, see report of the Commissioner for SCs and STs, 1977-78; and of the Commission for SCs and STs, 1978-79.

7 For analytical purposes only those states in which the SC population is 1 per cent or more of the total SC population in the country and for which at least some comparable data are available are taken into account throughout this paper.

8 For the main findings of this survey, see report of the Commission for SCs and STs, 1978-79.

9 As per the directives of the government of India, the term atrocity implies any offence under the Indian Penal Code, committed against the SCs by any non-SC person. For

TABLE 15: PERCENTAGE REPRESENTATION OF SCs IN STATE SERVICES

| SN | States/Year of Representation | Population Per Cent | Class I | Class II | Class III | Class IV |
|----|-------------------------------|---------------------|---------|----------|-----------|----------|
| 1 | Gujarat | | | | | |
| | 1971 | 6.8 | 1.6 | 2.3 | 4.8 | 18.3 |
| | 1981 | 7.2 | 5.3 | 4.5 | 10.6 | 24.2 |
| 2 | Haryana | | | | | |
| | 1970 | 18.9 | 1.6 | 2.7 | 5.6 | 17.4 |
| | 1985 | 19.1 | 3.0 | 5.2 | 8.1 | 42.5 |
| 3 | Himachal Pradesh | | | | | |
| | 1967 | 22.2 | 1.4 | 7.6 | 8.5 | 15.3 |
| | 1983 | 24.6 | 5.4 | 7.9 | 12.0 | 20.5 |
| 4 | Karnataka | | | | | |
| | 1971 | 13.1 | 3.5 | 3.6 | 6.9 | 17.1 |
| | 1985 | 15.1 | 12.6 | 8.8 | 10.3 | 21.0 |
| 5 | Kerala | | | | | |
| | 1974 | 8.3 | 2.0 | 2.7 | 7.0 | 2.5 |
| | 1984 | 10.0 | < 6.8 | > | < 8.6 | > |
| 6 | Madhya Pradesh | | | | | |
| | 1972 | 13.1 | 1.7 | 2.1 | 5.2 | 4.7 |
| | 1986 | 14.1 | 2.1 | 5.3 | 9.2 | 11.8 |
| 7 | Maharashtra | | | | | |
| | 1971 | 6.0 | 2.1 | 2.2 | 10.5 | 23.6 |
| | 1983 | 7.1 | 5.3 | 8.7 | 12.8 | 20.7 |
| 8 | Orissa | | | | | |
| | 1971 | 15.1 | 1.0 | 0.6 | 7.7 | 17.8 |
| | 1977 | 14.7 | 0.7 | 1.0 | 7.9 | 17.1 |
| 9 | Punjab | | | | | |
| | 1971 | 24.7 | 5.3 | 3.9 | 11.9 | 35.0 |
| | 1984 | 26.9 | 6.7 | 0.0 | 17.5 | 53.4 |
| 10 | Rajasthan | | | | | |
| | 1971 | 15.8 | 4.1 | 5.1 | 14.0 | 24.6 |
| | 1983 | 17.0 | 13.3 | 11.9 | 17.1 | 26.6 |
| 11 | Tamil Nadu | | | | | |
| | 1971 | 17.8 | 4.0 | 10.8 | < 12.2 | > |
| | 1985 | 18.4 | 6.0 | 13.5 | 11.9 | 15.7 |
| 12 | Uttar Pradesh | | | | | |
| | 1970 | 21.0 | < 2.0 | > | 6.0 | 6.8 |
| | 1985 | 21.2 | 6.8 | 7.5 | 13.6 | 17.8 |
| 13 | West Bengal | | | | | |
| | 1969 | 19.9 | 2.2 | 3.2 | 3.2 | 13.7 |
| | 1981 | 22.0 | 4.1 | 5.5 | 9.9 | 20.0 |

Note: Corresponding population per cent as per 1971 and 1981 censuses respectively.

Source: Tabulated from Reports of the Commissioner for SCs and STs, 1971-72 to 1979-81; and of the Commission for SCs and STs, 1978-79 to 1985-86

purposes of collection of statistics, the Commission for SCs and STs have classified atrocities under five heads namely murder, grievous hurt, rape, arson and other IPC offences.

- 10 The data on enrolment ratios are too weak and inadequate for an overall assessment of the educational attainments of the SCs. What is more, the available data also seem defective. That probably explains the wide variations in the enrolment ratios for SCs at the middle stage from 34.3 per cent in 1982-83 (as given in the sixth report of the Commission for SCs and STs) to 47 per cent in 1984-85 (as given in Table 12 of this paper).
- 11 This observation was in Ambedkar's address. Ranade, Gandhi and Jinnah delivered under the auspices of the Deccan Sabha of Poona on January 18, 1943 on the occasion of the 101st birthday celebration of Mahadeo Govind Ranade. See government of Maharashtra 1982: 1-222. Ambedkar had made similar observations subsequently as well.
- 12 For an assessment of the functioning of this agency see James and Reddy 1979 for an assessment of the administration of the various programmes for SCs and also of this agency see Galanter 1984.
- 13 'In the sophism doubtfully attributed to the French 14th century schoolman Jean Buridan, an ass dying of starvation through inability to choose between two equidistant and equally desirable sources of food.' Chambers 20th Century Dictionary sixth reprint 1981.
- 14 The resulting limited impact of the safeguards is discussed by Chitnis in the context of education as a mechanism for attaining equality among the SCs. See Chitnis 1972.

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Rise of Kulak Power and Caste Struggle in North India

Pradhan H Prasad

While the rise of the political power of kulaks is associated with the development of capitalism in agriculture, there is no one-to-one correspondence between the two. It is only when, after the development of capitalism in agriculture, the kulaks' class interests come into clash with the class interests of the ruling class that the seed of political struggle between the two is sown. In India this process gets complicated because of traditional feudal identities related to caste and religion. An overview of the rise of kulak power and caste struggle in different parts of north India.

IT is a well known fact that colonial exploitation of India involved the growing commercialisation of agriculture and emergence of British planters in some pockets of the country. But, by and large, the "colonial revenue-cum-rent exploitation promoted not the proletarianisation of peasants so much as their pauperisation, since a substantial share of economic surplus was transferred abroad to finance metropolitan industrialisation; and the forms of capital which found the colonial economic environment particularly congenial were landlord, trader and usurer capital. Consequently these forms mediated a process of 'forced' commercialisation of agriculture ('forced' because peasants had to sell to pay rent-cum-revenue), marked by a relative absence of transformation of the productive base and structural deformation of the economy".¹

Though there was some weakening of feudal features in some pockets of India due to reforms related to tenancy and usury, anti-brahmin and other movements in the south and the Tebhaga movement in Bengal in the colonial period, capitalist production in agriculture in the real sense of the term is a post-independence phenomenon. "The inflation of the 1940s due to the second world war considerably reduced the burden of land revenue, thus providing surplus to the land owners. Independence in 1947 also reduced the drain of surplus from agriculture. The middle peasantry began to use its newly acquired surplus for rapid expansion of its agricultural activities. It had begun to redeem its lands (which were under mortgage) as early as late 1940s. In the areas of Permanent Settlement, the zamindars issued back-dated rent receipts for monetary considerations mostly to middle caste agriculturists consequent upon abolition of zamindari. These middle caste peasants, thus, were elevated from sub-tenant to tenant status. The petty bourgeois reformist pressure and the contradiction between the top peasantry and the middle peasantry arising on account of hunger for land led to various land reform legislations, particularly those related to ceiling on landholdings. Though these enactments remained mostly on paper, the cautious among the landlords sold some of their surplus land. These purchasers invariably were from the middle

peasantry. The middle peasantry not only acquired additional land during the past three decades but also strove hard to gain maximum out of its land. It achieved higher intensity of cropping. It took to new technology very enthusiastically. It combined these with modern practices of dairy farming. With its increased economic power and advantage of numbers, it began to acquire political power which had till then been traditionally exercised by the top peasantry. This contradiction was sharper in the north than in the south because in the north it also meant a contradiction between the traditionally dominant upper caste Hindus and the middle caste Hindus. Particularly in Uttar Pradesh, Bihar and to some extent in Madhya Pradesh, this contradiction led to struggles for political power which came into prominence in the late 1960".²

Even then capitalist growth in agriculture was neither widespread nor evenly distributed throughout the country, partly because of the colonial legacy and partly because of policies related to development in the post-independence era.³ Some usury and tenancy reforms in the colonial era and land reforms limited mainly to the abolition of 'intermediaries' after independence contributed to the emergence of capitalist farming but the main impetus to limited and uneven regional growth of capitalism in agriculture came from public investment in irrigation and power and public support to HYV seed-fertiliser technology in selected pockets after the mid-sixties. Therefore, the growth of capitalism in agriculture, though uneven, both in time and space, was more rapid after the mid-60s.⁴

Though the rise of the political power of kulaks (small capitalist farmers) is associated with the development of capitalism in agriculture, there is no one-to-one correspondence between the two. It is only when after the development of capitalism in agriculture, the kulaks' class interests come into clash with the class interests of the ruling class that the seed is sown for the political struggle between the two. This usually heralds mobilisation among the kulaks and the phenomena known as the 'rise of kulak power'. In India this process gets complicated because of traditional feudal identities related to caste and religion. Ever since the British days or even earlier,

the land resources remain concentrated in the hands of upper caste Hindus, the traditional feudal lords. Though the anti-brahmin movement in the south during British rule undermined the upper caste Hindus' socio-political hegemony there, in the north it was only after independence that landlordism and the upper caste Hindus' socio-economic leadership was undermined by the emerging capitalist farmers (i.e., the kulaks), mainly middle caste Hindus.

In the south, the kulak formation was associated with the growth of the regional industrial bourgeoisie and these two classes together combined gradually to forge an alliance to further their interest and came in conflict with the Indian ruling class, the monopoly industrial bourgeoisie-feudal-neoimperialist combine. Somewhat similar is the situation in Maharashtra and Gujarat. Punjab, which witnessed the earliest kulak formation in the fifties, saw the formation of the Akali political party. Subsequently, supported by the emerging regional industrial bourgeoisie and enmeshed in the feudal tradition having communal overtones, the Akali Dal emerged strong and is now posing the biggest ever political threat to the ruling class there.

In other areas of the north, there is hardly any growth of the regional industrial bourgeoisie. On the other hand, the growth of capitalism in agriculture in this part of the country shows a high degree of regional unevenness. The growth of capitalist farmers (i.e., the kulaks) took a decisive leap forward mainly after the mid-1960s, to be more precise, after the advent of the new technology in agriculture, that is, the HYV seed-fertiliser-water technology. In the political arena this finds expression in the kulaks dominating the current state-level ruling parties in Haryana, Uttar Pradesh and Bihar. However, more direct evidence of the growth of capitalism in agriculture can be seen also in economic terms.

The theoretical basis for examining empirically the extent of capitalist farming in agriculture in an economy where production is also for the market and wage labour is also in evidence, can be illustrated with the help of diagram A. This diagram shows the relationship between the value of output and labour input when it is assumed that the land area and capital are fixed and constant.

Here the value of output is defined by curve BPQ and wage cost by OSW. A farmer using wage labour will use OM of labour input (which maximises his profit i.e. his family income) and the corresponding value of output will be PM. In this case, the family income (PS) will be equal to the value of output (PM) minus the wage cost (SM), that is, $PS = PM - SM$. Whereas a farmer using only family labour will maximise his family income by employing ON family labour and the corresponding value of output will be ON such that $QN > PM$. It is needless to emphasise that in the latter case (popularly known as subsistence farming) while the value of output per unit of land (i.e. yield) will be higher, the value of output per worker will be lower than in the former case (termed as capitalist farming). This dualism has been the characteristic feature of Indian agriculture for long.¹

However, if more capital is used in farming, land area remaining the same, the output curve (BPQ) shifts upwards in each of the two cases (whether farming is of the capitalist type or the subsistence type) increasing both land and labour productivity. But in absence of accumulation, if subsistence type farming transforms itself to the capitalist type, increase in labour productivity and decline in yield will be the outcome. On the other hand, if farming changes from wage labour to family labour, the movement will be from P to Q, implying positive increase in yield but decline in labour productivity. This movement, given the dual character of our agrarian scenario and strong survival of the feudalised structure, implies absence of capitalist development even if some accumulation may be taking place. Therefore, if both yield as well as labour productivity are increasing, it implies that accumulation is taking place—a characteristic feature of capitalist agriculture.

Districtwise data² (Table 1), based on the above theoretical formulation, provide direct empirical answer to the extent of growth of capitalist agriculture in different states in India. It appears from Table 1 that the states which show capitalist transformation in agricultural sector at a fairly high level are Haryana and Punjab, at a moderate level Uttar Pradesh, Andhra Pradesh, Gujarat, Karnataka and Maharashtra and at a still lower level West Bengal.

There is enough historical evidence to support the thesis that in the arena of political struggle for power, agricultural capital (which characteristically is a petty bourgeois or at places a middle bourgeois formation) is no match for industrial capital, despite its numerical superiority. That is why in Maharashtra and Gujarat, the kulak class plays second fiddle to the monopoly industrial bourgeoisie. In Andhra Pradesh and Karnataka, where the emerging regional industrial bourgeoisie is locked in political struggle with the monopoly industrial bourgeoisie, the kulak class enjoys somewhat better leverage than their counterparts in Maharashtra and Gujarat. In West Bengal,

this class plays second fiddle to the poor peasant and working class movement. In these five states, therefore, kulaks have not made a bid for capturing political power even at the state level on its own. The kulaks' movement remains, by and large, confined to economic demands, like enhanced subsidy and credit for inputs and better terms of trade for agricultural products.³ Though the feudal ethos and identities (such as caste, communal, ethnic, etc.) are part of the Indian social milieu so long as any movement does not get associated with the political struggle for power the caste and communal overtones remain on a rather low key.

Punjab's situation is illustrative in this context. Hindu Sikh unity was proverbial there and there was not much communal tension between them. But with the emergence of a struggle for political power between the kulaks (dominated by Sikhs) and the ruling class (dominated by upper caste Hindus),⁴ the scenario changed and the struggle acquired a decisive communal overtone. In all the districts of Punjab the growth rate of yield has been more than 4.5 per cent per year, the highest among the states. But in industry, in spite of plentiful energy availability of coal, cement and steel on concessional terms (because of the steel and cement price equalisation policy and the telescopic railway freight rate for coal) and sizeable surplus from agricultural and allied activities, industrial growth was much lower than the commensurate possibilities. The growth retarding policies pursued by the Indian ruling class⁵ which have been responsible for this have united the kulaks and the emerging regional industrial bourgeoisie in their struggle for power. The

communal overtone of the political struggle has now gone beyond the narrow limits of 'demand for more regional autonomy'. This already dangerous political development has become even more so, thanks to the fact that Punjab shares an international boundary with Pakistan and the latter, supported by world imperialism, has been adding fuel to fire.

In Haryana and Uttar Pradesh, the kulaks have made a determined bid for political power. They have partly succeeded and, till recently, were in political control of the two states. In Bihar, because of the influence of neighbouring Uttar Pradesh (where the jats of the upper caste Hindus set and middle caste Hindus are the main constituents of the kulak formation), the class caste continuum helps the middle castes to wield political power at the state level even when capitalist transformation of agriculture is on a low key. That is why in Bihar it is the feudalised upper stratum of the middle castes rather than the kulaks who dominate the scene as is evident from Table 2. A critical examination of Table 2 would reveal that the big land owning group is dominated by the upper castes. In other words, the large bulk of the upper castes are big land owners. Similarly, the large bulk of landlords and rich peasants are also upper caste Hindus. The other side of the coin is that the main constituents of the upper castes are landlords and rich peasants. On the other hand, the main constituent of the upper middle castes is the middle peasantry which is mostly the middle level land owning class. The landless are mostly drawn from the lower middle castes and the scheduled castes who are also the main constituents of the poor peasant

TABLE 1 GROWTH OF LABOUR PRODUCTIVITY IN AGRICULTURE

| States | Percentage of Districts between 1962-65 and 1980-83 (both Triennial Average) | | | | |
|----------------|--|-------------|-------------|--|------|
| | Showing Annual Average Growth Rate of Yield Associated with Positive Growth of Labour Productivity | | | Showing Negative Rate of Growth of Labour Productivity | |
| | >1 | >2 | >3 | | |
| | (1) | (2) | (3) | | (4) |
| Andhra Pradesh | 58.8 (29.4) | 58.8 (11.8) | 41.2 (5.9) | | 35.3 |
| Assam | 42.9 (28.5) | 0.0 (0.0) | 0.0 (0.0) | | 42.9 |
| Bihar | 13.3 (20.0) | 0.0 (6.7) | 0.0 (0.0) | | 73.3 |
| Gujarat | 88.9 (5.5) | 88.9 (0.0) | 50.0 (0.0) | | 11.1 |
| Haryana | 100.0 (0.0) | 100.0 (0.0) | 71.4 (0.0) | | 0.0 |
| Karnataka | 84.2 (5.3) | 68.4 (0.0) | 21.1 (0.0) | | 5.3 |
| Kerala | 0.0 (0.0) | 0.0 (0.0) | 0.0 (0.0) | | 42.8 |
| Madhya Pradesh | 27.9 (7.9) | 11.6 (0.0) | 2.3 (0.0) | | 46.5 |
| Maharashtra | 100.0 (0.0) | 84.0 (0.0) | 28.0 (0.0) | | 0.0 |
| Orissa | 9.1 (0.0) | 9.1 (0.0) | 9.1 (0.0) | | 63.3 |
| Punjab | 100.0 (0.0) | 100.0 (0.0) | 100.0 (0.0) | | 0.0 |
| Rajasthan | 38.5 (0.0) | 38.5 (0.0) | 15.4 (0.0) | | 46.1 |
| Tamil Nadu | 18.2 (72.7) | 0.0 (9.1) | 0.0 (0.0) | | 81.8 |
| Uttar Pradesh | 100.0 (0.0) | 95.7 (0.0) | 66.0 (0.0) | | 0.0 |
| West Bengal | 64.3 (0.0) | 21.4 (0.0) | 0.0 (0.0) | | 21.4 |

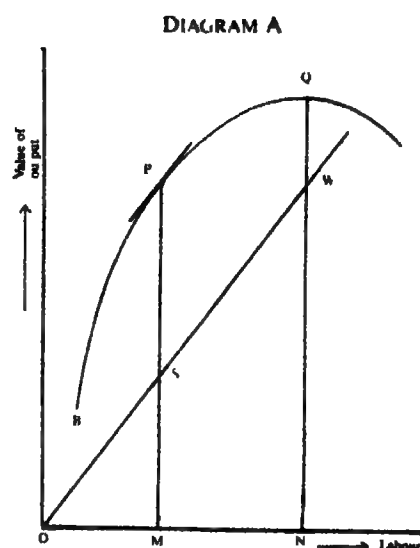
Note: Values in parentheses show percentage of districts with positive yield growth rate associated with negative growth of labour productivity.

try (i.e. agricultural and other rural labourers) In caste terms, the state-level ruling class is the upper castes and its traditional role is being challenged mainly by the upper middle castes. This is the caste character of the current political struggle in Bihar which is essentially the phenomenon of class struggle. But people are mobilised on caste lines and not on class lines because class consciousness has yet to emerge in a semi-feudal social formation whereas caste identities have been deep rooted for ages. The castes in India which represent the traditional classes, on the basis of an archaic feudal division of labour, survive with extraordinary rigidity mainly because the large bulk of people have been stuck in the quagmire of non development since centuries.

Elsewhere in north India where the capitalist formation in agriculture is on a low key, the feudalised middle castes are also trying to improve their position in the context of political struggle. But the situation is different from that in Bihar. The difference is the difference in intensity of struggle for political power and, therefore, the difference in the degree of manifestation of caste tensions. That is why the Janata Dal which emerged as the political wing of the kulaks in north India, representing different class and caste character in different states¹ could not put up a united front vis à vis the upper castes dominated ruling class. There was ultimately a split in it in August 1990. As a party of middle castes its strong presence is confined mainly to Bihar and Uttar Pradesh more strongly in the former state than in the latter. On the other hand, in spite of sharp cultural differences between the two upper castes dominated parties (i.e. the Congress(I) and the Bharatiya Janata Party which is dominated by Hindu

fundamentalists) which represent the political wing of the ruling class, both show the same intensity of antagonism against the Janata Dal. It may be noted that in the process of political struggle for power, if a class or a coalition of classes other than the ruling class acquires limited political power, this by itself is not indicative of either change in the class character of the ruling class or new entrants to the ruling class. This is evident from the fact that these recent political developments have hardly made any change in the socio economic policies relating to development. The same policies which are growth retarding are adhered to.² Nevertheless, the dynamics of the situation will hasten the decay of semi feudal production relations. On the other hand, the ruling class in order to retain power tries to keep traditional feudal identities alive and divide society on these lines. Divide and rule is becoming the order of the day.

The struggle for political power however is not confined to occupying the positions of political executives but also to acquiring posts in the government bureaucratic set up so as to control and manipulate it in the interest of the caste and class in power. It is the latter part of the struggle which is pursued and opposed by caste and class interests with equal ferocity. In Bihar caste riots were witnessed after the late government policy of job reservation for backward caste (i.e. middle caste) in the late seventies. As predicted, it widened semi feudal production relations and strengthened the grip of the upper strata of the backward castes on the state's polity which by and large represents the middle peasantry within semi feudal relations of production with a few pockets of kulak formation. But the centre's announcement of August 7, 1990 on job reservation for backward castes in the



services of the central government and its undertakings was the outcome of a similar process of the recent emergence of kulak power in north India particularly in Haryana and Uttar Pradesh. The spate of caste riots and violence following the announcement shows the stiff opposition by the traditionally dominant upper caste Hindus enmeshed in a feudal ethos. This set of job reservations is different from what was adopted for scheduled castes and scheduled tribes in the constitution of independent India by the constituent assembly. Then it was a gesture by the ruling class (i.e. the upper caste Hindus) to keep them on its side in the context of the political struggle. Similar was the motive when pseudo secular policies of appeasement of minorities (particularly the Muslims) were followed. These concessions were then being bestowed by the ruling class while the pre-

TABLE 2. CASTE, CLASS AND LAND OWNERSHIP IN THE PLAINS OF RURAL BIHAR

| Caste | Percentage of Persons to Total in Each of the Caste Groups | | | | | Class | | | Per Capita Cultivated Land Owned (In Acres) |
|-------------------------|--|------|------|------|---------------|---------------------------|----------------|--------------|---|
| | 0 | 0-5 | 5-10 | 10+ | All | Landlord and Rich Peasant | Middle Peasant | Poor Peasant | |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| (1) Upper castes | 5.7 | 62.1 | 17.9 | 14.3 | 100 (22.2) | 89.5 | 2.9 | 5.5 | 0.54 |
| (2) Upper middle castes | 25.9 | 66.4 | 5.5 | 2.2 | 100 (21.7) | 27.8 | 35.1 | 27.6 | 0.33 |
| (3) Other middle castes | 60.9 | 47.6 | 0.0 | 1.5 | 100 (16.3) | 7.5 | 9.2 | 77.9 | 0.17 |
| (4) Scheduled castes | 69.5 | 30.4 | 0.1 | 0.0 | 100 (27.2) | 2.0 | 4.4 | 92.0 | 0.12 |
| (5) Hindus | 40.9 | 48.7 | 5.9 | 4.5 | 100 (97.4) | 31.6 | 12.5 | 51.5 | 0.31 |
| (6) Muslims | 58.6 | 35.4 | 4.4 | 1.6 | 100 (12.6) | 21.0 | 10.3 | 58.3 | 0.25 |
| (7) All | 43.1 | 47.0 | 5.3 | 4.1 | 100 (100) | 30.3 | 14.2 | 52.3 | 0.30 |

Note: Figures in parentheses refer to percentage distribution with reference to row total.

Source of data: An empirical research study by International Labour Office, Geneva, and ANS Institute of Social Studies, Patna, on 'Dynamics of Employment and Poverty in Bihar in 1981'. See P. H. Prasad and G. B. Rodgers, *Class, Caste and Landholding in the Analysis of the Rural Economy*, World Employment Programme Research, Population and Labour Policies Programme, Working Paper No. 140, August 1983, ILO, Geneva.

sent ones are being snatched from the ruling class

It is true that the immediate provocation for the policy announcement was the threat to the leader of the political wing of the ruling class, V P Singh, from the kulak leaders. In that sense it may be said that it has been done for a narrow political gain, not based on any principle, and if the timing of the announcement is taken into consideration, it does not happen to be in the best interests of the country. But so what? It serves the interests of the ruling class to a certain extent. It divides the kulaks which have been undermining the hegemony of the monopoly industrial bourgeoisie in Indian polity. The kulaks of Haryana who moved away from the kulak dominated upper middle castes in Bihar, lost their political advantage and were pushed aside by the Congress(I). Even in UP kulak unity got destroyed and provided the opportunity to Bhartiya Janata Party to emerge strong. The policies adopted and the announcements made have very rarely been designed to serve the interest of the masses or of the country. Rather, more often, they are there to serve the interests of the ruling class. Take any major policy in independent India, be it MRTP and FERRA regulations, pricing of public goods and services, bank nationalisation, waiver of bank loans, agricultural policy, fiscal policy, industrial licensing policy, export and import policies, policy on foreign collaboration, rural development policies or subsidies policy, each one of them was there to serve the interests of the ruling class. Some of them at times may have done some good in some places to the people in general but, on the whole, they retarded the growth of the Indian economy and slowed the pace of social transformation. This policy at least has no such demerit. Though it offers a short period of respite to the ruling class—the attempt has been to divide the kulaks and to bring one section to the aid of the ruling class—this policy will also go a long way to weaken the stranglehold of semi-feudal relations of production and thereby hasten the decay of the feudal class which is a close ally of the monopoly industrial bourgeoisie.

The upper caste dominated intellectual and professional groups are very critical of this policy of job reservation. They argue that it will lead to loss of efficiency and further divide the society on caste lines, increasing disharmony among the people. They are crying themselves hoarse over this. What is forgotten in this context is that in the south where job reservation for backward castes in services has been in existence for quite some time (since the thirties), neither has there been any increase in disharmony within the society on caste basis nor has the performance of the services been any worse than in the north. The performance of public services, on the whole, is a shade better in the south than in the north. It has also been argued that the major beneficiaries will be the economically better off sections of the

backward castes and not necessarily the economically weaker sections among them. What is not recognised in this context is that the forces of the market, which in the transitional society (in transition from a semi-feudal to a capitalist social formation) are characterised by interlocking and other imperfections, always provide considerable weightage to the economically stronger sections of the society. Even prior to job reservation, most of the advantages arising out of public policies were being cornered by the economically affluent among the upper castes. Since political power is in the process of getting tilted in favour of the economically affluent among the middle castes, they have extracted the advantage of job reservation in their favour. This is, by and large, to provide weightage to the affluent among the middle castes, as against the affluent among the upper castes. As a matter of fact many other policies which were initiated with the avowed objective of upliftment of the poor and downtrodden by the upper castes have failed to achieve their objectives. Then why expect or demand any such miracle from this measure?

These and many more arguments and counter arguments may be less important for their logical and factual content than for what they reveal about the sharp divisions among the Indian intelligentsia on caste lines. Even the media persons who were supposed to maintain objectivity as purveyors of news are not free from caste bias. For example, V P Singh, who had been put on a fairly high pedestal by the press prior to the announcement of job reservation for the 'backward castes', was unceremoniously pulled down by the same press because of the upper caste dominance of the press. Let us take another example of the chief minister of Bihar, Laloo Prasad, who is presently the person most condemned by the press. It is being maintained that he has done nothing for Bihar and that he encourages disorder and is wholly responsible for the deteriorating law and order situation notwithstanding the fact that during his period Bihar has remained free from communal riots when in neighbouring Uttar Pradesh Hindu-Muslim riots have been a frequent occurrence. Bihar has had many chief ministers since independence. Many of them have been there as chief minister for longer durations than the present incumbent. But none of them has succeeded (even a little) in pulling Bihar out of the morass of non-development. None has been able to check the deteriorating law and order situation in the state. None can be credited with making even a slight dent on the increasing criminalisation of the society. But because none has so far championed the cause of job reservation for the 'backward castes' from a position of strength as the present incumbent does, none has earned the combined wrath of upper caste people including media persons, social scientists, bureaucrats and the rest of the intelligentsia as Laloo Prasad has. Even the election commission an

august quasi-judicial body instituted under our constitution, singled out Bihar for its wrath, so much so that even bureaucrats (including very senior ones) of known integrity were not spared. Thus the battle-lines have been drawn, particularly in north India (in the most severe form in Bihar) and the struggle is likely to be fierce and long-drawn.

Notes

- 1 Utsa Patnaik (ed), *Agrarian Relations and Accumulation*, Sameeksha Trust and Oxford University Press, 1990, p 3
- 2 Pradhan H Prasad, 'Rising Middle Peasantry in North India', *Economic and Political Weekly*, Annual Number, February 1980
- 3 Pradhan H Prasad, 'Neglected Aspects of India's Development Planning' and 'Political Economy of India's Retarded Development' in *Economic and Political Weekly*, July 15, 1989 and January 27, 1990, respectively, and *Lopsided Growth. Political Economy of Indian Development*, Sameeksha Trust and Oxford University Press, 1989 pp 107-119
- 4 Daniel Thorner, *The Shaping of Modern India*, Allied Publishers, 1980, pp 202-253
- 5 For the earliest theoretical exposition of this phenomenon see Amartya Kumar Sen, 'An Aspect of Indian Agriculture' *The Economic Weekly* Annual Number, February 1962, see also Krishna Bhardwaj, *Production Conditions in Indian Agriculture*, Cambridge University Press, 1974 pp 11-12 and 91-92
- 6 The source of data is G S Bhalla and D S Tyagi *Patterns in Indian Agricultural Development* ISID New Delhi 1981 pp 214-255. The value of output is estimated for 41 crops on the basis of all India average prices for the triennium ending 1969-70 (p 213). The rate of growth of labour productivity is in respect of male agricultural workers. Preference for male workers in such estimates is adhered to because of weaknesses in the enumeration of the female workforce. However, if it is assumed that the ratio of female to male workers in each state has not changed between 1962-65 and 1980-83 the estimates of growth rate of labour productivity for male workers and for all workers will be the same.
- 7 M V Nadkarni *Peasants Movements in India*, Allied Publishers, 1987 pp 58-134
- 8 "Over 90 per cent of country's ruling class belong to high castes" Rammanohar Lohia, *The Caste System*, Navahind, Hyderabad, 1964, p 106
- 9 Pradhan H Prasad, 'Neglected Aspects of India's Development Planning' and 'Political Economy of India's Retarded Development', op cit
- 10 Pradhan H Prasad, 'Economic Roots of Political Struggle in India', *Economic and Political Weekly* February 2 1991, p 228 (This paper was sent for publication before August 1990)
- 11 Pradhan H Prasad, 'Neglected Aspects of India's Developmental Planning and 'Political Economy of India's Retarded Development' op cit
- 12 Pradhan H Prasad, 'Caste and Class in Bihar', *Economic and Political Weekly*, Annual Number, February 1979, pp 481-84

Science as a Tool in British India

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The production and growth of modern science in India was encouraged by the British with a view to furthering colonial interests. British-sponsored science, by its very nature was field science and its agenda was decided on grounds of political and commercial gain. In the pursuit of this state-sponsored science, Indians provided cheap labour. It was only much later, with the westernisation of the Indian middle classes, that Indians began to pursue science on their own initiative but this was as an extension of the nationalist movement and science increasingly began to be seen purely as an intellectual exercise rather than as a means of producing wealth.

WHILE discussing the impact of modern science on India, it is important to take note of India's role in the development of modern science. The arrival of the first British ship in India coincided with the invention of the telescope in Europe. There were huge profits to be made from trade with India, provided the ocean navigation could be made safe. To survive on a vast featureless ocean, a mariner had to know his latitude and longitude, and for this he needed telescopes, sextants, clocks, and star charts. Farmers, weavers, and other traditional craftsmen in Britain now took to making scientific instruments. Many apprentices in the clock making trade later became inventors of industrial machines and helped usher in the industrial revolution [1]. Thus it was a clock maker who helped barber turned industrialist Richard Arkwright build his epoch making 'water frame'. Also James Watt started his career as a maker of mathematical instruments like sextants and compasses.

For an invention to make an impact it should take place at a time when the society has the capital as well as a market. A turning point in the history of India as well in the history of science and technology is the battle of Plassey. Before 1757 Bengal had a surplus balance of payments; its exports exceeded the imports by a factor of four. In contrast, during 1757-80 Bengal pumped in a substantial sum of 38 million pounds sterling into England [2]. Its effect was electric.

The first inventor of a textile machine, John Kay, who patented his fly shuttle in 1733, barely escaped with his life, finally dying penniless in far away France. His machine was smashed by other weavers [3] who sensed that it would drive them out of the limited domestic market they all competed for. But by the time John Hargreaves made his spinning jenny (1764) times had changed. His very first machine was also smashed, but very soon he had weavers back at his door, this time asking him to make machines for them. They could now form a guild and jointly enjoy the overseas market. It is thus no wonder that cure for scurvy, the dreaded disease of the mariner (1754) came just before Plassey, while spinning jenny (1764), water frame (1769) and steam engine (1769) soon followed.

The money from trade with the east Indies created a wealthy middle class in Europe whose way of looking at things was different. It was for the first time in the history

that human prosperity depended not upon the goodwill of the king or god, but on human skill. Since the source of money was science, the pursuit of the leisured class chose were also scientific. The new craftsmen became rich and respectable, and the new wealthy became patrons of science. It is significant that the profits of the makers of scientific instruments did not come from the government who paid less but imparted prestige and recognition. The profits instead came from the private buyers [4]. It was thus the accumulated wealth of India that funded the industrial and scientific revolutions of Europe. Note that the scientific revolution came after the industrial revolution. The existence of a wealthy middle class, independent of the government, is a prerequisite for the growth of science. The purpose of science is to produce and protect wealth. The purpose of this wealth is to support science.

Western science was not a cut and dried product that was taken off the shelf and shipped to India. The British influence in India, modern science in Europe, and the use of science in India all grew together so that by the beginning of 20th century Indians were ready for a taste of their own with modern science. We present here a model as a framework for discussing the advent and growth of modern science in colonial India. The model distinguishes between three mutually overlapping stages of development.

The first stage here called the colonial tool stage, encompasses the whole span of European presence in India and consists of introduction and use of science, especially by the British, as an imperialist tool, with incidental benefits to science. The second stage, the peripheral native stage, came into being when the British were well entrenched in India. In it the Indians were assigned the peripheral role of providing cheap labour to the colonial science machinery. The third stage, the Indian response stage, arose as a reaction to the second stage and is characterised by scientific activity by Indians themselves and on their own initiative. We shall now discuss each stage separately, drawing illustrations mostly from the Survey of India [5] which represented science in the most dedicated service of the state.

COLONIAL TOOL STAGE

The gold coin minted by the Portuguese for use in India depicted the armillary sphere, the basic instrument of navigation used for

determination of the latitude [6]. It was Portugal's way of paying tribute to a science to which it owed its power. The Portuguese arrived in India even before the Mughals did, loved Christianity more than they loved Indian territory, and did not know how to successfully deal with the scurvy deaths on the sea.

The earliest men of science from Europe were the missionaries of the Society of Jesus, who first arrived in 1542 and remained active for more than 200 years [5a]. In 1759 the king of Portugal banished all Jesuits from Portuguese colonies and in 1773 the Pope banished the Order altogether. It was revived in about 1818 with the first English Jesuits arriving in Calcutta in 1833. The Jesuits were the only European men of science in India who did not have a maternalistic axe to grind. No wonder their work did not have any contemporary significance. The Jesuit geographical data were dug up from the archives and put to use in the mid 18th century when knowing India became a paying proposition.

The Portuguese success brought British and the French traders to India. The parent companies started compiling sea charts and keeping records of voyages. Observatories were opened at Paris (1667) and Greenwich (1675) to solve the problem of the longitude. The Astronomer Royal supplemented his meagre salary by giving tuition to young men seeking employment with the East India Company. It paid to join the company and it paid to know astronomy.

With the post Aurangzeb collapse of the Mughal empire, the European 'vaishya' outfit developed 'kshatriya' ambitions and got down to the task of acquainting themselves with their future empire. The French were more successful on the scientific front than on the colonial. The first worthwhile map of India was compiled in 1752 by the French geographer Jean Baptiste Bourguignon D'Anville at the request of French East India Company who based it on whatever geographical information he could lay his hands on. The value of D'Anville's *Carte de l'Inde* can be judged from the fact that it was reprinted in England in 1754 and then again in 1759 along with the annotated translation of his memoirs [5a].

Astronomy was the first modern science to be brought to India for use as a geographical and navigational aid [5a]. Its use was however sporadic and mostly out of personal curiosity. Systematic scientific effort became essential when the 1757 battle of

Plassey transformed the British East India Company into a jagirdar. The company bahadur was fully conscious of its needs: survey of its present and future lands, safety navigation, increased revenue, and proper administration. The first need was geographical knowledge. In 1757 itself when Clive was still at the nawab's capital Mirdabad, he proposed that "an exact and useful survey may be made which will enable us to settle beneficial boundaries." Accordingly a 'Surveyor of the New Lands' was appointed in 1761, and in 1767, two years after the company received 'divani' rights over Bengal, Bihar and Orissa, Maj James Rennell was made the 'Surveyor General of Bengal'.

Surveys were continually required for military purposes. Geographical location of important places in the country were determined with alacrity by "borrowing a sextant here, a watch there, and a quadrant in another quarter, from different officers at Calcutta who happened to possess them. Surveyors were sent out with every army to prepare route maps. The importance of surveys can be gauged by the fact that in 1790 when the governor general took the command against Tipu, the sultan of Mysore, he appointed the surveyor general to his personal staff. In 1793 the company paid the fabulous amount of Rs 6,000 to a surveyor for a map of Mysore accompanied by a memoir[7].

The destruction of Tipu in 1799 extended the company's territories from the east coast to the west. Just as Plassey had produced its Rennell, Seringapatam produced its Lambton, only more quickly. Unlike Rennell's survey which was run in traditional, route survey style, Major William Lambton modelled his on the lines of the recently started surveys in France and England. The Trigonometrical Survey of Peninsular India started in 1800 with second hand instruments bought within the country. Expectedly, its history is also the history of the entrenchment of the British in India. In 1817 the Marhattas were finally crushed. On January 1, 1818, the survey was renamed the Great Trigonometrical Survey of India (GTS) and extended to cover the whole country. It even surreptitiously covered trans-Himalayan region. The GTS came to its own in 1830 under Lt Col Sir George Everest who was also appointed the surveyor general. The GTS fixed with great accuracy the longitude and latitude of a large number of places. The details were then filled in by the topographical and revenue surveys. In 1878 the three were merged under the name the 'survey of India'. (The name GTS is often retroactively applied to include Lambton's survey and the Survey of India to its predecessor constituents.) Uniformly accurate data from such a huge landmass as India led to the important geodesical theory of isostasy and to a mathematical model of the earth, known as Everest geoid.

As early as 1787 General William Roy, the founder of the British survey wrote how

desirable it was to determine the length of a degree of latitude on the Coromandel coast and in Bengal. It was too early for the company to bother about the shape of the earth when its ships were getting wrecked. Rennell and Alexander Dalrymple, the company's hydrographer at London made a joint reply[5a].

Whatever Advantage to Science may be derived from the exact determination of the figure of the Earth we conceive no other benefit can possibly attend the Admeasurement in Bengal but that proposed on the Coast of Coromandel will contribute towards the construction of an exact chart of the coast.

The Coromandel Coast is rocky full of shoals without a natural port and was a graveyard for the company's ships. A survey of the coast was thus literally a matter of life and death, and eventually in 1785 a professionally trained surveyor astronomer Michael Topping was brought from England, on free passage and equipped with his instruments.

Since his work required a reference meridian, an astronomical observatory[8] was set up at Madras in 1790. It was the first modern public observatory outside Europe. While pleading for it Topping reminded the company directors that they now had a chance of "affording their support to a science to which they are indebted for the sovereignty of a rich and extensive empire." Although the company had grandiosely declared that the purpose of the observatory was to "promote the knowledge of astronomy geography, and navigation in India", the key objective was left unstated: so as to promote the company's profitability.

Science was only a part of the duties of the company's officers. The value of various services can be gauged by the value placed on them: Topping's monthly salary as the 'Company's Astronomer and Geographical Marine Surveyor' was 192 pagodas (1 pagoda = Rs 3 1/2, £1 = Rs 8). He got double this amount (Rs 400 pagodas) as the 'Superintendent of Tank Repairs and Water Courses'. An additional 100 pagodas came from the superintendence of the surveying school[5a].

In the early years the observatory was no more than a surveying outfit. This role ended with the 1830 reorganisation of the GTS, but navigational needs were still outstanding. Increased sea trade activities of the British required familiarity with the southern skies. In 1844 after 14 years of labour, Thomas Glanville Taylor (FRS) produced the celebrated Madras catalogue giving positions of about 11000 southern stars. It was hailed by the Astronomer Royal as "the greatest catalogue of modern times" and revised in 1893 with funds from the India Office and the Royal Society[8].

The observatory was now redundant. Even the British astronomers who now had observatories in South Africa and Australia lost interest. The Astronomer Royal wanted it abolished but could not succeed against

the assertion of the local British pride, succinctly expressed in the letter written by the Madras director of public instruction to his chief secretary[8]. "I earnestly hope that the rulers of India will take a higher and more extended view of the matter, and consider what is due to this country." This rhetoric, and the workshops of the public works department, ensured the observatory's survival but not its prosperity.

India's astronomical fortunes revived with the advent of the new field of solar physics. India was ideal for extensive photography of the sun, which was not possible in cloudy Britain. Also, it was then believed that a study of the sun would help predict the failure of the monsoons. In 1878 solar photography was started at Survey of India, Dehra Dun, and photographs were sent to England for analysis[8]. A solar observatory was set up at Kodaikanal in 1899.

Once the Trigonometrical Survey was begun, the government lost interest in the Madras observatory. In 1801 the Madras astronomer was getting a monthly salary of Rs 672 whereas the superintendent of the Trigonometrical Survey was slightly better placed at Rs 980. Seven decades later, in 1877 while the astronomer's salary had crawled up to Rs 800, the survey chief's had jumped to a substantial Rs 2,565. Fifteen surveyors were getting more than the astronomer, three of them being fellows of the Royal Society. All surveys were manned by military officers. Whereas meteorological and magnetic observations were considered legitimate military duty, pure astronomy was not[9].

The last word on where pure science stood up *vis a vis* the applied belongs to the irrepressible Everest. In 1834, on orders from the government, astronomical instruments from the survey were issued to enable the former Bombay astronomer to observe the phenomenon of the opposition of Mars. This happened when Everest was out on a field tour. On his return Everest made a strong protest against the loan, saying[8],

The discoveries which the late Astronomer of Bombay is likely to make in science would hardly repay the inconvenience occasioned by retarding the operations of the Great Trigonometrical Survey.

From geography to geology was but a natural step. In 1818 Henry Voysey a surgeon, who doubled as a geologist was attached to the GTS so that he could draw attention to anything that might influence geometrical and astronomical observations. The survey of the Himalayan region naturally brought forth interest in its legendary mineral wealth. The governor general wrote (1817)

We have been duly sensible of the want of professional enquiry into the mineral produce of the hill country lately acquired by us. The remedy now offers itself.

The remedy consisted of the person of Alexander Lairdlaw, 'mineralogist and investigator of natural history', though 'lack

ing in liberal education. He was sent out by the court of directors. His pay was consistent with the wealth he was to explore "a salary of Rs 600 plus Rs 200 for hill carriage, and free issue of instruments and stores, to say nothing of an advance of Rs 2,500 in cash" He was attached to the survey of Kumaun. The governor general wanted him to look for metals but added "To copper or iron I would not point Mr Laidlaw's attention, as I think that working either might injuriously affect important articles of British export" Laidlaw did not pay attention to anything, and was dismissed after two years[5c]

Voysey's reports included one on the stone used in building the Taj at Agra. He also reported on diamond mines of south India. Industrial revolution meant the realisation that coal was more important than diamond. As the steamer ships were pressed into use, the government became interested in coal fields. This led to the appointment of a geological surveyor to the company, and in 1851 to the geological survey of India[10]. (The survey of India, the geological survey, and the medical service, were the only science services in the pre-mutiny India.) Geological evidence in support of the continental drift hypothesis came from India; this fact is commemorated in the name 'Gondwana' for the ancient southern super-continent. As was the case with GTS earlier, the geological survey arranged for lectures at Presidency College, Calcutta[10].

The company's interest in Indian botany did not arise from medicinal and commercial plants as was the case with the Portuguese but from wood. Shipments out of Calcutta required the building of freight vessels for which teak was bought at a high price from Burma. Could teak be grown near Calcutta itself? To find an answer a botanical garden was set up at Calcutta[10]. (Years later decline in availability of timber for ship building on the Malabar coast made the government wise to the destruction of forests and led to the appointment of A Gibson as conservator of forests for Bombay presidency)[7].

At the fall of Mysore, the botanical garden at Bangalore (the Lal Bagh) was appropriated by the company as a depository for useful plants sent from different parts of the country. The company's botanist at Madras (Benjamin Heyne) was ordered by the governor general to accompany the surveyor, with the following instructions[5a]

A decided superiority must be given to useful plants over those which are merely recommended by their rarity or their beauty, to collect with care all that is connected with the arts and manufactures of this country or that promises to be useful in our own, to give due attention to the timber employed in the various provinces of his route, and to collect with particular diligence the valuable plants connected with his own immediate profession [i.e. medicine]

In the next 50 years 'systematic, geographical and economic studies' of the Indian

flora were carried out. The company did not mind the enrichment of science as long as it took place in the normal course of its own activities. But the moment it was asked to extend patronage to science for the sake of science, it balked. It refused to promote a project by Joseph Dalton Hooker and Thomas Thomson for its compilation, notwithstanding a memorandum from the British Association for the Advancement of Science. Hooker's monumental seven-volume *Flora of British India* (1875-1897) had to wait for orders from the secretary of state[10].

The British desire for exploration and increased revenue led to the epoch making discovery of fossil fauna in the Shivalik hills. The story deserves to be told in some detail[7], because it brightens a particularly dark period in Delhi. As early as AD 1360 Firishah informs us when Firozshah Tughlak cut through a hill with 50,000 men to dig a west Yamuna canal he noticed bones of giants three yards long. After preliminary survey in 1809-10, restoration work was begun in 1815 and completed in 1827. In the meantime, in 1779, the Rohilla Fauzdar of Saharanpur, Zabita Khan had set up a public garden at Saharanpur and appropriated the revenue of seven villages for its maintenance. Ghulam Kadir, and after him the Mahrattas continued the arrangement. In 1823 Lord Hastings converted it into a 400 acre botanical garden (to which was later added a nursery of trees for canal banks).

Hugh Falconer FRS, the superintendent of the Saharanpur Botanical Garden (who was aware of Firishah's report) and Sir Proby Thomas Cautley superintendent of canals collected a large number of fossil bones, 300 of them within six hours. These discoveries proved that in the remote past a sea occupied the valleys of the Indus and Ganga. The well known pattern of the company's attitude towards science is repeated here. Falconer wanted to devote his full time to his great work *Fauna Antiqua Sevalensis* but as a 1878 *Memoir*[7] put it he was not spared to complete it. This work was edited and published after his death.

The last scientific act of the British Indian government was dictated by the second world war which in turn brought about its exit from India. In 1942 the council for scientific and industrial research was set up for providing scientific support for the war effort.

We have thus seen that the British rulers were not interested in science as such, but in using science to further their interests. Whenever their practical needs pointed a finger towards a particular branch of science, attention was paid to that science. Harnessing science enriches it also. Thus in the process of empire building, India was added as a laboratory to the edifice of modern science. We now discuss the role of the Indians as laboratory assistants.

PERIPHERAL NATIVE STAGE

Just as the British in India needed science, they needed Indians also. The first task assigned to the natives was to educate the foreigners about the lay of the land, without which knowledge their military might would be useless. In 1774 "Golam Mohamad, a sepoy officer" was sent "to explore the roads and countries of the Deccan" and "to gain intelligence about the Mahratta powers". In the 1780s, the surveyor general of Madras employed "Munshys to survey some roads between places well ascertained in the map" and procure "some very useful information". The company reimbursed the expenditure of Rs 12,000. In 1791 the Bengal surveyor Reuben Burrow while budgeting for his journey asked for 'a Moonshy' at Rs 25 a month adding "The last article is more necessary than at first sight may appear, as it is often requisite to send a Moonshy to make enquiries and to take bearings, and to get copies of routes etc". "A properly instructed native" Mirza Mogul Beg collected data between 1786 and 1796 that went into 'a map of the countries to the west of Delhi, as far as Cabul and Multan', prepared by Francis Wilford in 1804.

The most spectacular use of the native surveyors was by Col Charles Reynolds (later lieutenant general), surveyor general of Bombay who employed them for 12 years from 1795 to 1807 to collect data for a large scale map of western India, especially of territories outside the company's control. As a part of this work, Reynolds discovered that Ghaggar does not cross the desert to reach the sea as had been supposed by earlier geographers, but instead loses its way in the sands near Sirsa. Reynolds received the princely sum of two lakh rupees for his valuable map[5a].

On the other end were company surveyors who hired 'native assistants' or 'harkaras' (messengers) to do the legwork. The company refused to reimburse these expenses. It was one thing to pay for inside information on the Mahrattas, but the company had no intention of spending its hard earned money on such useless piece of information as that the rivers Sone and Narmada do not spring from the same place as Rennell had supposed but arose 40 miles apart[5a].

The company, not yet sure of itself, was never very comfortable with the use of the natives, which though convenient and economical, was risky. While they might add to the knowledge of the Europeans they might become knowledgeable themselves, or worse sell the information to the French or Dutch rivals. For the latter reason, half-castes were not employed. Madras presidency solved its problem of manpower shortage in a far sighted way. Madras observatory ran a surveying school from 1794 to 1810 to train teenager European orphaned boys as practical revenue surveyors. Note that this school was *not* for Indians[5a,b]. Those were the days—over by 1830—when the word 'native' denoted India born irrespective of the

ethnicity.

Finally in 1813, the use of barkaras for survey work was banned, "as government were anxious to prevent the Natives from obtaining, or being taught, any knowledge of the kind". Only the company's own commissioned or military officers could carry out surveying and map making[5b].

The role of the 'pandits' (educated Hindus, regardless of the caste) and 'munshis' (educated muhammadans) was over for the time being. In the next 15 years, new geo-political equations were established, and the British grip on India became unassailable. It was only then that 'babus' were trained and pressed into service. As the survey work expanded, need for involving the Indians themselves was increasingly felt. After all, you cannot entirely dispense with the natives in their own country. A major factor in their favour was the climate.

their service will prove of the greatest use in exploring the wilds—of Bustar, etc, whose dreadful climate no European constitution could possibly sustain for any length of time (1828)

The British surveyors naturally argued for the use of the natives[5c]:

The advantages derived to government are apparent... opening a new field for natives, teaching them a profession hitherto unknown to them in this presidency—and allowing government to take advantage of the cheapest agency—obtaining correct surveys of the land, on which the principle revenue of the state depends—and a properly authenticated survey, so necessary to the due administration of justice.

The policy found support at the highest level. In 1829, Lord William Bentinck, governor general of India, wrote in a minute on the organisation of the survey[5c]:

It is by a more enlarged employment of native agency that the business of a government will be at once more cheaply and efficiently transacted.

It is quite remarkable that the needs of the survey were reflected in the company's attitude towards native education.

In the post-Plassey period, it became essential for the British to know India, not only the land but people also. This information can have come only from the Indians themselves. Accordingly there opened a[11] 'Muhammadan Madrasa' (1781) at Calcutta and a 'Sanskrit College' (1791) at Banaras so that band of young Hindus and Muslims could separately collect the traditional information from their elders and pass it on to the British (English was not taught at these institutions). We may call this 'the Moonshie phase' of education in British India with the old spellings being advisedly used to underline the intended purpose.

In 1792, one of the company directors had succinctly expressed the argument against educating the natives, "we had just lost America from our folly in having allowed the establishment of schools and colleges, and that it would not do for us to repeat the same act of folly in regard to India; ... if

the natives required any thing in way of education, they must come to England for it". Once the British were firmly entrenched, they shifted gear to impart English education to the Indians with a view to training them for minor jobs in the new administration. This was the beginning of 'baboo phase'.

The period 1813-35 is the transitional period. It was in 1813 that the company acquired an education policy whereby it was asked to spend not less than one lakh rupees on education. (Actually it spent twice the amount during 1813-30)[11]. The ambivalence as to how this money was to be utilised was deliberate. As befits a cautious and clever ruler, the transition from the Moonshie to the Baboo phase was to be effected in an unobtrusive manner, and with the full and active support of the native leadership.

The oriental colleges were slowly anglicised. Unani and Ayurvedic classes were added (1827) to the Madrasa and the Sanskrit College, which then made way (1835) for a full-fledged (western) medical college. Delhi College was started on oriental pattern in 1823; but English was introduced two years later, and science soon thereafter. In 1817 Hindu College was started at Calcutta. Scientific equipment arrived in 1823 and science teaching was started. Interestingly George Everest, who arrived in India in 1806 when barely 16, himself learnt his science from survey-related books available in British. Earlier the company had hired Hindu and Muslim boys to attend Oriental Colleges. Now the Hindu boys paid from their pockets to receive English education.

Calcutta's Hindu College became a trusted source for supplying scientific Babus to the survey. The 1830 reorganisation of survey with George Everest at the helm required immediate use of the 'native agency'. Although field data were being collected by the British surveyors themselves, they had no time to sit down and reduce the data. Arrears had in fact piled up for the previous eight years. It was therefore decided to set up a computing office as distinct from the field staff. When the government expressed the hope that "all requisite computers may be drawn from existing establishments under this presidency", Hindu College was ready to fulfil it[5d]. (Hindu College was taken over by the government in 1855 and renamed Presidency College.)

Offer of employment as computers was sent to a number of students; salary was to be Rs 30 per month during a six-month probation, then Rs 40. Radhanath Sickdhar and six other students of Hindu College joined at the end of 1831. Sickdhar's case is well known. Exceptionally brilliant, he was made a sub-assistant at GTS after his probation at a salary of Rs 107 per month. He was then 19 years old. He rose to become the chief computer when he was transferred to Calcutta in 1849 to hold charge of the computing office. He retired in 1862 and died in 1870. A bachelor, Sickdhar became thoroughly

European in outlook, and began to take English food. "Colonel Everest was at first dissatisfied but afterwards admitted me in his own table[5d].

A legend has grown that the height of Mount Everest was computed by Sickdhar. This is no doubt an attempt to push the most deserving peripheral native into a nuclear role. Unfortunately, the story is not true; the height was calculated at Dehra Dun, after Sickdhar had been posted at Calcutta[5d].

The career-graph of other computers is instructive. After seven years of service, six were still getting only Rs 40. Five of them quit in 1838 to accept the newly established post of deputy collector in the revenue department. The seventh one, Nil Comul Ghose, who was getting Rs 100 per month also left. The GTS recruited another Indian, Ram Dayal De as a sub-assistant in 1840, but dismissed him in 1844.

The surveyor-general's office naturally took interest in the science teaching at Hindu College. A European computer and sub-assistant, Vincent Louis Rees, was entrusted with the task of "helping in the training of the Bengali computers". He also taught mathematics at Hindu College, from where he earned a salary of Rs 300 in addition to his GTS salary of Rs 318 per month. The science teaching was apparently not substantial. 20 years later, in 1855, Mahendralal Sircar, much interested in science, left the Presidency College to join the Medical College, saying[12] that "the principal object of education was to teach the pupils how to read and write the English language".

While in general Indians were kept out of actual field survey work, there was one type of survey which they alone could do. And that was the surreptitious survey of the trans-Himalayan regions, where Europeans would have been immediately spotted and killed. This work was of great strategic importance, and necessary to fill the gap between the Indian and the Russian surveys. With characteristic British thoroughness and disdain these surveyors were only taught how to take the observations; they were not taught how to reduce the data lest they cheated. When they were exceptionally useful, they were rewarded with scientific medals, khitabs, and jagirs. Otherwise, even their names are not recorded, they are indicated merely by capital letters[7,13].

It will be appropriate here to give some details[7,13]. "During the year 1876 one of the trained native explorers of the Great Trigonometrical Survey named 'the Mullah' ascended the Indus river from the point where it enters the plains of the Punjab at Attock to the point where it is joined by the Gilgit river". In 1877 "M.S., a native gentleman of the Muhammadan faith, and of much repute among his co-religionists" explored the areas beyond Hindu Kush. He was presented with one of the two medals which were placed at the disposal of the surveyor general of India by the Venice International Geographical College for award to meritorious native explorers. We do

not know the name of this gold medalist, but the case of Nain Singh and Kushan Singh is well known. They were called Pandit brothers. They are however, neither Pandits (in the sense of caste appellation) nor brothers (they were cousins).

A native officer of the survey, sub-surveyor Imam Baksh Bozdar took part in eight different expeditions during 25 years of his service. On his retirement in 1884 was given a grant of 250 acres of land in the Dera Ghazi Khan district (now in Pakistan), and the title of 'Khan Bahadur'.

The establishment of astronomical observatories [8,9] at Lucknow (1834), Trivandrum, and Hyderabad (1901) by Indian aristocracy also rightly belongs to the peripheral native stage, because although the ownership was Indian, the control was European. Lucknow observatory closed down as soon as the instruments and novelty wore off. Trivandrum met similar fate as far as astronomy is concerned, but being close to the magnetic equator, provided valuable magnetic data. Hyderabad observatory was attached to the Osmania University and had a rather unspectacular existence.

Except for clandestine activities outside the boundaries of British India where ethnicity was a crucial factor, the role of Indians in the scientific pursuits remained peripheral. However, as the needs of the Empire grew so did its perception of the abilities of the natives. The scientific content of the British administration in India increased steadily and with it increased the role assigned to the Indians. At the first step the natives moved from being coolies to calculators. In the second they graduated to become doctors and engineers to work in the network of railways, telegraph, roads and canals.

The British timed their operation well. When upper Ganga canal was being dug, an engineering college was set up at Roorkee. When wood was needed for the railways, a forest school was opened at Dehra Dun. It is no wonder that the British emphasised higher education among selected Indians rather than removal of mass illiteracy which would harm their interests. The sahib's faith in the baboos was fully justified. During the 1857 upheaval it was an Indian, Sibchunder Nandy, who kept alive the vital telegraph link between Calcutta and Bombay.

The simultaneous use by the British of science as well as the natives brought the two into contact. This point is tellingly brought out by the contrasting case of two 19th century Indian astronomers.

Samanta Chandrasekhar (1835-1904) [15,16] was born in the small village Khandpara, some 50 to 60 miles west of Cuttack. The only astronomy he could learn was the pre-telescopic one. Following in the footsteps of Bhaskara (b AD 1114) and using primitive instruments he completed at the age of 30 his *Siddhanta Darpana*, containing 2,500 Sanskrit 'shlokas' of various metres, including 2,284 of his own composition. He was looked down upon by his

Khattiyya clansmen, including his nephew, the king, for taking to a brahmanical profession. The raja of Puri bestowed on him the titles Harichandana Mahapatra. In 1893 the viceroy issued a 'sananda' conferring on him the title of Mahamahopadhyaya, a title normally reserved for Brahmins. A year before his death, he was sanctioned a monthly pension of Rs 50 "in view of the high social position of the Maha-mahopadhyaya", with the viceroy explaining to the secretary of states for India [16]

the case being a curious and interesting one of devotion to learning for its own sake and the lieutenant governor believes that Government in honouring such a student will honour itself. The grant of a pension to such a student would be entirely in consonance with native feeling. We regard the pandit's work as no means devoid of interest and even value since it throws light upon the beginning of astronomy, by showing what can be done by primitive instruments.

In later years Samanta Chandrasekhar did see through a telescope, and bitterly regretted that he had not had the advantage of such an instrument in his younger days [15].

In sharp contrast stands the case of Chintamani Rapoonatha Chetty (1828-80) [8,9] who was the son of an assistant at the Madras observatory. He joined the observatory as a daily wage when still a teenager and rose to become the first assistant with a monthly salary of Rs 150. His 1867 discovery of a variable star R Reticuli is the first recorded discovery by an Indian. This earned him the fellowship of the Royal Astronomical Society. He set out to update the elements of traditional 'panchangis'. He compiled a work in Tamil entitled *Jyotisha Chintamani* (he did not know Sanskrit). He also published an almanac *Drig garita Panchanga* with the help of the *Nautical Almanac*. Chetty gave public lectures on astronomy and brought out a book on the 1874 transit of Venus. This book explains the phenomenon by a dialogue between a pandit and a 'vidvanti' (an astronomer). Originally written in Tamil it was translated into English and other local languages including Urdu.

It was only natural that while serving the scientific interests of the British, Indians should think of responding to science on their own. This takes us to the third stage of growth of science in India.

INDIAN RESPONSE STATE

Conquests in India made Britain self-conscious. India had been a fabled country, its subjugation was seen as a proof of the superiority of the British way of life. The British therefore set out to impress their values upon the Indians. There were practical considerations too. India was already a thickly populated country, where permanent white settlement was out of question. And after the disastrous Portuguese experience Britain had no intention of producing a nation of half-castes. It was, therefore, essen-

tial to involve Indians in the task of ruling over India. Thus inherent in the British rule was the preparation of Indians to eventually overthrow that rule.

The preparation, slow as it was, started quite early. In 1774, the company established a Supreme Court of Justice at Calcutta. It was a revolutionary concept. For the first time in the history of India, there was now a framework of law which did not depend upon the personality of the ruler. Indian lawyers would provide valuable leadership in the years to come.

The offshoot of the introduction of judiciary was even more momentous. It became essential for the company to familiarise itself with the Hindu (as well as Muslim) law [17]. A digest of Hindu law was prepared from the 'pandits', but no one could be found to translate it from Sanskrit into English. It was, therefore, first translated into Persian and then into English. It was thus clear that Sanskrit was not an entirely dead language; it had a utility value also. This convergence of the practical need of the company and the scholarship of Sir William Jones brought about the all-European Asiatic Society in 1784, which initiated researches into Indology (Indians were not admitted till 1829).

Moreover, European men of science were fascinated by the mastery of the 'pandits' in preparing astronomical almanacs even without knowing the why of it. Thus John Warren, a former Madras astronomer and a blue-blooded French nobleman descended from Norman the Conqueror, took up a monumental project on south Indian systems of time-keeping. The work won approval from the 'pandits' who named it *Kaala Sankalita*, and showed their appreciation by offering to pay the expenses of the wedding of Warren's daughter. Though Warren had started the work 'on a call of personal friendship, the Madras government decided to fund it for its practical value. It was felt that the work would make Indian calendars intelligible to the Europeans, facilitate a comparison of the European and Indian chronologies and thus be of service to gentlemen employed in the Revenue and Judicial departments' [18].

European interest in India's antiquity had far-reaching influence on the Hindus. The discovery of their past glory, as certified by the Europeans themselves, restored the long-lost sense of self-esteem of the Hindus and gave them the courage to look the Empire right into the eye. (It also created Hindu revivalist and increased their distance from the Muslims.)

During the first 100 years of their lordship over India, the British introduced the Indians to the English language and literature, to western thought, to India's glorious past, and to modern science, and education. It was now for the Indians to prove, to themselves more than to anybody else, that they as the inheritors of a great civilisation were capable of becoming full-fledged members of the world's science club.

It became clear to the Indian opinion makers quite early in the game that the English education being imparted to them was inadequate. Thus *The Hindu Patriot* wrote on April 6, 1854 "The end aim of their [native's] education is to make them either accountants or letter writers. The resources of the country will never be developed unless the children of the soil learn to develop them"

The role of science as social reformer was also noted. Rajendralal Mitra (1829-91), who later became the first Indian president of the Asiatic Society, wrote [19] in 1854 that "practical training will be an effectual means for the removal of those barriers to progress which have been created by the ancient system of confining the cultivation of industrial art to particular classes, and those the least educated in the community". Mitra had just established an Industrial Art Society where Indians could learn practical skills [20].

Here was thus an attempt to create an Indian infrastructure of science parallel to that of British India. Such attempts were few, half hearted, and ineffectual. The Bengalis believed that since they knew Shakespeare as well as, if not better than the British themselves, their edifice of science should be an extension of, and supported by, the British effort. 'Science application' was to be left to the government; it was 'science speculation' that needed cultivation.

The leadership came from Mahendralal Sircar (1833-1904) a poor orphan who owed his station in life to western education. As a 1929 biographical sketch [12] of him puts it "The object of Dr Sircar was not to establish a technical seminary and thus make his countrymen a nation of artisans and mechanics, but to diffuse among them the ascertained principles of western science in the hope that after mastering what had already been discovered by the Europeans, the Hindus might, in course of time, add their own discoveries to those of their fellow brethren of the west".

Sircar was a man of strong convictions and tenacity. An MD from Calcutta Medical College, he had the courage to face professional ostracism for his advocacy and practice of homeopathy (He charged Rs 100 a day for out-station visits). In 1869 Sircar came up with the idea "of a national institution for the cultivation of science by the natives of India", and enlisted the support of Sir Richard Temple, the lieutenant governor of Bengal and "a man of wide sympathies, deep culture and high education". Sircar "was well aware that official support was the only key to unloose the purse-strings of his wealthy countrymen. The enlightened middle class would support the project on merit. "But the merchant princes and landed aristocrats, hungry for title and fame, would slavishly follow the foot-prints of the official head of the province" [12].

Finally, "after six years of restless pro

paganda" [12], the Indian Association for the Cultivation of Science (IACS) was inaugurated in January 1876. The rather peculiar name for a research laboratory needs a comment. In 1876 itself a political organisation of the educated middle class named 'Indian Association' was set up by Surendranath Banerjee. The IACS was the scientific extension of the political movement.

To Sircar's great disappointment, IACS failed to materialise as a research laboratory; it remained a forum for popular and college level lectures. In 1893 IACS was recognised by the Calcutta University as a teaching centre. Two eminent scientists of the day Sir Jagdish Chandra Bose (1858-1937) and Sir Prafulla Chandra Ray (1861-1944) lectured at IACS though they carried out their research work at their own college, the Presidency College (on retirement Bose set up his own research institute). Another visiting lecturer was Pramatha Nath Bose, a senior government geologist [10]. Bose is a good example of the transition from the 'peripheral stage' to the 'response stage'. On his retirement from the Geological Survey of India P N Bose was offered appointment by the maharaja of the mineral rich state of Mayurbhanj. It was Bose who educated Sir Jamsetji Nusserwanji Tata on the iron deposits of the area. This resulted in the establishment of the Tata steel mill at Jamshedpur [10].

The lesson was not lost on the Tatas. They set up a technical university at Bangalore, calling it Indian Institute of Science, because the word university at that time had the connotation of being no more than an examining body. The Bangalore institute, which admitted its first students in 1911, represented the first investment of 'Parsi money' for a general cause, and that too outside the Parsi mass base of Bombay. The choice of Bangalore was made possible by the munificence of the maharaja of Mysore, whose inspector general of education Hormusji Bhabha, (Homi Bhabha's grandfather) was related to the Tatas by marriage. Here the control was British, though the students were Indian. (Interestingly this technical university established by the Tatas in the heyday of the British imperialism was named Indian, whereas the research institute set up on the eve of India's independence was named by the Tatas after themselves).

While the 19th century IACS had failed to take off as a research laboratory, it came in handy for Chandrasekhar Venkata Raman (1889-1970), a teenaged Indian government official to do part time research in physics that led to a Nobel prize. At about the same time Calcutta University was transformed into a postgraduate studies and research centre by Sir Asutosh Mookerjee (1864-1924) [21] who was the university's honorary vice-chancellor during 1906-14 and 1921-23. Mookerjee was appointed a high court judge in 1904. Earlier he had written research papers in mathematics under his pre-anglicised name and had given lectures at

IACS. He turned to law only when he failed to get an appointment at IACS (which had no money) or at the Presidency College (which would not offer him the same status and pay as it did to the Europeans). As vice-chancellor, Mookerjee persuaded wealthy Indians, especially lawyers, to make endowments to the university for setting up (1914) the University College of Science and Technology where the professorships would be held by Indians themselves. Raman resigned his government job to become a professor at the university, in the process his salary went down from Rs 1,100 to Rs 600 per month [22].

The pinnacle of Indian response to modern science was the path breaking work of Raman, Megh Nad Saha (1893-1956) and Satyendra Nath Bose (1894-1974). It is important to keep in mind that these spectacular achievements were made possible by a fortuitous combination of factors. Those were the days when frontline research was just a short step ahead of MSc level studies. Thus Saha and Bose translated Einstein's German research papers on relativity for use as course material (This was the first translation of Einstein into English). Secondly experimental sciences were at a stage where they required elementary infrastructural support. Industrial back up needed for researches of J C Bose, P C Ray and C V Raman was easily available in the country. It was science application under the aegis of the British Indian government that made science speculation by Indians possible. Finally the take off stage of modern physics coincided with the peaking of Indian nationalism. Science was seen by Indians as an extension of their freedom struggle. Making scientific discoveries requires a certain amount of defiance. The oppressed anger against the colonial rulers provided that defiance.

Paradoxically while Indian achievements in science were perceived as a symbol of nationalism, at the same time the honours bestowed by the colonial rulers were coveted and even flaunted (P C Ray is probably the only exception).

The most extraordinary example of Indian response to modern science is the college dropout, creative mathematical genius Srinivasan Ramanujan (1887-1920) whose introduction to modern mathematics at the age of 15 began and ended with Carr's *Synopsis of Pure Mathematics* which a friend borrowed for him from the library of the government college at Kumbhakonam [23]. Fortunately, there were around men of science who had the sense to put him in touch with the mathematicians at Cambridge.

A corollary of sciences being treated as an extension of the nationalist movement was that it was seen as a pure intellectual exercise, rather than as a means towards the production of wealth. Thus J C Bose refused to patent his discoveries [20], and when patents were obtained in his name refused to encash them. Later when Sir Shanti

Swarup Bhatnagar (1894-1955) received a large sum of money from industrial consultancy, he gave it away to his university, maintaining [24], in the words of his son, that "scientific work loses its altruistic and truly cultural character if the worker becomes money-minded and begins to get financial benefits for himself". The only exception to science-as-a-cultural-activity syndrome was P C Ray who advocated the coupling of scientific research and industrial production, and himself set up a number of production units.

It is interesting to note that science meant different things to different people, depending upon their social and cultural background. To Raman, born in a caste associated with learning, science was a means of establishing a 'gurukul' on his terms. To Saha, born in a caste considered socially backward, science was an instrument of social change. To Homi Jahangir Bhabha (1909-66), born outside the caste structure but like Nehru an aristocrat by upbringing, science meant building national institutions under the auspices of independent India's government.

CRITIQUE

We have argued that the production and growth of modern science in India was encouraged by the British with a view to furthering colonial interests. Thus the British sponsored science by the very reason of its existence, was field science. Geography, geology and geodesy, botany and zoology, archaeology, medicine and even astronomy—all these stemmed from the physical and cultural novelty of India. This science was colonial in the sense that its agenda was decided on grounds of political and commercial gain. But the studies made in India could not have been carried out anywhere else. The European scientists at work in India felt and acted like pioneers in an exotic land and were not always on the best of terms with their counterparts back home.

The role assigned to the Indians in this state science was clear-cut. They were to provide cheap labour which they did most conscientiously. Since the natives generally knew their place, there was a general encouragement to them from their British bosses. Lambton, and then Everest, took good care of their staff. Everest got a native Syed Mir Mohsin Hussain (who did not know English) appointed as the head of the mathematical instrument department and insisted on his being given the same designation as his British predecessor, if not the same salary. The Madras astronomer continued his chief assistant Ragoonatha Chetty in service (even after he had become senile) so that he could get full pension benefits.

The westernisation of the Indian middle class was as much a matter of satisfaction to the British as was the physical subjugation of India. It was to be expected that an Empire would show some respect for the

Republic of Science. When the Indians decided to do science on their own initiative, they received encouragement, if not money, from the British. Thus J C Bose was retired on full salary, and Raman was knighted before he got 'Nobelled'. The success of the British in projecting themselves as the patrons of science as well as of the Indians can be seen from the fact that even today Ramanujan is introduced as the first Indian Fellow of the Royal Society, while in reality his fellowship is more a tribute to the good sense of the society than to him.

We have distinguished here between European scientists engaged in government science, their native scientific assistants, and the Indian scientists who were full-fledged members of the 'Club of Science'. Our model differs from the one given by Basalla [25], which romanticises science and trivialises the compulsions of colonialism. The development of science and technology in the west did not take place in a vacuum. It was directly linked to the colonisation of India, which financed the whole exercise and in return received fringe benefits.

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Marxism and Crisis of Communist Ideology

Kian Tajbakhsh

RAJENDRA PRASAD's questioning of the historical relationship between the ideology (marxism) and organisation (the party) of the communist movement in India and elsewhere in 'Communist Theory and Communist Parties' (*EPW*, March 30), raises a number of issues of central importance for a progressive political agenda today. He poses the question of whether intellectuals within the party have a legitimate space for theoretical discussion and innovation. In other words: who has the right to interpret Marx? He implicitly critiques communist parties which by being closed off to constituencies, issues and theories that have emerged from the 'outside', have all too often been an obstacle to further theoretical development.

But this raises a further set of questions. Either his critique refers to the tendency towards ossification of organisations in general irrespective of their ideology—in which case it tells us little about the specificity of Marxist/communist parties. Or there is something particular to Marxist parties which gives them this tendency towards rigidity and dogmatism—in which case we have to look not only at the organisational form but the theory articulated with it. The first case would require a comparative sociology of organisations. The second option leads us to consider the theory of Marxism itself. I propose to follow the second path. I want to radicalise the critique of organisational form and focus on the discourse of Marxism itself, for it is there that I believe that the crisis of communism lies. The following brief remarks are intended to contribute to the reinvigoration of a democratic and socialist project, not bury it.

A recent article examining the "confusion and demoralisation" of the Indian left, concluded that, "at its roots the crises facing the Indian communists is one of the crises of communist ideology itself". Few people today would disagree. Marxism's strength lay in its claim to be a critical theory with practical intent: a theory, in Marx's famous phrase with which to not only understand the world, but change it. If Marxism's claims are no longer convincing, what is at the root of the crisis? I will attempt an answer by looking at three themes: the Marxist concept of class and politics, its usefulness as a guide to economic, political and social policy, and its prophetic vision of a future society.

Since we immediately run into the problem of what Marxism 'really' is, I want to make the simplifying assumption that Marx meant what he said and propose the following as a working definition. Despite variations, all Marxisms must share one fundamental claim; that the emancipatory political project (however defined) of contemporary society (however defined) is

rooted in a single agent, the working-class (however defined). In other words, it privileges one political identity, (the working-class) anchored in one type of activity, praxis or labour, as constituting the agent of socialist transformation and the addressee of its discourse. Marxism (a way to change the world not only to understand it) stands or falls with the viability of this position.

THE QUESTION OF 'CLASS'

Marx's fundamental concept was that of 'class'. It provided the key for the diagnosis of modern society and inequality: capitalist society (including forms of politics and ideology) was based on the economic exploitation of one class by another. It provided a practical-strategic guide by identifying the group that could liberate itself and all of society from this oppression: a unified, conscious *working class* acting 'for itself'. And it provided the philosophical-utopian vision for the future liberated society: the free association of the *producers*, a *workers' democracy*, engaged in *unalienated labour*. Together with a theory of history as a series of class struggles, and of human nature constituted through the 'praxis' of human labour, this vision added up to more than a theory—it provided a formidable worldview inspiring the international communist movement, workers' movements in many countries and countless other struggles against oppression and inequality. But there are at least three reasons—conceptual, empirical and normative—to think that this framework can no longer provide a guide for a progressive politics in the contemporary world.

For Marxism 'society' is conceived of in the well known metaphor of an economic base and a political/ideological superstructure. The 'real material' base, in which economic classes of proletariat and capitalist confront each other, determines the superstructural elements of the state and of ideology. Liberal democracy is really bourgeois democracy, and the leading ideas of society—say, talk of morality or legal rights or freedoms—are the ideas of the ruling class. This theory thus *privileges* the economy, the relations of production, in two crucial ways. First, private property is privileged as the conceptual key to unlock the real basis of political forms. Second, the actors in that sphere, the working-class, are privileged as the bearers of a progressive politics and a socialist—that is to say emancipated-society, identities such as caste, gender or nationality are therefore secondary for the socialist project.

If it is pointed out that politics and ideologies can in turn determine and affect the development of the economy, the

response is that politics and ideology have a relative autonomy from the economic base but are 'in the last instance' determined by them. But as a theoretical proposition this is incoherent: something cannot possess (any) autonomy if it is ultimately determined by something else. As soon as it is admitted that in principle, any sphere of society can affect any other, then this use of the metaphor of base and superstructure loses its meaning. Two conclusions follow. First, political processes and ideologies cannot be analysed as reflections of class processes; and second, no one identity has an *a priori* progressive character: we do not know in advance the 'objective' interests of any group. In this case the proletariat as the gravedigger of capitalism has no coherent theoretical justification.

We can perhaps add a brief note regarding the question of the party and organisation. It should be clear from the above that the concept of objective interests is fundamental to the Marxist political (world-historical) project and is the basis of its claim as a 'science'. But if interests (such as a factory worker's interest in overthrowing capitalism) are objective, who then has access to this knowledge? And what if 'this or that proletarian' is not aware of this interest? It is not difficult to see that once interests are defined in a cognitive rather than discursive form, then an institution or persons can claim to possess this knowledge. From here, there is a strong tendency towards the guardianship by a group of leaders of what is or is not in other people's interest. It is in this way that a certain rigidity and dogmatism, although not inevitable, is strongly present as a possibility within Marxist discourse. Once the moral or normative questions of right/wrong, good/bad are assimilated to epistemological questions of truth/falsity, then the sphere of democratic public discourse is trimmed down to the domain of intellectuals either possessing or not possessing the 'truth', whatever the content might be.

Returning to our previous point then, we can say that the conceptual identification of the objective agent of revolution cannot be a scientific operation of 'discovery'.

But let us suppose that there were no conceptual difficulties with the idea of the primacy of the economy and the working-class. Could these propositions find empirical support? The Marxist notion of class struggle was always accompanied by a sociological hypothesis: as a result of the laws of capitalist development "society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other—bourgeoisie and proletariat". This is because industrialisation would bring together masses of workers at the point of production and modernisation would diminish the importance of 'traditional' types of association (such as religion, community, ethnicity) for those who must enter the labour market to survive. (This latter conception is also shared by many liberals who argue for ex-

ample that caste divisions hide the 'real' economic, bread and butter issues.)

Not only has this simplification of the social structure not occurred but there is strong evidence to suggest that 'the lack of homogeneity of the supposedly normal category of the standard employee is not a remnant and residue of pre-modern social structures but is in fact, created in the process of modernisation itself'. Examples such as the distinction between the so-called informal and organised sector labour markets created in part through the introduction of new technologies and skill requirements, and the enhanced ability of administrative and political structures to target specific employment groups (such as in reservation policies), are all indications of labour market segmentation as modern phenomena.

Therefore the anticipation of a conflict between two homogeneous collectivities—the basis of class warfare—has little empirical support. Rather the experience of deprivation is characterised more by multiple and overlapping cleavages that run both across social classes and through individuals.

But let us suppose that there were neither empirical difficulties with the idea of a unification of a 'working-class' nor conceptual problems as discussed above. Would a progressive agenda today want to pursue such a project of proletarian revolution? This normative dimension has been put in to sharp relief by, above all, two experiences: the communist bloc countries and the proliferation of struggles (both in India and elsewhere) such as the women's, racial and ecological movements that go beyond the confines of a working class identity.

Marxism views human nature as constituted in the reciprocal interaction of 'man and nature' through the process of production. In a fundamental sense what it means to be human is embodied in that act of labour. But where labour is now alienated from 'man' emancipation means the return of these essential powers back to 'man'. It is not arbitrary then that the utopian vision inspired by Marxism has centred around the ideas of a classless society, the association of the free producers, unalienated labour, the dictatorship of the proletariat, workers' democracy based on factory councils and so on.

But we may ask: why just a workers' democracy? The response: since everybody will be a 'worker' this can only represent the universal interest. The problem with this is not only the practical issue of there being groups outside of employment but the more worrying idea that humans are fundamentally given by one identity, which will be revealed in the future society. For one of the cornerstones of any society that wishes to expand options and allow individuals to explore diverse identities, is the defence and encouragement of *difference* and plurality, both within individuals as well as between groups. Indeed, the very project of linking the universal interest with any single sociological group (be it a class, caste, gender or whatever) is no longer a convincing basis for a radically democratic and pluralist project.

Any progressive movement that wants to take democracy seriously must take dif-

ference seriously. But instead of fostering an idea of a radical pluralism, Marxism has tended to do the opposite. Is it an accident that other identities and struggles, such as gender and caste, have been so absent from the theory and practice of communists and Marxists? If not, then the adequacy of the theory employed by the left must now be seriously questioned.

MARXISM AND POLICY

Why has the left been unable to provide a plausible set of policy alternatives in theory or in practice for the complex of issues relating to the economy or the state in contemporary societies? Any movement that wishes to influence the directions and contents of policy decisions to appeal to a wide base of support for these policies, and not surrender the field to neo-conservative and authoritarian agendas must provide a coherent analysis and strategy for the reform of the economy and the state.

For the last 150 years Marxism has set the terms of debate for the left concerning two central policy issues: the economy and the state. The criticism that it has focused on the negative effects of the market and the misuse of power has been indispensable and arguably without peer. Nevertheless it has been unable to fulfill its own claims to see them both in their negative and positive aspects. This is because Marxism views these modern institutions in a way that leads to their categorical rejection instead of a selective appropriation. *The market* is viewed as the site of profit-seeking capitalists; as the arena where an otherwise co-operative community of workers are pitted against each other through competition; and above all as the expression of the underlying *class* relations of exploitation. Money is the reified symbol of alienated human labour power made abstract. And the *state*, in the well known words of the *Communist Manifesto* is but a committee for managing the common affairs of the whole bourgeoisie since the latter has conquered for itself in the modern representative state exclusive political sway. The institutions of the modern democratic state—parliament, judiciary, bureaucracy, rights, etc. are therefore expressions of *class* rule. They mask what is in essence bourgeois democracy.

Now what is common to both these positions is their totalising character. They suggest that in the market and the state, we are confronted with *nothing but* the manifestations of the latest version of class rule and oppression. Traditional feudal social structures have largely been (or will be) destroyed by capitalist development and have given way to these new forms of exploitation and alienation. But it is totalising because from this perspective we are unable to distinguish between the destruction of traditional forms of life on the one hand, and the distortion of post-traditional forms of life on the other.

The market and the state are areas of social life that have been differentiated out from other social processes, crystallising into 'quasi-natural' systems with their own laws and logics. This is what we mean when we say for example that money and the

economy 'work behind our backs', through the famous invisible hand and that political parties or bureaucracies develop their own momentum and interests. On the one hand, through this autonomisation, these subsystems achieve a greater level of efficiency and complexity—in the regulation of economic activities or the administration of social life—as a result of internal specialisation and rules of operation.

On the other hand, Marxism views these historical results with suspicion. It correctly highlights the pathological effects of this development: e.g. economic crises, material impoverishment, the tendency of democratic bodies to ossify or represent only particular interests, etc. However, it cannot theorise the positive *potential* of the increased 'rationality' of a market co-ordinating vast and complex economic activities thereby harnessing greater material productivity. Similarly, it cannot theorise the positive *potential* of the greater rationality of autonomous political and administrative abilities in organising (some aspects of) social life under universalistic principles. In fact Marxism views the separation of the economy and the representative state from the control and concrete interaction of a community of individuals as a sign of the alienation of social life.

Since they are both seen as expressions of underlying class relations *only*, and if revolution means the elimination of these relations of exploitation it logically follows that revolution also means the elimination of the institutions of the market: representative democracy, specialised bureaucracy, etc., *in toto*. The functioning of the economy and the state should be absorbed back into community life itself. Direct democracy comes closest to capturing this alternative: the association of the free producers will organise collectively both society's labour and production as well as the administration and legislation of rights, conflicts, etc. without the mediation of differentiated institutions of the economy or the state. It is not coincidental that Lenin would claim that after the overthrow of capitalism 'any cook can govern'. Nor is it coincidental that socialists for so long have turned red at any mention of the market, as a concession to capitalism.

It should now be clear why the left, in or out of power, has been so much at a loss when confronted with policy questions concerning liberalisation, privatisation, increasing government control, etc. The historical experience of the centrally planned economies provide strong evidence that markets cannot be eliminated without severe disruption of economic efficiency. And the experience of recent movements against the welfare states of western Europe and United States and criticism of cynical 'vote-banking' by Indian political parties, demonstrate that the use of state power to organise many aspects of social life in addition to the economy produces its own crises.

But the left approaches the question of the market and the electoral system in an *ad hoc* manner faced with the inertia of money and power as principles organising social life, the communist parties engage in economic policies and contest power

through elections all the while denouncing both as capitalistic and a bourgeois sham. This incoherence has not helped these parties' credibility with their potential constituents. The left's reliance on Marxist and Leninist assumptions about the economy and the state appears therefore more as an obstacle than an aid to a renewed vision of a radically democratic, pluralistic and socialist agenda.

LEFT, UTOPIA AND REVOLUTION

Mario Vargas Llosa recently remarked that in politics utopias are a very dangerous thing. Utopian thinking has produced great individuals and works of creative genius. But in politics (his main target being Marxism and communism) the striving to realise an ideal system leads to a failure to confront problems of the present. This can only lead to disaster, as the experience of the communist model allegedly shows.

Now while we are not forced to accept the neo-conservative alternative of the 'end of history' so popular today, I do believe that it is incumbent on socialist to question the utopian revolutionary discourse of much radical thinking. The humanitarian and egalitarian aspects of the Marxian socialist tradition are vital to any renewed radical movement. But two elements in particular in the socialist project are problematic and require revision: the totalising character of Marxist theory and the Jacobin strategy of revolutionary rupture.

Marx was unable to deliver convincingly on his intention to analyse history dialectically, that is to acknowledge the positive contribution of capitalism to world history while identifying the means to transcend it. By making production the central category of social analysis, human nature and a utopian vision, two things follow. First, Marxism only recognises the increased material productivity of capitalism as an evolutionary gain over previous societies. Normative features such as law, forms of democratic opinion formation, religion, etc. are either reduced to the economic base or they are ignored. Secondly, by tracing the complexity of social phenomena and institutions back to the class processes of commodity production or wage-labour, even in the final instance, it becomes impossible to distinguish between contemporary society as a result of the destruction of traditional forms of life on the one hand, and the distortion of these post-traditional forms of life on the other. Since we cannot discriminate between institutions of modernity and their bourgeois versions, then any post-bourgeois order must necessarily mean a total and apodictic break from the present. This 'Jacobin' imaginary has been the foundation of the usual distinction between reform and revolution: anything short of a root and branch transformation is merely reformist, a selling out.

But this totalising perspective has led to a paradox. By devaluing as it were, the present, this leaves only two contrary, and equally inadequate, options for the transcendence of contemporary alienation and social oppression. Either through a utopia of the past which romanticises

previous forms of social organisation, captured in such slogans as 'back to nature', 'small is beautiful', and so on or alternatively, through a utopia of the future which imagines a society entirely discontinuous with the present. This double utopian flip-flop is the paradox faced by totalising rejections of the present.

Now if we reject these two options, several conclusions follow. First, the reform/revolution distinction—in its traditional meaning of demarcating reforms which lead to 'real' social change from those which do not—must be discarded. In principle, any reform must be evaluated in its own terms and can be articulated within a larger political project. The mythology of proletarian revolution cannot be counterpoised to social democratic reformism. A radical democratic project must try to extend and deepen egalitarian and universalistic principles of argumentation and consensus formation in a reactivated public sphere that is sensitive to the multiplicity of particular traditions and cultures. This greater reflexivity encourages the equal participation of groups and individuals. This means, secondly, that in principle any area of society—not only the economy or the state—can be a site of the radical contestation of power. A renewed emancipatory project must embrace as many struggles as possible: class, gender, caste, ethnicity and so on. It cannot be restricted to a socialist working class project alone.

A further consequence of this 'multiplicity of the social' is that the idea of society as a kind of macro subject with a fixed centre—either in the economy or the state—

must give way to the idea of an open multinodal complex that cannot 'direct itself' along the liberal or social democratic model, i.e. by means of the market or the state. Society developed a certain self-consciousness as it were when it became clear that the economy had split off and that its crisis tendencies needed to be controlled. This universal will embodied in the (Keynesian or socialist) state would then regulate economic life. But it has now become apparent that not only is the economy not amenable to this kind of control without loss of economic rationality but the state itself has split off with its own momentum and dynamics and must be controlled in its turn. The type of institutional arrangement that can address these problems is one of the challenges facing the left today.

What then of utopias? Is there a way to reconcile the recognition of some present institutions as necessary for a democratic society with a vision of the future as distinct from the present? A project of creating a public sphere that is open to the multiplicity of cultures and identities; is sensitive to the destructive effects of the economy and the state yet able to steer these spheres in a direction that itself does not endanger the increase in options that they can bring, requires a normative orientation that is more procedural than substantive and that no longer sees this as anchored in one single mechanism of money (market), power (state) or community. The way these three institutionalised 'resources' are brought into synch with each other is a challenge that the left faces today.

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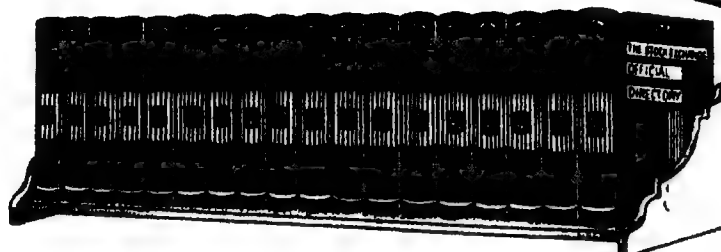
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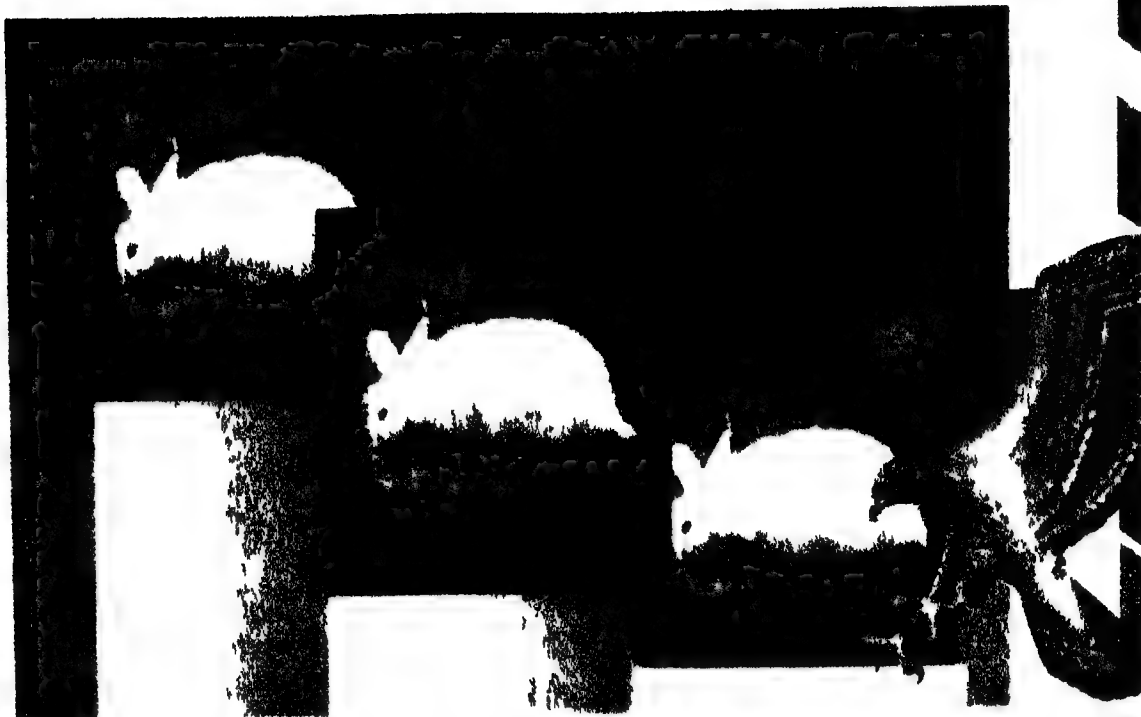
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The Budget and Structural Adjustment

The fiscal management undertaken in the budget for 1991-92 raises a number of important issues. Is the finance ministry's perception of the impact of the fiscal parameters on macroeconomic variables correct? Do the proposed steps constitute the right cure for the macro imbalances? And, finally, does the budget try to minimise the costs of adjustment without sacrificing the basic short and long run objectives?

1977

Against the background of recent economic policy measures which will be highly inflationary, will slow down investment and will hurt the poor, the budget leaves the larger issues in the fiscal sphere unaddressed

1993

The likely impact of the budget has to be judged along with the effects of the devaluation, the compulsion to increase exports, the pressure of increased costs on prices, the likely increase in foodgrain procurement prices, the lagged effect of past inflationary pressures and the impact of the relatively weak monsoon

1989

The budget proposals are surprisingly cautious in carrying forward the liberalisation programme in the area of fiscal policy

2005

The budget's response to the *Economic Survey's* call for a "serious effort to introduce corrective measures through hard decisions and difficult choices" is a feeble one

1999

To bridge the gap between domestic saving and investment there was need for a purposive attack on 'dissaving' by government and a serious effort to increase the savings of the community by stimulating 'local area planning' through devolution of both authority and finance. The greatest failing of the budget is in these areas

2011

Elitist Model

The notion of democracy which informs both the prevalent models of development—the Nehruvian one and the market oriented one being implemented today—is an instrumental, elitist one and this has contributed to discrediting the political system

1953

Learning from Nomura

The startling revelations about the doings of the two largest Japanese securities houses whose heads have been forced to resign, hold many lessons for us

1948

Chunduru Massacre

Economic disparities do not provide a sufficient explanation for the massacre of Dalits in Chunduru in Andhra Pradesh earlier this month

1967

Drug Policy

Not many people are perhaps aware that the government's drug policy which affects the health of millions of people, is formulated not by the health ministry but by the ministry of fertilisers and chemicals

1963

Economics of It

The aspirations of the emerging middle bourgeoisie in the Hindi heartland may be one reason why the BJP's demand for ending Article 370 in respect of Kashmir is getting wider response

1959

Price Signals

The latest price trends bear the clear imprint of the devaluation and the budget proposals

1957

Unprotected

Indian laws, criminal or labour, offer little protection to women against sexual harassment at the workplace

1965

After Apartheid

The legal scaffolding of apartheid is being rapidly removed, but few have begun to face up to the costs of real social change in South Africa

1971

Threatened Monopoly

Rabindranath Tagore is to be linked from Viswabharati, the Vatican and the Pope are to cease to be inseparable categories

1951

Biased Interpretations

THE main point of the authors Geetha and Rajadurai (*EPW* June 29) seems to be that a party (DMK) which with all its shortcomings was trying to uphold anti-Brahminism and social justice and as far as the authors are concerned these terms are synonymous as well as Tamil nationalism has been done down by various reactionary elements (obviously reactionary since they were opposed to a party with all these virtues). But equally obviously to a majority of the electorate facing problems of poverty, lack of employment opportunities, growing law and order problems, urban stagnation etc., anti-Brahminism was not a sufficient rallying cry to vote for the DMK, and the report fails to make a mention of these factors even in passing.

Besides, what is Brahminism? Is it limited only to the Brahmins? Elitist casteism is not the prerogative of Brahmins alone as all accounts of attacks on Harijans in Tamil Nadu and elsewhere prove FVR quite rightly and justifiably focused on the Brahmin as the apotheosis of all caste-based domination in order to mobilise the underprivileged castes and to promote social reform, political parties have used this over-simplification for political purposes. But one would expect more depth and subtlety from reputed researchers.

One of the objectionable aspects of this kind of reporting is the use of value-loaded words to project a desired image. Thus if Brahmins write to the newspapers on issues which threaten (in their opinion) their identity, interests or survival, it is 'blatant casteism'. But are such channels not open to everybody to voice their concerns, whether valid or misguided? It is not clear by what norms of democratic functioning the authors think that such methods of articulation should be confined only to the chosen people who have seen the light.

A last note of protest (or even outrage) is directed at the self-proclaimed right of the authors to define 'Tamil' or 'Dravidian' culture as something from which Brahmins are automatically excluded, which not only shows a poor understanding of the history of Tamil culture and literature, but also raises questions of when and how cultural assimilation is accepted to have taken place in a pluralistic society. (If one were to take such xenophobia to its logical conclusion, all Dravidians should start getting ready to move back to Mohenjodaro and Harappa and all Aryans to the west, leaving India to the

'original' inhabitants!)

All these questions are raised with an ultimate sense of the futility of such protest, since the standard reaction to all counterquestion is to brand it 'casteist'. Sadly, the pursuit of dispassionate intellectual inquiry and debate seems to be lost amongst us.

KANAKALATHA MUKUND
Hyderabad

Reviving Shibboleths

IT is unfortunate that V Geetha and S V Rajadurai in their article on 'Dravidian Politics: End of an Era' have gone back to shibboleth to explain the defeat of Karunanidhi's DMK in the recently held Tamil Nadu elections. They see Brahmin hegemony, BJP conspiracy and Sankaracharya's evil hand in crushing the Tamil masses.

Geetha and Rajadurai do not seem to realise that Tamil Nadu is not Bihar and that elections have been free and fair with no element of booth capturing at all. To claim that the less than 3 per cent of the population (Brahmins) ganged up against the rest is ridiculous. Tamilians voted as Tamilians and they preferred ADMK (Congress(I) alliance) to the DMK (PM, CPI, JD, ML alliance). Where is the Brahmin hegemony? The foremost English daily from Madras, *The Hindu*, supported the National Front DMK alliance throughout. The popular newspapers, *Daily Thanthi* and *Malai Murasu*, are not Brahmin owned or run. Some of the leading Brahmin intellectuals of Tamil Nadu like S Guhan, N Ram and

V Athreya had supported the DMK-led alliance. If the ADMK-Congress(I) front fielded Brahmins in the elections, so did the DMK-CPI, JD, ML front.

For all practical purposes, Brahmin hegemony in Tamil Nadu died decades ago. Brahmins are like any other group with a few affluent, and many struggling to get on. It is not good political analysis to exaggerate their role or importance. That Jayalalitha is Brahmin born is more an accident than any indication of Brahmin hegemony. Had she been a Mudaliar or Chettiar or Vanniar or dalit, she would still have come to the top. That is the nature of democracy. People vote for those in whom they have confidence.

Finally, a word about the alleged articulation of subaltern interests by DMK. Let the authors go round Tamil Nadu villages and see for themselves what havoc DMK functionaries belonging to the dominant newly affluent backward castes like Thevars, Nadars, Vanniar, Gounders and so on, have done to the really downtrodden, i.e., dalits and the poor among the rest of the population. That almost every single woman's vote went to the ADMK Congress(I) combine tells its own story. If anything, the results of the Tamil Nadu election shows that casteist/communalist politics have been given a resounding negative vote. The real tragedy is the decimation of the left parties thanks to their opportunistic association with a blatantly anti-people casteist outfit like DMK and communal parties like MI (Lalith).

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End of the Road?

CAUGHT between aggressive but foolish 'hardliners' on the one hand and crafty tacticians at the opposite end on the other, Mikhail Gorbachev's pragmatic exercise of socialist renewal appears to be inexorably heading to its unceremonious end. The direction of this trajectory was perhaps predetermined by many weighty variables in the complex concatenation in the historical situation: the ill considered misadventure of the 'gang of eight' has only hastened its pace.

When he had first issued the call for a 'societal revolution' at a small Siberian town about half a decade ago Gorbachev obviously had no inkling of the task he was going to undertake, more to the point as it appears to be clear now he had no more than the haziest definition of the task itself. In his simple formula of that time a combination of 'more democracy' and some tinkering with the economic productive mechanism was deemed to be sufficient to produce 'more socialism'. His professed ideological position notwithstanding he made no attempt at linking his 'revolutionary' exercise with the initiative determination and the long term interests of any particular class or segment of the existing Soviet society. If he was going to lead a revolution it was to be a revolution from above and he was obviously banking on success in doing so by guiding and herding an amorphous mass undifferentiated, in his reckoning, by their socio-economic interests, ethnic specificities or historical antecedents. The two basic instruments he seemed to be relying upon were the power of his 'new thinking' and the mass of the intelligentsia he was hoping to rope in by its appeal. When and to the extent the new thinking stirred the intelligentsia as well as other segments of the highly pluralistic Soviet population, they were propelled in different and in many cases, conflicting directions. While all along from the beginning of the twin perestroika glasnost process last accentuating material difficulties dogged its every step.

Without a solid and defined social base, without any systematic ideational frame of reference, without even any demonstration of firmness in their commitment to any set of fundamentals, Gorbachev and his team of associates resorted to manoeuvring, temporising and compulsively shifting their ground under pressures of growing social tensions. The resultant of this, what Engels would have called 'parallelogram of forces', was a continuous strengthening of the forces of the real right, that is, a reinforcing of the anti-socialist, pro-west trends. This, not unexpectedly, propelled a combination of disoriented left elements, those subjectively committed to the socialist frame, together with desperate *status quo*ists to make the

adventurist bid to stem the tide by the main force of a narrow circle of armed forces and the secret police. They have succeeded only in delivering Gorbachev into the close encirclement of their enemy.

Needless to say, the changes of the last five years have not succeeded in giving more socialism to the Soviet people. But their import is not quite inconsiderable for that failure. They have succeeded in creating more democracy, strong enough to snuff out the attempted coup from above. This democracy will have to enlighten and arm itself through a critical assimilation of history to usher in 'more socialism' in the days ahead. The one indication however that emerges with clarity from the still confused picture is that 'more democracy' is a precondition for all other projects, both political and economic. But for this to be made possible the consolidation of the many freedoms now available, by cohering them around organising principles, is crucial. Till such time political democracy remains open to the danger of being hijacked by either the so called Kremlin old guard or by the now triumphal forces of the right led by increasingly chauvinist elements, whose democratic commitment is certainly not beyond suspicion.

In this respect, a first step, insofar as there is an identifiable first step, towards the restoration of some semblance of order that is simultaneously consistent with greater democracy is the conclusion of an agreement that will establish, even on a temporary or *ad hoc* basis, the nature of future political relations between the centre and the constituent units of the federation. Inevitably in the changed circumstances after the developments of this week, a new union treaty will be marked by a further attenuation of the powers and the formal authority of the centre. But there is a good deal to be said for not approaching the matter from fixed positions in regard to what would constitute the 'break up of the Soviet Union'. Indeed at this juncture a formal agreement on the framework of relations between the centre and the republics is one—perhaps the only, instrument for imposing a modicum of restraint on Russian chauvinism led by a Boris Yeltsin on the rampage after his role in defeating the hardliners' coup. Further the devolution of near complete political authority will also automatically transfer the responsibility for economic management to the republics. The democratic process may put in place relatively coherent economic and political arrangements in the different units and the project for the renewal of socialism through struggles in civil society may then just be feasible.

FOREIGN DIRECT INVESTMENT

Foreign Exchange Drain

THE August 91 issue of the *Reserve Bank of India Bulletin* carries a report on the finances of foreign-controlled rupee companies in India for the period 1984-85 to 1986-87. It is unfortunate that the report is being published with a lag of over four years—longer than was the case for the study covering the preceding three years, 1982-83 to 1984-85. All the same, some interesting facts have been brought out and these are of relevance in view of the renewed emphasis being currently placed on foreign direct investment.

According to the RBI study, the net outgo in foreign exchange on account of these foreign controlled companies was only Rs 35 crore in 1984-85, Rs 116 crore in 1985-86 and Rs 235 crore in 1986-87. Thus not only did the foreign controlled companies in India fail to make a net contribution to the foreign exchange earnings of the country, but also the drain on their account increased almost seven fold within a span of two years.

When one probes this performance of the foreign controlled companies further, it emerges that the increased foreign exchange outgo is due very largely to the increased imports by these companies unmatched by corresponding increase in exports. In fact, in 1984-85, the export earnings of these companies were slightly in excess of the value of imports (Rs 646 crore as against Rs 621 crore). In 1986-87, however, the position was reversed and these companies' imports exceeded exports by Rs 158 crore.

The total net outgo in foreign exchange referred to in the earlier paragraph should be seen against the background of the total paid up capital of these companies of Rs 1,224 crore, of which actual investment in foreign exchange may not be more than Rs 500 crore. Indeed it may be closer to Rs 400 crore—and compare that to the net foreign exchange outgo of Rs 386 crore within a period of just three years.

The reason why foreign companies are in a position to effect such a substantial outgo, and that too at a fast pace is principally that on a relatively small base of investment in equity it is possible for them to undertake sizeable operations. This can easily be seen by a comparison of their equity of Rs 1,224 crore with their total liabilities of Rs 10,542 crore. More than half of the latter is accounted for by borrowings, from within the country, as well as trade and other dues.

The finance minister speaks rapturously of the prospects of Japanese direct investment of the order of \$ 2 billion. Will he

please clarify what exactly he has been assured of? Is it equity investment of this order that he has been promised? Or is it that the size of total operations envisaged by the Japanese may reach that figure? In the event of the latter, for an investment of \$ 200 million as the host country we will first have to mobilise the balance of \$ 1,800 million and then face the prospect of an annual outgo of \$ 100 million if not more. It is significant to note in this context that under the new industrial policy, clearance for direct foreign investment is predicated on foreign equity covering only the foreign exchange requirement of the project for importation of capital goods. Such clearance is to be conditional upon neither export performance nor net outgo of foreign exchange nor even the extent of total resource requirements of the project.

POLICE

Lock-Up Killings

SUPREME COURT judgments, protests in parliament, public demonstrations, nothing deters the police from killing people in lock ups. The latest incident in Delhi involved the torture and death of a middle aged man in the Patel Nagar police station lock up on August 19. This was reported to be the fifth such death in that police station in recent times.

Two years ago, the Delhi based People's Union for Democratic Rights (PUDR) made a detailed investigation into custodial deaths of 48 people in the capital, and exposed the brutalities indulged in by police personnel. Between 1980 and 1989 (the period covered by PUDR), the court intervened only on five occasions, while the police authorities suspended only 39 and transferred 16 of the guilty personnel. It is not known whether those suspended had actually been awarded any punishment for the crimes of which they were charged. Punishment of guilty policemen is a rare occurrence. But the Delhi Police Commissioner, in a bid to give a respectable face lift to his forces, at that time appealed for critical support from organisations like PUDR. He was even believed to have circulated the PUDR's report on custodial deaths titled *Invisible Crimes*—among all the police stations of the capital. It looks as if the station house officers (SHOs) and their subordinates have got the wrong signal from the report, which instead of having a sobering influence on them seems to have encouraged them. The information that hardly any of the guilty policemen had been punished in the past

had no doubt given a boost to the capital's cops.

Police torture and killing of arrested people are not confined to Delhi. In Andhra Pradesh, at least 104 people died in police lock-ups during 1984-88. In Karnataka, 34 such deaths took place between 1980 and 1988. Karnataka had an opportunity to put a brake upon such arbitrary killings. In 1986, during the Janata regime there, an unofficial bill was moved by an MLC of the party, which sought to amend Section 41 of the CrPC by providing more safeguards to protect the rights of an arrested person. The then Janata government treated the bill as an official bill which won the support of even the opposition parties. But following protests and pressures from the local police bosses, the state government put the bill in cold storage. It died a natural death following the dissolution of the assembly. The police argument (shared by their colleagues all over India) was that without applying 'third degree' methods, they could not investigate crimes!

But laws do not make any difference to police behaviour. Torture is already recognised as a criminal act which is punishable under Sections 330 and 331 of the Indian Penal Code. In spite of that the police can get away with killings in custody. One of the reasons for this is the protection given to the police by the laws again. No prosecution of the guilty police personnel can be launched without the permission of the police authorities themselves. Magisterial inquiries (usually conducted by an executive magistrate, and not a judicial magistrate, in places like Delhi) invariably acquit the guilty policemen. Even when prosecutions are launched by the police against their guilty colleagues, charges are often changed from murder (under Section 302 of the IPC) to attempt to commit culpable homicide (under Section 308 of the IPC). In the recent case of custodial death in Delhi, the police at first registered it as one of culpable homicide not amounting to murder. Only public pressure forced them the next day to register it as a case of murder and wrongful confinement. Even if the guilty police personnel are convicted by the lower courts, their right to appeal to the higher courts and the long time-consuming process of trial allow them to remain scot free for years. In West Bengal, for instance, three policemen were awarded a sentence of five years rigorous imprisonment by the Calcutta High Court after they were found guilty of murdering an arrested person in the Golabari police station of Howrah on February 26, 1980. More than ten years later the Supreme

Court finally confirmed the conviction (on August 16, 1990).

As always, it is only when the law is taken by the people in their own hands that the guardians of the law wake up. Following the death of the 50-year old Jai Ram Singh in the Patel Nagar police station recently, the people of the locality surrounded the police station, blocked the roads, set fire to vehicles and stoned the police. This compelled the police bosses to rush to the spot and suspend three policemen of the station. Suspension or transfers are hardly adequate as punishment. One of the senior officials indicted for killings during the Meerut communal riots in 1987 was transferred to another spot in UP and now again he figures prominently as an accused in the recent killing of suspected terrorists in a fake encounter in Pilibhit. Departmental actions apparently do not have any deterrent effect on them. Since popular pressures do not lead to punishment by law, will the people have to go further in taking the law in their hands by punishing the criminals in uniform?

EXPORT EARNINGS

Irrelevant Distinctions

A Correspondent writes

ALTHOUGH the budget speech lays great store by efforts to encourage larger inflow of foreign exchanges and announces a number of measures taken in that regard, it overlooks to highlight some changes proposed in the finance bill in dealing with the treatment of export income, quite a few of which at least would appear to go contrary to the objective of encouraging the inflow of foreign exchange.

Under section 80 HHC of the Income Tax Act profits from exports are fully deductible in the computation of a person's income. For this purpose profits from exports are computed according to the formula

$$\text{Profits of total business} \times \frac{\text{Export turnover}}{\text{Total turnover}}$$

According to the memorandum explaining the provisions of the finance bill, the formula is being misused in the sense that non-taxpaying exporters "transfer their export turnover to other business houses merely by endorsement of letter of credit received by them" and that enables such business houses to "get the benefit of 80 HHC without any physical export of goods".

This, to say the least, is a very strange argument. Regardless of whether the purpose (express or implicit) is to promote ex-

port earnings or "to compensate an exporter for the comparative disadvantage faced by him in the international market", as the above-mentioned memorandum puts it, is it anybody's case that a non-tax paying exporter (usually he will be a small businessman) does not require encouragement to export? Why confine an incentive meant to encourage exports only to tax-paying exporters?

Or is it the department's case that the non-manufacturing business house which only 'buys' the export turnover appropriates the whole benefit of 80 HHC and does not share it with the non-tax paying manufacturer of the particular export turnover? Surely, anyone familiar with how market forces operate should know that such benefits cannot easily be appropriated by one party to the exclusion of the others involved. Whether or not the sharing between the parties involved is equitable is a different question. Is the real purpose to see that non tax paying exporters do not derive any benefit from the concessions? Or to ensure that tax paying exporters do not claim a higher benefit than justified by what they genuinely manufacture for export? Whatever be the purpose, do we wish to discourage the exports of the former?

On the one hand the finance minister is crying himself hoarse about the precariousness of the country's foreign exchange position. On the other, he so easily bows to the narrow minded cribbing of his department about the so called 'abuse and 'misuse' of export incentives.

But that is not the end of the story. The finance bill modifies the formula in one more respect, namely, to exclude foreign receipts like interest, commission, etc., from the figure of export profits. Why? Because, according to finance ministry's memorandum, such receipts "do not have an element of turnover". Similarly, while the same bill clarifies that goods will be deemed to be exported when they are transferred to an overseas branch, office, etc., the profits of any such branch or office are sought to be excluded from the "profits of the business" for the purposes of this concession.

The question must squarely be faced whether the country's principal objective is to maximise the inflow of all foreign exchange earnings or just certain types of such earnings, say, earnings through own-manufactured exports of tax-paying business firms, and that too earnings which have a clear "element of turnover" and not by way of brokerage, commission, interest, etc., and not even profits of overseas branches or offices engaged in

the business of exports. If the accent has to be on foreign exchange earnings, as it should be, then this totally misplaced attempt at drawing distinctions between various types of such earnings should stop forthwith.

Even the department's view that sales within India to foreigners, evidently against foreign exchange, do not constitute export for the purposes of this concession needs to be re-examined. Basically, should not the focus be on the realisation of foreign exchange rather than on whether it is through export of goods or services or whether such export is direct or indirect?

CHOI I RA

Fall-Out of New Economic Order?

IF there is one disease which has through history illustrated the intricate and intimate relationship of social, political and economic forces in determining patterns of health and illness in populations, it is cholera. More than a hundred years ago it made its social and political impact on the British empire when the various epidemics, on the one hand, prompted sanitary reforms at home in Britain and rudimentary public health legislations in colonial India and, on the other forced Britain for a time at least to accept maritime regulations. Since then, cholera has been a 'tropical disease' which has been banished from the western hemisphere. It is not surprising that the outbreak of the disease in Peru six months ago, which has already caused over 2,000 deaths and shows little signs of being brought under control, is causing such concern. The epidemic has spread to neighbouring Ecuador and Columbia and there have been outbreaks in Brazil and Chile. According to the head of the Pan American Health Organisation, unless emergency measures are taken on a large scale, it may spread throughout South America and kill over 40,000 people in the next three years. While the concern is justified, the degree of horror is probably similar to the scare that cholera gave to the mighty British empire when it appeared in England and spread to countries considered part of her civilisation—it is too close to home! Moreover, today the outbreak challenges the edifice of modern medicine and its philosophical roots. For after all, according to one version of the history of medicine, the dominant one, diseases such as cholera owe their disappearance to the advent of modern medicine.

And yet the current epidemic, occurring

in the immediate neighbourhood and within reach of hi-tech medicine in the US, is a symptom of the grave social and economic crisis in many Latin American countries. According to several reports, more than half of Peru's population sought emergency food aid last year and its infant mortality rate, the most sensitive indicator of social and economic trauma, is the highest in Latin America. Its heavy foreign debt has had several repercussions—for one, there are hardly any resources available for maintaining existing water and sewage systems, leave alone expanding them, for another, with Peru refusing to make the required repayments in 1985, international aid agencies 'put the squeeze' on the country and aid for public sanitation schemes (as well as for other areas) has dried up. In addition, there is the familiar scenario of third world countries—poverty stricken rural populations migrating to urban areas resulting in high population concentrations with no livelihood, no housing, no amenities who become the targets of diseases like cholera and also its continuing repository. But the most significant point about the Peru outbreak is that it poses the question: is this the beginning of a new phase of epidemic patterns which will affect third world countries under the new economic order?

ARMS CONTROL

False Start?

THE Strategic Arms Reduction Treaty signed by the Soviet Union and the US early this month is the first such agreement proposing a real reduction in long range (intercontinental) nuclear arms. Earlier agreements, such as SALT I and II, have only attempted to limit further increases in arsenals. For this reason, whatever be its limitations and whatever be the eventual form it takes, it is of historical significance. The treaty was first mooted in 1983 but it stayed frozen in the continuing cold war between the two superpowers. It was revived in 1985 and gathered some momentum by 1987 when its finalisation was postponed and the first ever arms reduction treaty of any kind, dealing with intermediate range forces, came into being. If the treaty finally signed this month falls short of expectations, it is a measure of the current balance of power between the two nations. Significantly, while the concessions that the Soviet Union made at the time of the signing of the agreement on intermediate range nuclear forces were seen as being necessary in the pursuit of the larger goal of decreasing superpower tensions, similar concessions today are being criticised as the ignominious surrender of a supplicant

nation.

The treaty was expected to pave the way for a 50 per cent cut in the long range arsenal, but the proposed cut amounts to much less and that too is distributed unevenly. While the Soviet Union will be called upon to destroy or deactivate about 35 per cent of its strategic warheads, cutting its stock from 11,000 to 7,000, the US will end up with only a 25 per cent cut—from 12,000 to 9,000. Ostensibly this is because most of the Soviet warheads are on land-based ballistic missiles which are considered to be most threatening. But in fact this acceptance of deeper cuts is one indication of the Soviet Union's increasingly unequal status *vis-a-vis* the US in these talks. In effect the Soviet Union will have to cut its SS 18 intercontinental ballistic missiles (IC BMs) by half. The treaty also limits the number of strategic nuclear delivery vehicles such as the IC BMs and their launchers and submarine-launched ballistic missiles (SL BMs) and heavy bombers to 1,600 each. All this does not, of course, bring down the nuclear arsenal very substantially. It still leaves the Soviet Union with some 7,000 strategic warheads and the US with about 9,000.

The US has also succeeded in virtually keeping the sea launched cruise missiles (SL CMs) out of the agreement with a limit of 8,880. Since the US has only about 350 of these and the Soviet Union very much less, this upper limit is ridiculous. The Soviet Union's plea to allow the strategic defence initiative project to be subject to some kind of international limit and scrutiny—for instance an expansion of the purview of the anti ballistic missile treaty to cover space launched weapons—has been rejected by the US.

What makes START more of a conclusion than a beginning is the fact that the treaty entirely leaves out of its purview research and modernisation programmes. This means that even while the arms reductions are underway, both countries can go ahead with modernisation which may well make these reductions an academic exercise. These loopholes in the treaty may well become gaping holes in the context of the new situation in the Soviet Union. In fact subsequent to the events in the Soviet Union last week, defence research spokespersons in the US have talked of intensifying research and seeking larger budget grants. There is much scepticism about whether the treaty, which envisages the reductions to be completed in 15 years and is valid for that period will be operationalised even now. One reason for this is that some of the Soviet Union's nuclear arsenal may be located in the Baltic region which may well be out of reach of the central Soviet authority.

TWENTY YEARS AGO

EPW, August 21, 1971

Since the prime minister's appointment of Siddhartha Shankar Ray as union minister in charge of West Bengal affairs, the Calcutta air has been thick with condemnations of "the politics of violence and murder". There is no parallel to these killings in even Calcutta's recent violence-ridden history, for an appropriate parallel one has to hark back to the great Calcutta killings of 1946. Indeed, the systematic way alleged Naxalites and their families were hunted out and butchered smacked of the organised, pre-planned attacks against entire localities which are characteristic of communal riots. Large numbers of youngmen were taken away by the attackers to be tortured and killed at far off places. It was no sudden, quick outburst. The killing is reported to have gone on for 17 hours from the evening of August 12. But the police—neither the local ones nor those imported from other parts of the country in such large numbers—made not the feeblest effort to intervene. What has been the response of the political parties which have been so concerned about the 'politics of violence and murder'? What about the CPI(M)? What is its reaction, as the best organised leftist force in the state, to the cold-blooded killing of, what may have been, well over a hundred professed leftists? Clearly, the CPI(M)'s position is far from unambiguous. For a long time now it has been complaining loudly that Naxalites have been teaming up with the Congress and other parties to murder CPI(M) cadres and supporters. Against this background, it is perhaps not altogether unhappy to see the Congress at the Naxalites' throats. It is, however, ridiculously short sighted for the CPI(M) to take this view of the Cossipore Baranagar murders. The party is mistaken if it sees in the killings a falling out between the Congress and those anti social elements masquerading as 'Naxalites' who have been mainly responsible for the violence against CPI(M) cadres. The young victims of Cossipore Baranagar were so patently unprepared for the murderous assault on them and so ill equipped to meet it that it is clear enough that most of them were not the strong arm type but were rather ideologically oriented Naxalite cadres—or, even more likely, only sympathisers. But in its antipathy to the Naxalites, the CPI(M) has itself refused to make this distinction and has been only too ready to describe attacks on it by patently anti-social elements as the work of 'Naxalites'. So long as it does this, it will continue to play into the hands of the Congress.

Trade Dictates Cotton Prices

D P Sharma

THE rise in cotton and yarn prices has, of late, been the subject of an animated debate reflecting the conflicting interests of the participants in the debate. Reports of discussions the representatives of the industry have had with the textile ministry at various levels indicate widely varying perceptions with each segment offering suggestions for remedial action best suited to subserve its own interest. The official approach to dealing with the complex phenomenon of rise in prices seems to have been influenced less by its own thoughtful assessment of the prevailing market situation than by the alarm signals raised by the decentralised weaving sector highlighting the serious repercussions of the rise in yarn prices on its declining fortunes.

Unquestionably cotton prices have risen very sharply this season: the rise ranging between 75 per cent and 128 per cent depending on the variety. Never before have cotton prices been known to have risen so sharply in any season. Most varieties are now quoted at their all time highs. Cotton yarn prices too have registered sizeable gains and the rise has been particularly pronounced since about the beginning of June (see accompanying price tables).

Manufacturers cannot be expected to take kindly to the rise in the prices of their raw materials as it has the effect of eroding their profit margins. It is therefore scarcely surprising that the organised mill sector should be deeply concerned over the rise in the prices of cotton and the decentralised weaving sector should be greatly exercised over the rise in yarn prices.

The mill industry has blamed the rise in cotton prices on the government's ill conceived policy of allowing liberal exports (totalling 13.43 lakh bales) and the untimely announcement release of export quotas without proper assessment of the supply-demand position characterised by progressive downward revision of crop estimates and increasing mill consumption. Crop estimates were gradually scaled down from 129 lakh bales to 115 lakh bales whereas mill consumption kept above the previous season's level. The figure of consumption for 10 months (September-June) is placed at 91.79 lakh bales against 86.48 lakh bales in the same period last season. Export quotas for cotton were released in disregard of the Cotton Advisory Board's views/recommendations.

Going by CAB's assessment made at its last meeting on June 21, the carryover stock at the end of the season (August 31) is

estimated at around 17.29 lakh bales against the opening stock of 30.79 lakh bales. The crop has been placed at 115 lakh bales, mill consumption at 109 lakh bales, non mill consumption at 7.5 lakh bales and exports at 12 lakh bales. Whether these figures will be revised at CAB's meeting scheduled for August 29 remains to be seen.

The export policy for cotton was no doubt influenced in no small measure by the government's obsessive concern for cotton growers' interests. But seen in the context of the worst ever foreign exchange crisis the government could not be easily faulted for its liberal export policy in an extremely favourable international environment. The quantity of cotton allowed for export alone might not have resulted in the kind of price rise that has occurred if the spread between domestic and international prices had not been as large as it was and if the share of the private trade in the total export quota had been much smaller. The impact of larger institutional purchases for export would have been much less severe.

The export factor apart, the upswing in cotton prices since the beginning of June is attributable largely to the fact that the private trade ruthlessly exploited the shortage of cotton during the lean period as the two major institutions—CCI and Maharashtra State Co-operative Cotton Growers Marketing Federation—had liquidated their entire stocks of cotton. The private trade virtually dictated prices.

The upsurge in cotton prices cannot be satisfactorily explained in terms of reduced availability in the wake of large exports. Thanks to the continuing boom in exports of cloth, yarn, garments, the cotton mill industry has been doing well. Exports of cotton cloth, yarn and garments during 1990-91 aggregated Rs 5,476 crore showing an impressive increase of 33 per cent over the

previous year's figure of Rs 4,108 crore.

While the industry's concern over the rise in cotton prices is natural enough, the hue and cry raised by it need not be taken seriously. Few outside the industry will endorse ICMF vice chairman Kanoria's assessment that the textile mills were facing 'uneconomic working at the current level of cotton prices'. The rising trend in production of cloth as well as yarn is an indication of the strength of demand (domestic and overseas) for its products, the increase in input costs notwithstanding. The *Economic Times* equity price index for cotton textiles could not possibly have registered an impressive rise of 79 per cent from its January low if the industry had not been performing well and the future outlook were as bad as is sought to be made by the ICMF vice chairman.

What is one to make of the industry's complaint about the acute shortage of cotton and its plea for augmenting domestic supply through imports when no mill is known to have evinced any interest in availing of cotton import under the advance licensing scheme? It would not seem unreasonable to presume that mills have been finding it more profitable to encash the premiums of advance licences against exports than to import cotton.

The shortage of cotton at the fag end of the season is not an uncommon phenomenon and this does not have to be viewed with any serious concern. Whether the current supply position warrants imports of

TABLE 2 RISE IN COTTON YARN PRICES SINCE BEGINNING OF JUNE 1991 (Bombay market)

| Count | Hank Yarn | Core Yarn |
|-------|-----------|-----------|
| 20s | 16 | 24 |
| 30s | 12 | 28 |
| 40s | 18 | 15 |
| 60s | 11 | 8 |
| 80s | 6 | Nil |

TABLE 1 MAJOR CHANGES IN COTTON PRICES (Rs per candy, Bombay spot)

| Variety | 9/90 | 3/6/91 | 21/8/91 | 21/6/90 | Rise since 3/9/90 | Rise after May 91 | Rise Over 12 Month Period |
|-------------|-------|--------|---------|---------|-------------------|-------------------|---------------------------|
| | | | | | (Per Cent) | | |
| Deshi MP | 4550 | 6600 | 8100 | 4550 | 78.0 | 22.7 | 78.0 |
| I-34 SC | 6050 | 10300 | 13800 | 6100 | 128.0 | 34.0 | 126.0 |
| H-777 SC | 7100 | 11200 | 15400 | 7100 | 117.0 | 37.5 | 117.0 |
| Sanker 6 | 9000 | 12600 | 17600 | 9000 | 95.6 | 39.7 | 95.6 |
| H-4 MP | 7250 | 11500 | 15800 | 8000 | 118.0 | 37.4 | 97.5 |
| DC H-32 KAR | 11500 | 15500 | 21000 | 12000 | 82.6 | 35.5 | 75.0 |

Source: East India Cotton Association

cotton is an issue on which opinion is bound to be sharply divided. The government is reported to have sounded the CCI to assess individual mills' requirements of cotton in order to facilitate arrangements for requisite imports. It is difficult to say how much cotton will be imported. Not much perhaps. Meanwhile the official move to effect imports has had a chastening effect on the market, with prices coming down by Rs 500 to Rs 700 per candy from their peak levels.

Since new crop prospects on current reckoning are considered to be very reassuring—a record crop is widely anticipated—the plea made by SIMA chief Kannan for the “immediate import of 10 lakh bales to tide over the present crisis in cotton supply” deserves to be dismissed as a subtle exercise aimed at highlighting the acute shortage of cotton and its inevitable impact on the supply and prices of yarn. With a view to mitigate the hardships voiced by handloom weavers the government is reported to have drawn up a crash plan according to the highest priority to increasing the availability of yarn, especially hank yarn of counts below 40s.

The National Textile Corporation has been directed to augment production of counts of 20s, 30s and 40s in hank form, if necessary by diverting production to these counts. The corporation has also been asked

to examine the option of temporarily suspending weaving activity of its composite mills to step up production of yarn. The National Handloom Development Corporation has been directed to increase its purchases of hank yarn and to further streamline its supplies to state agencies and handloom weavers. Additional funds are to be allocated to NHDC to undertake this task.

Measures aimed at ameliorating the plight of handloom weavers are welcome. But champions of the handloom weavers' cause need to be reminded that despite a decline of 31 per cent in the official index for cotton yarn prices during the 1989-90 season, the index for handloom cloth had registered a hefty rise of 22.3 per cent. During the same period the index for powerloom cloth rose by 22.9 per cent and that for mill made cotton cloth by 6.2 per cent even as the index for raw cotton prices registered a decline of 91 per cent.

The textile industry which had reaped fortuitous gains following the fall in cotton prices last season can have no legitimate cause to complain about high cotton prices this season, especially when it has been enjoying a boom in exports of cloth, yarn and garments. The industry's representations on the adverse impact of the rise in cotton/yarn prices on its fortunes needs to be viewed with circumspection.

important orders, the most noteworthy being the installation of all imaging equipment in the Manipal group of hospitals.

With its emphasis on R and D, the company introduced several new products with the latest technologies for industrial applications, improving products and manufacturing processes and indigenisation. The company spent Rs 5.8 crore in 1990-91 towards R and D. Some of the products developed using the latest technology are high efficiency motors, new generation contactors, overload relays and X-ray image intensifier I V Systems SIREX ON-1. The company invested a sum of Rs 16.5 crore in modernisation of plant and machinery, new products and infrastructure during the year under review. The new factory at Aurangabad is expected to cost Rs 25 crore.

ASHOK LEYLAND

Thrust on Technology

ASHOK LEYLAND, which accounts for 26 per cent of market share in the medium and heavy duty commercial vehicles sector, recorded an impressive performance during the year ended March 1991. The company's production and sales showed an upswing compared to the previous year. Net sales increased by 34 per cent (on an annualised basis) over the previous 15-month period. The company reduced the expenses to sales ratio from 1.03:1 to 0.97:1 despite sharp increase in the cost of inputs such as raw materials, power and fuel and labour charges. As a result, the operating profits and net profits recorded a hike of 48 per cent and 124 per cent, respectively, during the year under review. The company was able to pay a higher dividend of 27 per cent compared to 25.20 per cent on an annualised basis for the previous period.

Production of medium and heavy duty commercial vehicles registered an increase of 15 per cent on an annualised basis from 27,145 for the previous 15 months to 24,976. Similarly, production of engines was higher by 5 per cent at 4,545 compared to 5,433. Production of ferrous castings increased from 397 tonnes (for 15 months) to 6,389 tonnes in 1990-91. As against the 12.5 per cent increase in demand for medium and heavy duty commercial vehicles in 1990-91, total sales of vehicles, domestic and for export, during 1990-91 was 24,698, an increase of 17 per cent. There was also an increase in sales of industrial/marine engines to 4,517 units. Sales of parts valued at Rs 93 crore was 60 per cent higher than in the previous year.

According to the company, various export strategies initiated with the support of the Hinduja group have resulted in a record export turnover of Rs 40 crore (direct export) as against Rs 20 crore in the previous year. The company exported 1,189 vehicles, including deemed exports, during the year under review. Apart from export of commer-

COMPANIES

Moving into Bigtime Export

SIEMENS witnessed a significant growth in order books, net sales and profits during the year ended March 1991. Orders booked at Rs 438 crore recorded an increase of 8 per cent over the figure of Rs 609 crore for the 18 months ended March 1990. The company received large orders from the Durgapur steel plant and the National Thermal Power Corporation. The net sales of the company registered a growth of 33 per cent (on an annualised basis) over the previous period. Operating profits and net profits improved by 9 per cent and 55 per cent, respectively, during the year. The substantial increase in net profits was mainly due to the impact of lower depreciation provision following the changed Companies Act requirement. The expenses to sales ratio works out lower at 0.98:1 as compared to 1.00:1 in the previous period. Dividend on equity shares was 22.50 per cent as against 20 per cent on annualised basis in the previous period. With the higher order booking, the backlog of orders carried forward was Rs 420 crore as compared to Rs 363 crore in the previous period.

There has been a significant increase in export sales during the year under review. Export earnings of the company, including deemed exports under the IDA scheme, amounted to Rs 59.6 crore as against Rs 61.79 crore in the previous period, showing an increase of 43 per cent annualised

basis over the previous period. The company has emerged as a net foreign exchange earner to the tune of Rs 30.4 crore. During the year under review, orders for electricals and automation for a lignite handling system in Thailand were successfully executed. Similarly, the company also executed an order for installing high tension paper cables in Malaysia worth Rs 4 crore. Software exports touched an all-time high at Rs 5.5 crore. The company also secured a large export order for supply and erection of 33 KV substations for 16 towns from the Bangladesh Power Development Board valued at Rs 28 crore.

To cope with the increasing demand of switchgear the company is setting up a new factory at Aurangabad. Commercial production is expected to commence shortly. It also proposes to undertake the manufacture of miniature circuit-breakers during the current year. The orders for phase II of the modernisation of the Rourkela steel plant valued at Rs 20 crore have been secured. The power generation and distribution division has secured an order from the Maharashtra State Electricity Board for the Urban Gas Power Project of the value Rs 80 crore. This division also bagged an order for HT switchboards with vacuum circuit-breakers valued for Rs 6.4 crore from the NTPC. The medical engineering division executed several

cial vehicles, the company claims to have made significant strides in the export of non-company products such as textiles, leather, etc. Earnings by supply of global tenders amounted to Rs 7.5 crore as against Rs 0.3 crore in the previous year. The company executed a large order worth Rs 8.5 crore for textile export to Iran. According to the directors' report, export orders worth Rs 32 crore covering leather, diesel engines and spare parts are in hand.

The company spent about 0.75 per cent of total turnover towards R and D activities. Specialist vehicles/vehicle options to meet export requirements, a 25-tonne articulated dump truck with exceptional manoeuvrability in slushy conditions and several models of fuel-efficient engines/vehicles have been developed. Productivity increased substantially. The turnover ratio works out higher at 1.22 compared to 1.10 in the previous period. With a view to continuous modernisation and upgradation of products, the company proposes to broaden its product span with an 'intermediate' range of commercial vehicles of 6.16 tonnes GVW. It also plans to introduce new diesel engines with IVECO technology. The company has com-

menced implementation of a comprehensive investment plan for modernisation and augmentation of its manufacturing facilities. The company has received consent for the issue of partly convertible debentures on right basis to resident shareholders and equity shares to non-resident shareholders.

With the takeover of Tube Investment's PMC unit at Ambathur with effect from October 1, 1990, the company is ensured of continuous supply of chassis frames.

The long-term debt-equity ratio works out at 0.75 as compared to 0.70 in the previous year. Funds flow during 1990-91 was Rs 134.18 crore. Borrowings formed 42 per cent of the total sources, trade dues 28 per cent and internal accruals 30 per cent. As much as 45 per cent was utilised for fixed asset formation and 38 per cent was accounted for by receivables and 13 per cent by inventory.

COLOUR-CHEM

Bright Outlook

COLOUR-CHEM, which has a market share of 40 per cent in synthetic resin binder

materials and auxiliaries and of 7 per cent in synthetic organic dyestuffs, pigment dyestuffs and their dispersions, achieved an increase of 19 per cent in net sales in 1990-91. Despite an increase in the cost of raw materials, power and fuel and labour charges, the expenses to sales ratio remained more or less steady at 1.051, operating profits and net profits showed a smart rise of 49 per cent and 76 per cent, respectively, over the previous year.

On the production front, the company witnessed all-round improvement. Production of synthetic organic dyestuffs, pigment dyestuffs and their dispersions recorded an increase from 4,050 tonnes to 4,138 tonnes in the previous year resulting in capacity utilisation of 57 per cent compared to 56 per cent in the previous year. Production of synthetic resin binder materials and auxiliaries improved by 17 per cent from 5,984 tonnes to 6,987 tonnes, showing a higher capacity utilisation of 71 per cent compared to 60 per cent in 1989-90. Intermediates for dyes, pesticides and pharmaceuticals also registered a growth of 15 per cent from 3,354 tonnes to 3,844 tonnes in 1990-91, with capacity utilisation increasing from 61 per cent to 70 per cent.

According to the company, while the sales of organic intermediates and leather chemicals registered improvement, off-take of many groups of dyestuffs remained sub-optimal. Demand from the paints industry was sluggish, resulting in a stagnant market for pigments. The full-fledged marketing division established during the year under review helped to reinforce the market orientation of the company's operations.

Export earnings of the company at Rs 19.77 crore showed a rise of 1.18 per cent over exports of Rs 19.51 crore in the previous year. As against 15.41 foreign exchange earnings of Rs 20.82 crore, foreign exchange outflow was Rs 6.29 crore. Balance net foreign exchange earned. The company will benefit from the provisions of the new trade policy.

The company spent Rs 1.25 crore on R and D during the year, turning 1 per cent of total turnover. Extension of the range of intermediates for dyestuffs and pesticides, new areas of application for a few existing products, cost reduction through energy saving, waste reduction and overall quality upgradation were the major benefits derived from R and D activities.

Funds flow during 1990-91 amounted to Rs 27.93 crore. Borrowings and trade dues were the major sources of funds which were used mainly for financing fixed assets for modernisation and holding inventories. The company incurred capital expenditure to the tune of Rs 11 crore in 1990-91. It had taken up a comprehensive programme for upgradation of technology and modernisation of the Thane and Roha factories, involving a total outlay of Rs 30 crore. The implementation of the programme had to be rescheduled due to resource constraints. The project for modernisation and upgradation of facilities

The Week's Companies

(Rs lakh)

| Financial Indicators | Ashok Leyland | | Sicren (India) | | Colour-Chem | |
|--------------------------------|---------------|---------------|----------------------------|---------------|---------------|---------------|
| | 1990 March | 1991 March | 1990 ^a March | 1991 March | 1990 March | 1991 March |
| Income/expenses/profit | | | | | | |
| 1 Net sales | 72515 | 77781 | 41937 | 45 | 9571 | 11384 |
| 2 Other income | 370 | 965 | 2588 | 1 | 417 | 14 |
| 3 Raw material consumed | 56143 | 56935 | 25737 | 40.40 | 5641 | 6645 |
| 4 Power and fuel | 571 | 779 | 421 | 30.4 | 705 | 838 |
| 5 Other manufacturing expenses | 1778 | 1854 | 721 | 4 | 744 | 94 |
| 6 Labour cost | 6839 | 6366 | 7666 | 5.5 | 155 | 138 |
| 7 Other expenses | 3911 | 4253 | 49.4 | 4.20 | 853 | 113 |
| 8 Operating profits | 8207 | 9703 | 5602 | 40.3 | 1130 | 1695 |
| 9 Interest charges | 2873 | 3138 | 1297 | 78 | 553 | 7 |
| 10 Gross profits | 5334 | 6565 | 4305 | 33.03 | 583 | 97 |
| 11 Depreciation | 2275 | 2429 | 1784 | 5.3 | 243 | 41 |
| 12 Profits before tax | 3059 | 4136 | 2526 | 45 | 340 | 68 |
| 13 Tax provision | 746 | 1510 | 1168 | 11.4 | 105 | 0 |
| 14 Profits after tax | 2313 | 2626 | 1358 | 14 | 236 | 41 |
| 15 Dividends | 30 | 849 | 6.3 | 46 | 1.5 | 1.5 |
| Liabilities/assets | | | | | | |
| 16 Paid up capital | 3150 | 3150 | 307 | 0 | 24 | 94 |
| 17 Reserves and surplus | 16095 | 17797 | 6569 | 1 | 141 | 1689 |
| 18 Long term loans | 13481 | 15605 | 3919 | 12 | 1476 | 1683 |
| 19 Short term loans | 4868 | 8350 | 810 | 80.2 | 1907 | 2875 |
| 20 Current liabilities | 15208 | 19020 | 12679 | 1.47 | 3051 | 4189 |
| 21 Gross fixed assets | 28611 | 34617 | 11329 | 1.59 | 5404 | 6481 |
| 22 Accumulated depreciation | 12266 | 14564 | 7296 | 80.88 | 3487 | 3688 |
| 23 Inventories | 22483 | 24212 | 9453 | 89.2 | 3096 | 4113 |
| Of which finished goods | 10668 | 11814 | 5743 | 64.3 | 2076 | 2730 |
| 24 Receivables | 9461 | 14513 | 605 | 111.5 | 2800 | 3186 |
| 25 Loans and advances | 3439 | 4462 | 4434 | 51.17 | 570 | 691 |
| 26 Cash and bank balance | 744 | 88 | 191 | 5 | 95 | 170 |
| 27 Investments | 260 | 542 | 31 | 9 | 110 | 65 |
| 28 Other assets | 70 | 52 | 82 | 8.4 | | |
| 29 Total liabilities/assets | 52802 | 63922 | 26004 | 31506 | 8568 | 11080 |
| Key financial ratios | | | | | | |
| 30 Turnover ratio | 1.10 | 1.27 | 1.08 | 1.18 | 1.11 | 1.03 |
| 31 Return on sales | 7.36 | 8.44 | 10.28 | 86 | 6.09 | 8.14 |
| 32 Return on investment% | 8.08 | 10.27 | 11.05 | 11.45 | 6.79 | 8.37 |
| 33 Return on equity (%) | 9.61 | 12.54 | 10.47 | 13.66 | 10.68 | 16.75 |
| 34 Book value per share (Rs) | 61.09 | 66.49 | 41.63 | 46.14 | 278.21 | 312.72 |
| 35 Earning per share | 5.87 | 8.33 | 4.36 | 6.76 | 29.72 | 52.39 |
| 36 Current market price (Rs) | — | 125.00 | — | 140.00 | — | 1175.00 |
| 37 Price/earnings ratio | — | 14.97 | — | 23.67 | — | 22.43 |
| 38 Dividend (%) | 31.50 | 27.00 | 20.00* | 22.50 | 22.00 | 22.00 |

* annualised

a) Cost of sales and service (b) results are for 18 months

for the manufacture of diketene is expected to go on stream by this September. The company received the requisite approvals for the manufacture of oil well chemicals with a capacity of 5,000 tonnes per annum at its Roha plant. Production of these items is expected to commence in phases.

The company's sales turnover during the first quarter of 1991-92 has been about 12 per cent higher than in the corresponding quarter of the previous year. The performance would have been better but for industrial relations problems at the Roha works since June. Besides, the restrictive

monetary policy enforced by the RBI has had a dampening effect on sales and inflow of orders. Nevertheless, the discernible improvement in the indigenous demand for many of the company's products augurs well for the performance of the company in 1991-92.

IN THE CAPITAL MARKET

Videocon Appliances

VIDEOCON APPLIANCES is entering the capital market with an issue of 45 lakh 12.5 per cent fully convertible debentures of Rs 200 each. Out of the issue, 18.75 lakh debentures are being offered on rights basis to the existing shareholders of the company and 6.25 lakh debentures are reserved for preferential allotment to shareholders of group companies (4 lakh debentures) and employees, including Indian working directors (2.25 lakh debentures). The balance of 20 lakh debentures are being offered to the Indian public. The public issue will open on September 19 and close on September 28 or earlier, but not earlier than September 24. Each debenture will consist of two parts: part I of Rs 50 and part II of Rs 150. Part I will be converted into one fully paid up equity share of Rs 10 at a premium of Rs 40 on the expiry of six months from the date of allotment of the debentures. Part II will be converted into equity shares at a price to be determined by the Controller of Capital Issues but not exceeding Rs 50 per share, at the end of 20 months from the date of allotment. Videocon Appliances is a member of the Videocon group which is a leading manufacturer of consumer electronics products and home appliances. The Videocon group has a technical collaboration arrangement with Matsushita Electrical Industrial Company, Japan, owners of the well known brand name 'National'. Videocon Appliances is implementing an expansion cum diversification programme to enhance its capacity for washing machines from 2 lakh to 4 lakh per year and to manufacture split and window airconditioners, refrigerators, vacuum cleaners, bread making machines and electric motors. The expansion cum diversification programme is estimated to cost Rs 148.10 crore and is proposed to be financed through the fully convertible debentures (Rs 90 crore), privately placed non-convertible debentures (Rs 34 crore), asset credit scheme of ICICI (Rs 5 crore), foreign exchange loan from ICICI (Rs 3 crore), asset leasing by ICICI (Rs 5 crore) and internal accruals (Rs 11.10 crore). Videocon Appliances has performed well during the

financial year ended March 31, 1991, with sales doubling to Rs 92.33 crore compared to the previous year. The company's net profit was Rs 11.16 crore with an EPS of Rs 14.91. The book value of the company's share was Rs 26.64.

Rajasthan Breweries

RAJASTHAN BREWERIES is making an issue of 166 lakh equity shares of Rs 10 each at par to raise Rs 16.60 crore. Of the total issue, 66.40 lakh shares have been reserved for allotment to the promoters, including 26.60 lakh shares to non-resident Indians on repatriation basis out of the promoters' quota. Of the balance of 99.60 lakh shares, 8.30 lakh shares are reserved for allotment to employees including Indian working directors of the company and of the promoter companies and 39.84 lakh shares have been reserved for allotment to non-resident Indians on repatriation basis. The remaining 51.46 lakh shares are being offered to the Indian public. The issue opens on September 12 for both the Indian public and for NRIs. Rajasthan Breweries is setting up a project to manufacture canned beer, barley malt and malt extract. The brewery unit will have a capacity of 75,000 HL (25 million cans). The licensed capacity for barley malt and malt extract is 35,000 tpa while the plant is being set up for a capacity of 6,000 tpa of barley malt and 1,500 tpa of malt extract. The company has entered into a foreign collaboration agreement for technical know-how with Danbrew, a subsidiary of United Breweries, Copenhagen. Danbrew will help identify, erect and commission the plant, train personnel, start up production and establish an R and D department. Danbrew is to be paid technical know-how fees of 1.76 million DKK in three instalments and royalty at the rate of seven DKK per HL. The agreement is for a period of five years. The project is expected to be commissioned for trial production in January 1992 and commercial production is likely to start by April 1992. The total cost of the project is estimated at Rs 17.60 crore which is to be financed through the equity share issue (Rs 16.60 crore) and equipment

lease finance from BOI Finance and PNB Capital Services (Rs 1 crore).

Modern Threads

MODERN THREADS is raising Rs 3.95 crore through a rights issue of 2,63,550 fully convertible debentures of Rs 150 each at par. The debentures carry annual interest of 14 per cent and are fully convertible on the expiry of six months from the date of allotment. Each debenture is to be converted into 10 equity shares of Rs 10 each at a premium of Rs 5 per share. Modern Threads is setting up a project to manufacture world class dyed yarns in fancy colours exclusively for export to Europe and elsewhere. The project with a capacity of 6,720 spindles to manufacture polyester viscose blended yarn is being executed at a cost of Rs 16.75 crore. The project includes installation of autoconers to produce knotless spliced and electrically cleared yarn as well as computerised colour matching systems to ensure consistency in shades essential for ensuring international quality. The company has finalised a marketing tie-up with Armatex of UK for the entire additional production. Commercial production is scheduled to begin in April 1992. When the impact of this expansion programme is fully realised during the year 1993-94, the company's total exports will reach Rs 17 crore up from the present level of Rs 2.7 crore. The turnover of the company increased to Rs 32 crore during the current year against Rs 28 crore in the previous year. Cash profit for the year increased to Rs 16.1 lakh against Rs 10.3 lakh in the previous year. After providing depreciation of Rs 50 lakh for the year, the balance surplus together with carried forward surplus of Rs 25 lakh of last year have been appropriated by transfer of Rs 75 lakh to general reserve and payment of equity dividend of Rs 38 lakh at 15 per cent, leaving a balance of Rs 24 lakh to be carried forward to next year. After the full implementation of the present expansion programme, the company has projected a sales turnover of Rs 50 crore and gross profits of Rs 4 crore. The rights issue opened for subscription on August 3 and will close on August 31.

STATISTICS

| Index Numbers of Wholesale Prices (1981-82 = 100) | | | Weight | Latest Week 3-8-91 | Over Last Month | Over Last Year | Variation (per cent) | | | | |
|--|-----------------------|----------|----------------------|-----------------------------|-----------------------|----------------------|---------------------------------------|-------------------------------|------------------|------------------|---------------|
| | | | | | | | Over March 31, 1991 | In 90 91 ** | In 89 90 | In 88 89 | In 87-88 |
| All Commodities | | 171.4 | 203.4 | 3.3 | 12.9 | 6.1 | 10.2 | 7.5 | 8.2 | 5.8 | |
| Primary Articles | | 166.9 | 213.6 | 4.3 | 16.4 | 9.3 | 13.1 | 4.9 | 11.3 | 9.1 | |
| Food Articles | | 177.3 | 235.5 | 5.1 | 18.2 | 11.7 | 11.9 | 9.9 | 9.0 | 10.2 | |
| Non-food Articles | | 176.4 | 224.3 | 3.7 | 16.7 | 6.7 | 16.9 | -1.7 | 21.6 | 11.3 | |
| Fuel, Power, Light and Lubricants | | 164.9 | 196.8 | 3.9 | 17.8 | 1.3 | 11.9 | 5.5 | 3.5 | 6.7 | |
| Manufactured Products | | 174.7 | 198.8 | 2.5 | 10.0 | 4.5 | 11.9 | 9.4 | 7.2 | 3.7 | |
| Cost of Living Index | | | Base | Latest Month | Over Last Month | Over Last Year | Variation (per cent) | | | | |
| | | | | | | | Over March 1991 | In 1990 91 | In 1989 90 | In 88 89 | In 87 88 |
| Industrial Workers | 1982 | 100 | 209 ^a | 2.5 | 13.0 | 4.0 | 11.2 | 6.5 | 9.1 | 9.1 | |
| Urban Non Manual Employees | 1984-85 | 100 | 170 ^d | 0.6 | 12.6 | 0.6 | 11.0 | 6.9 | 8.2 | 7.9 | |
| Agricultural Labourers | July 60 to June 61 | 100 | 853 ^d | 0.6 | 14.7 | 0.6 | 7.5 | 3.2 | 11.4 | 12.5 | |
| Money and Banking | | | | Latest Week (12 / 91) | Over Last Month | Over Last Year | Variation (per cent in brackets) | | | | |
| | | | | | | | Over March 23 ^a 1991 | In 90 91 | In 89 90 | In 88 89 | In 87 88 |
| Money Supply (M ₁) | | Rs crore | 2 77 744 | 686 (0.2) | 35 139 (14.6) | 10 497 (3.9) | 34 300 (3.6) | 28 5 ^a 1 (18.1) | 22 027 (15.7) | 22,295 (18.8) | |
| Net Bank Credit to Government Sector | | Rs crore | 1 53 229 | 2 101 | 24 727 | 15 235 | 21 778 | 12 715 | 12,811 | 17 776 | |
| Bank Credit to Commercial Sector | | Rs crore | 1 74 032 | 87 | 19,923 | 1 715 | 19 552 | 20 531 | 12 389 | 11 294 | |
| Net Foreign Exch Assets of Banking Sector | | Rs crore | 6 875 | 316 | 1 118 | 1 126 | 1 429 | 637 | 682 | 1 314 | |
| Deposits of Scheduled Commercial Banks | | Rs crore | 1 98 599 | 759 (1.4) | 25 200 (14.5) | 7 410 (3.9) | 24 230 (14.5) | 22 041 (18.7) | 15 321 (14.9) | 17 320 (20.3) | |
| Foreign Exchange Assets | | Rs crore | 2 493 | 6 (0.2) | 2 401 (49.1) | 1 505 (37.6) | 1 710 (30.0) | 830 (11.6) | 508 (6.6) | 604 (8.6) | |
| Index Numbers of Industrial Production (1990-91 = 100) | | | Weights | Latest Month (Feb 91) | Averages for | | Variation (per cent) | | | | |
| | | | | | 1990 91 | 1989 90 | In 1990 91 | In 1989 90 | In 1988 89 | In 1987 88 | In 1986 87 |
| General Index | | 100.0 | 222.7 | 206.7 | 190.5 | 8.3 | 8.7 | 7.3 | 9.1 | 8.7 | |
| Mining and Quarrying | | 11.5 | 234.0 | 212.9 | 207.4 | 5.9 | 7.9 | 3.8 | 6.2 | 4.2 | |
| Manufacturing | | 77.1 | 219.3 | 201.7 | 183.8 | 8.3 | 8.7 | 7.9 | 9.3 | 9.7 | |
| Electricity | | 11.4 | 233.9 | 235.3 | 218.2 | 10.7 | 9.5 | 7.7 | 10.3 | 8.5 | |
| Basic Industries | | 39.4 | NA | NA | NA | NA | 9.9 | 9.6 | 9.2 | 6.8 | |
| Capital Goods Industries | | 16.4 | NA | NA | NA | NA | 7.4 | 15.9 | 18.2 | 10.6 | |
| Intermediate Goods Industries | | 20.5 | NA | NA | NA | NA | 11.5 | 4.8 | 4.4 | 7.5 | |
| Consumer Goods Industries | | 23.6 | NA | NA | NA | NA | 6.0 | 6.5 | 7.1 | 12.5 | |
| Durable Goods | | 2.6 | NA | NA | NA | NA | 22.1 | 7.8 | 18.9 | 18.7 | |
| Non-Durable Goods | | 21.0 | NA | NA | NA | NA | 2.4 | 6.2 | 4.9 | 11.5 | |
| Foreign Trade | | | Unit | Latest Month (Apr 91) | Cumulative for* | | | | | | |
| | | | | | 1991 92 | 1990 91 | 1990 91 | 1989 90 | 1988 89 | 1987 88 | 1986 87 |
| Exports | | Rs crore | 2 952 | 2 952 | 2 490 | 32 527 (17.7) | 27 681 (36.3) | 20,302 (29.0) | 15,741 (36.2) | 12 452 (14.3) | |
| Imports | | Rs crore | 2 850 | 2 850 | 3 236 | 43 171 (21.9) | 35 416 (25.6) | 28 194 (23.9) | 22 399 (11.2) | 20,096 (2.2) | |
| Balance of Trade | | Rs crore | + 102 | + 102 | 746 | 10 644 | 7 735 | 7 892 | 6 658 | 7,644 | |
| Employment Exchange Statistics | | | Unit | Latest Month Jan 91 | Cumulative for* | | | | | | |
| | | | | | 1991 | 1990 | 1990 | 1989 | 1988 | 1987 | 1986 |
| Number of Applicants on Live Register as at end of Period | | Thousand | 34,787 | 34,787 | 31,126 | 34,632 | 32 776 | 30,050 | 30,247 | 30,131 | |
| Number of Registrations | | Thousand | 554 | 554 | 704 | 6,541 | 6,576 | 5,963 | 5,465 | 5,535 | |
| Number of Vacancies Notified | | Thousand | 39 | 39 | 39 | 530 | 600 | 543 | 621 | 623 | |
| Number of Placements | | Thousand | 20 | 20 | 24 | 284 | 289 | 329 | 360 | 351 | |
| Income | | | Unit | 1989 90 | 1988 89 1987-88 | | | | | | |
| | | | | | 1988 89 | 1987-88 | 1986 87 | 1985 86 | 1984 85 | 1983 84 | 1982 83 |
| Gross Domestic Product (current prices) | | Rs crore | 3 92,524 | 3 49 105 | 2,94,408 | 2,60,442 | 2,34,159 | 2,07 869 | 1 85,991 | 1,58,851 | |
| Gross Domestic Product (1980-81 prices) | | Rs crore | 1 95,23 ¹ | 1 85,543 | 1,70,716 | 1,63,924 | 1,57,348 | 1,49,966 | 1,44,310 | 1,33,469 | |
| Per Capita Income (1980-81 prices) | | Rupees | 2,142 | 2,078 | 1,910 | 1,881 | 1,852 | 1,804 | 1,780 | 1,682 | |

* For current year upto latest month for which data are available and for corresponding period of last year

** Excluding gold and SDRs + Upto latest month for which data are available NA Not available

++ Provisional data @ Quick estimates

Notes: (1) Superscript numeral denotes month to which figure relates e.g. superscript¹ indicates that the figure is for January and so on
(2) Figures in brackets denote percentage variation over previous period

Stealth Finance: Thriving on Conflict of Interest

D N Ghosh

Do the startling revelations about the two largest Japanese securities houses revelling in conflict of interest situations hold any lessons for us at a time when we are grappling with the organisation and functioning of the securities market?

THE heads of the two largest Japanese securities houses resigned in the wake of startling revelations that these two firms had shown extraordinary favouritism to big clients and were engaged in dealings with a major crime syndicate. For our country grappling with several issues concerning the organisation and functioning of the securities market, it is worthwhile to ask: does it have any lessons for us?

The major investors and corporate clients were compensated for trading losses totalling nearly \$900 million sustained in the last year's fall in stock prices. No such compensation was offered to small investors who were left in the lurch. It is well known that Japan's financial system has one set of rules for big brokers and rich investors and another for everyone else. For the big investors, the offer of implicit guarantees is a common practice in Japan. Such guarantees are invariably respected for the sake of old relationships.

The question of equity and ethics does not seem to trouble the large security houses. The major shareholders of these houses are big corporations and financial institutions and individual shareholders, constituting a small part, do not seem to weigh much on their conscience. Even though the resignations were an explicit recognition that an impropriety was committed, the facade of remorse did not last long. Soon after the scandal broke, the former president of Nomura, Tabuchi (now vice president of the same securities house) denied at one point at the Nomura shareholders' meeting that there was anything improper about the payments Nomura made to its big clients. The shareholders' meeting, which took place soon after the scandal, was marked by complacency, evidence enough, not unusual, of the fact noted by many perceptive observers that, in the matter of commercial transactions, Japanese society is basically amoral, its strong and conti-

nuing growth has undermined public will ingness to complain.¹

Club arrangements among the brokers, fund managers and big investors are taken for granted. Brokers have floated investment trust funds where big brokers solicit investors with implicit assurance of refunds. Brokerage firms earn a major part of their income from big investors and in the long haul, they cannot in the name of equity and fairness discourage trading practices based on lasting relationships. The big brokerage houses can ill afford to antagonise their big investors for between them they have to regroup for the next operation. Reading between the lines, the Nomura ex chief's observation on the compensatory payments at the shareholders' meeting were highly significant. 'These were inevitable steps taken to avoid unnecessary confusion.'

It is arguable whether the club arrangements could have perpetuated themselves in Japan without a nod and wink from the regulatory authorities.² In fact the ex chief of Nomura spilled the beans in the shareholders' meeting by saying that payments were made "in consultation with government authorities". It is not that the ministry had not been aware of their malpractices. In December 1989 it issued a directive warning brokerage houses not to reimburse clients for investment losses. Seven months later, it punished security companies for compensating clients. But overall, its biting capacity has been ineffective. Its role covers the area handled in the US by the Securities and Exchange Commission, the Federal Reserve Board and the Comptroller of the Currency. But it has less than a quarter of the 8,000 people employed by the US agencies. Had the Japanese type situation taken place in the US, clients would have sued and the firm would have had to contend with unpredictable financial consequences. In some way, it is a tribute to the regulators in the US that the guilty

pleas of Ivan Boesky, Michael Milken, Martin Seagel, Denis Leavine and Drexel Lambert on charges ranging from insider trading to market manipulation were secured and a network of powerful financiers who illegally manipulated markets for their own advantage were exposed and dismantled.

The conflict of interest problem is embedded in any financial market. Its control and management has to become a part of the financial system. Stated simply, a conflict of interest situation arises for a bank or any other financial institution dealing with a client if it has a choice between two solutions for a deal, one of which is preferred for its own interest while the other is better for the client. There may also be situations where a bank or a financial institution carries out activities involving two groups of customers and to strike a balance between the respective interests of the two customer groups becomes a difficult exercise in fairness. If different types of securities business and banking business are combined, such conflicts would inevitably arise. If a security house undertakes the market making function for a security holding and also manages funds under trust business, it has to ensure that its holdings of securities, which may be considered undesirable, are not dumped into funds under its management. Funds under management should not also unduly benefit from the pricing of new issues being undertaken by the securities firm. Securities trading on own account should not benefit in an unfair manner from early information, which the investment research department of the security houses normally releases to the public. Investment advice by investment advisory service of security houses or banks has to be scrupulously given. It has to avoid bias in favour of overtrading of the securities portfolio of its private clients for the sake of generating high fees. Banks also should not lay themselves open to the charge of influencing their securities business done directly or by their subsidiaries, with clients through company information obtained in the course of their lending business. Banks should not unduly encourage private securities purchases through imprudent lending to private customers to finance such purchases. These are illustrative types of cases. The structure of the market and the nature of the regulatory mechanism could create situations of wide diversity arising from separation of commercial banking and securities related activities, such as, underwriting, portfolio management,

Control and management of conflict of interests situations are matters of wide public concern. Market operators with differential access to finance and information could easily exploit situations to their advantage. This is not an argument against liberalisation and positive support for development of competitive conditions, but a plea for simultaneous pursuit of a rational public policy to resolve these inherent conflicts for the sake of efficiency, investor protection and prudential consideration of systemic safety and stability. There are considerable country differences as regards the degree of concern about abuses of conflict of interest situations.⁴ It is not easy to arrive at a solution when, for decades, institutions have been governed by certain business practices and big business houses have entrenched interests in continuing these interests. This is exactly what is happening in India, what comes out in the open is perhaps only the tip of the iceberg. We are still a long way off from introducing certain healthy, efficient and credible standards in the organisation and functioning of the capital and money markets.

It would be simplistic to presume that as the market develops, these ticklish issues would get sorted out or that the development of the market would throw up forces which will help punish the guilty. This would not be so. The Japanese example is a clear pointer that the club arrangement between interested parties can be very strong impediments against reform.⁵ A comprehensive regulatory agency must be in place as soon as the market is unchained and the club arrangements are broken up. Let us not fall into the dangerous self-defeating complacency trap. "Well, these things happen in the developed economies. So what are we bothered about?" It is never too early to set ethical and fair standards in financial transactions. If club networking arrangements are allowed to entrench themselves, we will be moving inexorably towards a corrupt financial world.

Notes

- 1 Details taken from the report, 'At Meeting, Nomura shareholders show little anger over scandals', *Asian Wall Street Journal*, June 28-29, 1991.
- 2 Ibid.
- 3 'Tokyo scandals put focus on ministry Securities firms' dealings show shortcomings of financial regulation', *Asian Wall Street Journal*, June 26, 1991.
- 4 *Competition in Banking*, OECD, 1989.
- 5 'Corporate Sector Judicial Indictment', *EPW*, April 27, 1991, pp 1068-70.
- 6 Stefan Wagstyl, 'Dangers of Symbol Are Substance', *The Financial Times*, June 25, 1991.

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Lopsided Growth

Political Economy of Indian Development

by Pradhan H Prasad

This collection of essays in political economy unravels the forces which have acted as a drag on Indian development. The Achilles heel of Indian development plans, the author argues, has been their preoccupation with investment planning to the neglect of institutional transformation. Within this broad framework the author discusses a wide range of subjects including macro-economic plan models, choice of techniques, the persistence of outmoded production relations in agriculture, growing political assertion by the middle peasantry, roots of agrarian violence and uneven regional growth.

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The Retarded Economies

Foreign Domination and Class Relations in India and Other Emerging Nations

by Nirmal Kumar Chandra

Why is it that while the former colonies and semi-colonies have emerged as a major force in world politics over the last four decades, their economies in most cases remain retarded? The first part of this volume focuses on the exchanges between the poor and the rich nation. Did western and private capital and technology really help India, or was it the other way round? Granting that both sides made some gains, did the USSR derive our advantage through its bilateral trade and aid transactions with the third world? Can the theory of unequal exchange explain the growing economic hiatus between the north and the south? The second part of the book is concerned with the domestic scenario in India. The author tries to relate the overall stagnation in material production per capita to the balance of class forces that emerged after independence as a result of a strategy of industrialisation based on import substitution. Long term trends in aggregate and sectoral outputs, the terms of trade between industry and agriculture, real wages and unemployment rates, savings and investment, private monopoly capital, etc. are analysed in this context. Further, the existing laws and regulations on private sector monopolies are also examined from the same perspective. The final essay is a critique of the recent tilt inspired by the IMF and the World Bank towards liberalism in India's economic policies.

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Centre-State Budgetary Transfers

Edited by I S Gulati

The papers brought together in this volume examine the federal financial relationship in India as reflected in transactions through the budgets of the Union and State governments. Under the Constitution, the Finance Commission, appointed by the President every five years, is expected to recommend adjustments in inter-federal transfer of budgetary funds to meet the changing requirements of the system. In fact, the transfer of resources from the Centre to the States has taken forms which have fallen largely outside the ambit of the Finance Commission and it is the Planning Commission which has come to play a very major role in the determination of Centre-State financial transfers. The involvement of the Planning Commission has not, however, resulted in a more total view being taken either of financial devolution from the Centre to the States or of inter-state distribution of the amounts so devolved. While transfers under the aegis of the Finance Commission, the so-called statutory transfers, have aimed at covering the non-plan revenue account gaps of the States, the plan transfers coming under the purview of the Planning Commission have sought to plug gaps in the States' resources for financing their plans. The gap-filling approach thus continues to dominate Centre-State financial transfers. If Centre-State financial relations are to be made more equitable and are to have greater regard for efficiency in budgeting, it is argued, existing institutional arrangements will have to be substantially modified. This volume seeks to contribute to raising and debating the relevant questions.

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Calcutta Diary

AM

It is August 1991, fifty years since Rabindranath Tagore died and Viswabharati's copyright over his works is to lapse at the end of the calendar year. Anyone, just anyone will now be able to print Tagore and make a commercial proposition out of it. What a calamity to befall Bengali culture. Rabindranath Tagore is to be de-linked from Viswabharati, the Vatican and the Pope will cease to be inseparable categories. But, on such a first rate banal issue, there is some dissonance.

CALCUTTA and West Bengal are having a generally lean time. Thanks to the Cauvery waters, the centre of gravity of the dialectics of centre states relations has shifted away to Bangalore and Madras. Nor does the line of revolutionary insurgency touch West Bengal any more. Half a dozen chief ministers were present at the meeting recently convened by the union home minister to discuss the problem of the Naxalite menace: the chief minister of West Bengal was not amongst them. And in regard to plotters who are contemplating or suspected to be contemplating, to stage a walk out from the union, the list currently includes only Punjab, Kashmir and Assam. West Bengal has turned respectable.

Stodgy, unimaginative times for the Bengalis. But, finally, at least some cause for fresh excitement. This month marked the completion of fifty years since Rabindranath Tagore's death. As in the political sphere, hardly anything of note has been happening of late on the Bengali literary and cultural fronts too. On this point, it is necessary to make a distinction between the Bengalis over here—the Indian Bengalis—and the Bangladeshis. Bengali, the language, is fearfully alive, supple and daily getting to be further enriched across the border, bubbling poetry, intense research on the language's roots and grammar and so on. In contrast, the postman does not even ring once in West Bengal, and it is a wake like atmosphere: the use of Bengali as a medium of communication is thinning out, much of the literary output in Bengali, including of the once widely bragged of poetry, is dull, insipid, stylised. Ditto for Bengali plays staged in Calcutta. The least said of the Bengali prima donnas who, a few decades ago, got themselves accredited as trail-blazers in the cinematic arena, the better. They have failed to get over the fact of their being trail blazers once upon a time, how dare anybody suggest that leave out technical flaws and other species of *faux pas*, neither verbosity nor pomposity can quite pass for creative virtue any longer. But perhaps it is the inexorable

law of economics which is sounding the final death knell for Bengali. Bengali literature as well as Bengali theatre and cinema are victims of a shrinking market. Export prospects are dim: their products will not be let in in Bangladesh. Much like our own love-hate two-way relationship with the west, the Bangladeshis too have a problem vis-à-vis the Indian Bengalis. The emerging middle class over there, the post-partition generations, cannot quite rid themselves of the inferiority complex of yore: they worry a great deal about cultural neo-colonialism. Once Bengali periodicals, Bengali fiction and Bengali cinema from West Bengal are allowed untrammelled entry into Bangladesh, the market for their own creative works, they fear, would shrink. The frustration in West Bengal therefore increases with every day: some fifteen crore of Bengalis across the border present a tantalising picture of an immense potential market for language-based crafts and activities. Bengali after all is the fourth most widely spoken language in the world, taking its place immediately after Spanish, beating the tape with Arabic, yet for the present that market remains a distant, unreachable dream for the export mongers in West Bengal. Only the gullible Indians can be bullied into swallowing hook, line and sinker the bait of market-loveliness. The Japanese and the South Koreans call it *baloney* in private, those belonging to the so-called ASEAN community, to whom the Bangladeshis have firmly attached themselves, have worse epithets in mind. The quantitative restrictions on the entry of merchandise from India will therefore stay.

To resort to the dictum of national self-reliance does not promise too many extra notes of cheer to the mongers of creative arts in West Bengal. Bengali settlements in Bihar, Orissa and Uttar Pradesh have gone the way of all flesh. In large parts of Assam and Tripura, Bengali is now the language of only the *samaśiddhāt*. Within West Bengal itself, despite strenuous patriotic exertions on the part of the state government, let us amend our previous

statement, the aura is both of a wake and of death foretold. Calcutta has now a population nearly three-fifths of whom do not claim Bengali as their first language. Even Bengalis of pure stock are discovering survival in the world's commerce an increasingly dicey proposition, and the mother tongue as somewhat of a hindrance. There was a furore when a few years ago, the state government, falling in line with what had happened long ago everywhere else in the country, decided to have the mother tongue as the only language of instruction at the primary stage in government-run and government-aided schools. Denigrating the mother tongue has since turned into the dearest sporting event for the better-off Bengalis. Now or never, they have made up their mind, their children's future has to be ensured, in the competitive struggle for building a career, Bengali is unwanted garbage: the life-saver is either English or Hindi. The apparel shows the day. As in other parts of the country, girls from sophisticated Bengali households have, in the course of the past couple of decades, crossed over *en masse* to 'shalwar-kameez'. Bengali is ceasing to be the principal language in most such households. What the comfortably placed think today, the rest of the tribe are bound to think tomorrow. In any case, Bengalis are well-known copycats. Even most of the so-called avant-garde plays in Calcutta are lifted straight from Pirandello or Brecht or Ionesco or Pinter or Stoppard: you cannot in fact pick holes with the eclecticism displayed in this shoplifting.

Given this general situation, there are not any thundering waves, culture-wise, Indian Bengalis are capable of creating in the immediate period. Willy nilly, they accordingly retreat to that refuge of last resort, Rabindranath Tagore, to his prose, including his fiction, his music, his poetry, his paintings. Tagore is the left-over pride, he is also, for the Bengalis, the most reliable of all clichés. Righteous indignation bubbled over over a recent minor episode. How dare Sotheby or Christie auction Tagore manuscripts in London without taking prior leave of Calcutta—and Santiniketan? Lightning telephone calls from the state chief minister to our high commissioner in London, importunings with an expatriate commission agent who had apparently already struck a deal with a Japanese party. All is however well that ends well, it is a half-century since Tagore died, it would have been shameful if any of his manuscripts had, in search of the highest bidder, travelled to alien shores.

Now another issue has reared its head around which Bengali parochialism has an opportunity to order general mobilisation.

The Indian Copyright Act, which market-overs in the United States have their own reason to dislike, is currently the cause of some extra heartburning in Calcutta and West Bengal. In terms of the act, which is in general conformity with the international Berne convention, the copyright of an author's works lapses at the end of fifty years from the day of his death. The rights over Tagore's compositions, including his music and paintings, were all now exclusively held by Viswabharati, the apology of a university originally set up by Tagore which has, in the course of the past few decades, slid into the immaturity of the country's only royal family. Funds for running it are arranged under the Central Universities Act, and the funds are plenty. The chancellorship of the university has turned into a sinecure of the Nehru-Gandhis, following Rajiv Gandhi's gory demise, there is serious talk of installing that famous alumnus from Cambridge's correspondence and languages school, Sonia Gandhi, as Viswabharati's new chancellor. Even otherwise, this supposed university has, under the benign tutelage of the union government, gradually been converted into a private fief of a select number whoever the formally appointed vice-chancellor, this small group has continued to rule the roost. One can become a personality of culture in West Bengal by simply being a part of the Viswabharati establishment, much in the manner of any stray wayfarer in New Delhi's Raisina neighbourhood being, by virtue of that very fact, automatically accepted as an important entity of the country's political establishment.

The Viswabharati authorities, who enjoyed total control over the publication rights of, and profits from, Tagore's works, have not exactly covered themselves with glory in the half century since his death. They have been lugubrious, conservative and cantankerous. They had all the opportunity to print and re-print Tagore's poetry and prose and musical compositions by their millions and hereby, apart from minting money, serve an intense social cause. They did nothing of the kind. Publishing was turned into a lazy, rarefied occupation. Important editions were allowed to go out of print. For no apparent reason, the schedule of publications went into disarray. Volumes announced for publication with much fanfare in 1986 on the occasion of the one hundred twenty fifth anniversary of Tagore's birth have, for example, yet to see the light of day. Viswabharati's department of publications, in other words, has made a hash of its role as a monopolist. It has raked little revenue, not because it was lacking in bloody-mindedness, but the artefacts of the marketfriendly approach

remained beyond its ken. To be explicit, it has been plain inefficient. On the other hand, if only played, it could be argued, the classical role of a monopolist by restricting output. Be that as it may, it continues to be run much in the manner of a nineteenth century Bengali landlord's home office. Since the permanent settlement had taken care of the outlandish threat of the sunset law, why bother to strain yourself? The zamindars did not. Nor has Viswabharati. That still does not mean that the insensitivities the quintessential landlord specialised in would not be put on display. Complaints are numerous about the brusque pettifogging way this or that Viswabharati outfit tends to behave even while granting routine rights of reproduction of the facsimile of a Tagore painting or manuscript despite ready offer of paying straightaway the royalty asked for. A couple of decades ago there was that infamous incident when this establishment decided to give the treatment to one who without question is one of the most powerful singers Bengal has produced in this century. Thousands would flock, whatever the season, to listen to his renderings of Tagore songs. Tagore, he established the point, belonged to the people, not to the hoi polloi. That was an unpardonable lapse. Retribution followed. The gentleman was refused permission by the Viswabharati authorities to cut discs of Tagore composition on the pretext that he had indulged in excessive orchestration in his arrangements. The singer had genius, he wanted to liberate Tagore, he wanted to de-monopolise him, that frightened the daylight out of the powers that be. The singer died soon. He had been ailing for some time, it is still a widely held belief that his deep disappointment with the way the tyrants of

Viswabharati presiding over Tagore's estate treated him hastened his death. This coterie is scrupulously invidious in its decisions and judgments. Another exponent of Tagore music, very much a part of the establishment, has rendered quite a few compositions, it was politely pointed out, not strictly according to the original score. So what, he thundered, he is not going to stand any nonsense, his credentials cannot be questioned, where Tagore's songs are concerned, he is the law. The Viswabharati authorities, their monopoly status notwithstanding, or precisely because they had the monopoly, did not make a squeak.

Now, suddenly, occasion for a state wide whining. The Indian Copyright Act has its inexorable ways. It is August 1991, fifty years since Rabindranath Tagore died and Viswabharati's copyright over his works is to lapse at the end of the calendar year. Anyone, just anyone will now be able to print Tagore and make a commercial proposition out of it. What a calamity to betell Bengali culture. Rabindranath Tagore is to be de-linked from Viswabharati, the Vatican and the Pope will cease to be inseparable categories. But on such a first rate banal issue there is some dissonance. Bengali newspapers, otherwise great defenders of the Viswabharati establishment, are in two minds. Their instinctive sympathies are with any version of systematised tyranny. Tears are therefore being duly shed for Viswabharati. It is however also possible to discern a separate gleam in their eye. One or two of them are already earnestly in the publications business, should they succeed in adding the Tagore titles, it could be bonanza of a major proportion, more so because of the international links they have already succeeded in forging.

It is an interesting development. The

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NEW

Bengali monopoly press is failing to come out in full-throated support of the axiomatic proposition that the Indian Copyright Act must be amended exclusively to protect the rights to Tagore's works of a self-seeking coterie, whose only credentials are their unswerving loyalty to the progeny of Allahabad's Anand Bhavan. It is still no reason for the much maligned state government not to bestir

itself. It should come off its high horse and do the needful at this juncture. That is the least expected of it so the world could be convinced that, whatever the rumour, this government is not one hundred per cent anti-Gorbachev. Tagore must not be nationalised, he must not be plebeianised, he must remain a private monopoly. Down with the Indian Copyright Act.

CIVIL LIBERTIES

Soviet Union, Human Rights and Amnesty

A G Noorani

The Soviet Union's new attitude to the human rights situation in the country is not only welcome, but an example to be emulated by other countries as well

THOSE of us in India who find Amnesty International a squalid nuisance and whose response to its reports on this country is akin to the rage of a Alban would do well to draw the lesson from the changed Soviet attitude to amnesty. But, of course, *this* is not the Soviet Union we like. The three days between August 19, the day of the coup, and August 22, the day it collapsed so ignominiously, exposed to the whole world that the Soviet Union we really love is the one we were used to in the past—authoritarian, locked in a cold war, with a veto in hand to bail us out of the mess in which our follies in Kashmir land us.

But now Soviet Union is a most fascinating country. Sample this from an article by Sergei Volovets in *Moscow News* of June 16, 1991 (no 24 of 1991) entitled 'Amnesty International Human Rights in the USSR'. He writes:

Amnesty International celebrated its 30th anniversary late last May. It has been treated on a par with NATO, the CIA and the Pentagon here in the past. At a time when Soviet civil rights activists were sent to prison camps, and the most prominent of them to the city of Gorky or across the ocean, Amnesty tried to defend them like all the other prisoners of conscience throughout the world, and sometimes it succeeded.

After attacking the oppressions in Vilnius, South Ossetia and Karabakh, he remarked:

In this sense organisations like Amnesty International are indispensable. Human rights must be protected everywhere, including our country, at an international level. Amnesty has representatives in 160 countries (about 200 persons in the USSR). The campaigns carried out by Amnesty in defence of individuals, groups or peoples have been effective so far. In the West its moral prestige is exceedingly high and governments have to heed its opinion.

Considering the extent of the problems the civil rights movement in the USSR is in a pitiful state now. What happened to the so-called Burlatsk / commission which was set up with the authorities' blessing, when it seemed that Gorbachev was serious about continuing the reforms? Who in Russia demands the release of the leaders of national democratic movements in Central Asia—arrested and condemned as common criminals?

It is precisely Amnesty that has a vital role to play immediately in defending our citizens without waiting till the civil rights movement revives in the Republics and the Union. True, one hears it said again that the democrats' contacts with the West are not disinterested; that those who contribute to Western mass media are essentially traitors (witness the statement made by KGB General Iconov at a meeting of the Soyuz group of deputies). But this merely confirms the pressing need for a civil rights movement in the USSR.

There was an article on Amnesty a year earlier in *New Times* in its issue no 21 of 1990 by Lev Yelin. It was entitled, 'Amnesty International in the USSR'. Its sub-title was long and proud: 'More than 100 Soviet citizens have joined this human rights organisation *once* unpopular with our authorities'. But it *still* remains unpopular with our 'babus' who can teach the Bourbons lessons in mindless obstinacy. Lev Yelin wrote:

Amnesty International is working for the release of prisoners of conscience, for an early and fair trial of all political prisoners, for the abolition of capital punishment against tortures.

Soviet law enforcement agencies have long been opposed to Amnesty International. Until 1988, books and articles about its 'links' with the CIA poured forth in a steady flow, but in March 1989 the first Amnesty delegation visited Moscow where its section had ceased to exist in the mid 1970s, almost as soon as it appeared after its members had been arrested. Ian Martin, its Secretary General, called on our editorial offices and

granted us an interview. Last April he paid us a second visit in connection with the Progress Publishers having brought out the Amnesty International's report, 'When the State Kills: The Death Penalty versus human rights'. The report includes a chapter about the USSR. The leadership of Amnesty International plans to send to us its representatives soon so as to discuss setting up a national section here.

Ian Martin a regular reader of *New Times*, visited our offices again recently. One of the subjects of our conversation was why the Soviet press, which had clamoured for the abolition of capital punishment in the early years of the perestroika period, no longer did so now. Is it improper to call for humaneness against the background of growing crime and social instability?

Yelin mentioned that he had found from Amnesty's information bulletins, its monthly newsletter presumably, that Amnesty had adopted 50 prisoners of conscience in the Soviet Union. Half of them were conscientious objections. Eight had been locked up in psychiatric clinics.

There has been a most impressive flow of writings on human rights in the Soviet Union in the last two years particularly *New Times*, issue no 4 of 1989, published an article entitled, 'International Control? Can Soviet People Appeal to International Organisations in Case Their Rights Are Infringed Upon?'. It was based on Lev Yelin's interview with Temuraz Ramishvili, member of the UN Sub-Commission on Prevention of Discrimination and Protection of Minorities. It ended with a quote from foreign minister Eduard Shevardnadze's speech to the 43rd session of the UN General Assembly, "international control in the domain of human rights is the imperative of our time". When will an Indian foreign minister use such language?

On July 27, 1989 *Sovetskaya Kultura* carried an article by T. Menshikova on the right to know. Oleg Iyomushkin writing in *New Times* (no 42 of 1989) on the absence of the writ of habeas corpus in the USSR squarely posed the question: "Why do we have period of detention that would make the Guinness Book of Records?" What have our CPI and CPM friends to say about preventive detention in the Soviet Union which is far worse than what we have in India which is bad enough. It deserves condemnation and they are right in condemning it. But why, why is our Left silent on violations of civil rights in the USSR?

Finally, there was a very interesting article entitled 'Justice without Politics' by Yuri Feofanov in *New Times* (no 18 of 1990). He pleaded that it would make sense to dispense with political departments and party organisations in Soviet law-enforcement agencies. But, he asked, will that make our courts really independent? It is an able plea for depoliticisation of justice.

Elections and Democratic Process in India

Sarah Joseph
Gurpreet Mahajan

The notion of vote banks is crucial to the strategy of most parties as also of election analyses but it is difficult to gauge how successful it has actually been. The recent election, for instance, challenged such assumptions

ACCORDING to the received wisdom of liberal democratic theory, elections constitute an important element in the democratic process. They enable citizens to intervene directly in the political process, select their rulers and express their policy preferences. Elections thus legitimise the power exercised by governments and make governments representative. No political system it is held, can be truly democratic unless it holds periodic and free elections.

Although this view of elections forms part of the political theory and rhetoric of our political system, there is another different view of elections which has also gained currency among political elites and even social scientists, and is being widely disseminated through the media today. This is an instrumentalist, elitist view of elections according to which elections are merely an arena in which periodically political elites struggle for power. This struggle is viewed as a no holds barred, ruthless competition among political groups in which manifestos and promises are seen as no more than mobilising strategies and in which the voter is merely accepted as an intelligent partner in the political process. True voters still have the option in most cases of expressing their preferences through their votes but the experience of the past has shown that the voter, faced with limited choices, may opt for a candidate or party because it seems to be the lesser evil even though its performance when in office in the past has been poor. This has encouraged political parties to try and mobilise voters on a number of short term issues rather than placing more fundamental issues and choices before them.

This view of elections is not restricted to politicians. Studies of elections also reflect, to a large extent, this instrumental view of elections. Elections have been studied in two main ways. One is the traditional 'election study' conducted by social

scientists and the other are the poll predictions made by psephologists. Although these form distinct modes of study, there is also similarity between them. A number of election studies have been made by social scientists in India since independence. In the main, these have studied the voting population of different constituencies and regions in terms of their socio-economic characteristics—caste, community, income and the like—and have tried to relate the voting behaviour of citizens to these variables. Limited generalisations about the political behaviour of different citizen sectors have been made on the basis of such data.

The development of psephology as a specialised mode of election analysis has added a high degree of precision and predictive certainty to the whole enterprise. Psephologists give the highest priority to accurate prediction of the outcome of elections. Using available data reinforced by opinion polls and sample surveys they extrapolate statistical predictions about the possible distribution of votes in a particular region. The notion of a swing of votes towards or against a major party like the Congress has been used as a tool with which to calculate the number of seats that may be gained or lost. Such calculations, accompanied by an analysis of index of opposition unity (IOU), have in the past had a reasonable degree of success thus adding to the glamour and prestige of psephology.

Election analyses and poll predictions capture the interest of the public at election times but they also provide an input into the decision-making of political parties. Analyses of voting trends have always been used by parties to evaluate the success or failure of their election strategies and to help evolve further strategies. The Congress style of accommodative politics was the logical corollary of such calculations in the past. But what used to be done by rule of thumb methods in the past is

now being done in a more detailed and precise manner with the help of computerised information. Thus the political calculations and strategies of parties and the election analyses of social scientists and psephologists feed on each other to reinforce a particular view of elections. They have of late, been supported by the press which conducts its own election studies, albeit in a more rough and ready manner.

A presupposition of election studies and psephology is that elections constitute a discrete narrative with a beginning and an end—the installation of the newly elected government—and at the most, an election may be compared to previous ones. But for the purpose of analysis, elections form an autonomous event. This naturally limits the scope of the generalisations which may be made. Election studies and poll predictions have contributed little to our understanding of the long term trends which may operate in the political system. In any case, the picture they give us is of a system in which different groups and categories are available for mobilisation in terms of their collective interests. Neither the origin of such groups nor the changes which may be taking place in each of them can be understood through such studies. However, it is assumed that group affiliations, particularly caste and community affiliations, can be used to mobilise support for a party or a candidate.

This is, of course, the basis of the belief that there are vote banks which can be tapped. The notion of vote banks has undergone some changes over the years. In the first few elections, the Congress relied on what were called power brokers to mobilise votes for the party. These were often rural elites who could use the socio-economic dependence of lower castes and the rural poor to generate votes. The strategy was used with considerable success by the Congress in rural Bengal for instance, as also in other areas. But changes in the rural power structure brought about by land reforms and other measures, as well as politicisation of voters, has limited the scope of such strategies. Power brokers now might have to use violence and intimidation to ensure votes. The more recent notion of a vote bank is of mobilisation along caste and community lines by political leaders. The assumption is that there is a collective identity which can be mobilised for votes through promises and concessions. Political leaders then negotiate with community leaders as well as make other

The notion of vote banks is crucial to the strategy of most parties as also of election analyses but it is difficult to gauge how successful these strategies have been. The recent elections, for instance, challenged many assumptions about vote banks. Neither OBC vote, nor the Muslim or Hindu vote fulfilled the expectations of different parties. However, the notion of caste/community vote banks is apparently so deeply entrenched that no falsification is possible by counter instances. Reluctant to give up this notion, analysts have explained counter instances as 'splits' in the vote banks. For instance, before the recent elections assumptions about backward class and Hindu vote banks were made and political parties evolved strategies to tap them. When these strategies did not entirely succeed they did not give up the assumptions but merely sought for additional factors which might have influenced outcomes. Thus it was said that the backward castes voted as Hindus in some areas under the spell of the 'Ram rath'. In others the Hindu vote was said to have been split by Mandal. Little attempt was made to explore the extent to which the voting choices of people are actually determined by such attributed identities.

One is not denying the existence of social and ethnic identities and loyalties but merely questioning the notion of vote banks which assumes a determinate relationship between an identity and voting preferences. People have multiple identities. They may be simultaneously members of a caste, religious community or occupational or gender based group. As a member of such putative groups their interests may at some level coincide with those of an ideal prototype Hindu OBC / woman/rural poor. Notionally a person could be a member of each of these vote banks. However, which of these identities comes to the foreground depends upon a host of factors. Also, there may be contradictions internal to an identity or clashes between identities. Political parties are continuously trying to identify groups which may be mobilised for political support and to do this they may have to construct new identities by redrawing the boundaries of existing ones. But the success of this enterprise depends in the last instance upon the perceptions of agents in this case upon individuals perceiving themselves as a part of that group and then acting in accordance with that perception.

It is not difficult to understand why political parties have relied so heavily upon the notion of vote banks. In the absence of strong grass roots organisation, a record of continuous work among voters

and success in fulfilling election promises, vote bank strategies appear to be a softer option. It appears easier to woo voters through promises and concessions, or by playing on their fears and insecurities. Populism becomes then the inevitable consequence of this kind of politics.

It is a pity that social scientists also have worked with the notion of vote banks. Some recent studies of Indian politics have noted that development has only increased the political salience of categories like caste, community and region. They have therefore tried to adopt a social or cultural approach which accepts caste, community and other such primordial identities as permanent realities of the Indian scene. What needs to be explored, in their view, is the changing hierarchies of dominance in society and the relationship between dominance and state power. Contemporary analyses of elections by social scientists and political analysts share these assumptions and build upon them.

Election studies conducted by social scientists have generally adopted the techniques and assumptions of behavioural social science. Explicitly non evaluative, basing themselves on empirical data gleaned from surveys using questionnaires, they analyse the voting behaviour of the population. The early studies of the 1960s and 70s were made within the framework of modernisation theories. They implicitly tried to test such hypotheses as what kind of changes modern democratic institutions and development were bringing into traditional societies and to what extent primordial loyalties had been eroded or displaced by new loyalties in a modernising polity like India. More explicitly they recorded the political awareness and involvement of different groups and examined the extent to which participation in the political process was influenced by factors such as caste, religion, literacy, occupation, etc. Looking back on those studies it is striking how little they contributed towards any wider understanding of Indian politics.¹ For some years the verdict was self congratulatory: a traditional society sustaining democratic processes which would hopefully, over time, bring about peaceful social change. Election studies hardly reflected the mounting pressures which were to erupt in the political system.

Unlike the election studies conducted by social scientists, psephology has more limited aims, although it also claims to be value neutral, scientific and exact. Arguing that it is possible to develop measures of electoral change and to relate votes cast with seats won, it concerns itself primarily with predicting electoral trends.

However, even though it sets out to analyse the 'what' rather than the 'how' of elections, psephology has also addressed a wider range of questions. In India, psephologists have used census data to generate a profile of each constituency in order to draw conclusions about the voting propensity of different groups. Measuring the 'volatility' or 'stability of voting support' for a party in different constituencies, they have tried to identify the social groups that support different parties in a given constituency. There is thus a certain continuity of interest with the earlier election studies. However, in the absence of a clear notion of the political system psephologists tend to select a random group of categories and indices by which to classify voters and voting trends. Very often they merely test popular hypotheses. For instance, in the last elections perceptions regarding the effects of Mandal and 'mandir' were tested. One generalisation put forward was that in UP even the OBCs voted for the 'mandir'. The Muslims however did not resort to tactical voting but stayed with the Janata Dal. In Madhya Pradesh the 'sympathy wave' introduced a new factor and almost all the constituencies that went to the poll in June voted Congress. And so on.

The statistical generalisations put forward by psephologists do not of course offer explanations. One might for instance learn that the Ram char that swept UP was stemmed in MP but by itself it does not constitute an explanation. Thus such generalisation should not be read as a mandate for a party on a particular issue. We need also to remind ourselves that there may be other factors which influence choices. Hence one should be extremely cautious about deriving any generalisations or explanations from a statement of correlations and trends. The lack of explanatory power is a well known problem with such empirical modes of analysis.

It has been noted that there is often a dichotomy between the issues and compulsions of elections and the policies of a government when in power. An example of this phenomenon is provided by the way in which the present government is pushing through changes of far reaching importance with the minimum of debate even though such measures were hardly discussed during the elections. Parties like the Congress or BJP which had included liberalisation in their manifestos preferred to mobilise votes on issues like the 'Ram mandir', or stability or Rajiv Gandhi's assassination. The limited scope of election analyses both reflects as well as supports this elite notion of government. This possibly accounts for the cynicism and apathy with which voters

greeted the recent elections. Few parties campaigned on important issues facing the country and few voters believed that participation in elections would help them select a government actually committed to their needs and anxious to stand by its electoral promises. The violence and corruption generated during the elections only added to the general apathy

A controversial recent restatement of democratic theory by thinkers like Schumpeter and Dahl has held that the primary purpose of elections is to enable elites to compete for office rather than to encourage active participation by the masses in politics. The actual conduct of government and choice of policies should be left to elites who would be responsible to the electorate. A similar notion seems to support both the attitude of political parties towards elections as well as election analyses. Elections are seen as a process by which popular support for parties is elicited and recorded. Hence parties are resorting more and more to marketing techniques, selecting issues likely to carry the widest appeal, projecting 'images'. Few view them as occasions for raising basic issues and concern.

A side effect of this attitude towards elections is that increasingly people are resorting to direct intervention in the political process through violence or mass mobilisation. The last decade has seen mobilisation on an unprecedented scale on issue like ecology, tribal rights, agricultural prices. However the actual success of the mass movements has been modest. Movements representing powerful groups like kisans may win concessions sooner or later since they form a powerful lobby within political parties as well. But the rural poor organised around issues like ecology, resettlement are not always perceived as a potential vote bank in spite of their impressive capacity for mobilisation. Hence the issues they raise are not always put high on the political agenda by parties or governments.

One of the correctives which has been suggested for this state of affairs is democratic reorganisation of political parties or inner party democracy. This, it is hoped, would help them perform more efficiently their role of articulating popular demands. While inner party democracy would probably challenge the dominance of social elites within political parties and generate a new kind of leadership and style of functioning, it is doubtful whether, by itself, it would make a major change in the political system. Political parties themselves tend to view democratisation mainly as a means of more effectively disseminating party programmes and building up a grassroots support base for the party. It is not evident that par-

ties like the BJP which claim to have a democratic style of functioning are any more responsive to people's needs and aspirations than other parties.

In the recent discourse on politics in India, two models of development are being sharply contrasted—the Nehruvian socialist model and the market-oriented model being implemented today. The Nehruvian model of development was part of a package which included parliamentary democracy and self-sufficiency for the country. It envisaged a wide role for the state in both production and distribution while also reserving an important space for market forces. But it was soon discovered that it would not be possible to ensure egalitarian distribution without a strong political movement to sustain it. This was discussed in many a five year plan and other official documents. Some progress was certainly made but both equity and faster growth became victims to an extent of accommodative politics. The market model differs from the earlier one in that it has given up the goal of self-sufficiency and envisages a much narrower role for the state. The state would be needed to provide infrastructural facilities in certain key areas of distribution. For the rest market forces should be given free play for greater productivity and efficiency. And while the Nehruvian model was committed to democracy, the market model is not necessarily so. Agencies like the World Bank would gauge the prospects and advantages of democracy for a country like India through statistical correlations between various indices guided by the overriding priority of goals like stability and growth. Apparently they do not make possible any firm conclusions.

Despite these differences the notion of democracy which informs both of these models is an instrumental, elitist one. We have argued that political practice based upon such a notion of democracy has contributed towards discrediting the political system and even the concept of democracy. A different view of democracy which reasserts the values of popular participation and accountability could help to restore some credibility to political processes. In a more participatory model elections would be seen as one among many democratic processes, sustained by other processes and with a significance which extends beyond the selection of a government. And only in that framework the identity of the voter as citizen who weighs the performance of governments might come to acquire some importance.

Notes

- 1 See Aloa Dasgupta Pathak, et al (1972), *Studies in the Fourth General Elections*

Allied Publishers, Delhi; Ramashray Roy, (1973), *The Uncertain Verdict*, Orient Longman, Delhi; S P Verma, I Narain and Associates (1973), *Voting Behaviour in a Changing Society*, National Publishing House, Delhi; Sachidananda (1976), *The Tribal Voter in Bihar*, National Publishing House, Delhi; S Eldersweld and B Ahmed (1978), *Citizens and Politics*, University of Chicago Press, Chicago and London. A large number of these studies were funded by the ICSSR. Despite the limitations of the behavioural framework, analysis of elections along these lines have been undertaken in the last decade. See, for instance, B Ganguly and M Ganguly (1982), *Dimensions of Electoral Behaviour*, Pearl Publishers, Calcutta; V B Jena and J K Barnal (1989), *Elections and Voting Behaviour in India*, Discovery Publishing House, Delhi.

- 2 Ser, F Frankel and Rao (eds) (1989), *Dominance and State Power in India*, OUP, Delhi.
- 3 Butler Lahiri and Roy (1984), *A Compendium of Indian Electoral Behaviour*, Arnold Heinemann Delhi p 13.

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**Excerpts from the speech of Sri.SP. Sabapathy,
Chairman, Bank of Madura Ltd. at the 48th Annual
General Meeting held at Madurai on 12.8.91.**

Bank's Performance

The progress that the Bank has achieved during 1991 has been such that new milestones have been passed in key areas. Despite the deceleration in the rate of growth of deposits of the banking system, our Bank could cross the landmark of Rs 400 crores. The non-resident deposits increased by 31%. Gross credit crossed the landmark of Rs 200 crores and stood at Rs 222 crores registering an increase of 16.2% over the previous year's level. The Bank has fulfilled the norm of 40% in respect of advances to priority sector prescribed by the Reserve Bank.

The working of the Bank has yielded net profit of Rs 200 lakhs as compared to Rs 143 lakhs in 1989-90. This was made possible by optimum utilisation of funds. I am happy to report that we are one of the very few Banks in the country to charge full depreciation on Government securities and even after absorbing depreciation, the Bank improved the return on Government and approved securities to 10.9%. The ratio of idle assets to demand and time liability is kept at a low level. The performance of the Bank in this area is recognised as one of the best in the banking industry.

Ours is the only private sector bank in Tamilnadu privileged to have been authorised by the External Affairs Ministry to sell passport application forms through selected branches.

Dividend

I am glad to report that Reserve Bank of India have approved payment of 16 per cent for the year ended March 31, 1991 as against 14 per cent declared during the previous year. The rights shares are eligible for dividend for 6 months.

Outlook for 1991-92

For the current year we have planned to reach the landmark of Rs 500 crores deposits. To achieve this objective certain potential branches have been identified to be placed on the fast track. We propose to enter into Credit Card business through a tie up arrangement with Canara Bank. We plan to introduce computerisation in 12 more branches in 1991-92. Application has been submitted to the

Reserve Bank of India for licences for opening new branches in 41 centres during the current plan period.

Issue of further shares

It is gratifying to note that the 1990 Rights Issue for Rs 5000 lakhs was made a success thanks to your overwhelming response. As a result, the paid up capital has improved to Rs 14990 lakhs. In line with the increase of Banks deposits, the Directors are of the view that the ratio of net owned funds to deposits should be increased. For enabling further issue of shares, the authorised capital is proposed to be enhanced to Rs 300 lakhs. In the agenda for this meeting there is an item seeking approval of the shareholders for authorising the Board of Directors to issue additional shares for Rs 75 lakhs as Rights Issue during November 1991. I request all the shareholders to give consent for this issue and record favourably.

Budgetary proposals and the Banks

The withdrawal of the ceiling on interest rate on debenture could affect the banks both way, through loss of deposits and good advances. Blue chip companies would rather go to the capital market and raise funds than come to the commercial banks for borrowing at a higher rate.

Although the budget proposals had freed the funds market, the banking industry has not witnessed any major relaxations whatsoever. The combined impact of the interest tax, the unsustainable level of CRR and SLR requirements and low interest bearing securities mean high cost and lower earnings for banks.

Besides an additional administrative burden of a great dimension has been proposed to be imposed on Banks which are supposed to deduct tax at source from those customers who earn more than Rs 2500/- per year in interest income. I am of the firm opinion that this would substantially add to operational costs of the banks. I sincerely hope that the Narasimham Committee recently appointed by the Government will look into all the problems faced by the banks and address itself to the proper reorganisation of the banking institutions to make them more efficient and productive.

Non-performing advances

As all of you are aware, the incidence of non-performing advances though in varying degrees has been the bane of the banking industry. The problem of realising sticky advances through normal legal process is becoming more and more difficult. Suits for recovery of advances take as much as 5 to 6 years to get a decree. After getting the decree the execution is also delayed for a number of

reasons beyond the control of the banks. The dues to Government, State and Central including Income Tax dues are recovered as arrears of Land Revenue in an expeditious manner. As the banks make advances from the savings of the community as a whole, there is a strong case for dues to the banks to be treated on par as dues to Government. We have represented the matter to the Reserve Bank of India to devise urgent measures to solve this problem.

Privatisation of Banks

Private Sector Banks are rendering commendable services to the customers as also to the community at large. We seek support from the Government for maintaining their accounts with us and for eliminating discrimination meted out to us. Now a lot of discussion is taking place about privatisation of public sector banks and this leads us to believe that there would not be any further nationalisation. This is a welcome move which will create healthy competition amongst all banks.

Sick Units

The way to cure industrial sickness cannot be at the expense of banks. Banks do not have inexhaustible funds and both banks and borrower should know this. The Governor of the Reserve Bank of India, Mr Venkitaraman has rightly said that banks should work profitably keeping in view the twin criteria of becoming consumer friendly and reacting to change. If a bank sustains losses it ultimately becomes the responsibility of the Government even though money may belong to the depositor.

Undue and unwarranted concessions and reliefs and further pumping in of additional funds by banks to sick units of questionable viability or being directed by BIFR is certainly not a healthy sign and will definitely make even the lending banks go sick in some cases.

Issue of Bonus Shares

It is high time the well run private sector banks with sound financial position such as ours should be allowed to issue bonus shares. After all the dividend pay outs have been regulated by the Reserve Bank of India and if for one have always felt that shareholders in a commercial bank are not adequately compensated. At a recent meeting with the executives of the Reserve Bank of India I reiterated my standpoint and requested them to bestow thought to this subject.

ARIES/BA/91

Price Rise Gathering Momentum

The impact of the devaluation of the rupee and the budget proposals has been marked on the pace of price rise.

THE wholesale price index recorded a growth of 6.1 per cent during the first 18 weeks of 1991-92 on a point-to-point basis as compared to 5.3 per cent last year. However, if one measures the rise on an average basis, it was notably higher at 11 per cent as against 9.1 per cent in the comparable period of 1990-91.

The wholesale price index was 191.8 on March 30, 1991 and was moving up at a steady pace during the first 13 weeks of 1991-92 ending June 29 to reach 196.4. However, after the devaluation of the

rupee the uptrend in prices gathered momentum and in the next three weeks the increase was 1.2 per cent. The announcement of the budget proposals on July 24 gave a further impetus and in the next two weeks the price index rose by 2.3 per cent.

The increase of 6.1 per cent in the wholesale price index during the year up to August 3 was brought about by a 9.3 per cent rise in primary articles (11.7 per cent in 1990-91), 4.5 per cent rise in manufactured products (3.5 per cent in

1990-91) and 4.3 per cent rise in fuel, power, light and lubricants (1.3 per cent in 1990-91). The respective increases in 1988-89 were 6.2 per cent, 6.5 per cent and 0.5 per cent (Table 1).

The price rise of 5.8 per cent in 1989-90 up to August 5, 1989 was thus largely due to a spurt in the price of manufactured products. This trend underwent a sharp change in 1990-91. There were steep increases in the prices of products under different primary commodity groups. This pattern was repeated in the first four months of 1991-92.

The price of consumer articles (weight 37 per cent) spurted by 9.7 per cent compared to 8.8 per cent last year. The increase in prices of edible oils can be attributed to a shortfall in domestic production and inability of the government to import large quantities of oils due to scarcity of foreign exchange. Prices of other food articles seemed to have risen on account of the increase in transport costs.

The commodity groups that seem to have been affected by the devaluation and the increase in oil prices include electrical and non-electrical machinery, transport equipment and parts, cement, basic inorganic chemicals and organic chemicals, etc. Table 2 presents the trends in these items.

In the retail market the prices of all these items were ruling high. The rate of increase in most commodities has been in the range of 5 to 15 per cent. The consumer price index for industrial workers had spurted up by 4 per cent in the first quarter of 1991-92 up to June 1991 (the latest data available) as compared with 4.5 per cent in 1990-91.

TABLE 1. MOVEMENTS IN WHOLESALE PRICE INDEX

| | | All Com modities | Primary Articles | Food Articles | Fuel, Power, Lights, Lubricants | Manu- factured Products | Food Products |
|--------------------------------|--------|---------------------|---------------------|------------------|--|-------------------------------|------------------|
| | Weight | 100 000 | 32 295 | 17 386 | 10 663 | 57.042 | 10 143 |
| Between | | | | | | | |
| March 30 and June 29, 1991 | 2.4 | | 4.6 (62) | 6.2 (50) | 0.5 (2) | 1.5 (36) | 4.9 (21) |
| June 29 and July 20, 1991 | 1.2 | | 2.3 (64) | 2.5 (41) | - () | 0.8 (36) | 2.2 (6) |
| July 20 and August 3, 1991 | 2.3 | | 2.2 (32) | 2.7 (23) | 3.9 (17) | 2.1 (51) | 1.9 (8) |
| March 30 and August 3, 1991 | 6.1 | | 9.3 (50) | 11.7 (37) | 4.3 (8) | 4.5 (42) | 7.7 (13) |
| March 31 and August 4, 1990 | 5.3 | | 9.9 (59) | 12.4 (42) | 1.3 (3) | 3.5 (38) | 10.9 (14) |
| March 25 and August 5, 1989 | 5.8 | | 6.2 (34) | 8.6 (29) | 0.5 (1) | 6.5 (65) | 13.3 (22) |

Note. Figures in brackets are weighted contributions

TABLE 2. TRENDS IN WHOLESALE PRICE INDEX (1981-82=100)

| | Weight | Point-to-Point Basis* | | | Average Basis* | | | Weight | Point-to-Point Basis* | | | Average Basis* | |
|------------------------------|---------|-----------------------|---------|---------|----------------|---------|---------------------------------|--------|-----------------------|---------|---------|----------------|---------|
| | | 1991-92 | 1990-91 | 1989-90 | 1991-92 | 1990-91 | | | 1991-92 | 1990-91 | 1989-90 | 1991-92 | 1990-91 |
| All commodities | 100.000 | 6.1 | 5.3 | 5.8 | 11.0 | 9.3 | Medicine | 1.065 | 2.7 | 0.5 | - | 4.8 | 7.1 |
| Major consumer commodities** | 37.558 | 9.7 | 8.8 | 9.4 | 12.5 | 9.2 | Soaps | 0.880 | 7.7 | 1.5 | - | 8.7 | 2.8 |
| Cereals | 6.824 | 1.6 | 11.1 | 1.9 | 15.3 | 0.3 | Butter and ghee | 0.642 | 5.0 | 1.5 | 6.2 | 10.5 | - |
| Pulses | 1.093 | 5.9 | 6.7 | 10.9 | 8.4 | 10.2 | Industrial raw materials*** | 10.635 | 12.3 | 13.8 | 7.9 | 17.7 | 15.6 |
| Vegetables | 1.291 | 56.2 | 48.6 | 61.8 | 8.7 | 29.7 | Fibres | 1.791 | 26.5 | 9.1 | 1.4 | 37.3 | -2.1 |
| Fruits | 2.798 | 17.4 | 16.3 | 12.2 | 25.1 | 5.5 | Oilseeds | 3.861 | 6.5 | 14.7 | 11.3 | 21.3 | 27.5 |
| Milk | 1.961 | 6.8 | 3.4 | 3.9 | 12.1 | 0.8 | Administered prices**** | 20.347 | 4.6 | 1.1 | 2.0 | 9.9 | 6.6 |
| Egg, fish and meat | 1.783 | 14.1 | 4.6 | 6.8 | 15.3 | 6.4 | Mineral oils | 6.666 | 6.9 | 0.6 | - | 20.5 | 9.7 |
| Condiments and spices | 0.947 | 16.1 | 14.7 | 3.2 | 28.6 | 18.9 | Electricity | 2.741 | 1.5 | 3.5 | 1.7 | 11.7 | 5.0 |
| Tea and coffee | 0.689 | 11.2 | 3.7 | 15.2 | 15.4 | 32.7 | Fertilisers | 1.748 | 37.4 | - | - | 2.2 | - |
| Atta, rawa, suji, etc. | 1.530 | 2.8 | 0.5 | 5.2 | 16.2 | 2.7 | Non-ferrous metals | 1.025 | 2.7 | 4.3 | 2.9 | 5.7 | 5.0 |
| Bread and biscuits | 0.242 | 2.0 | 3.1 | 3.6 | 12.6 | 1.5 | Other miscellaneous commodities | 29.313 | 2.6 | 3.0 | 5.1 | 7.6 | 9.0 |
| Sugar and gur | 4.059 | 15.2 | 8.0 | 25.5 | 3.2 | 3.7 | Jute textiles | 0.689 | 6.9 | -8.3 | 10.1 | 7.3 | 20.6 |
| Salt | 0.035 | 7.7 | 3.0 | 13.7 | 15.1 | 12.9 | Cement | 0.860 | 12.1 | 5.7 | -1.8 | 20.1 | 12.6 |
| Edible oils | 2.445 | 4.6 | 14.6 | 8.0 | 26.5 | 17.9 | Metal products | 1.823 | -1.6 | 9.8 | 12.1 | 8.7 | 9.5 |
| Packed tea and coffee | 0.236 | -0.7 | 1.0 | - | 21.3 | 42.4 | Non-electrical machinery | 3.277 | 6.3 | 3.7 | 5.6 | 11.3 | 10.1 |
| Soft drinks | 0.066 | 10.3 | 1.0 | - | 27.6 | 1.6 | Electrical machinery | 2.991 | 5.4 | 3.4 | 3.3 | 10.3 | 5.7 |
| Bidi and cigarettes | 1.925 | 11.6 | 9.8 | 10.0 | 4.6 | 22.5 | | | | | | | |
| Cotton textiles | 6.093 | 4.7 | 0.5 | 7.0 | 9.3 | 11.8 | | | | | | | |

* End March to first week of August of each year.

** Composite index of cereals, pulses, fruits, vegetables, milk, egg, fish, meat, tea, coffee, bread, atta, sugar, cotton textiles, medicines, soaps, etc.

*** Composite index of fibres, oilseeds, other non-food articles, metallic minerals and other minerals.

**** Composite index of crude mineral oils, coal, electricity, fertilisers, iron and steel, ferro alloys and non-ferrous metals.



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Kashmir and India

DN

For the pan-Indian bourgeoisie it is as a captive market for its manufactures that Kashmir is important and not as an area of investment. That is the reason why customs barriers between Kashmir and the rest of India were lifted while restrictions on non-Kashmiri ownership of property in Kashmir were left untouched.

SARDAR PATEL, recently decorated with a posthumous Bharat Ratna, it would seem, was not so keen to have Kashmir in India. According to M J Akbar's *Kashmir. Behind the Vale*, (Viking, New Delhi, 1991) that was because of the Kashmir valley's overwhelming Muslim population. "Patel felt it would be far better for the ninety-six per cent Muslim Kashmir Valley to go to Pakistan" (p 102).

Nehru, on the other hand, was clear that Kashmir should go to India, not because, as some Kashmiris allege, he wanted to preserve access to the fabled spring waters of Chashmeshahi, or because of his "commitment to secularism", as M J Akbar would have us believe, but for more prosaic reasons. Nehru wrote in 1948 to Attlee: "Security of Kashmir... is vital to the security of India especially since part of the southern boundary of Kashmir and India are common. Helping Kashmir, therefore, is an obligation of national interest to India" [Akbar, p 121].

Nehru was not the first person to argue in these terms. Early this century, the British colonial ideologue and viceroy, Curzon, had argued in similar terms, when he enunciated the imperial strategic doctrine for the British Indian empire: "India is like a fortress, with its vast moat of the sea on two of her faces and with mountains for her walls on the remainder, but beyond these walls, which are sometimes of by no means insuperable height, and admit of being easily penetrated, extends a glacis of varying breadth and dimension. We do not want to occupy it, but we also cannot afford to see it occupied by our foes. We are quite content to let it remain in the hands of our allies and friends, but if rivals creep up to it and lodge themselves right under our walls, we are compelled to intervene because a danger would thereby grow up which might one day menace our security... He would be a short-sighted commander who merely manned his ramparts in India and did not look beyond" [Neville Maxwell, *India's China War*, Jaico, Bombay, 1970, p 21].

Notions of strategy and security are as much class notions as any other. There are no simple, straightforward 'geo-political

compulsions' which would dictate that Kashmir must be part of India. The compulsions of the Indian state, of the pan-Indian big bourgeoisie are those which they have taken over from colonial British India, as can be seen by comparing Nehru's statement with that of Curzon. They are not the compulsions of those who would build a more democratic order, founded, among other things, on the ending of all forms of national oppression.

Further though couched in terms of security this is not a question of security. The real question is that of expansion—security is a way of justifying that expansion in terms that appeal to national sentiments. What is at stake is not a genuine security interest, but the interest of being able to exploit markets and being able to dispose of labour surpluses. It is the pan-Indian big bourgeoisie whose interest is chiefly involved in holding on to the Kashmir market and using its surplus. But, as we will see later, other sections of the bourgeoisie, including sections of the middle bourgeoisie and even aspirants to the bourgeoisie, are also interested in holding on to Kashmir.

There is a widespread notion that Delhi does not gain anything from Kashmir, and that, on the contrary, Kashmir is pampered and subsidised by Delhi. As is common with all the Special Category Hill States (which also includes Himachal Pradesh and the north-eastern states) Jammu and Kashmir does receive a high per capita 'assistance' from Delhi. But, in the case of J and K alone, this central assistance is 70 per cent loan and 30 per cent grant, as against 90 per cent grant and 10 per cent loan for the other states. [Arshad Maqsood, 'New Delhi and Kashmir: Integration or Alienation?' in *The Kashmir Dossier*, February 1991]. Consequently, the more the 'assistance' from Delhi the worse J and K's financial position becomes. "In fact, the bulk of the annually increasing budget deficits is accounted for by the burden of interest payments to the Central Government. Out of the current year's projected deficit of about Rs 370 crore, almost Rs 300 crore were interest payments" [Maqsood, p 10].

Further, J and K government expenditure, even more than those of other states, is determined by 'security'

considerations—Delhi's attempt to crush the movement for independence currently going on in the valley and its military confrontation with Pakistan and China. One of the major expenditures over the years in Kashmir has been that on the highway linking Jammu and Srinagar, a highway built and maintained at great cost. The highway was built initially for military reasons, to enable the Indian armed forces to sustain a substantial presence in the Kashmir valley. But, as in the case of the railways the British built after the 1857 uprisings, the means of communication have commercial as well as military uses—the same highway is also the avenue for selling manufactures and other commodities in Kashmir, and for taking Kashmir's timber and other primary products out. The irony is that Kashmir pays twice for the expenses incurred in keeping it subjugated—the funds not only come partly out of its own budget, but they also entail continued interest payments to Delhi.

Financial payments are, however, only a small part of the matter. More important are the commercial trade benefits that accrue to the pan-Indian big bourgeoisie. Customs barriers existed between Kashmir and the rest of India until the arrest of Sheikh Abdullah. It was only after his arrest, with the puppet government of Bakshi Ghulam Mohammed in place, that the customs barriers were lifted [Akbar, p 158]. With free trade imposed on Kashmir, trade then developed in the classic colonial manner—manufactures from the metropolis exchanged for raw materials and other primary products from the colony.

Kashmir has been providing an increasing amount of timber and other primary products, including fruits. Kashmir's two main natural resources are forests and water. There has been extensive deforestation, with timber being supplied to the Indian railways. "Apart from the widespread adverse ecological impact, a high value resource was sold at virtually a throwaway price which not only did not bring any substantial monetary benefits in terms of current revenues but also eroded the potential for future income and the State's capacity for self reliance" [Maqsood, p 11].

Further crushing any attempt at self-reliance, the central government has moved to take full control of Kashmir's water resources. There is a combination of low potential utilisation (out of the estimated 10,000 mW potential, only some 1,000 mW of generation potential has been created) with important projects being under the control of Delhi. Even the commissioning of the Salal project did not result in any lessening of the power shortage in the Kashmir valley, because the transmission lines had not been

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Images/JPC

upgraded. So that, while in the midst of winter Srinagar was without power for three days in the week, power from Salal was being supplied to the northern grid, to meet the needs of Delhi most likely "Naturally the question came to be asked whether this was a case of faulty planning or deliberate negligence" [Maqsood, p 11]

Step by step, all the key power projects in the state were taken over by the National Hydel Power Corporation (NHPC). Again, it is during periods of central rule, or when puppet governments were in place, like the one of G M Shah, that the decisions to hand over various projects to the central organisations were taken. The 400 kV transmission line was handed over to NHPC during the period of G M Shah, while Jagmohan's two spells of governor's rule were very beneficial in extending Delhi's control—the Sawalkot and Baghlihar projects on the Chenab were handed over to NHPC during his first spell in 1986, and in 1990 the 200 kV line project was handed over to NHPC. As Arshad Maqsood points out, "NHPC will control not only the generation but also the distribution system, particularly in the Valley, the implications of which can well be imagined" (p 11).

Other exports from Kashmir are those of fruits, mainly apples, and handicrafts, mainly carpets and shawls. The trade in apples is controlled at Delhi's Azadpur mandi by Punjabi khatri traders. The auction in this market is clandestine, lending itself well to price fixing by the traders. Knowledgeable observers estimate that the growers in the valley get only about 20 per cent of the auction price.

In handicrafts and shawls, the trading situation is different from that in fruits. In these fields the traders too are Kashmiris, including those at the retail end in non carpet handicrafts. The traditional Kashmiri 'kharkanedars' are traders from the carpet and shawl trades. The master weavers are attached to particular 'kharkanedars'. A substantial Kashmiri bourgeoisie (substantial not in size, but in numbers) has grown up in carpet, shawl and other handicraft manufactures. These, of course, are handicraft and not factory manufactures, which are conspicuously absent in Kashmir.

Investment in Kashmir by Delhi and the pan Indian bourgeoisie has been basically in two fields—roads and communications for military purposes, both to suppress the independence movement in the valley and in order to confront Pakistan and China, and commercial purposes, and in power generation and transmission, so as to better exploit Kashmir's natural resources of water and forests. Capital investment for industry has been virtually non-existent. The pan Indian bourgeoisie and Delhi have invested virtually nothing in the field of industry. There are two

measly government sector factories—assembly units of the HMT and ITI, with investments of Rs 5 crore and Rs 50 lakh respectively. Wages in Kashmir are quite high—something like Rs 50 a day for unskilled labour in Srinagar. So, wages are not such as would specially attract the big capitalists to put up plants there.

Overall, Kashmir is important as a market for Indian manufactures, and not as an area for the investment of the Indian big bourgeoisie's capital. Other than rice, most items of mass consumption are imported. Kashmir's imports are about four times its exports (*Draft Annual Plan for Jammu and Kashmir, 1990-91*, New Delhi). The excess of imports over exports has to be made up through payments from other income—from tourism, which was estimated by Tata Economic Consultancy Services to account for one third of state income in 1983 and from its earnings in handicrafts and agriculture.

For the pan Indian bourgeoisie it is as a captive market for its manufactures that Kashmir is important and not as an area of investment. That is the reason why, soon after the dismissal of Sheikh Abdullah, customs barriers were lifted between Kashmir and the rest of India while restrictions on non-Kashmiri ownership of property in Kashmir were left in place. Of course, there has been a steady whittling down of these restrictions and whenever necessary the expedient of 90 year leases has been resorted to. Various central government organisations have been given such long leases, as also big capitalists like Oberoi's. Medium scale capitalists, like those who ran many hotels

in Srinagar, however, have had to buy short leases from Kashmiri owners. These middle capitalists are the ones who have most resented the restrictions on their buying of property in Srinagar—as they have had to pay a rent to the Kashmiri owners of property, resulting in a reduction of their profits. Potential middle-level investors from the plains of Aryavarta also see the Kashmir restrictions on property ownership as a curb on their fundamental freedom to move anywhere in Delhi's domains in search of profit and avenues of accumulation.

The differences in the Kashmir policy of the party of the pan Indian bourgeoisie, the Congress, and the BJP, with its large support among middle-level traders and aspiring capitalists, reflect differences between the big and middle capitalists on this score. For the pan-Indian bourgeoisie it is now sufficient that Kashmir remain a captive market for its manufactures, so it does not press for an abolition of restrictions on private Indian investment in Kashmir. For the middle and newly developed aspiring bourgeoisies in the plains particularly in the Hindi heartland unable to break through in areas dominated by the pan Indian bourgeoisie, and facing competition from the growing Muslim and backward caste middle classes, the abolition of all restrictions on their investment in Kashmir has become an urgent matter in the political agenda. That is one of the reasons why the BJP's programme, based on the assertion of Hindutva and the ending of Article 370 in Kashmir, has now got a wider response in the Hindi heartland.

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Drug Industry: Crying Wolf Again

Arun Bal

In the last couple of months the drug industry has been putting enormous pressure on the government to review the Drug Price Control Order and all the later decisions on prices. Is its stand justified?

FEW people are perhaps aware that the drug policy which is directly related to the health of millions of consumers is formulated not by the health ministry, but by the ministry of fertilisers and chemicals. The lists of essential drugs available to date have also been formulated by the ministry of fertilisers and chemicals. Last year, for the first time the health ministry came out with a list of essential drugs. This first small step towards correcting the fundamental flaw in our health policy also a first step towards loosening the stranglehold of the industry over the policy, did not go unnoticed by the industry although the ostensible reason for its reactions since then has been the 'unremunerative' prices of drugs. Clearly the industry is trying to create a fear psychosis by issuing subtle threats—earlier, that it would stop producing essential drugs unless the profit margin is hiked and now, the strike call.

The industry's main arguments supporting its actions are (1) unremunerative prices of final products, (2) no control over prices of raw materials, (3) uncertain environment for business, and (4) lack of automatic price hikes. Let us examine these one by one. Over the last 20 years the industry has always harped on the lack of adequate profits. It has always demanded total decontrol of the market to improve the profitability of drugs. Are drug companies incurring loss due to production of essential drugs? A recent analysis of the financial results of last seven years of top 30 companies reveals that in spite of fixed prices of finished products and increasing prices of raw materials, none of the accepted financial parameters of profitability of these companies has suffered a set back. The companies reluctantly agree now that they are in general doing well. However, they argue that this is not so much due to any particular concessions to this industry but due to the healthy economic environment of the past two years. They want increases in MAPE now to offset future losses they predict they will suffer next year! The price of Terramycin is another example. Prior to the DPCO the price of Terramycin in the retail market was Rs 14.00. After the DPCO it was reduced to Rs 3.50. In fact it is still the

same. Hence it is safe to assume that even at Rs 3.50 the companies are getting adequate profits. Another analysis of the pricing structure done by a pharmaceutical manufacturer in the co-operative sector has revealed that even at 75 per cent MAPE the companies are making 15 per cent profit quite comfortably.

In fact, it is high time that the industry clearly states its definition of 'reasonable profit'. The industry has always kept it ambiguous to suit itself. However a 15 per cent profit margin should be adequate by any standards. The industry is making this profit on essential drugs even at present. For example paracetamol is priced higher than the accepted cost. Locost Standard Therapeutics, a pharmaceutical manufacturer in the co-operative sector has shown many times that this very essential drug can be marketed at much lower prices than at the present price, which is 17 paise per tablet.

The industry has always been reluctant to produce bulk drugs. So its non-compliance in producing bulk drugs is nothing new. In fact seven major bulk drugs have always been produced by the small scale sector. The larger companies have always been more interested in the formulation market, which generates greater profits.

A popular argument with the industry is that the Indian drug prices are lower than anywhere in the world. The table shows that this is incorrect. A public campaign by the drug industry some time back included a comparative analysis between the drug prices of different countries in south east Asia. However, drug prices of Bangladesh have been conveniently left out.

The industry has always disclaimed any responsibility for the proliferation of irrational drugs with an ingenuous argument that after all it is the government which licenses the drugs for manufacture and the industry only produces them! The chairman of Lyka has been attributed this argument in the campaign. It would be pertinent to note here that the same Lyka had vociferously protested against the ban on the hazardous, irrational combination of chloramphenicol and streptomycin (Lykasirep). Also Lyka in collusion with the drug controller's office has managed

to obtain a stay order from the Bombay High Court on the ban and has subsequently withdrawn the drug from the market. After a commercial boycott by consumer organisations, Lyka objected to government orders on the ground that it be allowed to sell the stock in 'pipeline' though it admitted the drug was harmful. In other words the government is greatly influenced by the opinion of the industry in matters of issuing licences. And even when it does ban a drug industry promptly obstructs it.

The industry's argument of unhealthy environment is specious. The atmosphere is being labelled as 'unhealthy' because the government has insisted as per its stated policy that the industry should repay the money which it has collected unethically from the pockets of millions of poor consumers. In spite of the unequivocal decision of the Supreme Court in favour of the government, the industry is reluctant to repay the amount.

The per capita expenditure on drugs in India has been termed as lowest in the world. A survey done by a consumer organisation has shown that 13 per cent of a family budget is spent on drugs and that too, on irrational drugs. This takes away vital financial resources of the family which could be used for food and other necessities. How ethical is it to compare the price of a cup of tea with a tablet of essential drugs?

The total annual drug production in India is approximately Rs 3,500 crore. This vast amount of drugs are accessible to only 20-30 per cent of the population. Fifty-five per cent of the drugs produced are either irrational or hazardous. Drug production was expected to reach the mark of Rs 16,000 crore a year at the end of Eighth Five Year Plan. It is claimed by the industry and the government that this is necessary to achieve the goal of 'Health for All by 2000 AD'. The present emphasis and thrust of the policy is on 'what drugs can be produced?' and not on 'what drugs need to be produced?'. The pattern of drug productions does not match the disease pattern of our country. If only

TABLE I

| Drugs | Prices in India (Per kg) | International Prices (Per kg) |
|----------------|--------------------------|-------------------------------|
| Doxycycline | 5.690 | 1.337 |
| Ithambutol | 620 | 320 |
| Furosemide | 1.426 | 450 |
| Ceftriaxime | 35.670 | 3.500 |
| Vitamin (B 12) | 494 | 132 |
| Ampicillin | 1.392 | 743 |

Source: A Decade after Hathi Committee, KSSP 1989

essential and rational drugs are allowed to be produced in the country in generic form then the present quantity of drugs produced would quite adequately fulfil the needs of all consumers

It is necessary to reiterate that consumers realise that the pharmaceutical industry is a vital sector of our economy and any fluctuation in general economic parameters is likely to affect this industry also. There should not be two opinions about the necessity to protect the industry from adverse effects of generalised price escalations. However, the pharmaceutical industry is different from other sectors in a few aspects. Its products directly affect the health of the millions of poor consumers. Unlike other consumer products consumers of drugs have no say in the matter. The government issues licences the industry produces drugs and the doctor prescribes the drugs which the consumer has to buy at the quoted price—and suffer adverse effects, even death! The situation warrants that there should be in-built checks in the system to protect the consumer.

Will there be a shortage of drugs if industry goes ahead with its plans to stop production of drugs and diversifies into other areas? Will the consumer be adversely affected? There may be a temporary shortage of drugs. However, the consumer needs to be assured that this is totally controllable. The public sector can produce most essential drugs in enough quantities. A recent study has revealed that the 'actions' and 'inactions' of the policy makers have systematically sabotaged TDPL and other public sector units. It would be necessary to probe this further to assess the benefit which have accrued to the private sector due to these actions and 'inactions' of the policy makers.

The industry has successfully perpetuated and nurtured a 'drug culture' in our country with help from the medical profession. Industry perceives any reasonable measure to limit its profit in the interest of society as a threat to its very existence. The unfortunate complacency and apathy of the medical profession has aggravated the situation. The industry has never faced the question whether consumer of drugs gets 'value for money' as in the case of other consumer items. It is necessary to organise end users and real consumers of the system to start questioning the industry. This should be a positive first step to dismantling the prevalent 'drug culture'. Rationality of the drugs produced should be linked with profitability. 'Health for All by 2000 AD' can be effectively achieved only if the consumer is made a focal point of a national drug policy.

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Sexual Harassment as Sex Discrimination

D Nagasaila

Although sexual harassment at the workplace is widespread, Indian laws, criminal and labour, offer little protection to women. In the US, two recent judgments have ruled that such harassment amounts to sexual discrimination.

SEXUAL harassment at the workplace is often considered as one of the 'occupational hazards' that every working woman has to face. Despite the large numbers of women in the Indian workforce and the widespread nature of the problem, no serious attempt has been made towards effectively tackling it. Today, the only legal remedy available to a harassed woman is to give a police complaint and initiate criminal proceedings, perhaps civil cases for damages. The degree of proof required in all these proceedings is high and it is rather an uphill task to prove such issues in the courts. Apart from lengthy procedures and complicated rules of evidence, both criminal and civil remedies can be resorted to only after the act or the offence has actually been committed, and does not offer a remedy to prevent such sexual harassment in the future. Moreover, such proceedings are also outside the purview of service and labour jurisprudence.

In India sexual harassment has been viewed only in the limited sphere of criminal law and has not been included as part of the labour laws. While labour legislations include provisions to deal with discrimination on the basis of sex in matters of employment, sexual harassment is not so included. Thus we have safeguards against sexual harassment in criminal law and safeguards against sex discrimination in matters of employment such as recruitment, pay, promotion and so on in labour law, each operating independently of the other offering a real solution to sexual harassment of women at the workplace.

It is in this context that a recent judgment of the court of appeals of the United States in *Ellison vs Brady* (1991) is of relevance to us. In this case the court ruled that sexual harassment amounts to sexual discrimination. Kerry Ellison was hired as a revenue agent by the Internal Revenue Service (IRS). A male co-worker started bothering Ellison at work, asked her unnecessary questions and loitered near her desk. He also started writing love letters to her while she was attending her training course in another part of the country.

Ellison complained to her supervisor and by the time she returned the following month, her co-worker had been warned

to leave Ellison alone. He had also agreed to transfer to a different office. But after the transfer he had second thoughts and sought a re-transfer to his former office. The employer agreed to his request, provided he delayed his return for six months. Ellison objected to her employer agreeing to the co-worker's request to return and requested a transfer herself. She then filed a complaint charging her employer with sexual harassment.

The appellate court agreed with her. Title VII of the Civil Rights Act of 1964 prohibits employers from, among other things, discriminating against an individual "with respect to his (or her) compensation, terms, conditions or privileges of employment, because of such individuals' sex". In 1986, the US Supreme Court held, in *Meritor Savings Bank vs Vinson*, that this prohibition applies to situations in which sexual harassment creates a "hostile or abusive work environment". In applying this Supreme Court ruling to Ellison's case the appellate court said that the offensive conduct must be examined from the perspective of the female victim and not from the perspective of an average person. The court noted that as a result of experiences peculiar to members of their sex "many women share common concerns which men do not necessarily share" such as fear that sexual harassment may lead to violent sexual assault. The court also stated that "if we only examine whether a reasonable person would engage in allegedly harassing conduct, we would run the risk of reinforcing the prevailing level of discrimination. Harassers would continue to harass merely because a particular discriminatory practice was common". The court concluded that the act of the employer amounted to sex discrimination because a woman of average sensitivities or in other words 'reasonable woman', would find the co-worker's conduct so severe and pervasive that it would alter the condition of employment and create an abusive work environment.

On the question of remedy, the court held that the employer should act in a manner reasonably calculated to end the harassment. Here again the test to ex-

amine the remedial action should be from the perspective of a 'reasonable woman'. The court again emphasised that "asking what a reasonable employer would do runs the risk of reinforcing any prevailing level of discrimination by employers and fails to focus directly on the best way to eliminate sexual harassment from the workplace".

In *Robinson vs Jacksonville Shipyards* a federal district court case, a female worker claimed that pictures of nude women in sexually suggestive or submissive poses in the workplace and sexually demeaning comments and jokes of her male co-workers and supervisors, created a hostile environment. The district court agreed and held that "the cumulative, corrosive effect of this work environment over time affects the psychological well being of a reasonable woman placed in these conditions".

These decisions of the US courts are interesting and of great relevance to the Indian context. There are basically three important points which need to be highlighted here. Firstly the ruling that sexual harassment at workplace amounts to sexual discrimination. Secondly, the yardstick for measuring sexual harassment is that of a 'reasonable woman' and not that of a 'reasonable man' and not even a 'reasonable person'. Thirdly, the remedial action should be calculated to end the harassment and the same is to be again viewed from the perspective of a 'reasonable woman'.

In India we do not lack legislations protecting women's rights. In fact, Article 14 of the constitution guarantees equality before the law and equal protection of the laws. Apart from this equality clause stated in general terms, the constitution has article 15 which prohibits discrimination on grounds of sex among other things. Interestingly, the incorporation of the equality clause met with no opposition in the constituent assembly unlike in the US where the Bill of Equal Rights has met with repeated resistance and has not been passed till date.

In furtherance of Articles 14 and 15, the Equal Remuneration Act was enacted in 1976. The description of the act is—

"An act to provide for the payment of equal remuneration to men and women workers and for the prevention of discrimination on ground of sex against women in the matter of employment and for matters connected therewith or incidental thereto". A reading of the objectives of the act makes it clear that the scope of the act is rather wide guarding against discrimination not only in employment but for matters connected therewith. Despite the constitutional guarantees and parliamentary enactment these provisions have been

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seldom put to use to obtain relief in matters of sexual harassment.

As far as legislations on equality of sexes go, India is far ahead of the US. However in the US though equality of the sexes is not a fundamental right, the courts through judicial interpretation have recognised the rights of women not to be subjected to sexual harassment in the workplace. Such an interpretation is possible even with existing Indian laws on the subject. It may be worthwhile for the women's movement and the legal fraternity to think in terms of such wider principles and expand the rights of women to guard against sexual harassment. This is a relatively unexplored area of labour jurisprudence and can be used as a

strategic and effective tool to tackle sexual harassment of women at their workplace. However, expecting the Indian judiciary to take such initiatives may be futile. Not so long ago a senior woman IAS officer complained of sexual harassment by a senior IPS officer in Punjab. She sought to take criminal action against him because no departmental action was taken. The courts however dismissed her case as being too 'trivial' an issue! If this is the plight of a senior IAS officer that of the women in the lower echelons of employment can well be imagined.

In view of this should the legislature step in and include a 'sexual harassment free' clause among the working conditions assured to every individual?

Road to 'Raktakshetram'

Report from Chunduru

M Shatrugna

This is not the first time that dalits have been assaulted in Andhra Pradesh. But the Chunduru massacre stands apart, for, what sparked it off was such an inconsequential incident.

CHUNDURU is a small village with a population of about 8,000, 12 km from Tenali on the Vijayawada Madras section of the South Central Railway. The road connecting it from Tenali town is uneven and untarred over a major part. This is a Reddy Telaga majority village in a Kamma belt with a Reddy population of about 3,500 and a sizeable number of Telagas—it has about 2,000 SCs. Valiveru and Manchala are the adjoining villages where the Reddys dominate in all spheres. The village has a police station, a small hospital with a male doctor and a high school. It has electricity supply and there are quite a few public taps, with bore well water available in the 'maalapalli' or the 'harijanwada'. A 20-ft road separates the upper caste portion of the village from the harijanwada with the statues of Mahatma Gandhi and Ambedkar. With a temple and a church, it has all the trappings of a prosperous coastal Andhra village. Guntur district has a large Christian community with Tenali town having a substantial population of 12,000 Christians.

The village has a typical agrarian structure as found anywhere else in Andhra with the upper castes holding most of the land with the difference that in Chunduru about 550 SC families are tenant cultivators. With the conversion of a number of SCs to Christianity and the attendant benefits of education and primary health care, the church has had a great influence on the economic uplift, however tardy, of

the downtrodden. By the end of 19th century, Harijans who basically were agricultural labourers had started moving up the social and economic ladder with better education and accumulation of small amounts of money to become tenant cultivators. Today a tenant as part of the lease agreement pays in advance per year a sum ranging from Rs 3,000 to Rs 3,500 per acre to the landlord proprietor. A large number of SCs are also agricultural labourers. The literacy rate is also relatively high among the SCs. All these factors appear to have had a bearing on the recent incidents in the village.

On July 4, Govathoti Ravi, an SC undergraduate student went to see the film *Alajadi* (Agitation) at the local 'Srinivasa' theatre. He was holding a 'chair' class ticket. A close relative of the sarpanch, Kurru Srinivasa Reddy had also gone to see the film. As the film began, Srinivasa Reddy suddenly felt somebody's foot touching his back. He turned back and found that the 'culprit' was Ravi. Realising the mistake, Ravi apologised profusely. But enraged at the audacity of a 'maala' occupying a 'chair' class seat and that too in an 'impolite posture' Reddy thrashed Ravi in the theatre and left the scene. Not satisfied with the 'punishment' meted out Ravi's father Govathoti Bhaskar Rao, a teacher, was summoned the next day and given a good thrashing with the demand that the absconding Ravi should be summoned to 'explain' his misbehaviour. After

two days Ravi had arrived from Ongole. The Reddy youth who had kept a vigil at the railway station accosted the terrified Ravi, brought him to the village, gave him another thrashing and left. Fellow Harijans advised Bhaskar Rao to lodge a complaint with the local police station, but he refused to do so as he felt that it was too trifling a matter to pursue further. But having come to know that the Harijans could even think of lodging a police complaint against the leaders, the Reddys decided to teach the 'erring' Harijans a lesson. Part of the 'lesson' was the social boycott of the entire Harijan community. The reprisals included denial of work to Harijans in the fields, importing labour from outside, prohibiting barbers, potters, etc, from selling their services to the Harijans. In short, a social and economic war was declared on the hapless community.

The Harijans were forced to find work at far-off places. But the Reddy community was in no mood to 'tolerate' the 'arrogance' of the dalits. After a lot of discussion and meticulous planning, the upper caste people with the connivance of the local police carried out this gruesome massacre of the Harijans on August 6. Two police officers, C I Saibaba and D S P Rayilayya who were posted with additional police pickets in the village had manipulated the administration in such a way that SI Srinivasa Rao, a conscientious officer was kept away from the scene and they together master-minded the attacks.

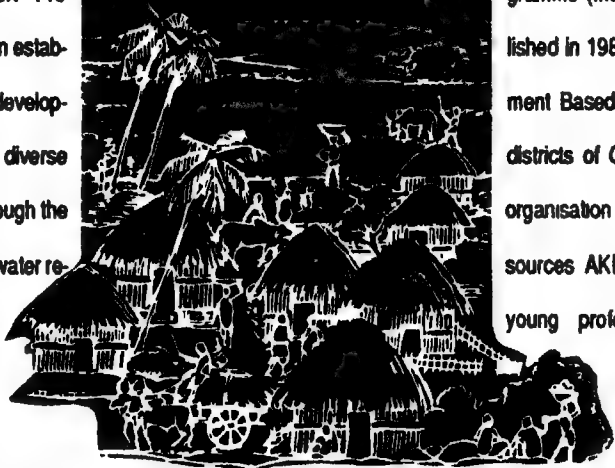
According to the villagers around 11 am on August 6, the police under a SI and some constables created panic in the 'maalapalli' by claiming that their lives were in danger from the Reddys and asked the dalits to leave their houses for safety. As all the dalit men in the village fled they found the Reddys and other upper caste people blocking their passage armed with deadly weapons. When they ran towards the railway track, they found another set of 500 upper caste people waiting there armed with spears, swords and other lethal weapons. What followed was a systematic and brutal assault of the Harijans. The fleeing dalit men were caught, maimed and butchered on the spot. While those caught near the railway track were speared and their bodies pushed into gunny bags and thrown into the nearby Tungabhadra canal, others were chased into the fields, caught and hacked to death. The post-mortem reports of the recovered bodies record multiple stab injuries. With hands, legs and head chopped off, the doctors attending the dead had a difficult time identifying the bodies. The holocaust went on till 3 pm. According to eyewitness accounts and Katti Padma Rao, president of the Dalit Mahasabha about 21 men were

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missing. By Saturday, August 10, eight dead bodies were recovered from the nearby fields and the Tungabhadra canal. The dead included Jaladi Mattaiah (50), Mandru Ramesh (24), Jaladi Emmanuel (40), Mallela Subba Rao (30), Devarapalli Jaya Rao (25), Jaladi Essack (29), Sankuru Samson (25), Angalakuduri Raja Mohan (17), Ravi Chandra Kumar (29), a doctor working in the Guntur General Hospital, who had observed the post-mortems of the dead from close quarters was so shocked that he committed suicide by hanging himself with a rope on August 9, unable to bear the grief.

Following the Tuesday massacre, the families of the victims and other dalits fled to Tenali, sought asylum in the Salvation Army Church in Tenali at Itanagar, a predominantly Christian area. But the most disgraceful aspect of the whole episode is that till Wednesday evening (August 7), full 24 hours after the massacre the district administration in Guntur was not informed of the incidents. Only on late Thursday did the state government depute a number of ministers and officials to visit the village to express their 'sorrow'. The chief minister visited the village only on August 10 and announced compensations including an ex-gratia of Rs 1 lakh for the family of the deceased, one acre of land and the usual 'long-term' measures like a school, housing, etc, which by now have become a ritual. But the dalits wanted the arrest and prosecution of the criminals as a precondition for the acceptance of any government-sponsored compensation. They also demanded the prosecution of the local police officers who had abetted the crime. Though both the police officers have been placed under suspension and a judicial probe ordered, the full list of the killers is yet to be made public nor have criminal proceedings commenced.

On August 10, all the eight bodies were buried in the centre of the village on government land at the periphery of the upper caste habitation. Named as 'Rakthakshetram' (land of blood) a 21-ft martyr's column is to be raised on the site. Uptil August 20 no serious effort has been made to arrest the culprits. Lack of 'eyewitnesses' appears to have hampered the police investigation.

Meanwhile the Dalit Mahasabha under the leadership of Katti Padma Rao has furnished a list of about 40 who appear to have participated in the Chundurur carnage. The list included M Sambu Reddy, Tippireddy Srinivasulu Reddy, Tippireddy Krishna Reddy, G Brahma Reddy, Gorripati Prasada Reddy, Tippireddy Narayana Reddy, Tippireddy Rami Reddy, China Lakshma Reddy, Gorripati Peda Brahma Reddy, Basana Sitaramaiah, Poorthi Soorayya, Osana Edukondalu,

Peda Venkat Rao, Peda Subba Rao, Vasana Pitchaiah, Vasana Prasad, Vasana Nageswar Rao, Ambati Narsimha Rao, Ambati Prasad, Ekkurti Poornachander Rao, Annamreddy Srinivas, Kurthi Sivaiah, Vasana Koteswara Rao, Yellamanda, Vasana Venkatesh, Seedipudi Koti Reddy, Chepudi Subbi Reddy, Chepudi Venkata Reddy, Vuyyuri Satyanarayana, Gorripati Punna Reddy, Seedupudi Punna Reddy and his seven sons, Vuyyuri Pedavenkat Reddy, Emani Koti Reddy, Sedipudi Ramachandraiah. All of them belong to the village of Chundurur, Modukuru and Manchala. While the

police claim that many arrests have been made in connection with the August 6 incidents it is not clear whether the police list covers the list given out by the dalit organisations as well.

The Chundurur incident is not the first time that the dalits have been massacred by the upper caste. A major assault on the dalits had taken place in the late 60s in Kanchikacherla during the chief minister-ship of Kasu Brahmananda Reddy. Then Karamchedu, Padiri Kuppam and Neerukonda followed during the TDP regime. But the Chundurur massacre stands apart in sheer brutality.

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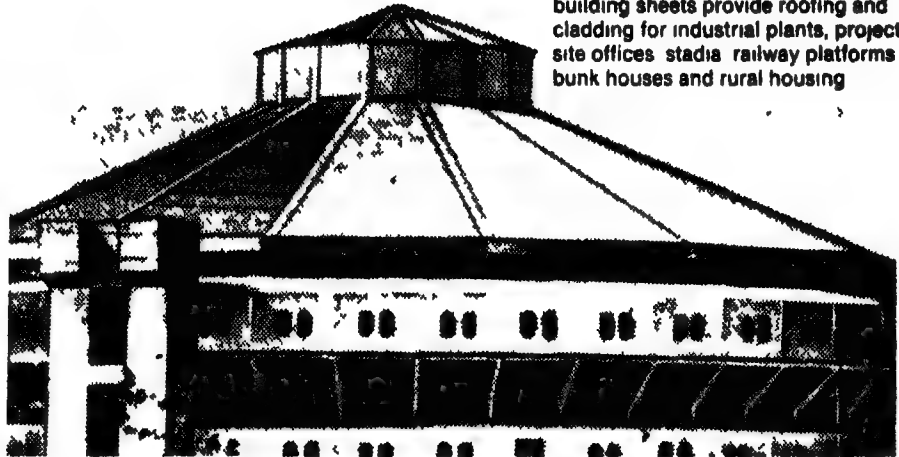
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Apartheid Is Dead! Long Live Apartheid!

Nigel Harris

The legal scaffolding of apartheid has been abruptly removed after 40 years and more of construction, leaving the underlying pattern of extreme social inequality intact. But few have begun to face up to the costs of real social change.

WHO would have thought it would be possible to visit South Africa? But the transformation here is nearly as remarkable as in the Soviet Union or Eastern Europe—and for much the same sort of reasons: the inexorable pressure of a new world economic order on antiquated national fortresses, relics of the high noon of economic nationalism in the 30s. The legal scaffolding of apartheid has been abruptly removed after 40 years and more of construction—leaving the underlying pattern of extreme social inequality intact. White South Africa rejoices that at long last the sojourn in the wilderness is over, they may rejoin polite world society; they are even smug at their own virtue. Few have begun to face the costs of real social change. Still 5 per cent of the population own 88 per cent of personal wealth; 61 per cent of the black population are below the poverty line.

I

Real social change there must be, for revolution still ferments beneath the surface in the black townships. There, thousands of volunteers and committees, among them the 'civics', campaign, agitate, sustain boycotts of rent and service payments. In 23 townships, services have been cut off to the fury of the inhabitants. It seems very like Brazil just before military rule ended.

The persistence of agitation, the creation of a generation raised upon the alcohol of revolution, partly explains the change of tack by the regime. After the ferocious repression of the late 80s, the government felt obliged to reverse direction—to recognise the ANC, release Mandela and many others, and negotiate. The government's attempt to create black consultative structures through self-governing councils has all but collapsed. The vote for the councillors in the last elections was derisory, and 200 councillors have felt obliged to resign; 100 councils (of 258) have dissolved themselves for lack of a quorum.

However, the machinery of racialism continues, even as supposedly non-racial society is being created. The low white

birth rate (and changing white migration) has led to many white schools being closed—when there is a desperate shortage of places for black children. The great revolt of the township school students in the 70s led to the sacking of many schools (as well as police stations and liquor shops)—gutted hulks still stand in the townships, silent monuments to fury. They have not been repaired—and 40 per cent of black kids leave school with little or no education. In the same style, there are 4,000 vacancies in white colleges, when 78,000 were turned away from black colleges because of a shortage of places. A major new campaign is under way to occupy white schools and reopen them. But the underlying problem will get worse—the white population is aging, but 82 per cent of the blacks are under the age of 35.

The revolution continues. Sharpeville, Soweto, Alexandra, Cross Roads are the battle honours in the long civil war. But there is little clear and decisive leadership. The ANC tries to construct and develop local branches while negotiating with the government and formulating coherent policy positions on all questions, but so far without great success, although the recent national convention in Durban marks a considerable step forward. But sometimes the aging leadership seems bewildered, as if, after pressing against the Berlin wall of apartheid for 40 years, its abrupt collapse leaves them shocked and unable to act amid the clouds of brick dust. Perhaps this is why, some people say, the Communist Party is growing since it still seems to offer some clear political lead, even though its entire rationale collapsed in the Soviet Union and Eastern Russia (leaving it as a somewhat conservative Social Democratic party).

Without leadership, the dangers grow. Violence in the townships between rival groups, part hoodlums, part political militants, is a different kind of civil war, with the centre-piece of the clash between the ANC and Inkatha. Over 3,000 people have been killed in the last 18 months (770 in the first quarter of this year). Inkatha champions a fictional Zulu identity (no

news in India where fictional collective identities are run up at the drop of a hat), and is well organised in the dormitories of single black migrant workers. The dormitories are the worst of the townships, filthy barracks with broken windows and graffiti, families sometimes occupying them with up to 16 people per room, and razor wire surrounding them (to keep us out or them in?). Inkatha does not, despite its claims, represent Zulus, but the tribal dimensions are carefully emphasised in attacks on Xhosa ANC families. Inkatha has the potential for a home-grown fascism.

Inkatha is wonderful for the embattled whites. They have always needed evidence to support their argument that there are no 'blacks', only different tribes (but of course, there are whites, not Afrikaners, British, Portuguese, French, Germans, etc) and tribes in permanent conflict so that the whites are needed to rule impartially. It is surprising to see once again in use a currency so much employed in the British empire—the invention of political Hindus and Muslims in pre-partition India is a painfully familiar precedent.

There is another chilling parallel, however. In 1929, the Herrenvolk, the businessmen of the Ruhr, began to make collections for an obscure bully boy, Adolf Hitler, not expecting he would come to power or, if he did, expecting he would be entirely controllable. White business in South Africa—and some of the aid agencies—are financing Inkatha as the 'moderates' at the moment. They may also find that they are creating a monster that is not susceptible to control.

The rise of Inkatha as the bully boys to destroy physically the ANC is as remarkable as the emergence of de Klerk and the Nationalist party as holding the middle ground. The government is no longer defensive. With superb effrontery, after the last four decades of Nationalist apartheid, the government now presents itself as the non-racial moderate centre. There is talk of a 'Christian Democratic' centre, supported by the majority of the whites, many coloureds, Indian property owners, and a significant number of blacks, in alliance with Inkatha. It is not nearly as absurd as it sounds. But it hides a nightmare scenario—white finance to help Inkatha destroy the ANC, after which Inkatha takes over from the Nats, to create a black dictatorship, with its own Ton Ton Macoute, in alliance with white business, much as Tshombe tried to do in Katanga.

II

However, in the short term, it is the economy which adds a touch of hysteria

to prognostications. South Africa ought to be a middle income manufactured exporter, based on high growth. But since the mid-70s, it has stagnated. The structure is still an old fashioned corporatist regime, linking a giant state sector with major private monopolies, making cosy profits behind high tariffs. South Africa has followed an import substitution strategy since the 20s, with strong central direction, some denuclearisation after its East European (and Indian) parallels. In fact, South Africa never ended its heavy dependence on raw material exports—easy foreign exchange meant there was little drive to complete the import substitution drive, so manufacturing still depends heavily on imports. From the early 70s, profits have been poor—foreign investment flows began to dry up, and South African business increased its assets abroad (by 1983, the largest South African corporation, Anglo American, had become the largest single foreign company operating in the United States). Sanctions only exaggerated the trends in the market. With net capital outflow rather than inflow and a sagging gold price, it became impossible to sustain annual growth above 3 per cent without a surge of imports. In fact, the economy did much worse than that. In the 80s, output and employment growth were negative. On the index 1970=100, by 1988, when South Korea had reached 365 and Singapore 308, South Africa was a derisory 109. They were years of the locusts.

The problems were made much worse by the soaring public expenditure of the 80s—to finance internal security (and the intervention wars in Angola, Namibia, Mozambique), the tricameral parliamentary system and its associated bureaucracies, increased services to the townships. The government began to borrow to finance current spending. Government employment increased 65 per cent in the 80s (so that over 40 per cent of white employment came to be in the public sector). Thus, while the surface politics suggest an astonishing rehabilitation of the position of the Nats, the state of the economy is disastrous. And the reform programmes all suggest the need to increase white layoffs, sawing off the branch on which the government sits. White unemployment has increased and incomes decreased—soup kitchens operate in some of the white slum areas. 60,000 white farmers (controlling 87 per cent of the land) are being crippled by low prices and high interest rates. The militants in January occupied Pretoria in protest at their destruction. Drought has compounded the miseries and forced closures. Since the white farmers are now no longer protected against the purchase of their land by black farmers, a further dimension of economic agony is added to the ending of apartheid.

A high growth middle income economy, living by manufactured exports, needs a radical devaluation of the Rand, and the generation of jobs quickly enough to

soften the mass of legitimate furies that course through the townships. There are signs of change—in the last six years of the 80s, merchandise exports increased by over 10 per cent per year (the share of manufactured exports grew from 18 to 29 per cent). But it is not fast enough. One factor may be the high price of white labour, although the government endlessly reiterates that high black wages are a source of the country's economic difficulties. The government's problem is how to push rapid growth and redistribute incomes without pulling the temple down on its head.

Meanwhile, some changes are coming about. Inner city white areas are increasingly black, the process began long before legislation made it legal, so City Councils have long been tolerating the erosion of apartheid. A significant black trading community is emerging. The universities, if not the schools, are increasingly mixed. Bank staff is mainly black. Some cities are even discussing the creation of single metropolitan authorities, incorporating the black townships and making possible inter subsidisation.

III

We seem to be emerging from a political ice age. The sound of crashing glaciers is all around us. For whole lifetimes, the political order seemed cut in granite—the cold war monoliths of east and west, the fortress states of which South Africa was such a stark example. Now they are all crumbling, but it is quite unclear what will replace them. The old concepts still persist—South Africa and apartheid have been woven into the psyche of a generation of the Left, an exemplary case of oppression (although many of the caste features of South Africa existed elsewhere in less stark forms). But now it is unwinding. Or its legal starkness is fading. But white society is still intact—the neat hedges and high walls (with Rotweilers and small arms), the Mrs Grundies still tut tut at mild lewdness in the press, and cry out in horror at blasphemy.

And the townships remain. So do the high security lights that mark them. The occasional armoured car is still seen in the townships, frightened young white soldiers peering out. There are black homeless kids sleeping by central heating vents to escape the bitter chill of winter nights on the veldt. Only the tide of rubbish betokens the continuing rebellion, and the slogans ('Viva Saddam' in the Cape Malay quarter, with a hammer-sickle, followed by Junky Funky kids!). The black population watches warily, not at all ready yet to believe anything of substance has changed.

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KRISHNA KUMAR

Examining India's educational development over the last 50 years in the context of political ideologies and formations, Prof. Krishna Kumar argues that colonial and nationalist discourses of education were homonymous. That while the two discourses were intended to convey divergent messages they used the same vocabulary and as many important concepts in education were concerned. The terms of educational discourse that are in use to this day are rooted in this ambivalent heritage.

Divided into two sections, the first dealing with the dynamics of colonial rule and the second dealing with the politics and values of the freedom struggle, this book reveals that colonial rule did not introduce a new type of education as is widely believed; it merely re-shaped an existing tradition, altering its epistemology but permitting its pedagogical traditions to remain.

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The Stygean Dip

History of Cleanliness in France

Mohan Rao

Concepts of Cleanliness: Changing Attitudes in France Since the Middle Ages by George Vigarello; Cambridge University Press, Cambridge, 1990, pp 240, price unstated.

THE excavation of the history of disease is an arena of extraordinarily rewarding gifts to a historian. This arena has lately been mined by long over-due, if tentative, explorations and nuggets of information invaluable to the discipline of public health have been unearthed.

Classics like *The White Plague* which studies the impact of tuberculosis on society come to mind. Or Zinsver's *Rats, Lice and History* which elaborated on the impact of typhus on medieval society and indeed the tide of history. These grand works, rich with historical and epidemiological insights, constitute one genre of studies. The book under review is a classic of another genre: it studies the history of something terribly banal and everyday, offers equally rich insights.

The plague epidemics of the 15th and 16th centuries devastated medieval Europe. 'Cautious estimates' place the death toll at one-third the population. Depopulation, increase in wages, large-scale migration and strife proved the death knell to the feudal manorial system. It profoundly affected concepts of cleanliness.

DANGEROUS BATH

Cleanliness and washing, Vigarello tells us, had not been the real purpose of the early medieval bath. The bath was dedicated to the pleasures of water and sociability but by the end of the 14th century had come to be frowned upon. Places of dissipation, they were perceived as sources of political trouble. As more and more municipalities banned them, a visit to a bath "turned into a confrontation with the law". In 1526 Erasmus noted "Twenty five years ago, nothing was more fashionable in Brabant than public baths. Today there are none, the new plague has taught us to avoid them".

Contemporary medical opinion ruled that bathing increased susceptibility to plague. "Steam baths and bath houses should be forbidden" proclaimed one, "because when one emerges, the flesh and the whole disposition of the body are softened and the pores opened, and as a result pestiferous vapour can rapidly enter the body and cause sudden death, as has frequently been observed". The Royal Physician observed "The bath, except for medical reasons when absolutely necessary, is not only superfluous, but very prejudicial to men. The bath destroys the body, and, filling it, renders it susceptible to the effects of the bad properties of air

Bathing fills the head with vapours. It is the enemy of the nerves and ligaments, which it loosens in such a way that many a man never suffers from gout except after bathing. It kills the child in the mother's womb even when it is warm."

Proffered such dire advice it is no surprise to learn that Louis XIV had just two baths in his life, both medically supervised, and both apparently made him terribly ill. The bathrooms and the marble baths at Versailles, designed to recall ancient Rome, were replaced, the bath itself becoming a garden pool.

Vermin (and therefore delousing) was an accepted part of life. Physicians attributed this proliferation of parasitical fauna simply to an excess of bodily humours—to be cured by diet and purging. Washing with water was confined to the visible parts, the hands and face, and these, for reasons of etiquette. Shirts appearing in the wardrobe in the 13th century are never seen, and seldom, if ever washed or changed. Wealth and elegance was associated above all with heavy external clothing, glowing, colourful set off by fur. Indeed this aristocratic yen for fur was one of the causes for the import of the last great epidemic of plague: the infected flea arriving along with fur from China.

By the 16th century the role of linen had altered: its regular renewal had become a rule for cleanliness. The shirt was still not changed every day though this was now a dazzling possibility. Explains Vigarello "to the unease aroused by baths was added the conviction that it was unnecessary. Linen absorbed sweat and impurities, changing it was, in effect, to wash."

Medical practitioners laboured to explain this shared sensibility among the aristocracy and the *nouveau bourgeoisie* in scientific terms, "We understand why linen removes the perspiration from our bodies because the sweat is oleaginous or salty, it impregnates these dead plants (viz, the linen) like the grasses which are composed of the same substances". The medical men having given their scientific imprimatur, architects could scientifically conceive of mansions sans bathrooms. We can more easily do without them than the ancients because of our use of linen which today serves to keep the body clean."

With a greater elaboration of courtly society, the invention of etiquette, linen became a symbol of refinement. It was a

cleanliness that distinguished and made a social statement of importance. And with the decline in the fashion for heavy cloth and ostentatious furs, shirts began to abound in the wardrobe. Moliere and Racine, we are told, left 30 shirts each on their death.

Cleanliness, then, was a condition of power, it could not exist for the poor. Accompanying the increasing use of linen among the elite was the habit of powdering hair which dispensed with washing the hair while enhancing appearance. The 17th century also refined the use of perfume: perfume not merely guarded against dangerous miasma but elaborated social codes. Three types of perfume were distinguished, one for the aristocracy, a second for the *bourgeoisie* and a third for the poor. The last was not aesthetic, merely therapeutic, "composed of common oil mixed with soot it served only to disinfect the air".

EFFULGENT BATH

By the middle of the 18th century, however, the bath had reappeared among the aristocracy. Though extremely rare (the *Architecture Francaise* of 1750, we are told, recorded the plans of 73 Parisian mansions of which only five had bathrooms), the essential accoutrement of bathing, the bath tub, made its way into the *Encyclopedie* of 1751 which gave a definition and a description of this item of furniture. And for the first time in 1759, a text on the art of beauty was introduced by a long eulogy of bathing. A luxurious bathing establishment for a restricted elite was built on the Seine in 1761. Duly recommended by the Faculty of Medicine ("The cures operate by displacing by a greater force the strange humours which form stoppages in the painful membranes and in the muscles swollen by their presence". The influence of Newtonian physics is obvious in this recommendation!), the bath cost three livres at this time, Vigarello tells us: the daily wage of a craftsman was half a livre and that of a day labourer, about a quarter.

But nonetheless the medical establishment as ever setting its priorities, was strongly interested in this subject. There were a spate of medical monographs on bathing, indeed the Dijon Academy in 1755 posed for itself the topic "The virtues of the simple water bath". The verdict, predictably, was that the chief virtue of the hot bath was that it soothed by making the humours circulate. By the 1760s complete sets of bathrooms furnishings had entered the market. The bourgeoisie were quick to imitate the aristocracy. But with a difference.

Cold water was now reputed to work therapeutic magic. "There is no method as effective as cold when it is a matter of dissolving blood or evacuating glutinous matters attached to the lining of the vessels, when you want to cleanse the glands and procure a more abundant filtration of

animal spirits or make them run more rapidly in the nerves; when you need to induce urine or dissolve obstructions in the liver, the spleen, etc."

The hot bath was dissipation; the cold bath toughening, invigorating. The bath, for the first time, had an explicitly hygienic role though less because it cleansed than because it strengthened. So powerful was the image of the mechanical actions of water that its effect on the 'bodily machine' was studied rather than its effect on the cleanliness of the skin.

The hot bath was condemned as the practice of a decadent class. Observes the author "A new class, in the face of aristocratic models, invented a strength. It did so by reactivating vigour and dynamism. It definitively separated a new asceticism from conspicuous indolence."

The cold bath was squarely on the political agenda. Rousseau, recalling the noble savage glorified it. "Whenever the government wishes, it can change the feeble constitution of our Parisians, and make them as robust as our German neighbours: all that is needed is the construction of a bath at the edge of the Seine" was the Utopian dream of a revolutionary pamphlet in 1801. And indeed a school of swimming was inaugurated, "endorsed by the provost of the merchants, the Academy of Sciences and the Royal Medical Academy".

The hygienists recommendations emphasise the overarching influence of the bourgeoisie. The cold bath was a symbol of vigour, industry, robustness and above all the indicator of a code, hitherto unknown, of bodily efficiency. Cleanliness was opposed now to 'vain affectation', it was not contrasted with dirt.

Medical opinion was speedily available: "The perspiration intercepted by the accumulation of powder congealed with pomade and sweat flows back into the neighbouring parts and causes catarrhs, disorders of the throat, the ears and the eyes."

DAWN OF PUBLIC HEALTH

There was a major shift in thinking towards the end of the 18th century. The medical gaze widened its horizons. This is attested to by the publication of *La Gazette de sante* in 1773, the creation of the Royal Society of Medicine in 1776, the enquiries into epidemics and the fashion for medical topographies recording differential mortality in the town and country. The population came to be seen as a resource whose life span must be increased, in the interests of economy. The Physiocrats contributed largely to these perceptions by linking the wealth of the nation and the productivity of the people.

The concept of prevention of disease applied to communities to transform their state of hygiene took hold. This involved a larger political role for medical people. As medical enquiries revealed the relationship between poverty, overcrowding and disease, efforts were made to improve ventilation and water

supplies. It was now considered essential for towns to have water facilities, not for ensuring water for bathing or washing but to flush out dirt from streets and for clearing the air of miasma.

The word hygiene came to occupy a new and respectable position. It congealed into a specific discipline, displaying scholarly appertunances. It was invoked in the planning of towns and other public places. It lay no claim to "new knowledge of the laws of health but a greater determination to assert a total knowledge, an insistent emphasis on a 'scientific' competence".

New institutions were created to bequeath it with honour: commissions of health, the inspectorate of factories and workshops and, the crowning glory, the chair of hygiene in the faculty of medicine.

A science was created, not infallible. Around the 1830s, a new idea gained ground and scientific evidence rapidly gathered around it. This was of the respiratory function of the skin and the purifying function of warm water. Along with experiments which may only be termed grisly ("Bouley when he coated the shaved hide of horses with tar, observed in 1850, 'all the effects of a slow asphyxiation'. Death appeared (sic) even quicker when a strong glue was mixed with the tar") was born the concept of an organism which burned. "Steam engines became far more attractive models than levers."

The response to the cholera epidemic of 1832 was quick and entirely new: more street fountains, watering of streets, chlorine in cesspools—though chlorine's disinfecting properties were still to be discovered—and the promulgation of measures for increasing the circulation of air and water. The cholera epidemic provided the impetus for the laying of the underground grid of pipes both for delivering and evacuating water and wastes in a feat of sanitary engineering involving doctors.

Baths were encouraged as an additional defence against contagion. But how prevalent was the practice? "One bath per inhabitant per year under the monarchy of Louis XVIII" says Vigarello. The sanitary gaze now turned to the poor. "For what really changed in fact, was the image of the poor and above all of poverty which became more disquietening and more threatening with the advent of the new industrial towns. The bourgeois imagination was firmly wedded to the concept of a dirtiness which purveyed vice, whose rags and vermin were signs of an ever present potential lawlessness and, at least, delinquency."

The responses were therefore, policies of dispersal—the sad and brutally familiar response of town planners—and in the sphere of hygiene, moral exhortation or health education. Hygiene also entered school curricula "to be learnt by heart by the pupils of the six first classes". A new outbreak of cholera in 1849 gave a new sense of urgency. Councils of health, now established in all provinces, passed recommendations on the creation of free public

baths for the poor "because people acquainted with cleanliness are soon acquainted with order and discipline".

At the end of the 19th century Remlinger carried out a day by day enumeration of the microbes in his bath water. The bacteriological world that had been unveiled by Pasteur fundamentally altered the concept of washing. This new 'avatar' of cleanliness took its battles beyond the boundaries of the visible. The world, it was now revealed, pullulated with 'invisible monsters'.

The bodily zones traditionally the concerns of treatises of manners—hands and face, mouth and teeth—were rapidly the concern of hygiene. Medical men particularly suspected the hands of workers; "with coachmen and workmen have been found in about 50 per cent of cases, golden and white staphylococcus, the micro-coque pyogene of the saliva and the liqued pyogene staphylococcus".

Cleanliness, in fact, changed its meaning: it now meant asepsis. This had immediate impact in hospitals where the incidence of post-operative infections was greatly reduced; surgeons now operated with sterile gloves on instead of with bare hands. Hygienic cleanliness acquired at the end of the 19th century a legitimacy unsurpassed. The metaphor most frequently employed by doctors now "Every machine needs its wheels to be frequently cleaned and the cinders or unused parts of the coal to be as frequently cleared out. The human body being a particularly delicate machine, it is necessary to see to its cleanliness and the regular expulsion of its waste matter."

This vision of the human body, extended in similar metaphors to a city, transformed the urban landscape. Bathrooms and toilets were now a must in every household; an

History of India

Hermann Kulke
and
Dietmar Rothermund

1991, Demy 8vo. 411p. Rs.300

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elaborate underground grid of water pipes and sewage pipes lay concealed. In bourgeois households, the accoutrements considered necessary were limited only by the consumerists' imagination. And for the *hoi polloi*? The utilitarian shower was perfected in prisons.

Vigarello draws on a daunting variety of sources—sanitary reports, archival records, architectural volumes, paintings, diaries, letters and even statuary—in creating this fascinating account. The book is a must for not just those interested in history and public health but for all bibliophiles.

Experiment in Education

R Akila

Life at School: An Ethnographic Study by Meenakshi Thapan; Oxford University Press, New Delhi, 1991; pp ix + 271, Rs 250.

THIS ethnographic work on the Rishi Valley School (RVS), a brain-child of philosopher Jiddu Krishnamurthi (JK), is on school as a socio-cultural phenomenon. As part of her interest in JK's educational thought, Thapan has raised an array of issues on the internal organisation and authority structure in RVS, on the nature and form of the culture of participants, viz. teachers and pupils, in the pedagogic process, and on the various networks of teacher-pupil interaction and has systematically analysed the various units involved in the functioning of a school as an institution. Of the nine chapters which the book contains, the first is a general introduction to RVS; the second is on JK's worldview and educational thought, which emphasises the psychological rather than the technological aspects; the third is on the orders and principles in RVS; the fourth and fifth are on school culture and teacher culture respectively; the sixth is on teacher interaction; the seventh is on pupil culture; and the eighth is on teacher-pupil interaction. The concluding chapter is an assessment of JK's ideology in relation to the school and the larger society.

In the few Krishnamurthi schools spread over the country and even abroad, the inter-relationship between teachers, pupils and parents is a vital factor. In analysing this relationship in RVS, Thapan has looked into JK's philosophy as contained in his writings and speeches, in particular his distrust of any form of authority in a school situation, his insistence on viewing individuals through their relationship to society, and his concern for an 'inward revolution' for awareness/self-knowing, and for cultivation of 'total human beings'.

In explaining the school as a socio-cultural reality, in terms of its structure and principles, she has differentiated between the two prevalent orders in RVS, namely, 'transcendental' and 'local'. The first is normative as formalised by JK on how the school ought to function. The second is positive, as it exists subject to the pulls and pressures from outside the school. The interplay of these two orders perhaps lends RVS a distinctive blend. Also operating in RVS are at least three different sets of goals, namely, official, operative and instrumental. The first type is often directed towards instilling JK's ideology in the students; the second helps for the smooth routine of school activities; and the third is resulting from the

external administrative environment, say the general norms in Indian schooling.

Thapan's discussion of the key functionalities engaged in either transmitting the moral order (an expressive dimension of RVS), or controlling the curriculum and evaluation patterns (an instrumental dimension for preparing students to meet the future demands of society) throws light on the principles underlying the control/power structures in RVS. Her analysis of the processes of decision-making in RVS brings out clearly that the authority of the Krishnamurthi Foundation is so pervasive that some of the members of management and teachers resent its constant and often critical gaze.

A description of school rituals and ceremonies—an affirmation of the school's ultimate values, shows how these factors have created a 'school ethos' and a 'school culture' by integrating teachers and pupils. Routinised rituals like the morning assembly consisting of non-secular (only Hindu) prayers and the evening meet called 'astachal' (literally 'watching the sunset') in RVS are followed according to the transcendental order. Certain other rituals like observance of republic day and independence day are according to the local order. All these routinised and 'dramatised' rituals impart a certain regularity and discipline, and even instil a sense of hierarchy among teachers and students. In a ritual like morning assembly where both teachers and pupils participate almost equally, the hierarchy is implicit, while in a ritual like the weekly test where the teacher exercises an obvious control over pupils, the hierarchy is explicit.

In her account of the 'teacher culture', Thapan has closely examined its several strands like the multiple roles of a teacher in relation to management, other teachers and pupils. The pattern of recruitment in RVS is explained on the basis of two different types of teachers that the school depends upon, namely, the 'ideologue teachers' who are expected to be committed in their role to instil JK's ideology in the pupils; and the 'professional teachers' for whose recruitment training/experience in the subject to be taught, social background and intelligence are the criteria. Thus, in RVS there exists different ranges of commitment to ideology among teachers, ranging from superficial to total indifference, depending upon their differential orientations.

Thapan has shown that the 'teacher culture' varies from the RVS junior to RVS senior and the perpetuation of a certain type of culture is a result of institutional factors like staff meetings, seniority/juniority in service, and the interpersonal considerations often ridged between ideologue and professional teachers. Social factors like the peer group or informal friendships among teachers also define the nature of teacher culture to an extent. An interesting observation made in this regard is that informal friendship group is hardly found among men, much less among women, and almost never across gender groups. Her discussion of the 'teacher culture' is sustained by her case studies of ideologue and professional teachers.


In her analysis of the pupil culture, Thapan has dwelt on the management's efforts to promote a uniformly positive 'pupil culture' by carefully selecting students from a 'cultured background with certain sensibilities', that is from the upper strata of urban society, and how despite such efforts, both positive and negative attitudes exist among students towards the school and its ideology. In doing so, she has looked at students' attitudes on aspects like choices for leisure time activities, preferred attributes for pupil popularity and unpopularity, perceived changes in disposition due to RVS experiences and the degree of personal favour to various aspects of the school.

Thapan's account of the teacher-pupil interaction has clearly brought out the central aspect of school (but not the teacher) as a controlling agent. The relative absence of teacher's authority to control students in a typical RVS classroom is explained through the different ways used by teachers in dealing with pupil participation. There are only few instances when teachers use a domineering strategy to evoke fear among students in order to prevent them from taking undue advantage.

Her conclusion that "the double standard situation in RVS created by the co-existence of the transcendental and local orders" results in chaos and ideological tension in different situations, may be disheartening to some. But this point is most emphatically driven home in her discussion of the ideologue vs pedagogue case study and the possibility of conflict when both types of teachers deal with the same set of students.

The book is mainly based on data collected by Thapan from RVS between 1981 and 1988. In a postscript she has noted that the transcendental order has almost lost its place after JK's demise and that the resulting absence of tension between it and the local order has had a positive effect on the school processes.

While the book has certainly succeeded in explaining RVS more as an experiment with JK's educational thought than as a model of education, and in rendering this institution intelligible sociologically, what is missing is an explanation of how this model could be incorporated into mass education and how it could thus be made relevant to the larger society.



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The Macroeconomic Adjustment Programme

A Critique

Mihir Rakshit

The government has chalked out a programme for macroeconomic adjustment over the short and the medium run in order to resolve the fiscal crisis and tackle the problems of inflation and the balance of payments. Our primary focus in this paper will be on the macroeconomic adjustment policies embodied in the union budget, though we have also to consider the medium run macro implications of the exim policy, delicensing of industries and financial liberalisation.

The fiscal management undertaken in the budget raises a number of important issues. First, how far is the finance ministry's perception—which incidentally is identical with that of the IMF—of the impact of fiscal parameters on macroeconomic variables correct? Second, assuming that the government's diagnosis of the ailing economy is sound, do the proposed steps constitute the right cure for correcting the macro imbalances? Finally, what are the implications and costs of the macroeconomic adjustment initiated by the government? Does the budget seek to minimise the burden of adjustment without sacrificing the basic short and long run objectives?

And zealotry has virus so concealed,
It's hard to tell the poison from the cure!
—Goethe, *Faust*, Part I

FACED with the balance of payments problem and the fiscal crisis, the government of India has initiated far-reaching changes in economic policies on all major fronts. The debate over these changes has run on fairly predictable lines with the liberal economists firmly reasserting their faith in the free market mechanism and the leftists voicing their deep suspicion of the IMF conditionalities, especially those in respect of liberalisation of trade, finance and industry. It is necessary however to go beyond articles of faith and examine how far or to what extent the policy package adopted by the government, irrespective of its source, is suitable for attaining our major economic objectives (about which there appears to be a large measure of unanimity among economists of all hues).

The long-term objective of the new policies is to promote efficiency and enterprise through delicensing of industries, liberalisation of the financial market, decontrol of foreign trade and free entry of foreign capital. Meanwhile a programme has been chalked out for macroeconomic adjustment over the short and the medium run in order to resolve the fiscal crisis and tackle the problems of inflation and the balance of payments. Our primary focus in this paper will be on the macroeconomic adjustment policies embodied in the union budget, though we have also to consider the medium run macro implications of the exim policy, delicensing of industries and financial liberalisation.

There is a fair degree of consensus regarding the basic causes and characteristics of macroeconomic imbalances in the Indian economy during the 80s. Attention has repeatedly been drawn to the increasing reliance on borrowing and deficit financing to meet government expenditure; to the

higher rate of inflation experienced in this period compared with the earlier decade; and to the growing foreign indebtedness and worsening balance of payments situation. The ministry of finance has in fact identified the fiscal deficit as the villain of the piece and suggests, "At a macroeconomic level, fiscal deficits inevitably spill into balance of payments problems and create inflationary pressures in the economy" (*Economic Survey 1990-91*, p 99). Hence the finance minister accords top priority to the reduction of the fiscal deficit from 8.4 per cent of GDP in 1990-91 to 6.4 per cent in 1991-92. In order to realise this objective the budget proposes curbs on government expenditure on both the revenue and the capital account; a 20 per cent disinvestment in shares of selected public sector undertakings; and greater reliance on the issue of bonds and debentures by public enterprises to finance their investment projects.

The fiscal management undertaken in the budget raises a number of important issues that have not received adequate attention

from the proponents or the critics of the new policy. First, how far is the finance ministry's perception—which incidentally is identical with that of the IMF—of the impact of fiscal parameters on macroeconomic variables correct? Second, assuming that the government's diagnosis of the ailing economy is sound, do the proposed steps constitute the right cure for correcting the macro imbalances? Finally, what are the implications and costs of the macroeconomic adjustment initiated by the government, or does the budget seek to minimise the burden of adjustment without sacrificing the basic short and long run objectives?

I

Fiscal Roots of Macroeconomic Imbalance

There can be little doubt that fiscal policy played an important role in influencing the behaviour of the Indian economy over the last decade. But students of economics can-

TABLE 1: FISCAL DEFICIT, BALANCE OF TRADE AND INFLATION

| Year | Fiscal Deficit | Public Sector Borrowing | Export | Import | Import-Export Gap | Current Account Deficit in BOP | Rate of Inflation |
|---------|----------------|-------------------------|--------|--------|-------------------|--------------------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1980-81 | 10.0 | 9.0 | 4.8 | 9.2 | 4.4 | 1.2 | 16.7 |
| 1981-82 | 8.8 | 8.4 | 4.9 | 8.7 | 3.8 | 1.5 | 2.4 |
| 1982-83 | 9.2 | 9.5 | 5.1 | 8.4 | 3.2 | 1.3 | 7.2 |
| 1983-84 | 10.1 | 9.6 | 4.9 | 7.7 | 2.8 | 1.1 | 7.2 |
| 1984-85 | 11.4 | 11.1 | 5.2 | 8.1 | 2.9 | 1.2 | 6.0 |
| 1985-86 | 11.6 | 10.4 | 4.4 | 8.1 | 3.7 | 2.3 | 4.8 |
| 1986-87 | 13.2 | 12.3 | 4.5 | 7.7 | 3.2 | 2.0 | 5.1 |
| 1987-88 | 12.1 | 11.6 | 4.9 | 7.7 | 2.8 | 1.9 | 10.7 |
| 1988-89 | 11.7 | 11.2 | 5.3 | 8.9 | 3.5 | 2.7 | 5.7 |
| 1989-90 | 12.7 | 12.8 | 6.4 | 9.3 | 2.9 | 2.3 | 9.1 |

Note : All figures except those in column (7) are percentages of GDP.

Source: *Economic Survey*, 1990-91.

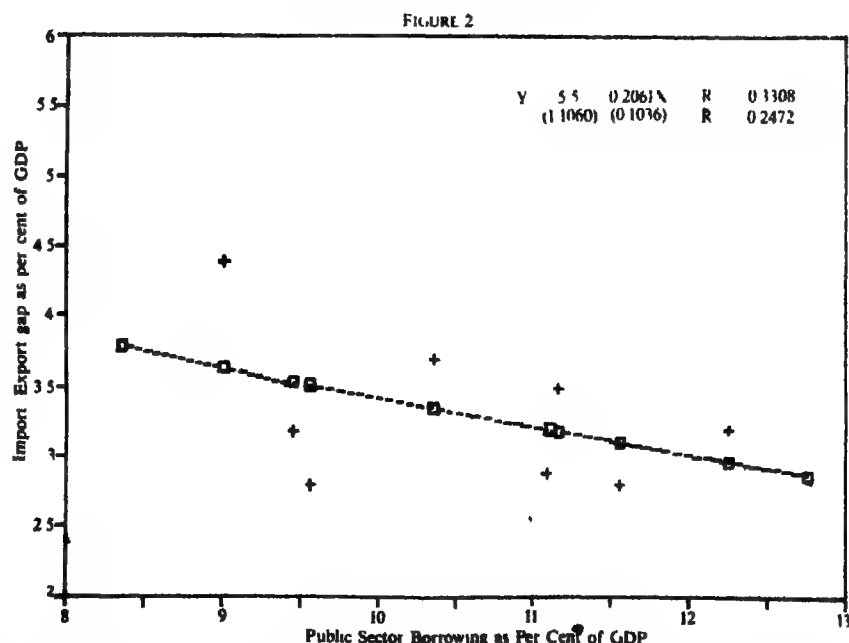
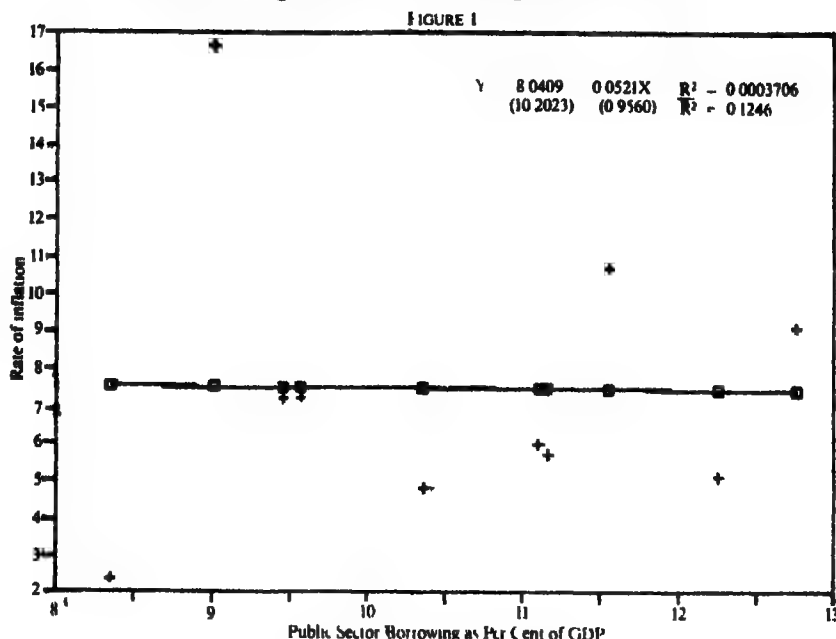
not but be puzzled by the focus on the fiscal deficit as the chief explanatory variable and the most important policy parameter of the ministry of finance. Indeed, neither empirical evidence nor economic logic suggests that reduction of fiscal deficit should be the prime concern of the government in the process of macroeconomic adjustment.

Consider first the empirical evidence for the 80s during which the fiscal imbalance assumed alarming proportions. Fiscal deficits, as Table 1 indicates, can in no way be regarded as an explanatory variable for inflation or the trade deficit. Since the data seem to run counter to the most important presumption behind the IMF/finance ministry approach, let us go into the problem a bit more carefully. Column (1) of the table gives the fiscal deficits of the union government as a percentage of gross domestic product at current prices. It may be argued that the more relevant measure of fiscal deficit in this connection would be the borrowing of the public sector consisting of the central government, state governments, union territories and public sector undertakings (net of intra public sector loans). Hence in our simple regression analysis it is this broader measure of fiscal deficit (to be denoted by FD_b hereinafter) that is used as the explanatory variable, though the qualitative results are the same for both the narrow and the broad measures of fiscal deficit.

Our analysis suggests that fiscal deficit cannot account for the rate of inflation in the 80s: the regression line, as shown in Figure 1 is almost horizontal and constitutes a severe indictment of conventional wisdom in this regard. So far as the import export gap is concerned, not only is the regression result almost insignificant, but the sign of the coefficient of FD_b turns out to be negative (Figure 2). In fact, similar counter-intuitive results are obtained for exports and imports separately. Even when the lagged value of FD_b is introduced as an additional explanatory variable, things do not improve: the regression results remain insignificant and the values of R^2 abysmally low. It is only in the case of current account deficits in the balance of payments that the regression result becomes significant even though R^2 (378) is not very high (Figure 3).

A moment's reflection suggests that, notwithstanding the widely held view, it would have been surprising if we got robust empirical evidence regarding the effects of fiscal deficits or public sector borrowings. In interpreting the regression results it is useful to remember the mechanism through which fiscal deficits are assumed to generate inflation and balance of payments problems. We propose to examine later the interaction between domestic demand and balance of payments. Even without going into the details of this interaction, it is not very difficult to see that in a regime of import control, domestic demand can have an effect mainly on the export but not on the import front. However, the impact of FD_b does not appear to be significant even on exports in

Public Sector Borrowing, Inflation and Foreign Trade Scatter Diagrams and Linear Regression Results



the regression result (not shown) the coefficient of FD_b has in fact the wrong sign! The presumed causal link running from FD_b would not work for other items in the current account deficit in the balance of payments, viz, interest on foreign debt, remittances from abroad or foreign assistance. If a substantial part of government borrowing is used to meet the servicing of foreign debt, we will find an association between FD_b and the current account deficits in the balance of payments, but here the causation runs from the latter to the former rather than the other way round. Alternatively, easy availability of foreign loans might induce the government to go in for a spending spree abroad. These examples illustrate the danger of the poor specifica-

tion of the causal mechanism in analysing economic phenomena or drawing policy conclusions.

The government's concern at the growing fiscal deficits is due not only to their effects on inflation and the balance of payments, but also to the apprehension that the deficits would become unsustainable in the none too-distant future when the fiscal machinery of the government becomes, or is perceived to be, incapable of meeting its debt obligations. If matters indeed come to such a pass, creditors at home and abroad would lose faith in the solvency of the government and economic chaos and confusion would rule supreme. This is quite a legitimate concern, but the problem is that the fiscal deficit is not a good indicator of the sustainability of

government borrowing in the medium or the long run. In order to spell out the nature of the problem and identify the policy parameters relevant in the context of macroeconomic adjustment, we need first to take a quick stock of the various concepts of deficits used in the budget document and indicate their economic significance and their relevance for analysing the macroeconomic impact of budgetary operations

II

Fiscal and Budgetary Deficits: Some Definitions and Issues

In recent years the official documents have listed the following concepts of deficits in the government accounts¹

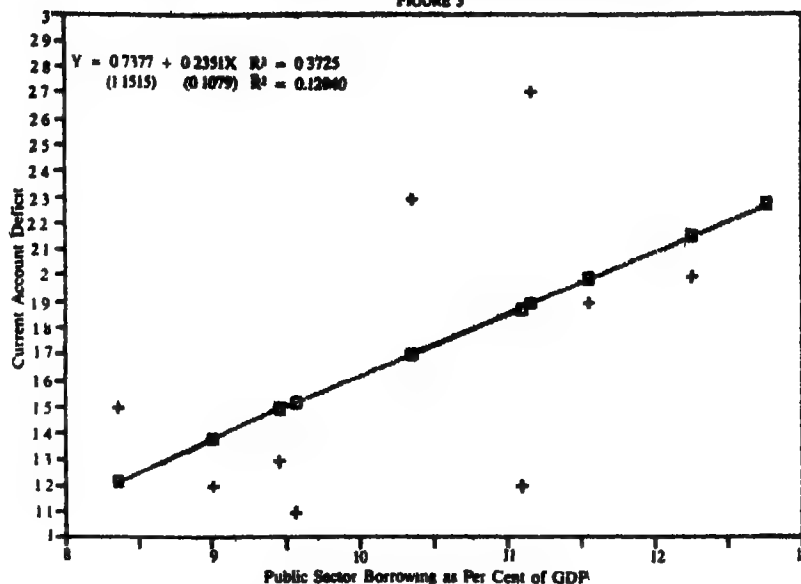
- (1) RD (Revenue Deficit) = Revenue Expenditure - Revenue Receipts
- (2) BD (Budgetary Deficit) = Total Expenditure - Total Receipts (excluding net sale of Treasury Bills)
- (3) DF (Deficit Financing) = Increase in Net RBI Credit to the Government
- (4) FD (Fiscal Deficit) = Total Expenditure - (Revenue Receipts + Recovery of Loans + Receipts from the sale of assets)
- For the sake of completeness we may include two other concepts of deficits that figure in the literature on public finance
- (5) DCA (Deficit on Capital Account) = Capital Expenditure - Capital Receipts (excluding net sale of Treasury Bills)
- (6) PD (Primary Deficit) = Fiscal Deficit - Interest Payments

RD is the deficit generated through current transactions in the budget and denotes the dissaving of government administration and Defence BD, as noted in (2), indicates the amount of government expenditure financed through net sale of Treasury Bills during the financial year (irrespective of who buys these bills) DF gives the net increase in the Reserve Bank holding of Treasury Bills plus other government securities less increase in government deposits with the Reserve Bank. Hence DF is nothing but the increase in reserve or high power money on account of net lending to the government by the Reserve Bank. FD, it is clear from the rhs of (4), constitutes the increase in gross indebtedness of government administration and defence to the rest of the economy (or the world). It follows from the earlier relations that DCA is the sum of net sale of Treasury Bills less the revenue deficit of the government. Finally, PD stands for gross borrowings of the government required to meet all expenditure less interest payments.

The relevance or the usefulness of these various concepts of deficits depends on the purpose at hand and on the extent they can be manipulated by the government for attaining its economic objectives. From the viewpoint of economic analysis and policy prescription our focus, let us remember, has to be on the significance of these deficits for the generation of aggregate demand or in

Public Sector Borrowing, Inflation and Foreign Trade Scatter Diagrams and Linear Regression Results

FIGURE 3



flationary pressures, for the overall saving ratio or economic growth, for the transfer of resources between the private and the public sectors, and for the sustainability of public debt or the solvency of the government

III

Aggregate Demand, Inflation and Balance of Payments

The deleterious macroeconomic effects of the fiscal (or other) deficits are generally identified through the following saving investment relation for an open economy

$$(7) (I_p - S_p) + (I_g - S_g) = M - X$$

where I_p = private sector investment, S_p = private sector saving, I_g = government sector investment, S_g = government sector saving, M = imports of goods and services, and X = exports of goods and services. For medium-run policy analysis it may be useful to recast (7) in following terms

$$(7a) (I_p - S_p) + (I_g - S_g) = (m - x)$$

where the lower case letters stand for the ratios of the corresponding macro variables to the gross domestic product

The lhs of (7) indicates the excess of domestic investment over domestic saving and the rhs the net inflow of foreign resources (or the increase in the net indebtedness of the country to the rest of the world). On the basis of (7) or (7a) it may not seem unreasonable to argue that an increase in the investment-saving gap in the government sector will raise excess demand in the domestic market and hence add to the inflationary pressures and enlarge the import export gap. It may also be claimed that inflationary tendencies and loss of competitiveness of the country's exports will be the greater the closer the economy operates to the full capacity level. But even if the argu-

ment is correct, it is not appropriate to focus on the fiscal deficit as the key policy parameter for solving the problems of inflation and the balance of payments. Note that the fiscal deficit *does not* represent the investment saving gap in the government sector—the variable through which the macroimbalances are assumed to occur. For one thing, in the usual definition of fiscal deficit the operations of public sector enterprises, as we have noted, are left out of the picture. The broader concept of fiscal deficit, FD_b , for the government sector comprising government administration and defence and public undertakings is given by

$$(8) FD_b = FD + \text{Borrowings of public sector enterprises (excluding loans from the central and state governments)} - \text{Recovery of loans and sale of assets by public sector enterprises} = \text{Increase in gross indebtedness of the government sector}$$

However, as may be seen from the following relations, even this broader definition of the fiscal deficit fails to indicate the investment-saving gap in the government sector. Note that

$$(9) FD_b = RD + U_g + \text{Loans given (or financial claims acquired) by the government sector} - \text{Retained profits of public enterprises} - (\text{Recovery of loans plus sale of assets by the government sector})$$

But since S_g is nothing but retained profits of public enterprises less the revenue deficit, equation (9) yields

$$(9a) (I_g - S_g) = FD_b + \text{Net recovery of loans}^1 + \text{Sale of assets}$$

The difficulty with even the broader concept of fiscal deficit, it is thus clear, lies in its treatment of tax collections and sale of government assets on exactly the same footing—a palpably absurd procedure for any macroeconomic evaluation of the budget. As the relation (9a) suggests, if the

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investment-saving gap in the government sector is indeed the relevant indicator of the inflationary and the balance of payments effects of budgetary operations, the impact of government sector borrowings, recovery of loans and sale of shares in public undertakings would be the same and the opposite to that of revenue receipts or profits of public enterprises. Before examining the causal connection subsumed in this approach, let us estimate, ignoring market borrowings and other relevant items in the state budgets, the investment-saving gap in the government sector as per the central government budget for 1991-92. The gap for 1991-92 amounts to Rs 56,142 crore against a fiscal deficit of Rs 37,727 crore (Table 2). Even so, if the budgetary calculations do not go awry, the gap will be lower in absolute terms than in the earlier year and come down from 11.1 to 9.6 per cent of gross domestic product—a decrease of 1.5 rather than 2 percentage points.

Should we then regard the current fiscal exercise as a step in the right direction in spite of the misplaced focus? In the present context the answer to the question depends partly on the validity of the investment-saving gap as a good measure or indicator of macroeconomic imbalance. Before turning to the economic significance of this measure, let us look at the empirical evidence once again.

It is fairly obvious from Table 3 that neither the rate of inflation nor the import-export gap in the 80s can be attributed to the excess of investment over saving in the public sector: regression results (not reported here) for both the relations turn out to be insignificant. Even if there is strong empirical support for the hypothesis that the investment-saving gap in the government sector widens the trade gap and generates inflationary pressures, there remain serious problems of interpreting the evidence and using it for the formulation of budgetary policies. For an appreciation of these problems we have to go into the mechanism through which the discrepancy between i_s and s_g may conceivably affect the rest of the economic system.

Note, first, that relation (7) or (7a) by itself does not give any clue to the economic mechanism involved in the determination of the three gaps: these relations, as stated, are no more than identities and the causal links among the variables can be forged only by incorporating the behavioural relations of the economic agents, e.g. consumers, private investors and foreign buyers and creditors and by taking explicit account of the fiscal, monetary, trade and other policies. Further, neither the fiscal deficit nor the investment-saving gap in the government sector is a primary policy parameter. The government can perhaps control its expenditure in nominal terms, fix the tax rates and prices of goods and services produced in the public sector and even manage to secure the targeted amount of borrowing in nominal terms by forcing the Reserve Bank and

commercial banks (through variations in Statutory Liquidity Ratio) to meet the shortfall in the amount of loan extended by the public (or foreign creditors). But the ministry of finance cannot directly attain its targets for revenue receipts and for investment, saving and other macrovariables in real terms or as percentages of the gross domestic product. Indeed, in order to target the budget deficit of any hue (including the investment-saving gap) the government has to know the relevant macromodel and the numerical coefficients of the behavioural and other relations entering the model.

What is more important to recognise in the present context, even when the government can hit the bull's eye in respect of its planned levels of fiscal or other deficits, their economic consequences cannot be judged without reference to the primary policy parameters used to achieve the targets. We have examined elsewhere the economic impact, in the Indian context, of the major budgetary instruments at the disposal of the government and here we propose no more than to recapitulate the main conclusions [Rakshit 1986, 1987]. First, the expansionary effect of a budget, as students of public finance are repeatedly told, depends not only on the deficit but also on the size of the budget: a large budget with little fiscal deficit or investment-saving gap in the public sector can be more expansionary than a small one with a sizeable difference between expenditure and receipts. Second, for a given amount of revenue receipts, personal income tax and export duties tend to reduce aggregate demand to a larger extent than other forms of taxes and hikes in administered prices. Third, the demand generation effects of subsidies and (current) transfers are generally less than government consumption and investment. However, the conclusion is reversed if the transferees belong to the poorer groups or the import content of government expenditure on goods and services is sufficiently high. Finally, while deficit financing is clearly expansionary, there are substantial differences in the crowding-out effects of different categories

of other loans. The crowding-out effect of borrowing from commercial banks (through the SLR requirement) is almost one to one, but the collections from NSC or other highly attractive financial assets floated by the government and public undertakings do not generally have any crowding-out effect whatsoever.

To summarise, it is the size and composition of receipts and payments and not simply the magnitude of fiscal and other deficits that are crucial in determining the effects of budgetary operations on aggregate demand. Hence even if there were strong econometric evidence in support of the widely held hypothesis in respect of the spill-over effects of budget deficits, the reason would generally be that during the reference period (i) there were no significant structural changes in the economy, and (ii) the composition of the budget or the relative weights of fiscal and other parameters remained fairly stable. There is thus no escape from looking at the more primitive relations in evaluating budgetary measures or suggesting some alternative policy package.

In an earlier study we have put forward, with explanatory notes, a rough and ready manual for estimating the demand generation impact of the budget [Rakshit 1986]. We do not propose to repeat the exercise here and remain content with a broad assessment of the main items of receipts and expenditure in the union budget for 1991-92. There are two major provisions in the current budget that are clearly deflationary. First, the absolute level of government expenditure in real terms is going to be cut and what is more important, the cut is much larger for expenditure on final goods and services, especially for public sector investment (note that the major increase in government expenditure will be in interest payments). Second, deficit financing is proposed to be reduced to the tune of Rs 5,280 crore which with a money multiplier of three plus can severely limit the growth of bank credit in the economy. There has been no significant change in the tax structure, nor is disinvestment in the equity of public sector enterprises likely to have any

TABLE 2: FISCAL DEFICIT AND SAVING-INVESTMENT GAP IN THE GOVERNMENT SECTOR
(Rs crore)

| Year | 1990-91 (Revised Estimates) | 1991-92 (Budget Estimates) |
|--|-----------------------------------|----------------------------------|
| 1 Fiscal deficit (FD) | 43,331 | 37,727 |
| 2 Recoveries of loans | 6,005 | 5,666 |
| 3 Sale of shares of public undertakings | — | 2,500 |
| 4 Debentures/bonds ¹ | 4,933 | 5,869 |
| 5 External commercial borrowing/suppliers' credit ² | 2,533 | 2,001 |
| 6 Others ³ | 2,251 | 2,379 |
| 7 Investment-saving gap ($I_s - S_g = (1) + (2) + (4) + (5) + (6)$) | 59,073 | 56,142 |

Notes: 1 Represent public loans floated by the enterprises within the country.

2 Represent commercial borrowings outside the country.

3 Include deposits raised by the enterprises and inter-corporate transfers.

Source: Government of India, Ministry of Finance, Budget at a Glance 1991-92.

Government of India, Ministry of Finance, Expenditure Budget 1991-92, Vol I.

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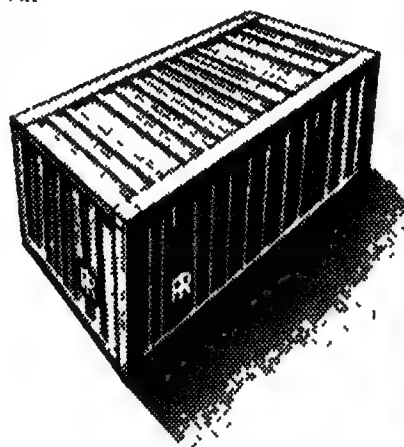
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crowding-out effect if the prices fixed for the shares are less than market clearing. So far as the expansionary forces are concerned, they can emanate from lower market borrowings, the boost to private investment in the wake of the new industrial policy and the removal of the ceiling on the interest rate on debentures. On balance the overall effect of the budget is likely to be contractionary at least in relation to the growth of productive capacity in the economy.

INFLATION AND BALANCE OF PAYMENTS

Does our assessment mean that the ministry of finance is on the right track in its quest for the solution to the problems of inflation and balance of payments? Before answering the question let us briefly recapitulate the conventional mechanism regarding the spill-over effects of an increase in aggregate demand. On the domestic front the effect is taken to be manifested in rising prices or/and output depending on the initial degree of slack in the economy. Both the output and the price effect will, however, tend to widen the trade gap because of (i) an increase in income-induced imports, and (ii) a decline in exports along with a rise in imports as domestic prices go up relatively to their international counterparts.⁴ Again, there is a feed-back from the external to the domestic sector, though these tendencies cannot cause changes in the *direction* of movements in prices, output or the balance of trade.

However, there are important clogs or 'wheels within wheels' in the mechanism noted above, especially in the Indian context, and these seem to have escaped the attention of most of the economists commenting on recent policy changes. Consider first the balance of payments effects of an increase in aggregate demand. Apart from the fact that the direct plus indirect import content of different categories of final goods varies all the way from 100 to zero per cent, in India imports, we must bear in mind, have been and continue to be controlled through a wide array of measures. By and large, the expenditure on imported goods is sought to be restricted, often with a time lag, to what may be called "the disposable foreign exchange receipts" (DFER) which is given by the relation

(10) $DFER = (\text{Earnings from the export of goods and services}) + (\text{Foreign assistance plus remittances and external loans}) - (\text{Servicing of foreign debt})$.

In the short run the second and the third (brackets) items on the rhs of (10) are not directly affected by an increase in aggregate demand so that under an import control regime characterised by the above relation there is not much room left for the spill-over of domestic demand to balance of trade: the empirical evidence cited earlier should thus come as a surprise to only those who try to apply text-book results without any regard to the basic assumptions and economic structure in which these results make sense.

An important application of the above line of reasoning is that the availability of foreign loans may cause an increase in trade deficits and when these loans are in the government account they show up in a larger fiscal deficit and investment-saving gap in the public sector. In such cases it is the external factor reflected in trade deficits that generates the investment-saving gap and not the other way round. In fact, in the 80s the government policy of permitting imports of capital goods (irrespective of their domestic availability) so long as the imports could be financed by suppliers' credit or (tied) foreign loans very often contributed towards an increase in the import-export gap; decline in domestic production and government saving; and accumulation of foreign debt. To be more specific, instances are not rare where some state electricity boards were eager to place their order for machinery and equipment with BHEL, but had to take recourse to imports since, while the requisite foreign loans were available for imports, financial institutions in India were unwilling to extend credit for investment from the domestic source. In these instances not only were we storing up trouble for the future on the balance of payments front, but there was also an immediate cutback in domestic production and an almost equal fall in the profits of public sector enterprises so that the gap in government finances appeared in the form of a decline in saving rather than an increase in investment. The provision in the current budget relating to capital goods imports by foreign investors in India is likely to have similar deflationary effects on the domestic sector (if not cause balance of payments problems in future). Such contractionary tendencies originating in the trade sector may, however, be moderated or even reversed to the extent a larger share of the expected increase in export proceeds has to be earmarked for servicing external debts. It is thus a moot point whether the budgetary measures, the requirement of servicing external debt and the response of foreign investors to the policy package will increase

or reduce aggregate demand in the domestic sector. While the present writer perceives the overall impact to be deflationary, he is by no means prepared to bet his last farthing on such an outcome.

Assuming that there is going to be a curb on aggregate demand, what are the prospects of inflation in the near future? Indian economists appear to be sharply divided in their assessment of the inflationary potential of the budgetary and other measures initiated by the government. Attention has been drawn to the cost-push effects of devaluation and increases in the administered prices of petrochemical and other products. But at the same time the devaluation has enabled the government to withdraw export subsidy which along with the additional revenue netted through higher administered prices, curbs on government expenditure and other measures is expected to cause a reduction in deficit financing and aggregate demand so that not only the monetarists but the Keynesians also should expect a substantial fall in the rate of inflation. Should we then turn agnostic and suggest that the outcome would depend upon the relative strength of the two opposing forces, the demand-pull and the cost-push?

Fortunately, it is not too difficult to give a categorical answer to the question posed above. Most of the economists dealing with the macroeconomic problems of developing countries have come round to the view that while open market prices of agricultural goods are flexible, almost all prices in the organised sector (including the public sector) are administered or fixed on a cost-plus basis [Kalecki 1976; Taylor 1983; Rakshit 1982, 1989]. Hence arises the need of identifying the sectoral demand and supply shocks in any assessment of the inflationary potential in countries like India. In the light of this approach it is not very difficult to see that industrial and other prices in the organised sector are bound to rise as a result of devaluation and other cost-push factors noted above. If this effect is coupled with a fall in demand, the result will be an infla-

TABLE 3 INVESTMENT SAVING GAP IN THE GOVERNMENT SECTOR, INFLATION AND BALANCE OF TRADE

| Year | Public Sector Investment | Public Sector Saving | Investment-Saving Gap in Public Sector | Rate of Inflation | Import-Export Gap |
|---------|--------------------------|----------------------|--|-------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) |
| 1980-81 | 8.7 | 3.4 | 5.3 | 16.7 | 4.4 |
| 1981-82 | 10.5 | 4.5 | 6.0 | 2.4 | 3.8 |
| 1982-83 | 11.3 | 4.4 | 6.9 | 7.2 | 3.2 |
| 1983-84 | 9.8 | 3.3 | 6.5 | 7.2 | 2.8 |
| 1984-85 | 10.8 | 2.8 | 8.0 | 6.0 | 2.9 |
| 1985-86 | 11.1 | 3.2 | 7.9 | 4.8 | 3.7 |
| 1986-87 | 11.7 | 2.7 | 9.0 | 5.1 | 3.2 |
| 1987-88 | 10.4 | 2.2 | 8.2 | 10.7 | 2.8 |
| 1988-89 | 9.9 | 2.0 | 7.9 | 5.7 | 3.5 |
| 1989-90 | 10.7 | 1.7 | 9.0 | 9.1 | 2.9 |

Note : Except those in column (4) all other figures are percentages of Gross Domestic Product at current prices.

Source: *Economic Survey, 1990-91*.

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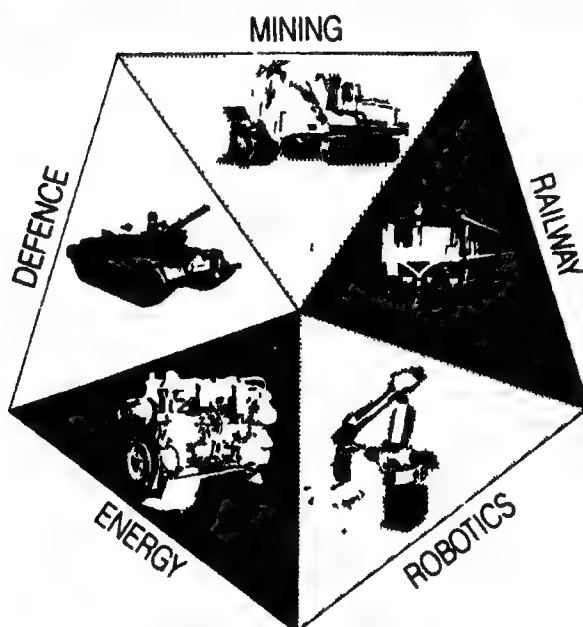
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tionary contraction in the organised sector characterised by higher underutilisation of capacity, lower growth and rising prices. So far as the agricultural sector is concerned, it may perhaps be argued that the fall in output and incomes in the organised sector should reduce the demand for farm products and hence their prices. Even if the argument were correct, the (demand-induced) fall in prices would be accompanied by a reduction in agricultural employment and raise thereby the incidence of poverty in rural areas. However, since in the short and the medium run labour is almost a fixed factor in the organised sector of our economy, the decline in the demand for food and other agricultural goods, originating from the non-agricultural sector, is unlikely to be significant. Much more important will be the supply-side shock going to be administered through the new economic policy. First, while fertiliser prices are expected to go up by 30 per cent (under the revised provision), no corresponding adjustment in the procurement prices of foodgrains (and other agricultural products) seems to have been made: the estimated increase in food subsidy is only of the order of Rs 150 crore! The government, it is thus clear, is not going to extend the coverage of the public distribution system and to maintain a price-cost ratio that would induce farmers to supply the required amount of foodgrains.

Second and no less important, even the intended supply of agricultural goods cannot be realised unless adequate production loans are made available to the farmers and there are strong grounds for believing that the package of measures adopted by the government would result in a severe shortage of agricultural credit. While the increase in the prices of fertiliser, pesticides and other inputs is going to raise the amount of loans required by farmers, the fairly large cut in deficit financing will curb the capacity of commercial banks to extend credit. Again, financial liberalisation or rather unfreezing of interest rates on bank loans cannot but cause a sharp decline in the amount of credit going to the agricultural sector, unless special steps are taken to supply adequate loans to farmers at a relatively low rate interest—steps which do not appear to be on the cards.

Our analysis suggests that the IMF approach to macroeconomic policy adjustment initiated by the government is fraught with grave consequences for the Indian economy in the short and the medium run. If the policies proposed are implemented through thick and thin, the economy will experience a decline in the growth of output in both the industrial and the agricultural sectors; a strengthening of inflationary tendencies; and a sharp rise in the incidence of poverty. Viewed against this scenario the prime minister's promise of the provision of a 'safety net' for the indigent cannot but appear as a cruel joke: the government has sought to keep the promise by allotting a princely sum of Rs 2,230 crore under the Anti-Poverty Programme (*Budget at a*

Glance, 1991-92) for more than 370 million India estimated to 'live' below the poverty line [Minhas, Jain and Tendulkar 1991]—a sum which works out to a little over Rs 6 per head per annum.

IV Growth and Sustainability of Budget Deficit

We have already emphasised that contrary to the popular view, fiscal deficits cannot be regarded as the source of inflation or trade imbalances in the 80s. In fact, there are reasons to believe that in this period the increase in government expenditure in relation to revenue collections might have played an important role in enabling the Indian economy to scale the barrier of the Hindu rate of growth. Should we then advocate the continuation of the fiscal policy pursued in the 80s?⁵ The answer, in spite of our serious reservations regarding the IMF-World Bank diagnosis, is in the negative.

There can be little doubt that the demand-driven growth in the 80s characterised by rising budget deficits and a mildly declining overall saving ratio cannot be sustained and must founder against the rock of supply side factors, e.g. low rate of addition to capacity, shortage of energy or foreign exchange bottlenecks. It is for this reason that we require to reverse the trend of declining saving in the public sector if the tempo of growth is to be maintained or raised. Also, with stagnant government revenues and rising public debt as ratios of gross domestic product, the solvency of the public sector itself will be in jeopardy [Butler and Patil 1991]. Thus the twin considerations of growth and sustainability of budget deficits require fairly drastic changes in some of the policies followed so far.

At the macroeconomic level the first and most important objective in the medium run must be a step-up in the overall saving rate which nose-dived from 23.2 per cent to 18.2 per cent between 1978-79 and 1984-85 and then crawled to 21.2 per cent in 1989-90 (*Economic Survey, 1990-91*). Clearly, the public sector has to play an important role in attaining the objective, especially since the decline in the saving rate can largely be attributed to the poor performance of the government in this regard: between 1978-79 and 1989-90 public sector saving as a percentage of gross domestic product registered a fall from 4.6 to 1.7: the performance will appear truly dismal when these rates are viewed in the background of huge public sector investment undertaken since the mid-50s.

But if promotion of saving is the major concern of the government, the focus should not be on the reduction of fiscal deficits.⁶ Public sector saving, let us recall, consists of the revenue surplus of the government plus retained profits of public undertakings,⁷ while fiscal deficits comprise revenue deficits as also deficits on the capital account less recovery of loans and 'other capital receipts'. A reduction in fiscal deficits can

thus go merrily along with a rise in revenue deficits (and a fall in public sector saving) if the government effects a sufficient cut in its investment and lending or sells off part of its financial and physical assets. However, reduction of revenue deficits also figures in the finance minister's agenda for macroeconomic adjustment. But then it is the reduction of revenue deficits and not the fiscal deficits that should have been the cornerstone of macroeconomic management. From the viewpoint of the promotion of saving and growth the focus on fiscal deficits, let us repeat, does not make economic sense unless it is presumed that not only are public investments relatively unproductive, but loans advanced by the government for financing private investment also have an adverse effect on the economy—a presumption rooted more in zealotry than in objective assessment.

It can be argued that though the social marginal productivity of public investment might be high, financing of such investment through borrowings becomes non-viable when its return to the government is significantly less than the interest cost. This is quite an important issue in the Indian context, but it is not clear how far the measures adopted by the government would contribute towards the solvency of the public sector without an avoidable decline in economic growth.

Now the problem of solvency cannot be dissociated from that of economic growth. If government policies promote saving, efficient allocation of resources and hence economic growth, the apprehension regarding the sustainability of public debt would generally be unfounded: 'Take care of growth', it may be argued, 'and solvency will take care of itself'. It is true, public investment with a high yield to the economy promotes growth irrespective of the return realised by the government. However, such growth cannot be maintained if the increase in government revenue proves inadequate to meet interest payments (and other revenue expenditure), i.e. if there is a declining trend in public sector saving. In other words, though the short-run social return on public investments might be high, they can conceivably have a negative impact on the long-run economic growth through a reduction in the saving ratio. It is for this reason that the simplistic application of the social marginal productivity criterion might yield a sub-optimal allocation of investible resources.

It is useful in this context to distinguish between public investments in social or economic infrastructure and those in industrial undertakings. In India the return to the government on the first group of investment is extremely low. However, there is substantial scope for raising the earnings from this category of capital formation where the beneficiaries can be clearly identified, e.g. in the case of higher education, hospital, irrigation or public transport. In many of these instances the beneficiaries belong to the upper income groups and the

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(indirect) subsidies enjoyed by them are many times the combined total of subsidies on the public distribution system and the amount spent on Anti-Poverty Programmes.⁶ Also, the poor yield on public investment is due in no small measure to the inordinate delay in the completion of projects, overmanning and high salary in the public sector compared with that prevailing elsewhere. One looks in vain at the current policy package for any sensible wage-price or other policies which could have contributed substantially towards the generation of a revenue surplus and the promotion of growth with equity.

There are a number of public investments which have large (positive) external effects or which yield public goods. It is not possible in such cases to make the beneficiaries pay for the services provided, but there are indirect returns to the exchequer by way of extra revenues from the additional incomes generated through these investments. Indeed, one can go further and suggest that, even if these indirect returns are negligible as of now, there is nothing wrong in borrowing for purposes of public investment with a high social rate of return. If such borrowings threaten the solvency of the public sector, the malady lies not in these investments or borrowings, but in the failure of the government to make the beneficiaries pay for the services or to devise an effective tax machinery in order to service the public debt. While the huge public investment in roads, electricity and other infrastructural facilities have raised land values many times the increase in the general price level, no step worth mentioning has yet been taken to mop up at least a part of the unearned gains accruing to the private land owners. Such instances of the failure of the tax machinery are legion, but in its obsession for reducing fiscal deficits the ministry of finance seems to have taken the soft option of cutting down the scale of public investment and has failed to initiate the much needed reform in the sphere of taxation and other sources of government revenue. It may also be that the government does not have the will or the ability to make the tax system effective and serve the basic economic objectives.

So far as other forms of investments are concerned, the government, notwithstanding its protestations, seems to have come round to the view that public enterprises are inherently inefficient. It is widely recognised among the researchers in this area that the inefficiency of these enterprises is due primarily to the lack of managerial autonomy and accountability and to the absence of any sensible and quantifiable norm against which their performance can be judged. Though there is some talk of ensuring autonomy with accountability for public sector units, nothing substantive has been done in this regard and the government does not seem to repose much faith in its ability to effect the necessary organisational reforms or to put an end to the political and bureaucratic interference in running these enterprises. Here also the case for scaling

down the size of public sector investment appears to lie not so much in economic logic, but more in the lack of political will or incentive.

An important factor behind the present fiscal crisis is the borrowing policy of the government in the 80s [Rakshit 1987]. During this period interest rates on all categories of government borrowings were raised with substantial tax concessions to boot in quite a few of them. In fact, in some cases the cost to the exchequer by way of interest-cum-tax relief amounts to more than 30 per cent—a rate at which most investment projects would turn non-viable. If the government were serious in promoting saving and solvency of the public sector, all tax concessions on the various saving schemes should have been withdrawn. The cynic would perhaps view the energetic inaction of the government in this regard as quite in keeping with its other omissions and commissions: after all, these concessions are larger for people in the higher income groups and cannot be availed of by more than 99 per cent of households (who do not pay income or the wealth tax).

No less queer is the proposal for disinvestment in shares of public enterprises in order to reduce fiscal deficits. We have already examined why, from the viewpoint of public sector saving or generation of aggregate demand, capital receipts on this count are no different from ordinary borrowings. Nor can the sale of these shares be regarded as an appropriate step for resolving the fiscal crisis. For one thing, the proposed scheme will necessarily be limited to profit-making public enterprises. The steps taken in this connection so far suggest that the prices fixed for the shares will be less than market clearing, i.e. the sale will involve a subsidy to the buyers. Even if the shares are sold through auction or in the open market, for each rupee collected under the scheme the cost will be higher than that under borrowing. The market prices of shares, let us note, are related positively to the prospective earnings from the shares and negatively to the interest cost and subjective risk premium of the buyer. While the faith of the private lender in the ability of the government to service its debt is as yet unwavering, investors in India are notoriously risk-averse in their choice among different financial assets: in spite of the emergence of the so-called equity cult, household savings in shares constitute less than 10 per cent of total financial saving [RBI 1990]. The implication is that government can borrow (if it wants to) at a rate of interest that is much lower than the discount rate (inclusive of risk premium) relevant for the buyer of equities. This together with the current perception of the average investor regarding the prospective profits from public sector investments suggests that disinvestment in shares of profit-making public enterprises is a much costlier way of raising funds than borrowing.

A final point regarding the reliance on private initiative for delivering the goods. This reliance seems to be coupled with the

government's tacit admission that nothing much can be done towards making the fiscal apparatus effective and equitable or towards curbing the growth of black money. The displays almost total nonchalance on the part of the policy-makers regarding the evil consequences of the market mechanism unhindered by any efficient machinery for redistribution and enforcement of laws. These consequences, let us remember, consist in gross distortion in the allocation of resources, in creation of islands of prosperity in the midst of poverty and squalour, and in serious financial crisis for the government. Irrespective of whether we rely on the private or the public enterprises for our economic salvation, there is no substitute for an effective and equitable tax system and an efficient government machinery; but no serious attempt seems to have been made to initiate any policy reform in this crucial sphere.

V

An Overview

There is a general consensus that correction of the current macroimbalances of the Indian economy would require major policy reforms on various fronts. The adjustment process initiated by the government seems to be based on a few key premises, explicit or implicit. First, a reduction in aggregate demand, irrespective of the way it is brought about, contributes towards an improvement in balance of payments and curbs inflationary tendencies in the domestic sector. Second, the key to the aggregate demand management and solvency of the public sector lies in a reduction in fiscal deficits. Third, nothing much can be done to make the tax system effective, to curb the growth of black money or to make the income distribution equitable. Finally, public sector enterprises are beyond redemption and liberalisation is the most effective means of attaining our economic objectives. However, these premises display either an inadequate appreciation of the macrobehaviour of our economy or lack of political will or enterprise to carry through policies that would resolve the fiscal and the balance of payment crisis and promote economic growth without hurting the indigent sections of the community.

No wonder, the overall policy package adopted by the government is not particularly well-designed to tackle the major problems confronting the economy. In fact, some of the measures would in all probability have a deleterious effect on growth, government finances and distribution of income. The most important of these measures are curbs on capital accumulation in the public sector; disinvestment of equity holding in public enterprises; reliance on the issue of debentures for financing investment projects of public undertakings; reduction in fertiliser subsidy and financial liberalisation without any safeguard for ensuring adequate short-run and long-run supply of the basic necessities of life; and the signal given through the provision for whitening black money.

The failure of the new policy initiatives in respect of omissions is much more glaring. No attempt has been made to withdraw the various unnecessary tax concessions under the present system; to appropriate part of the huge gains from public investment accruing to the private sector; to recover the cost of public services enjoyed by the wealthier groups of people even when the beneficiaries can be clearly identified; or to make the public enterprises autonomous and accountable. In the context of the fiscal and the balance of payment crisis an incomes policy for the organised sector in general and the public sector in particular should have been high in any agenda for economic reform; but in the numerous policy statements issued so far the government has maintained an eloquent silence on this crucial issue.

Again, for the resolution of the balance of payments crisis in the short and the medium run, it is necessary to ensure that domestic goods not required for meeting the needs of urgent internal consumption or investment are earmarked for exports. Similar should be the criterion for imports, viz, their contribution towards meeting the domestic needs directly or through promotion of exports. This implies that the levels of domestic taxes (with duty drawback for exports) and of tariffs have to be related with one another and both must be based on the criteria noted above. The policy-makers do not appear to have paid any attention to these principles and failed thereby to initiate steps which could have made a significant contribution towards controlling inflation and reducing the deficit in the balance of payments.

Notes

[Computational assistance from Girish Tiwari is gratefully acknowledged. The author has benefited from discussions with Amaresh Bagchi.]

- 1 The budget papers define the deficits as receipts minus expenditure—a procedure which may cause confusion and error unless one is careful about the signs. Thus in *Budget at a Glance 1991-92* the figure for fiscal deficit is computed correctly, but the two sides of the algebraic relation defining the fiscal deficit are not the same if one uses the usual algebraic rule.
- 2 Thus the implication of a zero primary deficit (with a positive fiscal deficit) is that were there no debt inherited from the past, government borrowing would not have been necessary to finance its expenditure.
- 3 Recovery of loans less new loans given.
- 4 Assuming that the modified Marshall-Lerner condition is satisfied.
- 5 With appropriate changes in respect of the policy regarding foreign borrowings and their utilisation.
- 6 Gulati (1991) also makes the same point.
- 7 So that *ceteris paribus* higher dividends from these enterprises raise the revenue surplus, reduce fiscal deficits, but does not affect the level of public sector saving.
- 8 Mundle and Rao (1991) estimate that the unrecovered cost to the government in providing economic and social services is to the tune of 16 per cent of gross domestic product.

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New Policy Measures

D T Lakdawala

The budget for 1991-92 by itself, if stuck to, will prove less inflationary than last year's but it has to be taken along with the impact of devaluation, the need to increase the export quantum, the pressure of increased costs on the prices of products, the likely increase in procurement prices of foodgrains, the lag effects of past inflationary pressures and the impact of the weaker monsoon

IN response to the crisis situation in the foreign exchange sector and the apprehension of slowing down of economic growth, the government of India has taken several far-reaching measures on the foreign trade, exchange, investment, fiscal, monetary and industrial fronts. These are expected to have a powerful impact on the Indian economy. The new steps in many ways constitute radical departures from the policies followed hitherto. Questions, therefore, naturally arise about their legitimacy and efficacy. It is proposed to discuss them here very briefly without going into the details of these policies.

In this discussion it is best to primarily concentrate on Indian interests and Indian experience, and treat others' views and happenings in other countries as of secondary importance. The Indian experience was that (a) India had reached a stage where imports were restricted to a level where any further substantial lowering could not be resorted to without endangering the growth rate, (b) increase in foreign exchange earnings through increased exports was the only long term way of financing the needed imports, (c) Indian exports were hampered by uncertainty of supplies, high costs of inputs, low quality, and lack of attention to customers' needs, these could be remedied by a non-inflationary situation, inflow of higher technology, greater competitiveness in the Indian and world markets, compensation of export risks by selectively greater profitability and expertise in salesmanship, (d) since increasing export receipts to catch up with import payments would take time, net capital receipts will have to form the residue, (e) credibility was the crucial point in credit transactions and strong reserves were needed to maintain credibility, (f) the main responsibility for Indian inflation lay on the budgetary deficits which resulted in the issue of high powered money, borrowing for revenue needs did not result in the creation of assets, so that assets which broadly matched liabilities till 1981-82, formed only 76 per cent of liabilities by 1990-91, many of the assets were not financially productive, so that interest received from assets formed only 44 per cent of the interest paid on liabilities, interest (gross) on public debt became the most important single item in non-plan expenditure, (g) the state could not harness adequate resources to finance the economic infrastructure which it had undertaken to build and the public sector undertakings which were entrusted with the responsibility of managing it had no other means to raise substantial sums, and (h) the

extreme rigidity of the control mechanism and the partiality, corruption, bribery and inefficiency which accompanied it had aroused all round resentment among the people who desired it to be done away with. This sentiment had persisted since the middle of the 70s. The control mechanism which had been introduced to achieve desired ends had to be replaced by more effective general rules and regulations and fiscal and monetary methods which left little to discretion.

FISCAL BALANCE

The main lesson underlining our long experience is the need for fiscal balance. It is best, therefore, to begin by seeing how the 1991-92 budget scores in this respect. Having analysed it in some detail elsewhere, I may only refer here to its broad impact. The 1991-92 budget estimates visualise an absolute reduction in non-plan expenditure (excluding interest on public debt where there is little scope for reduction) of Rs 2,700 crore. The rise in total non-plan expenditure increase is less than 4 per cent and will be less than 5 per cent even if it is assumed that the fertiliser subsidy adjustment announced later will be entirely uncompensated. As percentage of GDP non-plan expenditure will decline from 14.9 per cent in 1990-91 to 13.9 per cent in 1991-92. In view of the grave resource crunch budgetary plan expenditures will only increase by 12.6 per cent, the states getting a larger increase, increased extra budgetary resources (including loans raised by PSU from the public) will raise the increase in total central plan expenditure from 8.1 per cent to 12.9 per cent. Additional tax measures will fetch Rs 2,617 crore of which 82 per cent will come from direct taxes and yet there will be a decrease in the ratio of revenue from direct taxes to total tax revenues. As in the past, a large proportion

of the additional expenditure in 1991-92 will be on revenue account (62.4 per cent) rather than on capital account and non-plan expenditure will claim a larger share (81.4 per cent) than plan expenditure (Table 1). An out of the way item as capital receipts is Rs 2,500 crore by the disinvestment of shares of selected public sector undertakings upto 20 per cent to investment institutions and mutual funds. The most comforting feature of the budget is that the revenue deficit, the fiscal deficit and the budgetary deficit are all absolutely lower than in 1990-91 and as a proportion of GDP (Table 2). The achievement sounds much more imposing when considered against the background of the deficit that appeared likely in early July and considering that the task had to be done in eight months instead of 12. A caution needs to be, however, sounded that since 1989-90 the revised deficits and actual deficits which are of much greater importance are much larger than the budgetary ones (Table 3) and Manmohan Singh will have to strain his utmost to see that there is no repetition of these performances.

We had double-digit inflation last year, and there is a great apprehension that the event may repeat itself. The budget by itself if stuck to will prove less inflationary than last year's, but it has to be taken along with the impact of devaluation, the need to increase the export quantum, the pressure of increased costs on the prices of products to break even, the likely increase in procurement prices of foodgrains, the lag effects of past inflationary pressures and the impact of the weaker monsoon. It will be a miracle if the wholesale price increase does not exceed 10 per cent, and it may be much more.

Black money has assumed such a large dimension that no finance minister can afford to ignore it. The tragedy is that in his eagerness to deal with this phenomenon he has to offer to deal more leniently with it.

TABLE 1. DISTRIBUTION OF ADDITIONAL EXPENDITURE IN 1991-92

| | (Rs crore) | | |
|------------------------------------|------------|----------|--------|
| | Plan | Non Plan | Total |
| Revenue expenditure | 2,769 | 8,181 | 10,950 |
| | | | (62.4) |
| Capital and loan | 490 | 6,114 | 6,604 |
| | | | (37.6) |
| | 3,259 | 14,295 | 17,554 |
| | (18.6) | (81.4) | (100) |
| states' share of total tax revenue | | | 1,830 |
| | | | 19,384 |

Note: Figures in parentheses are percentages of total additional expenditure.

than with incomes honestly declared. The 1991 scheme provides that deposit made with the National Housing Bank on or before November 30, 1991 will enjoy complete immunity from enquiry and investigation. 60 per cent of the deposit can be drawn by the depositor for any stated purpose of his choice, 40 per cent will be a special levy and will form the corpus of a fund in the National Housing Bank. The scheme is likely to be a non-starter as the first prerequisite for success, a great likelihood of being caught and deterrently punished for tax evasion does not exist. The tax evader will not easily believe that this is his last opportunity to come clean. Even more important he has been offered by the budget itself cheaper ways though transferring amounts illicitly abroad and getting them back as gift.

INTERNATIONAL ECONOMIC POLICY

Unlike fiscal policy where the need to drastically reduce the revenue, budgetary and fiscal deficits mainly through a reduction in non-plan expenditure and partly through additional resource mobilisation was almost universally recognised, in international economic policy there was no similar unanimity. The trade deficit had no doubt to be narrowed mainly through export increase but whether a sharp devaluation dose, which would raise many problems of adjustment, was really necessary will remain debatable. The Reserve Bank of India had been adjusting the foreign exchange value of the rupee from time to time (in the 80s the rate of the dollar had gone up by about 10 per cent every year) and along with the other export promotion measures this had helped in increasing dollar receipt from exports in the Seventh Plan period by 87 per cent. In 1990-91 export expansion had slowed down, but it was an exceptional year, and other adjustments including price stability and a smaller decline in exchange rate could have helped. The only valid argument for a sharp decline in the foreign value of the rupee was a growing belief among the traders that the rupee will depreciate and therefore their unwillingness to convert their foreign exchange claims in rupees and vice versa. With the low foreign exchange reserves that India had, and nobody willing to lend foreign exchange, there was no other course left except a large devaluation. This sort of logic has the dangerous implication that if similar expectations occur in future, there will be another sharp dose of devaluation, unless we have accumulated large foreign exchange reserves in the meantime or somebody is willing to lend substantial sums. One thought that was the function of the IMF, but the suspicion is that it played quite the contrary role.

The traditional role of devaluation is to increase export receipts and restrict import payments, but in an exchange control regime the latter role becomes insignificant and the major burden of market adjustment falls on

exports. As a result of devaluation the supply of Indian exports in foreign exchange prices increases so that the quantum of exports will increase, but whether the export receipts increase will depend on the elasticity of demand for exports. If the demand is elastic (Indian exports are only 0.56 per cent of world exports so that on this ground alone demand for Indian exports may be expected to be elastic); the extent of increase in foreign exchange receipts will be determined by the elasticity of supply. Domestic demand, inflation, cost increases with increasing supplies and export infrastructure can prove limiting factors and removal of these limitations takes time. The hope that the import quantum will be immediately increased after devaluation facilitating the growth process will not be realised. The composition of imports can be changed depending on the government's decision of how much of the allocation it decides on its judgment of priorities and how much it leaves to the market mechanism. The Indian government seems to have decided that 60-70 per cent of the foreign exchange should be directly allocated by it and 30-40 per cent can be left to the market mechanism. The exports are given easily marketable replenishment licences worth 30-40 per cent of exports, and with certain exceptions like jewellery, small industry, etc, the import needs of production have to be met from them. These are also assumed to adequately compensate for the cash compensation certificates that have now been abolished. In three years all licences for capital goods and raw materials

will go, but there will still be a negative list and non-essential consumption goods will not be allowed. It seems that for a number of years the market in foreign exchange will be limited and imports on government account will get preference. Revenue and protective duties will continue, the only concession to the demand for lowering tariffs being the reduction of maximum customs duties to 150 per cent.

FOREIGN CAPITAL

Foreign capital policy can be considered as an integral part of both international economic policy and of industrial policy, and on both the counts government policy shows a significant change in thinking. If Indian products are to be exportable, they must be able to compete with world products in prices, quality and design, and for that they must get easy access to foreign technology and foreign expertise. These are provided for Indian industry in the new policy but to get these uninhibitedly they must be allowed to be accompanied by foreign equity capital. India has drawn heavily on the aid available from international bodies, foreign consortia and individual nations, and these avenues have been exhausted. With the recent developments in eastern Europe and USSR, it is unlikely that a larger flow of aid or loans can be obtained. The possibility of better foreign balancing will depend on higher equity capital flow. The restrictions on foreign equity capital have therefore been greatly lessened.

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Two general laws that were hitherto followed are: (a) foreign capital was only welcome if it was accompanied with high technology; (b) in order that it may be treated like an Indian company, foreign participation should be ordinarily restricted to 40 per cent. Now, foreign capital is welcome in itself and in high priority industries its share will be permitted up to 51 per cent. The 34 high priority industries which are listed are almost the same as those earlier open to the MRTP/FERA companies. It has been realised that multinationals of the desired type are not always willing to apply for permission to enter the selected industries. So a special Empowered Board, unhampered by any routine roles, will be set up to negotiate with them.

INDUSTRIAL POLICY

The abolition of the concept of big houses and dominant undertakings is a more controversial step. While the long, time-consuming inquiries that were made before deciding on their proposals were legitimately objected to, one of the underlying ideas that big industry should concentrate its energy on pursuits suited to its competence and strength was a fertile one and needed to be further examined before being discarded.

While the commanding role of public sector in Indian industrialisation and economic development is gratefully acknowledged, there is a general feeling that it has spread its tentacles too wide and undertaken tasks which the private sector driven by the profit motive can better perform. Not only has it a poor financial record, even its service record is unsatisfactory in certain lines. In terms of venturesomeness and risk-taking capacity as well as ability to look ahead the private sector has gained considerably in the last few years. In the light of the experience gathered and the grave resources crunch, only eight areas are reserved for the public sector. Wider public participation will be encouraged in the other fields. BIFR or a

similar high powered body will be asked to formulate revival or rehabilitation schemes for chronically sick public undertakings.

The power industry in a way illustrates the difficulties with which the working out of this division of labour bristles. For a long time the central government has been trying to ask the private sector to participate in the generation of power, the construction of roads, etc. But the success of power generation depends on the efficiency of the distribution machinery. If the distribution machinery is hard of cash and defaults in meeting its obligations of payment for power purchases, the activity of power generation cannot be successfully carried on. Much of the finances needed for power generation must come from public financial institutions. The private sector is only interested in certain aspects of these areas—heavy traffic roads, urban electrification, etc. and will not like to compete in activities where the public sector is subsidised and there are no prospects of a fair return. These difficulties will have to be smoothened out if the division is to work.

In the power sector to set up power plants in the country 100 per cent foreign equity participation will be permitted. The Reserve Bank of India has been asked to ensure that over a period of time the dividend outflows do not exceed export earnings. The FERA firms will have a distinct advantage at present over Indian firms if the foreign equity covers the cost of imported capital goods as the latter's access to import of capital goods will be limited, but this advantage is important in the effort to get the maximum foreign exchange and will hopefully disappear in a short period.

The change in attitude to foreign capital is based on the assumption that the need for capital investment and enterprise is large and of a nature which can only be partially satisfied by Indian capital, and that by and large the competing fields are few and those where competition will lead to increased efficiency of many. These assumptions need

to be tested, but two things are fairly obvious. When pushed to the wall, given equal terms, Indian capital and entrepreneurship are capable of a good show in India compared with foreign capital over a wide field. While the Indian market is a large attractive market for foreign capital and offers favourable production facilities, many of the economic and social conditions and legislation yet look unfamiliar and unattractive to them, and they may have many questions to ask and difficulties to solve before they take a plunge and that will give time to Indian capital to shed many of its weaknesses.

The most important qualitative transformation sought in the industrial structure is doing away with the industrial licensing system except for a small list of 18 industries. This was the only possible response to the general feeling of resentment and disgust at the consequences of detailed control on the starting, expansion and location of a firm. In the regulation of economic activity, individual discretion case by case decisions had to be abolished. There were, however, spheres which could not be left to the market place. In these licensing will still be essential. The list includes entertainment electronics and white goods. The rest of the industries can now be located anywhere except in cities with populations of more than a million. They will have access to all the production facilities including imports of raw materials, spares, etc. from April 1991. The only major exception will be capital goods imports, to which the free access will be limited to 25 per cent of the value of machinery and equipment up to a maximum of Rs 2 crore. Reservation for small industries and special arrangements for them will continue. The delicensing of most of the industries will lend dynamism to the relatively stagnant industrial scene.

HIGH HOPES OF SUCCESS

High hopes are entertained for the success of the new policy. The reactions of various industrialists and entrepreneurs and announcements of the finance minister in his budget speech (regarding the level of direct taxation, customs duties, future interest rate) sound very optimistic on the future prospects. Seeing the malaise in which the country is placed and the causes, the general policy measures adopted seem correct. We have to get out of the framework of rigid detailed control mechanisms to which we were subject and recent measures have been in that direction. At the same time there is no wholesale acceptance in the new measures of the working of the market mechanism. It is not possible to provide against each and every likely adverse consequence of the new dispensation. Such detailed action will leave ample scope for error, favouritism and corruption. There can only be general rules, a list of exceptions, a negative list, fiscal and monetary incentives and disincentives, and these have been provided for, and more when

TABLE 2: REVENUE DEFICIT, BUDGETARY DEFICIT AND FISCAL DEFICIT

| | 1990-91 (RE) | Per Cent of GDP | 1991-92 (BE) | Per Cent of GDP |
|-------------------|-----------------|--------------------|-----------------|--------------------|
| Revenue deficit | 17,585 | 3.4 | 13,854 | 2.4 |
| Budgetary deficit | 10,772 | 2.1 | 7,719 | 1.3 |
| Fiscal deficit | 43,331 | 8.5 | 37,727 | 6.6 |

TABLE 3: DISPARITY BETWEEN BUDGETARY DEFICITS, REVISED DEFICITS AND ACTUALS, 1988-89 TO 1991-92

| | BE | RE | Per Cent Increase over BE | Actuals | Per Cent Increase over BE |
|---------|-------|--------|---------------------------------|---------|---------------------------------|
| 1988-89 | 7,484 | 7,940 | 6.1 | 5,682 | 24.6 |
| 1989-90 | 7,337 | 11,750 | 60.1 | 10,592 | 44.4 |
| 1990-91 | 7,206 | 10,772 | 49.5 | | |
| 1991-92 | 7,719 | — | | | |

necessary can be fitted in.

The decisions now taken need a follow-up in several cases. The process of economising, of reducing waste and inefficiency in the fiscal machinery, of reducing subsidies except to the poorest, of increasing the foreign exchange availability for private imports so that capital goods can be freely imported without the multiple exchange rate mechanism will take time and will demand vigorous pursuit with a great degree of determination. Increasing the efficiency of the production mechanism will necessitate many measures in other fields like an exit policy, transformation of attitude to work and management, etc.

The remaining period of 1991-92 and a large part of the year 1992-93 are likely to be a difficult period for Indian economy as it will pass from a partially controlled economy to a largely market-determined economy. The change visualised is nowhere near that in eastern Europe which had more highly controlled economies and wish to evolve into free market economies but the transition will be marked by some pain and anguish. Many firms will fall sick and be liquidated, and labour so discharged may not get easy alternative avenues of employment. It will be a legitimate demand on the society that the problem of unemployment is at least not aggravated and ample retraining and resettlement facilities are provided. A fast narrowing of the export-import gap implies a likely decline in the terms of trade and in the absence of fast economic growth this presumes a drawal on per capita consumption or savings. If this burden can be shared equitably and understandingly it can be borne without upsetting the society. But there are no evident preparations for explaining the detailed implications of the policies or for equitable sharing. There is somehow hope that the IMF and World Bank will understand our difficulties and agree to help liberally so that the transitional difficulties are lessened.

Frankly, a lot of our optimism rests on faith in the IMF and World Bank. Since India has never defaulted on its obligations, and the Indian problems of price rise, unproductive public debt and foreign dependence are smaller than in many developing areas, the IMF may give large loans. With these the temporary transitional difficulties will be greatly lessened. The stumbling bloc is the IMF conditionalities all of which we cannot stomach. Regarding some of them like fiscal stabilisation, limit to money supply increase and even realistic exchange rates there are no serious objections but with the wholesale acceptance of conditions like privatisation, market dominance, free trade, etc, the country will hardly agree. We hope an acceptable and feasible *via media* will be found.

A second hope is the large foreign exchange held abroad by Indians and NRIs. If this can flow to India in large sums, it will immediately alleviate the foreign exchange difficulties. The exemption of all gifts from

remittances in foreign exchange from gifts taxation (with no inquiry regarding the sources of funds) and the permission to the resident donees to hold State Bank of India's India Development Bonds denominated in dollars without income and wealth tax with the final redemption in rupees at the current rate of exchange may serve as a powerful inducement to black money holders to convert their rupees by hawala transactions in dollars. This will be a relatively cheap way of transferring black money into white, the inducement being greater investment opportunities opened by liberalisation and the promises of lighter taxation made by the finance

minister. Unlike the IMF loan there will be no question of repaying in foreign exchange.

A caveat may be sounded here. The new policies have no features which will deal with some of our major problems like poverty, employment, regional inequality, etc. This is not a serious defect if these policies do not constitute the whole plan which will have other policies and programmes to deal with them. Fiscal, monetary and other regulatory methods will be available to deal with the problems. It will however be a serious lacuna if in the enthusiasm for new policies these persisting problems are forgotten and planning given a go by.

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| For the year ended | (Rs. in Lakhs) |
|----------------------|----------------|
| 31.3.91 (9 months) | |
| Paid up Capital | 100.00 |
| Gross Income | 764.94 |
| Net profit after Tax | 111.07 |
| Transfer to reserves | 100.00 |
| Net worth | 152.8 |
| Dividend declared | 18 |

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On the Crisis and the Remedies

Pulin B Nayak

It is difficult to be enthusiastic about the recent package of economic policy measures which will be highly inflationary and will slow down investment in economic and social infrastructure. Additionally, it is going to hurt the poor via cuts in schemes like the rural employment generation programme.

In the fiscal sphere, pace the budget for 1991-92, the larger issues still remain to be addressed. The tax system needs to be restructured. The overwhelming reliance on indirect taxes has to be reduced and the base of personal income tax has to be widened. Simultaneously, there has to be the political will to take stern measures against tax evaders and operators in the parallel economy. And, above all, there has to be a determined effort to curb wasteful current expenditure, and not capital expenditure on social and economic infrastructure. This is a rather daunting agenda, but a beginning has to be made.

THE new Congress(I) minority government headed by P V Narasimha Rao has gone about introducing significant changes in economic policy with breathtaking rapidity. On July 1 and 3 the rupee was devalued by about 20 per cent in two discrete steps. This was followed by major reforms in trade policy so that Indian trade and industry may "soar in the high skies of trade", and the rupee may become fully convertible in three to five years. Twenty days later the industrial policy was drastically liberalised as the asset limit for MRTP firms and industrial licensing for most projects were abolished and the limit of foreign equity was increased to 51 per cent in several 'high priority' areas. The industrial policy was announced the same day as the union budget was presented in the parliament. The budget itself incorporated several pointers of change in economic thinking. All of this was going on in a setting where India was facing a severe balance of payments crunch and was at the doorsteps of the IMF, trying to negotiate a substantial structural adjustment loan of some \$5 to \$7 billion, complete with the conditionally clauses.

It is now widely agreed that the Indian economy is currently undergoing a severe crisis. The crisis is possibly the severest that the country has had to face in the post-independence era. The fiscal sector of the economy is possibly in the throes of its most stringent test ever. The foreign trade sector of the economy has been in great trouble despite periodic claims from official sources in the past three to four years that exports have been going up by leaps and bounds. In the fiscal sector government expenditure has been far outpacing revenues in the current account for more than a decade now, leading the government to resort to substantial borrowings, both internal and external. The national debt has now reached such a level that interest payments constitute the largest single expenditure head of the central government budget. Non-essential expenditure continues to grow unabated, the explanation for which cannot be confined to strictly economic factors. The prospects for making substantial inroads into the pockets of the potential income tax paying public appear to be circumscribed, due, mainly, to a lack of political will, and also partly due to certain

formidable administrative problems. The tax to GDP ratio is already reasonably high and the prospect of having it increased further appears to be limited, at least in the short run.

In the foreign trade sector, imports have systematically outpaced exports in the post-independence phase with the exception of two years in the 70s. If then we are having to face the BoP crisis of the magnitude we have today it should really be no surprise, for it has in any case been a long time coming. The problem was no doubt exacerbated by the liberalisation drive of the 80s. During this phase imports went up quite sharply while exports themselves increasing at a moderate pace did not quite keep in step with imports. The magnitude of the trade gap grew particularly large during the past decade, with the deficit hitting a peak of Rs 10,644 crore in 1990-91. The foreign exchange reserves reached a low in mid January 1991 when the country had barely enough funds to finance 10 days' import requirements. In desperate straits, the country went in for a loan of \$1.8 billion from the IMF under its CCF facility. But as was clear from the beginning, this was at best only a temporary respite and the drain on the country's reserves continued unabated. The problem was particularly aggravated by a drying up of remittances from Indian nationals living abroad. In a bid to contain this trend the RBI imposed strict import restrictions by substantially hiking up cash margins. This eased the rate of foreign exchange outgo somewhat, throwing up a small surplus in trade balance in April. This process was however not allowed to work itself through as there was a significant change in trade policy in early July that went in the direction of linking virtually all non-bulk imports to exports via the instrumentality of the replenishment (REP) licensing scheme, and subsequently, a lowering of import duties.

For the economic policy makers in the new regime it was a foregone conclusion that India ought to seek a substantial structural adjustment loan of \$5 to \$7 billion from the IMF to tide over the current crisis. The conditionalities for such a loan have been well known, and include devaluing the currency, liberalising the foreign trade sec-

tor, effecting cuts in subsidies, and initiating a process of privatisation, among others. We have already been more than accommodative in not only conceding to, but indeed adopting, virtually each one of the conditionality requirements, with scant regard for the demonstrably harmful effects of some of these for the economy at large, and for the poor in particular. Yet there has been a tide of support for the IMF dictated path of adjustment among the media, academics and other professionals that has been seldom witnessed before. Emboldened by the support of this influential group, the government has gone about implementing a broad package of reform measures to give the right signals to the IMF and initiate a process of liberalising and globalising the Indian economy. It would be a matter of interest to see the extent to which these measures achieve their desired results.

ECONOMIC BACKDROP

As per the pre-budget *Economic Survey 1990-91*, the past year's performance of the real sectors of the Indian economy was not too bad. The GDP growth rate was expected to be about 5 per cent. The growth rates of agricultural and industrial production were expected to be 4.5 and 8.4 per cent respectively. During the Seventh Plan period GDP grew at an average annual growth rate of 5.5 per cent and agriculture and industry grew at average rates of about 4.1 and 8.5 per cent respectively. Yet the fact that all was not well with the economy was attested to by the rather substantial inflation rate of 13.6 per cent in 1990-91 measured in terms of the consumer price index. This was fuelled to some extent by the sharp hike in the price of oil on account of the Gulf crisis but there were other deeper, and more disturbing, trends at work.

Without a doubt, the roots of the current crisis are to be located in the severe fiscal and trade imbalances that have been evident in the economy in recent years. If one were to focus attention on the central government budget, it is seen immediately that especially over the past decade the revenue account has systematically been showing a deficit (Table 1). Through the three decades of the post-independence period till the late 70s,

the revenue account of the centre, except for two years, always showed a surplus, though admittedly of a modest magnitude. It is in 1979-80 that a decisive break came, from when there has regularly been a deficit. Starting at 0.61 per cent of GDP in 1979-80, the deficit has steadily grown to 3.4 per cent of GDP as in 1990-91. This has meant that the centre has had to repeatedly borrow in the capital market to provide for current expenditure that yields no return. This has also meant that the public debt and other liabilities of the government has burgeoned substantially (Table 2), amounting to well over 60 per cent of GDP. One immediate consequence of this is that interest liabilities have moved up appreciably. Indeed they constitute the largest single expenditure head of the central government and in the coming year are budgeted to be around Rs 35,000 crore. For 1990-91 gross interest payments formed 21.4 per cent of total expenditure of the central government, up from 11.6 per

cent in 1980-81.

This very naturally raises the question regarding the sustainability of the debt. If government borrowing goes on unabated it would sooner or later raise the question regarding the very viability of the system especially if a government has to borrow or step up the tax effort merely to repay past debts rather than spend the money for developmental purposes. The government then ultimately has to severely curb the rate of growth on non-essential expenditure, while trying to step up, or at least keep intact, the allocation for capital expenditure. Over the past decade the trends have been precisely otherwise. A perusal of the *Economic Survey* (pp 109-110) reveals that gross capital formation out of budgetary resources, which comprised 40.1 per cent of total expenditure in 1980-81, had steadily gone down to 32.7 per cent by 1990-91. Two other features need to be mentioned in this context. First, gross capital formation out of budgetary resources, which grew at an average rate of around 18.8 per cent in the early 80s, appears to have started decelerating from 1986-87. Secondly, and more ominously, the rate of increase in gross capital formation turned negative (-1.4 per cent) for the first time in 1990-91. In the meantime the gross savings of the government had turned negative for the first time in 1984-85, and the dissaving has been growing over the years, amounting to nearly 1.5 per cent of GDP in 1990-91.

All of the trends noted above have been the wages of a soft state where government expenditures have bloated way out of proportion to tax and non-tax revenues. The bureaucracy has grown, so have its myriad perks, and there has been mindless profligacy in sundry projects ranging from the Asiad and the Festivals of India to the loan 'melas' and the loan waivers. Faced with a resource crunch, when budgetary allocations have had to be trimmed, it has invariably been capital expenditure that has had to be axed, while revenue expenditure has gone on expanding. Powerful vested interests have emerged to keep the fiscal economy running in this manner.

The implications of the above trends on the monetary sector are immediate. Along with the large revenue deficits, the central government has had large budget deficits,

averaging about 2.1 per cent of GDP during the Seventh Plan Period. This in turn has contributed to a large monetised deficit which is the total of the net increase in the holdings of treasury bills by the RBI and its contribution to the market borrowings of the government. It is this which determines the growth of money supply. During 1990-91 the monetised deficit was expected to be about 3 per cent of GDP, and for the seventh plan period as a whole it averaged around 2.3 per cent of GDP. Money supply grew at an average annual rate of about 17 per cent during the first four years of the Seventh Plan and went up by as much as 19.7 per cent during the final year of the plan, causing a substantial liquidity overhang in the economy. This contributed in a large measure to the double digit—13.6 per cent increase in the consumer price index—inflation that the economy went through during 1990-91.

In the realm of tax revenue, the tax to GDP ratio has moved up in the past four decades from about 6.69 per cent in 1950-51 to about 17.4 per cent in 1990-91. For a country of India's level of development the tax to GDP ratio is certainly quite reasonable. This is not to say that the rate cannot be further stepped up nor, more importantly, that the tax system cannot be significantly restructured. A major problem with the tax system is that the share of direct taxes has virtually stagnated during the period; it started out at 2.47 per cent of GDP in 1950-51 but after touching 3.26 per cent in 1963-64 it had gone down to 2.49 per cent of GDP in 1988-89 (Table 3). Thus the entire increase in the tax to GDP ratio has been brought about by exploiting indirect taxes. Within direct taxes, the decline in importance of personal income taxes has been even more dramatic: these taxes comprised some 21 per cent of all tax revenues in 1950-51 and are now down to about 5 per cent of the same.

Now, it is well recognised that personal income taxes have the advantage that they can be tailored to meet individual circumstances. They can be employed to promote equity directly in a manner that indirect taxes such as excises cannot. It is therefore important to explore avenues of enlarging the scope of personal income taxes by expanding their base. Currently the total number of income tax assesses constitutes well under a percentage point of the population. Perhaps the most important task facing policy-makers is to bring all potential income tax assesses into the tax net. This task is rendered difficult by the presence of a substantial parallel economy, the income originating in which is beyond the purview of income taxation, and the existence of large numbers of small traders and self-employed professionals—the so-called 'hard to tax' groups—who ought to be in the income tax net but are not. Finally, the significant numbers of deductions and exemptions that have been allowed in the definition of taxable income from time to

TABLE 1: BUDGETARY REVENUE SURPLUS/DEFICIT OF THE CENTRE

| Year | Surplus/ Deficit (As Per Cent of GDP) | Year | Surplus/ Deficit (As Per Cent of GDP) |
|---------|---|---------|---|
| 1951-52 | 1.27 | 1971-72 | -0.22 |
| 1952-53 | 0.40 | 1972-73 | 0.03 |
| 1953-54 | 0.08 | 1973-74 | 0.38 |
| 1954-55 | 0.33 | 1974-75 | 1.04 |
| 1955-56 | 0.41 | 1975-76 | 1.13 |
| 1956-57 | 0.76 | 1976-77 | 0.35 |
| 1957-58 | 0.34 | 1977-78 | 0.45 |
| 1958-59 | -0.04 | 1978-79 | 0.28 |
| 1959-60 | 0.29 | 1979-80 | -0.61 |
| 1960-61 | 0.31 | 1980-81 | -0.57 |
| 1961-62 | 0.73 | 1981-82 | -0.18 |
| 1962-63 | 0.61 | 1982-83 | -0.71 |
| 1963-64 | 0.88 | 1983-84 | -1.16 |
| 1964-65 | 1.11 | 1984-85 | -1.52 |
| 1965-66 | 1.22 | 1985-86 | -2.12 |
| 1966-67 | 0.77 | 1986-87 | -2.65 |
| 1967-68 | 0.30 | 1987-88 | -2.75 |
| 1968-69 | 0.20 | 1988-89 | -2.69 |
| 1969-70 | 0.31 | 1989-90 | -2.80 |
| 1970-71 | 0.38 | 1990-91 | -3.40 |

(RE)

Source: *Indian Economic Statistics (Public Finance)*, Ministry of Finance, 1990, and *Economic Survey 1990-91*.

TABLE 2: PUBLIC DEBT AND OTHER LIABILITIES OF GOVERNMENT OF INDIA

| | (Rs crore) | | |
|--|------------|---------|--------------|
| | 1980-81 | 1985-86 | 1990-91 (RE) |
| 1 Internal liabilities (outstanding) | 48451 | 119331 | 279528 |
| | (35.6) | (45.6) | (54.4) |
| A Internal debt | 30864 | 71039 | 151352 |
| B Other internal liabilities | 17587 | 48292 | 128176 |
| 2 External debt (outstanding) | 11298 | 18153 | 31831 |
| 3 Total outstanding liabilities (1+2) | 59749 | 137484 | 311359 |
| | (43.9) | (52.5) | (60.6) |
| 4 External debt (converted at year end exchange rates) | 13479 | 26638 | 66017 |

Note: Figures in decimals are percentages to respective GDPs.

Source: *Economic Survey, 1990-91*.

TABLE 3: TAX/GDP RATIO

| Year | Total Tax Revenue (All India) | | |
|---------|----------------------------------|----------|-------|
| | Direct | Indirect | Total |
| 1950-51 | 2.47 | 4.23 | 6.69 |
| 1960-61 | 2.48 | 5.85 | 8.33 |
| 1970-71 | 2.34 | 8.67 | 11.01 |
| 1980-81 | 2.41 | 12.21 | 14.61 |
| 1985-86 | 2.38 | 14.10 | 16.48 |
| 1988-89 | 2.49 | 14.62 | 17.11 |

Source: *Indian Economic Statistics (Public Finance)*, Ministry of Finance 1990.

time have contributed to a narrowing of the base of income tax. These gaps need to be examined afresh and closed where necessary. It need hardly be stressed that there is substantial evasion and avoidance of income tax and the enforcement mechanism has to be tightened to firmly deal with the problem.

While indirect taxes continue to be the mainstay of the tax system, comprising as much as nearly 85 per cent of all tax revenues, there is little to suggest that there is in fact any well defined rationale in raising revenues on this score. These taxes have usually been raised on the basis of *ad hoc* considerations and administrative ease. Almost 70 per cent of the revenue from excise duties are realised from inputs and intermediates. There is also an incredible multiplicity in the rates of tax. Both these factors make for a lack of transparency in the incidence of these taxes and their economic effects. While a system of modified value added tax, introduced in 1986, has been instrumental in imparting a certain rationale to the excise tax system, its coverage is partial, and the overall impact of excise taxes is one of escalation of industrial costs via the cascading effect. Further, the inefficiencies of the union excise are accentuated by the sales tax and other indirect taxes like octroi levied at the state level and there is urgent need for tax harmonisation at different levels of government.

A very important question pertains to the equity of the tax system as a whole. The available evidence suggests that the incidence of indirect taxes in India is mildly progressive. It is acknowledged, however, that indirect taxes tend to be regressive with respect to income, and one has to devise a very complicated structure of rates and exemptions to impart a measure of progressivity to the system. Such a complicated rate structure however results in inefficiencies, higher administrative costs and revenue losses. As for direct taxes, while the statutory incidence of the tax on income tax assesses already in the records of the CBDT is no doubt progressive, little can be said about the progressivity of the tax if one were to account for the large extent of tax evasion and the generation of incomes in the parallel economy. In order to ensure equity in the tax system as a whole, the share of direct taxes has to be increased, the base of per-

sonal income tax has to be widened, and enforcement has to be tightened to check tax evasion and curb the generation of black incomes.

The Long Term Fiscal Policy (LTFP) document 1985, had noted that the alleviation of poverty is at the centre of our five-year plans, and that in order to help achieve this objective fiscal policy has to play a critical role by mobilising additional resources which may be used for financing anti-poverty programmes, for improving the social and economic services on which the poor mainly rely, and for financing the heavy investments in infrastructure which are necessary for sustaining growth in

agriculture and industry. Fiscal policy may also be used as a tool to expand productive employment opportunities and it can play an important role in keeping inflation within moderate bounds. The last objective is particularly important because inflation causes economic hardships to the poor and the vast majority of the population in the unorganised sector whose earnings are not indexed.

About a third of India's population still lives in abject and degrading poverty. During the 80s, while GDP recorded a growth rate of around 5.5 per cent, the growth rate of employment was in the range of a meagre 1.5 per cent. Employment in the organised sector, which grew rapidly at around 5.1 per

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cent per annum in the early 1960s, rose at around 2.4 per cent per annum during 1977-83 and at 1.4 per cent during 1983-88, denoting steady deceleration. During 1983-88 employment in the private organised sector has declined somewhat. As regards the price level, we have already noted that the economy has lately been in the throes of a double digit inflation. Thus the contribution of fiscal policy as regards the above objectives has not been strikingly notable in recent years.

As regards the external sector, India's balance of trade has been under very severe strain in the last five years in particular, leading to a dwindling of our foreign exchange reserves and a burgeoning of our external debt. A number of factors were identified by the report of the Economic Advisory Council to have been responsible for precipitating the problem. Among them were (i) the more liberalised import-export policy during 1985-88, (ii) levelling off of workers' remittances from abroad, (iii) plateauing of indigenous oil production in the face of continually rising domestic demand for petroleum, and (iv) the possibility of a growing import intensity of exports. To this must be added the increase in import intensity of manufactured consumer goods that have catered to the fancies of the top 10 per cent of the population. Indeed the strategy of trade liberalisation has been the basis of sustaining the new manufactured consumer goods boom of the late 80s. The liberalisation measures came in the form of removal of import restrictions or reduction in tariffs and applied to components, intermediates and capital goods. A look at the import statistics reveals that the sharpest increase in India's import bill in recent years has been accounted for by the item entitled 'capital goods', which increased from Rs 1,910 crore in 1980-81 to Rs 8,831 crore in 1989-90.

To add to the woes, there was a significant tapering off of remittances from abroad in the late 80s, particularly in the aftermath of the Gulf crisis, and a slowing down of tourist traffic, which together have contributed to a decline in net invisibles. In recent months the problem has been exacerbated as most of the NRIs have not been renewing their deposits which have matured in the foreign currency non resident (FCNR) account. The FCNR deposits grew rapidly from about Rs 255 crore in 1985 to around Rs 17,000 crore in late 1990. Most of these deposits were for a period of three years and started maturing since 1988. While they were earlier renewed in a routine manner there has been some reluctance in recent months on the part of depositors to renew their deposits. All of these factors have together contributed to the foreign exchange reserves being under severe pressure.

NEW PROPOSALS

It is in the context of the above economic setting that one needs to look at the latest budget proposals. As noted earlier the

budget proposals are purported to be viewed as part of a broader package of measures covering trade, fiscal and industrial policies. Confronted with the fiscal crisis of the magnitude outlined above, the finance minister has naturally had to operate within a rather severe set of constraints. The first major compulsion has been to curb the growth of expenditure to keep the fiscal deficit within the limit of 6.5 per cent of GDP as has been mandated by the IMF. This requirement has been met, but the unfortunate part is that it is capital rather than revenue expenditure that has been trimmed. Given the double digit inflation rate, the allocation for capital expenditure, in real terms, would appear to have gone down. The adverse consequences of this on long term growth and productivity are obvious.

The finance minister has shown restraint in the allocation for defence, and this cannot but be welcomed. At Rs 16,350 crore, the defence outlay is up Rs 600 crore from the past year, but given the rise in prices and the depreciation of the rupee this is undeniably a cut in real terms. It is high time that defence expenditure not be regarded as something sacrosanct, and that the money allocated to defence be used in the most cost effective manner.

Perhaps the most controversial measure of the budget has been the decision to cut fertiliser subsidies, which is one of the major conditionalities of the IMF. It was originally stated that the subsidies would be cut by about Rs 400 crore which would have the effect of pushing up fertiliser prices by an average of 40 per cent. Since the quantum

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of fertiliser subsidy in the past year has been of the order of Rs 4,400 crore, it was clear that the extent of the cut was a gross underestimate, as was confirmed later. In any case this was expected to be politically a highly contentious issue, and faced with opposition from dominant farmers' lobbies, the government has had to backtrack and the price rise is to be limited to 30 per cent, while small and marginal farmers are to be exempted from this hike. The wisdom of the dual pricing scheme is not clear at all as its implementation will be difficult and several states have already refused to co-operate.

The increase in fertiliser prices would set in motion the train of pushing up the procurement prices and ultimately the issue prices of foodgrains in the public distribution system unless food subsidies are commensurately increased to maintain the issue prices at a stable level. Provided the latter can be ensured, i.e., food subsidies be appropriately increased, one cannot seriously question the logic of trimming fertiliser subsidies because there is good reason to believe that the larger farmers use chemical fertilisers relatively more intensively. There is also an inter-regional disparity as farmers in the relatively more prosperous states use more fertiliser per hectare in comparison to their counterparts in the poorer states. The proviso is important since it is absolutely vital to maintain the prices of foodgrains in the ration shops at a stable level. If in fact one cannot ensure a *pari passu* increase in food subsidies then one would rather that fertiliser subsidies not be cut.

This is a matter of no small importance since providing subsidised foodgrains is one of the best ways of ensuring distributive justice. There is of course substantial scope for improvement in the working of the public distribution system as it exists today. This can be achieved by targeting it better. There is a good case for disenfranchising the rich and the upper middle class in the urban areas from their access to the PDS and the resources thus saved may be redirected to the rural and tribal hinterlands of the country. The other reason for maintaining cheap and stable prices of foodgrains in the PDS is that it helps to keep inflation in check. A major problem regarding the inflation of 1990-91 was that it was concentrated on essential commodities such as foodgrains, vegetables, pulses and edible oils, with the wholesale price index for food articles as a whole rising by as much as 18.9 per cent.

On the taxation front one would have liked to see some bold initiatives in the sphere of direct taxes but presumably the time has been short. As regards the rate schedule of personal income tax, the finance minister is probably right in leaving it untouched. There is a good deal of professional support to the view that confiscatory marginal tax rates are counter-productive. One cannot however be enthusiastic about the new scheme regarding deposits with the National Housing Bank whereby persons making such deposits will not be required

to disclose the source of funds, and that monies deposited would be provided complete immunity from enquiry and investigation. Sops like this are no good for the morale of the honest tax payers.

In order to shore up budgetary resources the government has decided to disinvest up to 20 per cent of its equity in selected public sector undertakings in favour of mutual funds and investment institutions in the public sector, which is expected to yield Rs 2,500 crore to the exchequer. This again is part of the broader thinking in favour of privatisation and marketisation which one has been hearing of lately and which also happens to be yet another of the IMF directives. Reports have suggested that some profit making PSUs have been earmarked for the purpose, because loss making units would presumably not have much of a market value. However barring the core sector and infrastructural units in the public sector, one might legitimately wonder as to why some of the loss making and sick units in the public sector are not being turned over to the private sector on the very grounds of efficiency and accountability that is supposed to be the latter's forte. Such a move is however unlikely to be attractive to the private sector. None would today argue for more of the same kind of public sector with its bureaucratisation and unaccountability that we may have had as part of the Nehruvian legacy. The public sector quite clearly has to be more accountable, but more generally there is greater need for public action in the area of literacy, health, child care, and provision of drinking water among others.

In the foreign trade sector the major policy changes have included the devaluation, the withdrawal of the cash compensatory scheme (CCS) for exporters and the enlargement of the replenishment licensing scheme to cover all non-essential exports. From now on all exports are to have a uniform RLP rate of 30 per cent of the freight on board value, up from the earlier rates ranging from 5 to 20 per cent. The aim of these measures is to make our exports more competitive, imports dearer and the hope is that the balance of payments would improve in due course. This optimism is however without any firm basis. Much of India's exports either have structurally low price elasticities, or face inelastic demand owing to protective import policies being pursued by our major trading partners. There will, in addition, be two other harmful consequences of the devaluation: (i) it is bound to give further fillip to inflation because many key inputs that are imported will now be more expensive, and (ii) the general resource crunch in an inflationary environment will lead the government to cut expenditure on some economic or social services, which would be recessionary—as has already been borne out by some of the budgetary measures, whereby capital expenditure, in real terms, on several infrastructural activities has gone down.

In the sphere of industrial policy the

foreign equity limit has been increased to 51 per cent in 34 high priority industries, licensing has been removed except in 18 industries, the MRTP asset limit has been done away with, and up to 100 per cent equity holding is to be permitted for MNCs, if they are export oriented, among others. While one cannot but welcome the move to eliminate the bureaucratisation and delay in our present system, a legitimate worry is that the new measures would accentuate the concentration of industrial wealth. As regards foreign capital one cannot share the optimism regarding its willingness to come to India in any substantial degree in the face of a widely held perception of political and social uncertainties in the country.

SUMMING UP

On the whole one cannot be enthusiastic about the recent package of economic policy measures which is inevitably going to be highly inflationary, which is going to slow down investment in economic and social infrastructure and which in additionally going to hurt the interests of the poor via cuts in real terms, on schemes like the rural employment generation programme. What is particularly distressing is the inescapable feeling that we have had to adopt these policies under duress, and in a hurry, to be able to procure a large structural adjustment loan from the IMF, in the process compromising our economic sovereignty.

This is not to deny that the trade and fiscal sectors of the Indian economy are undergoing possibly their severest crises, calling for drastic remedial measures. These should however be undertaken entirely on our own terms, giving utmost consideration to minimising the cost of adjustment that is to be borne by the poor.

India's external debt of around \$ 70 billion places it as the third highest indebted country in the world today, after Brazil (\$ 122 billion) and Mexico (\$ 101 billion). India's total debt service as a percentage of exports of goods and services is of the order of around 26 per cent. Anything above 20 per cent is considered a serious burden. Another substantial loan from the IMF will suck India further into the quicksands of debt. It is worth recalling that barely four years ago India was the seventh most indebted country and that its position has sharply worsened since then.

In the fiscal sector, the larger issues still remain to be addressed. The tax system needs to be restructured. The overwhelming reliance on indirect taxes has to be reduced and the base of personal income tax has to be widened. Simultaneously there has to be the political will to take stern measures against tax evaders and the operators in the parallel economy. And above all there has to be a determined effort to curb wasteful current expenditure, and not capital expenditure on social and economic infrastructure. This is a rather daunting agenda, but a beginning has to be made.

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Adjustment in the 1991-92 Budget Hard-Headed or Soft-Headed?

S Guhan

The Economic Survey urged a "serious effort to introduce corrective measures through hard decisions and difficult choices" The budget's response to this call, the fudging apart, is feeble And given the compulsion to contain the fiscal deficit to 6.5 per cent of GDP, incremental investment in infrastructure is likely to be seriously reduced in real terms in the coming year, retarding both growth and adjustment in the medium term

THE union budget for 1991-92 projects a reduction in the fiscal deficit (FD)—which is the most comprehensive indicator of fiscal management—from 8.4 per cent of GDP in 1990-91 (RE) to 6.5 per cent in 1991-92 (BE). As per cent of GDP, FDs which were between 5.4 and 6.3 in the early 1980s had risen to the 7.5 to 9.0 range in the later 1980s (vide Table 1). Reducing the FD from 8.4 to 6.5 per cent of GDP or by nearly 23 per cent over a single year certainly seems to be an impressive achievement. The object of this note is to examine closely the mode of the proposed adjustment with particular reference to its credibility, sustainability and longer term implications.

REDUCING DEFICITS

Leaving aside the monetised deficit (i.e. increase in net RBI credit to the central government)¹ which cannot be estimated for 1991-92 at the time of budget presentation, the three other kinds of deficits involved in the budget and their interrelationship are set out in the following identities (deficits carry a plus sign):

- (1) Revenue Deficit (RD) = Revenue Expenditure (RE) - Revenue Receipts (RR)
- (2) Budgetary Deficit (BD) = RD + Net Capital Disbursements (NCD)
- (3) Fiscal Deficit (FD) = RD + NCD + Borrowings (B)

NCD is capital outlay plus loans (gross) minus loan recoveries. Borrowings include borrowings from all sources (external and domestic) and other liabilities (such as deposits).

In operational terms, the FD can be lowered by reducing BD and borrowings. It is necessary to reduce borrowings so as to reduce the government's draft on domestic savings, dependence on external flows, and future interest payments. For a given level of B, BD can be reduced by reducing the RD or NCD or both. RD can be reduced by improving RR or reducing RE or both. There is thus a trade off in any scheme of adjustment between RD and NCD and again between RR and RE. The path of adjustment has to be evaluated with reference to the direction and extent of the trade offs and their policy implications.

Table 2 shows in GDP terms² how the reduction in the FD has been attempted, in

terms of its components, in 1991-92 (BE) with reference to 1990-91 (RE). Borrowings it will be seen are proposed to be reduced by 12.7 per cent (in terms of the GDP ratio). The reduction in net capital disbursements is 18 per cent. The reduction in revenue expenditures is only 3.4 per cent and the improvement in revenue receipts only 4.5 per cent. Thus in the main, the FD has been reduced by a reduction in incremental capital outlays i.e. through a deceleration in public investment rather than through any significant reduction in the RD which is the core deficit.

In the interests of better fiscal management, it is imperative to roll back the FD. We may also assume that in terms of a

specific target the FD will have to be maintained at 6.5 per cent of GDP as part of the adjustment process agreed with, and subject to monitoring by the IMF. The FD being the sum of RD and NCD, this means that if the RD increases during the year because of shortfalls in RR and/or increases in RE, capital outlays will have to be cut further in order to adhere to the 6.5 per cent target. This leads us to look at how plausible the budget estimates of RR and RE are of which the RD is the resultant.

REVENUE RECEIPTS

Table 3 shows the composition of revenue receipts. It will show that not additional

TABLE 1. TRENDS IN DEFICITS, 1980-91*
(As percentage of GDP at current market price)

| Year | Revenue Deficit | Budget Deficit | Monetised Deficit | Fiscal Deficit |
|---------------|-----------------|----------------|-------------------|----------------|
| 1980-81 | 0.6 | 1.8 | 2.0 | 6.2 |
| 1981-82 | 0.1 | 0.9 | 2.0 | 5.4 |
| 1982-83 | 0.7 | 0.9 | 1.0 | 6.0 |
| 1983-84 | 1.2 | 0.7 | 1.0 | 6.3 |
| 1984-85 | 1.5 | 1.0 | 1.0 | 6.5 |
| 1985-86 | 2.1 | 2.0 | 2.4 | 8.3 |
| 1986-87 | 2.0 | 2.8 | 3.0 | 9.0 |
| 1987-88 | 2.7 | 1.7 | 2.0 | 8.1 |
| 1988-89 | 2.7 | 1.4 | 1.0 | 7.5 |
| 1989-90 | 2.0 | 2.4 | 3.1 | 8.0 |
| 1990-91 (RE)* | 3.4 | 2.1 | 3.0 | 8.4 |
| 1991-92 (BE)* | 2.4 | 1.3 | NA | 6.5 |

Note: * Estimated assuming GDP levels of Rs 515,845 crore and Rs 582,905 crore in 1990-91 and 1991-92 respectively on the basis explained in note 2.

Source: GOI, *Economic Survey 1990-91*.

TABLE 2. STRUCTURE OF DEFICIT, 1990-91 AND 1991-92
(As percentage of GDP)

| | 1990-91 (RE) | 1991-92 (BE) | Improvement |
|--|--------------|--------------|-------------|
| 1 Revenue Receipts (RR) | 11.1 | 11.6 | 0.5 |
| 2 Revenue Expenditure (RE) | 14.5 | 14.0 | 0.5 |
| (i) Non-plan revenue expenditure | 11.8 | 11.0 | 0.8 |
| (ii) Plan revenue expenditure | 2.7 | 3.0 | 0.3 |
| 3 Revenue Deficit (RD) (2-1) | 3.4 | 2.4 | 1.0 |
| 4 Net Capital Disbursements* (NCD) | 5.0 | 4.1 | 0.9 |
| 5 Borrowings and other liabilities (B) | 6.3 | 5.1 | 1.2 |
| 6 Budgetary Deficit (BD) (3+4-5) | 2.1 | 1.4 | 0.7 |
| 7 Borrowings and other liabilities (B) | 6.3 | 5.1 | 1.2 |
| 8 Fiscal Deficit (FD) | 8.4 | 6.5 | 1.9 |

Note: * Capital expenditure plus gross loans minus loan recoveries netting out capital receipts from sale of government equity in PSEs which is treated as negative budget support to enterprises.

Source: Derived from GOI, *Budget at a Glance 1991-92*.

taxation in 1991-92, the corporation tax, income tax, and union excise duties taken together are expected to amount to only 3.9 per cent of GDP in 1991-92 (BE) compared to 4.3 per cent in 1990-91 (RF). Taking into account an increased contribution of 0.4 per cent from customs duties and another 0.4 per cent from the net yield to the centre from additional tax measures, the budget shows an overall increase in tax revenues of 0.4 per cent. Along with an improvement of 0.1 per cent in non-tax revenues, total revenue receipts show an increase of 0.5 per cent in GDP terms.

Table 3 gives rise to three concerns. First, the budget does not reflect any attempt to improve the elasticity of direct taxes and union excise duties in which, as is well known, there is considerable tax avoidance and tax evasion. Second, the large anticipated increase in customs revenue in 1991-92 (BE) over 1990-91 (RL) from Rs 20,800 to Rs 26,410 crore (net of concessions), i.e. an increase of 27 per cent, would appear to be because of the devaluation. However, it is not clear whether the estimate adequately takes into account the import contraction that is likely (and will be required) to take place in 1991-92 because of other measures such as the premium on RFP licences, credit curbs to curtail imports, etc. In the result, if customs revenues, which mainly explain the anticipated improvement in tax revenues in 1991-92, are overpitched, there could well be an overall shortfall in revenue receipts. The third concern, which is related to the second, is in regard to the sustainability of customs revenue at current proportions of GDP. The devaluation and other measures such as RFP financing and credit curbs represent a stiff burden on importers which, as balance of payments adjustment proceeds, will have to be eased by tariff reductions resulting in reduced proportionate contributions from customs duties to the budget.

NON PLAN REVENUE EXPENDITURES

Turning to revenue expenditures, they consist of non-plan and plan revenue expenditures each of which has distinct characteristics. Table 4 gives the composition of non-plan revenue expenditures in 1990-91 (RE) and 1991-92 (BE). In the short run, nothing can be done about the increase in the interest burden. Defence revenue expenditures have been more or less contained in 1991-92 over 1990-91 and if anything, they are only likely to increase during the year. There is a modest increase in the food subsidy which may have to go up further if higher procurement prices are allowed to compensate for the reduction in the fertiliser subsidy without a countervailing increase in issue prices so as to avoid inflation in the administered price of a sensitive item of mass consumption. The provisions for fertiliser and export subsidies have been reduced and are not likely to go down further. All that one can hope for is that the reductions

will be maintained. Other subsidies have been held at the same level between 1990-91 and 1991-92. The residual item in the table ('others') relates to expenditures on general services, police, tax collection, pensions, and a variety of non-plan developmental expenditures in respect of social and economic services in the revenue account. The aggregate provision for this entry has been reduced from Rs 17,463 crore in 1990-91 (RE) to Rs 16,831 crore in 1991-92 (BE) or by 3.6 per cent, eliminating the loan write-off provision in 1990-91 (RE) which does not figure in 1991-92 (BE). The increase is a marginal one of 2 per cent. This is patently implausible considering that these expenditures are quite sticky and that the average annual increase under this head has been of the order of 16 per cent in the previous five years. The increase between 1989-90 and 1990-91 (RE) is actually 15 per cent even without taking into account the loan write-off and debt relief provisions in 1990-91 (RE). There is every likelihood, therefore, that non-plan revenue expenditures in 1991-92 will turn out to be significantly higher than what has been presented in the budget.

PLAN REVENUE EXPENDITURES

Plan revenue expenditures in the budget are to increase from 2.1 per cent of GDP in 1990-91 (RE) to 3.0 per cent in 1991-92 (BE). These expenditures comprise (a) the centre's own plan expenditures in the revenue account, (b) grants for central and centrally sponsored plan schemes to states and UTs, and (c) normal plan assistance to states and UTs in the revenue account. Table 5 shows

the trends in these components in 1985-90, 1990-91 (RE) and 1991-92 (BE). During 1985-90, all three components have steadily increased, allowance being made for an accounting shift between items (a) and (b) in 1989-90.¹ There have been further increases in each component between 1990-91 (RE) and in 1991-92 (BE).²

Total plan outlays implemented at the central level (net of all transfers to states, including those for central and centrally sponsored plan schemes) consist of the

TABLE 4. NON PLAN REVENUE EXPENDITURES
1990-91 AND 1991-92

| (Rs crore) | | |
|-------------------------------------|------------------|------------------|
| Item | 1990-91 RE | 1991-92 BE |
| 1 Interest payments | 21,850 (4.2) | 27,450 (4.7) |
| 2 Defence | 11,012 (2.1) | 11,139 (1.9) |
| 3 Food subsidy | 2,450 (0.5) | 2,600 (0.4) |
| 4 Fertiliser subsidy | 4,400 (0.9) | 4,000 (0.7) |
| 5 Export subsidies | 700 (0.5) | 1,224 (0.2) |
| 6 Other subsidies | 1,071 (0.2) | 1,071 (0.2) |
| Other non-plan revenue expenditures | 17,463 (3.4) | 16,831 (2.9) |
| Total | 60,346 (11.8) | 64,315 (11.0) |

Net Figure within brackets are percentages to GDP
Source: GOI, Budget at a Glance, 1991-92

TABLE 3. REVENUE RECEIPTS, 1990-91 AND 1991-9

| (Rs crore) | | | | |
|------------------------|------------------|------------------|---|-------------------------|
| Item | 1990-91 RE | 1991-9 BE | 1991-9 Additional Expenditure (Net Yield) from Additional Taxation) | Total for 1991-92 |
| Tax revenue | 44,318 (8.6) | 50,497 (8.7) | 2,005 (0.3) | 52,500 (9.0) |
| 1 Corporation tax | 6,350 (1.2) | 5,400 (0.9) | 1,304 (0.2) | 6,704 (1.1) |
| 2 Income tax | 14,390 (0.3) | 15,590 (0.3) | 28 (Net) | 15,870 (0.3) |
| 3 Customs duties | 20,800 (4.0) | 26,410 (4.5) | 510 (0.1) | 25,900 (4.4) |
| 4 Union excise duties | 14,086 (2.8) | 15,239 (2.7) | 473 (0.1) | 15,712 (2.8) |
| 5 Other taxes (net)* | 1,643 (0.0) | 1,887 (0.3) | 710 (0.1) | 2,597 (0.4) |
| Non-tax revenue | 13,063 (2.5) | 15,029 (2.6) | | |
| Total revenue receipts | 57,381 (11.1) | 65,529 (11.6) | | |

Notes: Figures in brackets are percentages to GDP.

* Includes interest expenditure, wealth and gift taxes, other taxes and duties and taxes of UTs net of assignment to UT local bodies.

Source: Derived from GOI, Budget at a Glance, 1991-92.

ditures in its budget and capital outlays incurred through public sector enterprises (PSEs) financed by their internal resources and borrowings.⁵ Table 6 will show that the revenue component in plan outlays at the central level has steadily increased during the Seventh Plan (1985-90). The proportion which was 11.2 per cent in 1990-91 (RE) has risen further to 12.6 per cent in 1991-92 (BE).

PLAN OUTLAYS AT CENTRE

The composition of plan outlays at the central level (net of all transfers to states and including plan outlays of PSEs) is given in Table 7 for 1990-91 (RE) and 1991-92 (BE). It will show that while overall plan outlays at the central level are to increase by 11.0 per cent between 1990-91 (RE) and 1991-92 (BE) the increase is only 8.1 per cent in infrastructure. On the other hand, the increase in allocations for social services is as high as 63 per cent. The centre's own plan expenditures on agriculture and allied activities and social services, apart from its transfers to states via central and centrally sponsored schemes for these purposes, is not insignificant, being about 11 per cent of the overall plan outlay at the central level in 1991-92 (BE). Assuming an inflation rate of 9 per cent in 1991-92 (as estimated by the finance minister), there will be a decrease in real terms in infrastructure plan outlays. The reduction in real terms is actually likely to be much higher since infrastructure investments on energy, industry, transport and communications, being import intensive, will be particularly affected by the devaluation. The deceleration of infrastructure investments will obviously have an adverse impact on long term growth as well as on medium term balance of payments adjustment because of the importance of investments in energy industries (such as fertilisers, steel and non-ferrous metals), transport and communications for import substitution, export promotion and for capacity utilisation and capacity creation in the private sector. The retardation in incremental public investments in infrastructure is the most disturbing outcome of the financing pattern in the budget. It continues instead of arresting or reversing the trend in the late 1980s of a deceleration in capital formation through the budget coupled with a declining share of public savings in the financing of it.⁶

Table 8 brings out longer term trends in the level of central plan outlays (including outlays on central and centrally sponsored schemes) and their financing pattern. In the Seventh Plan period (1985-90), while plan outlay was 7.8 per cent of GDP in line with the (now forgotten) Long Term Fiscal Policy's (LTFP) indicative projection, its financing pattern had seriously deviated from the LTFP. The shortfalls in balance from current revenues (BCR) and in PSE contributions had to be made good by increased external and domestic borrowings

in 1991-92 (BE) the level of plan outlay as a proportion of GDP has been reduced, on one hand, from 7.8 per cent of GDP in 1985-90 to 7.4 per cent and, on the other, larger contributions from PSEs have been envisaged in financing it. The 1991-92 budget seeks to finance the same level of plan outlay in relation to GDP as in 1990-91 (RE) through projected improvements in BCR (1.1 per cent) and PSE contributions (0.1 per

cent) in order to offset projected reduction in borrowings and other capital receipts (0.8 per cent) and in the budgetary deficit (0.4 per cent). The projected improvement in the BCR, as we have shown, is in part due to an under estimation of non-plan revenue expenditures. The reduction in the budgetary deficit, as we have shown, has been sought to be achieved, apart from the under-estimation of non-plan revenue expenditures, by constraining infrastructural investments

TABLE 5 CENTRE'S PLAN EXPENDITURES IN THE REVENUE ACCOUNT 1985-92

(Rs crore)

| Year | Centre's Own Plan Revenue Expenditure | Grants to States and UTs for Central and Centrally Sponsored Plan Schemes | Normal Plan Assistance to States and UTs on Revenue Account | Total |
|--------------------------|---------------------------------------|---|---|--------|
| 1985-86 | 1 506 | 2 672 | 2 729 | 6 907 |
| 1986-87 | 2 195 | 2 951 | 3 070 | 8 216 |
| 1987-88 | 2 603 | 3 529 | 3 775 | 9 907 |
| 1988-89 | 3 264 | 3 953 | 3 901 | 11 118 |
| 1989-90 | 5 573 | 2 796 | 3 943 | 12 312 |
| 1985-90 (annual average) | 3 025 | 3 180 | 3 484 | 9 692 |
| 1990-91 (RE) | 3 693 | 5 044 | 5 283 | 14 020 |
| 1991-92 (BE) | 4 300 | 6 320 | 6 448 | 7 068 |

Source: GOI, *Expenditure Budget 1991-92*

TABLE 6 PLAN OUTLAYS AT THE CENTRAL LEVEL INCLUDING PSEs 1985-92

(Rs crore)

| Year | Centre's Own Plan Revenue Expenditure | Centre's Plan Capital Expenditure in the Budget | PSE Contribution to Plan Expenditure (REs) | Total | Proportion of Revenue Expenditure in Total (Per Cent) |
|--------------|---------------------------------------|---|--|--------|---|
| 1985-86 | 1 506 | 8 613 | 6 863 | 16 982 | 8.9 |
| 1986-87 | 2 195 | 9 855 | 8 833 | 20 883 | 10.5 |
| 1987-88 | 2 603 | 8 320 | 10 657 | 21 586 | 12.1 |
| 1988-89 | 3 264 | 9 116 | 13 395 | 25 775 | 12.7 |
| 1989-90 | 5 573 | 9 790 | 1 479 | 33 842 | 17.0 |
| 1990-91 (RE) | 3 693 | 8 857 | 20 459 | 33 009 | 11.2 |
| 1991-92 (BE) | 4 300 | 8 95 | 23 954 | 36 649 | 11.7 |

Source: GOI, *Expenditure Budget 1991-92*

TABLE 7 SECTORAL DISTRIBUTION OF PLAN OUTLAYS AT CENTRAL LEVEL 1990-91 AND 1991-92 (Rs crore)

| Sector | 1990-91 (RE) | 1991-92 (BE) | Increase in 1991-92 over 1990-91 (Per Cent) |
|--|--------------|--------------|---|
| 1 Agriculture and allied rural development, irrigation and flood control | 1078 | 1060 | 1.7 |
| 2 Social services | 1791 | 2918 | 62.9 |
| 3 Science and technology, environment and others | 1048 | 1234 | 17.7 |
| 4 Infrastructure | 29092 | 31437 | 8.1 |
| (i) Energy | 12101 | 13455 | 11.2 |
| (ii) Industry and minerals | 7081 | 7079 | 0.1 |
| (iii) Transport | 6872 | 7520 | 9.4 |
| (iv) Communications | 3038 | 3383 | 11.4 |
| | 33009 | 36649 | 11.0 |

Source: GOI, *Budget at a Glance and Expenditure Budget 1991-92*

while, at the same time, plan revenue expenditures, particularly on social services, have been allowed to increase.

The government's unwillingness and inability to reduce the revenue deficit, which is at the core of the fiscal deficit, is also brought out in Table 9 which compares the Ninth Finance Commission's (NFC) normative projections of the centre's revenue account in 1990-91 and 1991-92 with the estimates for these two years in the budget. In both years, the RDs will turn out to be much larger than the NFC's normative levels. With reference to the NFC's projection, the 1991-92 BE shows an improvement in tax revenues, a reduction in Finance Commission related transfers to states, and a small reduction in subsidies. These are offset by lower non tax revenues, much higher interest payments, and much higher plan revenue expenditures. In turn, the latter reflect poor returns to the budget from PSEs, continued high revenue deficits financed by borrowings in earlier years and an unwillingness to restrain mounting current outlays in the plan.

To complete the analysis, it must be pointed out that the so called 'contribution' of PSEs includes not only their internal resources supplemented by budget support but also a significant element of borrowings and other liabilities. The fiscal deficit of the centre and what corresponds to it in the case of PSEs should therefore, be viewed together. This is done in Table 10 for 1990-91 (RE) and 1991-92 (BE). It will show that the combined fiscal deficit of the centre and its enterprises will be 10.6 per cent in 1991-92 (BE) and that its reduction from 12.4 per cent in 1990-91 (RE) has been achieved mainly by reducing the centre's own borrowings. In good measure, PSEs continue to depend on borrowed resources, a dependence which can be reduced only if they begin to generate larger genuine internal resources.

CONCLUSION

The fiscal adjustment process charted out in the budget for 1991-92 is not adequate or consistent with growth and balance of payments equilibrium in the medium to long-term. The government has not, at least as yet, come to grips with tax evasion and avoidance in order to improve tax receipts. Growth in non-tax revenues continues to be sluggish given poor returns from PSEs. Even if the reductions in defence revenue expenditures and in the fertiliser subsidy and the improvement in customs duties hold good, as estimated, for 1991-92, continued mileage cannot be expected from these sources. The promised reduction in non plan revenue expenditures (other than defence, interest, and subsidies) is not plausible. Plan revenue expenditures, which have continued to run high during the Seventh Plan, have been given a further boost reflecting the post election populism of the ruling party to which the finance minister has yielded. Non

TABLE 8 PLAN FINANCING PATTERN, 1971-92
(As percentage of GDP)

| | 1971 76 ¹ | 1976 80 ¹ | 1980 85 ¹ | 1985 90 ² | 1990 91 ² RE | 1991 92 ¹ BE | Memo ¹ ITIP for 1985-90 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------------|-------------------------------|---|
| 1 Budget support for central plan ³ | 3.4 | 4.2 | 4.6 | 4.5 | 3.4 | 3.3 | 4.2 |
| 2 Contribution of PSEs | 0.8 | 1.1 | 2.1 | 3.3 | 4.0 | 4.1 | 3.6 |
| 3 Total | 4.2 | 5.3 | 6.7 | 7.8 | 7.4 | 7.4 | 7.8 |
| Financed by | | | | | | | |
| 1 Balance from current revenues ⁴ | 0.3 | 1.2 | 1.8 | 4.9 | 3.2 | 2.1 | 2.2 |
| 2 Market borrowings (net) | 0.8 | 1.5 | 2.1 | 1.8 | 1.6 | 1.3 | 1.6 |
| 3 Other capital receipts | 1.9 | 2.8 | 3.0 | 5.5 | 2.9 | 2.4 | 3.7 |
| 4 Budgetary deficit | 1.0 | 1.1 | 1.3 | 2.1 | 2.1 | 1.7 | 1.1 |
| 5 Contribution of PSEs | 0.8 | 1.1 | 2.1 | 3.3 | 4.0 | 4.1 | 3.6 |
| | 4.2 | 5.3 | 6.7 | 7.8 | 7.4 | 7.4 | 7.8 |

Note: 1 Based on old GDP series. 2 Based on new GDP series. 3 Includes grants and loans for central and centrally sponsored plan schemes. 4 Net of normal plan assistance to States and U.T.s. 5 Includes external capital inflows.

Source: GOI Budget documents for 1985 onwards and ITIP for earlier years.

TABLE 9 NFC'S NORMATIVE ESTIMATES AND BUDGET ESTIMATES 1990-91 AND 1991-92

(Rs crore)

| | NFC Estimates | 1990-91 RI | Worsening | NFC Estimates | 1991-92 BE | Worsening |
|--|------------------|---------------|-----------|------------------|---------------|-----------|
| 1 Revenue receipts | 73376 | 71979 | 1397 | 82168 | 83864 | 1696 |
| (i) Tax revenues (gross) | 57356 | 58916 | 1560 | 64670 | 68835 | 4165 |
| (ii) Non tax revenues | 16020 | 13063 | 2957 | 17498 | 15029 | 2469 |
| 2 Non plan revenue expenditures | 52323 | 58607 | 6284 | 57351 | 62893 | 5542 |
| (i) Interest payments | 19500 | 21850 | 2350 | 21840 | 27450 | 5610 |
| (ii) Major subsidies | 8069 | 9550 | 1481 | 8714 | 7824 | 890 |
| (iii) Others | 24754 | 27207 | 2453 | 26797 | 27619 | 822 |
| 3 Non plan revenue surplus (1-2) | 21053 | 13372 | 7681 | 24817 | 20971 | 3846 |
| 4 Transfers to states under NFC award* | 17030 | 16937 | 93 | 18837 | 17757 | 1080 |
| 5 Plan expenditure on revenue account | 12543 | 14020 | 1477 | 13850 | 17068 | 3218 |
| 6 Revenue deficit (3-4-5) | 8520 | 17585 | 9065 | 7870 | 13854 | 5984 |

Note: * tax shares railway tax grant Art 275 grants

Source: Report of the NFC 1989 Ann VII 3, p 84 for NFC estimates

TABLE 10 COMBINED DEFICITS OF CENTRE AND PSEs, 1990-91 AND 1991-92

(Rs crore)

| | 1990-91 RE | | | 1991-92 BE | | |
|--|-----------------|-----------------|------------------|-------------------|-----------------|------------------|
| | Budget | PSEs* | Total | Budget | PSEs* | Total |
| 1 Revenue Deficit (RD) | 17,585 (3.4) | — | 17,585 (3.4) | 13,854 (2.4) | — | 13,854 (2.4) |
| 2 Net capital disbursements (NC D) | 25,746 (5.0) | 20,459 (4.0) | 46,205 (9.0) | 23,873** (4.1) | 23,954 (4.1) | 47,827 (8.2) |
| 3 Borrowings and other liabilities (B) | 32,559 (6.3) | 9,738 (1.9) | 42,297 (8.2) | 30,008 (5.1) | 10,249 (1.8) | 40,257 (6.9) |
| 4 Budgetary deficit (BD) | 10,772 (2.1) | 10,721 (2.1) | 21,493 (4.2) | 7,719 (1.4) | 13,705 (2.3) | 21,424 (3.7) |
| 5 Borrowings and other liabilities | 32,559 (6.3) | 9,738 (1.9) | 42,297 (8.2) | 30,008 (5.1) | 10,249 (1.8) | 40,257 (6.9) |
| 6 Fiscal deficit (FD) | 43,331 (8.4) | 20,459 (4.0) | 63,790 (12.4) | 37,727 (6.5) | 23,954 (4.1) | 61,681 (10.6) |

Notes: Figures in brackets are percentages to GDP

* Net of PSE investment financed by budget support in the form of equity and loan in order to avoid double counting

** Net of capital receipts from sale of government equity in PSEs (Rs 2,500 crore) treated as negative budget support to enterprises

Source: GOI, Budget at a Glance, 1991-92, and Expenditure Budget, 1991-92

plan outlays (revenue and capital) and plan revenue expenditures could actually go up if allowance is made for unanticipated increases (e.g., defence, internal security, natural calamities) and for inevitable expenditures not fully provided for in the budget estimates (e.g., dearness allowance increases, impact on government expenditures of devaluation and of increases to administered prices). The promised contribution from PSEs cannot be taken for granted. No concrete measures have been outlined for improving efficiency and returns in central PSEs or in State Electricity Boards. As a result of all these factors, and given the need to contain the fiscal deficit to 6.5 per cent of GDP, incremental investment on infrastructure is likely to be seriously reduced in real terms in the coming year, retarding both growth and adjustment in the medium term. The *Economic Survey* urged a 'serious effort to introduce corrective measures

through hard decisions and difficult choices". The budget's response to this call, the ludging apart, is quite feeble.

Notes

1. The monetised deficit is the sum of the net increase in the RBI's holdings of treasury bills and its contribution to the market borrowings of the government. Reductions in the budgetary deficit and in borrowings are necessary to reduce the monetised deficit and thereby the growth in money supply just as they are required for reducing the fiscal deficit.
2. GDP in current market price is estimated at Rs 442 769 crore in 1989-90 in the *Economic Survey, 1990-91*. We have extrapolated it at Rs 515 845 crore on the basis of the official estimates for inflation and real growth for 1990-91. For 1991-92, an inflation rate of 9 per cent and a real growth of 4 per cent as predicted by the Finance Minister have been used to estimate GDP at Rs 52 905 crore.
3. Expenditure on the Jawahar Rozgar Yojana

scheme for rural employment, which was introduced in 1989-90, appear to have been treated in that year as a direct central outlay.

4. Curiously, the lump sum provision of Rs 250 crore under the ministry of finance in 1991-92 (BI)-for the 'new initiatives'-viz., corporation for the welfare of backward classes, National Renewal Fund for workers, care of children of families affected by communal riots, national integration scheme for youth, promotion of South-South co-operation and Rajiv Gandhi Foundation - has been shown as part of grants to states for central and centrally sponsored schemes (Vide 1991-92 Expenditure Budget Vol I Statement 16 at p 51). Hiding this needle in this particular haystack is a piece of cheating since the 'new initiatives' are not reliable either to the plan and/or to the states.

5. Budget support to PSEs via equity and loan has been included as part of capital expenditures in the budget and hence netted out of PSEs' total investment outlays.

6. See table 7.7 at p 110 of the *Economic Survey, 1990-91*.

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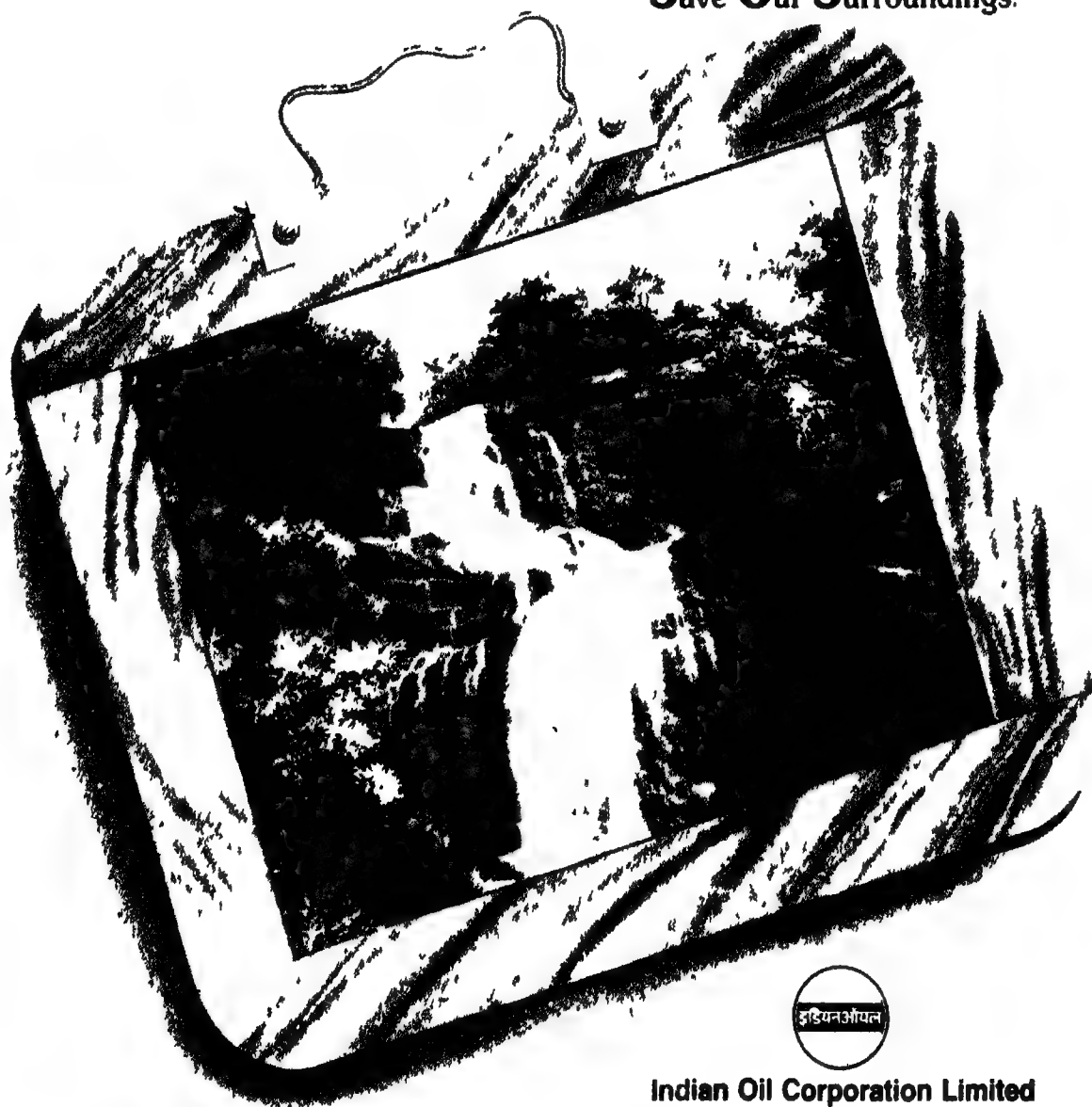
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Macro Imbalances, Stabilisation Programme and Union Budget

B B Bhattacharya

Given the overall economic background against which the 1991-92 budget has been framed, it was expected that the budget would carry forward the liberalisation programme in the area of fiscal policy. The budget proposals are, however, cautious in this regard.

THE union budget for 1991-92 has been presented against the background of a severe crisis in the Indian economy. At the time of the presentation of the budget, the foreign currency reserve had dwindled to just half a month's import. There was a run down of NRI deposits. The external debt/GDP ratio had climbed to 23 per cent¹ and despite two contingency loans from the IMF in July 1990 and January 1991 and desperate measures like selling and mortgaging gold abroad debt servicing had become an acute problem. International creditworthiness has hit the bottom. The domestic situation is equally precarious. Internal debt has risen to nearly 60 per cent of GDP. In 1990-91 the revenue deficit of the centre was 3.4 per cent of GDP, monetised deficit 3 per cent and gross fiscal deficit 8.4 per cent. Interest payment has become the largest item of expenditure in the centre's budget, accounting for as much as 28 per cent of non plan expenditure and 38 per cent of current revenue. The inflation rate has accelerated to double digit level.

Faced with this grim situation the newly installed government has announced its decision to negotiate a \$ 5.7 billion loan from the IMF under the structural adjustment programme. The origins of the problem, according to Manmohan Singh, minister of finance, are directly traceable to large and persistent macro economic imbalances and low productivity of investment (p. 2, Budget Speech). The solution, according to the government, lies in the liberalisation of the economy, in both the domestic and external sectors. As a first step, the rupee was depreciated by nearly 20 per cent in relation to foreign currencies. Following this a new trade policy has been announced deregulating imports. The new industrial policy announced thereafter delineates private investment in all but a few sectors, removes restrictions on MRTP investments and allows foreign equity participation up to 51 per cent in general and up to even 100 per cent in export oriented industries. There would be now automatic imports against exports and foreign equity capital. Interest rates have been partially deregulated by removing the ceiling on advance rates and there has been a general increase in the interest rates structure.

The overall economic philosophy of the new government appears to be an open economy, decontrol and deregulation of trade and industry, reduction in the size of the public sector and tight monetary policy.

These policies are consistent with the IMF's structural adjustment programme². The IMF also advocates cut in both monetised and gross fiscal deficit, lower defence expenditure, gradual abolition of subsidies, privatisation of public enterprises, lower tax rates, both direct and indirect, and lower size of public expenditure in relation to GDP.

BUDGET PROPOSALS

Given this background it was expected that the budget would carry forward the liberalisation programme in the area of fiscal policy. The actual budget proposals are, however, somewhat cautious in this regard. There is no announcement of privatisation of any public enterprise. There would however be disinvestment up to 20 per cent of equity capital in select public enterprises. Direct tax rates are not reduced, on the contrary there is an increase in the corporate tax rate. The provision for depreciation has been reduced from one third to one fourth for corporate taxation. Customs duty has been reduced moderately and not drastically as was expected after the exchange rate depreciation in early July. There may be two reasons why the budget is relatively more cautious than either the new trade policy or the industrial policy. First, there is an immediate problem of reducing the deficit, which is one of the pre conditions for an IMF structural adjustment loan. Second, the government may not be sure of carrying forward the full liberalisation programme politically. Besides some of the measures like privatisation, can be implemented in

dependently of the budget. The government may therefore like to first get the budget approved by the parliament before announcing a more radical liberalisation programme. The finance minister has announced in his budget speech that he would favour a cut in tax rates after the fiscal deficit has been brought within a reasonable limit.

The main thrust of the budget appears to be reduction in the fiscal deficit. The budget proposes to bring down the revenue deficit from 3.4 per cent in 1990-91 to 2.3 per cent in 1991-92, the monetised deficit from 3 per cent to 1.3 per cent and the gross fiscal deficit from 8.4 per cent to 6.3 per cent. The deficit is expected to be brought down through expenditure control and resource mobilisation. Plan expenditure has been frozen in real terms, 12 per cent rise in nominal value in 1991-92 budget estimate over revised estimate of 1990-91, against 10 per cent inflation rate in 1990-91.⁴ Central plan outlay in industry and minerals will decline by more than 10 per cent in real terms. On the other hand, plan outlay on agriculture and social services will increase in real terms by about 20 and 25 per cent, respectively. Plan outlay in energy, transport and communications would be more or less same as last year in real terms. This budget has therefore a distinct bias in favour of agriculture and social services vis-à-vis industry and infrastructure.

The budget proposes to cut non plan expenditure by about 6 per cent in real terms. Defence expenditure will also be cut by about 6 per cent in real terms. A major

TABLE I: SAVING-INVESTMENT GAP AND CURRENT ACCOUNT DEFICIT
(As per cent of GDP)

| Year | Public Sector | | | Private Sector | | | Current Account Deficit |
|---------|---------------|-------------|-----|----------------|-------------|-----|-------------------------|
| | Saving | Investment* | Gap | Saving | Investment* | Gap | |
| 1980-81 | 3.4 | 8.7 | 5.3 | 17.8 | 12.3 | 5.5 | -1.2 |
| 1981-82 | 4.5 | 10.5 | 6.0 | 16.5 | 14.5 | 2.0 | 1.5 |
| 1982-83 | 4.4 | 3 | 6.9 | 14.7 | 11.6 | 3.1 | -1.3 |
| 1983-84 | 3.4 | 9.8 | 6.5 | 15.5 | 10.9 | 4.6 | -1.1 |
| 1984-85 | 2.8 | 10.8 | 8.0 | 15.4 | 10.3 | 5.1 | 1.2 |
| 1985-86 | 3.2 | 11.1 | 7.9 | 16.5 | 12.9 | 3.6 | -2.3 |
| 1986-87 | 2.7 | 11.7 | 9.0 | 15.6 | 11.4 | 4.2 | -2.0 |
| 1987-88 | 2.2 | 10.4 | 8.2 | 18.2 | 12.2 | 6.0 | 1.9 |
| 1988-89 | 2.0 | 9.9 | 7.9 | 19.2 | 14.0 | 5.2 | 2.7 |
| 1989-90 | 1.7 | 10.7 | 9.0 | 19.9 | 12.9 | 7.0 | -2.3 |

Note: * Investment refers to gross domestic capital formation unadjusted for errors and omissions which vary between 0.0 per cent of GDP in 1988-89 and 2.5 per cent in 1981-82.

Source: Government of India, *Economic Survey*, 1990-91.

contribution of the budget is the cut in subsidy. Export and sugar subsidy are abolished. Fertiliser subsidy was initially cut by about Rs 1,600 crore. Subsequently, however, the fertiliser price increase has been brought down from 40 per cent to 30 per cent for large farmers and 20 per cent for small farmers. On the top of that the finance minister has assured a rise in procurement prices to compensate for the increase in fertiliser prices, which may lead to a higher food subsidy. The net effect of the fertiliser price rise on the government budget therefore may be much less than desired.

There are two broad measures of resource mobilisation: tax revenue worth about Rs 2,000 crore and disinvestment of equity holding in public sector enterprises worth Rs 2,500 crore. The major tax proposals in this budget are: (a) hike in corporate tax rate and lower provision of depreciation allowance for corporate taxation, (b) reintroduction of interest tax, (c) wider coverage of expenditure tax, (d) hike in special excise duty (some mass consumption goods exempted), (e) rise in excise on luxury consumer durables, (f) further extension of MODVAT, (g) decrease in *ad valorem* rates of customs and (h) reduction in auxiliary customs duty. All taken together, the direct tax proposals may yield Rs 2,139 crore, of which the centre's share is Rs 2,042 crore, and indirect tax proposals may lead to a net revenue loss of Rs 37 crore (net revenue loss from customs Rs 510 crore against net yield from excise Rs 988 crore, of which the centre's share is Rs 473 crore).

Other major features of this budget are: (a) provision of conversion of black money into white money through deposits in the National Housing Bank of which 40 per cent would be deducted as implicit tax, (b) exemption of gift tax on foreign currency remittance, (c) introduction of foreign exchange bonds, (d) increase in prices of oil products (except kerosene), and (e) tax exemptions on donations for social science research.

MACRO IMBALANCES

The IMF stabilisation programme has two key assumptions: (a) the current account deficit is the result of overvaluation of exchange rate and high fiscal deficit, and (b) inflation is a monetary phenomenon. Both the assumptions need careful scrutiny in the Indian context.

By definition

$$Y = PC + GC + PI + GI + E - X$$

$$Y = PC + PS + T$$

where Y is aggregate expenditure, PC and GC are private and government consumption respectively, PI and GI are private and government investment respectively, E is exports, X is imports, PS is private saving and T is tax revenue net of transfers.

Rearranging the terms we get another identity:

$$GI - GS = (PS - PI) + (X - E)$$

where GS is government saving ($T - GC$).

This identity shows that if government investment is more than government saving then there would be transfer of resources from either domestic private sector and/or external sector. If private saving equals private investment then overall fiscal deficit would be a direct function of net capital in

flow. However, if the fiscal deficit is zero, $GI = GS$, then it does not guarantee zero current account deficit, for if PI is more than PS also there would be a net capital inflow. Similarly, a balanced current account, $X = E$, does not automatically imply zero fiscal deficit.

TABLE 2 PUBLIC SECTOR SAVING

(Rs billion)

| Year | Public Saving | | | Government | | |
|---------|---------------|-------|---------|-----------------|-------------|------------------------|
| | Total | Govt | Pub Ent | Current Revenue | Consumption | Transfers ^b |
| 1980-81 | 46.5 | 9.5 | 37.0 | 215.5 | 130.8 | 75.2 |
| 1981-82 | 72.5 | 17.9 | 54.6 | 259.8 | 153.6 | 88.3 |
| 1982-83 | 78.2 | 5.5 | 72.7 | 299.3 | 182.7 | 111.1 |
| 1983-84 | 67.8 | 16.2 | 84.0 | 336.2 | 211.4 | 141.0 |
| 1984-85 | 65.3 | 34.4 | 99.7 | 396.7 | 243.5 | 187.6 |
| 1985-86 | 84.6 | 36.5 | 121.1 | 478.1 | 291.7 | 222.9 |
| 1986-87 | 79.8 | 59.8 | 139.6 | 556.0 | 346.3 | 269.5 |
| 1987-88 | 68.6 | 97.9 | 166.5 | 634.7 | 410.3 | 322.3 |
| 1988-89 | 77.4 | 131.7 | 209.1 | 734.0 | 472.0 | 393.7 |
| 1989-90 | 76.3 | 179.6 | 255.9 | 842.2 | 530.7 | 491.1 ^a |

Notes: a - Total public saving minus government saving.

b - Sum of interest on public debt, subsidies, current transfers and inter government accounting adjustment.

Sources: Central Statistical Organisation, *National Accounts Statistics, 1990 and Quick Estimates of National Income, Consumption, Saving and Capital Formation, 1989-90*.

TABLE 3 FOREIGN TRADE AND EXCHANGE RATE

| Year | Exports | Imports | Net Invisibles | Trade Balance | Current Account Balance | Rupee Dollar Exchange Rate |
|---------|----------------------|---------|----------------|---------------|-------------------------|----------------------------|
| | (As Per Cent of GDP) | | | | | |
| 1980-81 | 4.8 | 9.2 | 3.2 | 4.4 | 1.2 | 7.9 |
| 1981-82 | 4.9 | 8.7 | 2.4 | 3.8 | 1.5 | 9.0 |
| 1982-83 | 5.1 | 8.4 | 2.0 | 3.2 | 1.3 | 9.7 |
| 1983-84 | 4.9 | 7.7 | 1.1 | 2.8 | 1.1 | 10.3 |
| 1984-85 | 5.2 | 8.1 | 1.7 | 2.9 | 1.2 | 11.9 |
| 1985-86 | 4.4 | 8.1 | 1.4 | 3.7 | 2.3 | 12.2 |
| 1986-87 | 4.5 | 7.7 | 1.2 | 3.2 | 2.0 | 12.8 |
| 1987-88 | 4.9 | 7.7 | 0.9 | 2.8 | 1.9 | 13.0 |
| 1988-89 | 5.3 | 8.9 | 0.8 | 3.5 | 2.7 | 14.5 |
| 1989-90 | 6.4 | 9.3 | 0.6 | 2.9 | 2.3 | 16.6 |
| 1990-91 | 6.3 | 8.4 | | 2.1 | | 17.9 |

Source: Government of India, *Economic Survey, 1990-91*.

TABLE 4 MONEY OUTPUT AND PRICE (Percentage change)

| Year | GNP | Foodgrains Output | Money Supply | | Wholesale Price Index | | |
|---------|------|-------------------|----------------|----------------|-----------------------|------|------|
| | | | M ₁ | M ₂ | All Com | Agri | Mfg |
| 1982-83 | 2.6 | 2.9 | 14.3 | 11.1 | 4.9 | 7.3 | 3.5 |
| 1983-84 | 7.9 | 17.7 | 17.4 | 14.6 | 7.5 | 13.1 | 6.1 |
| 1984-85 | 3.8 | 4.5 | 18.2 | 18.3 | 6.5 | 6.4 | 7.0 |
| 1985-86 | 4.1 | 3.4 | 17.1 | 13.9 | 4.4 | 0.1 | 5.9 |
| 1986-87 | 3.6 | -4.7 | 17.5 | 14.7 | 5.8 | 10.6 | 3.9 |
| 1987-88 | 4.2 | 2.1 | 17.3 | 15.0 | 8.3 | 13.3 | 7.2 |
| 1988-89 | 10.6 | 21.0 | 17.1 | 14.5 | 7.5 | 5.6 | 9.5 |
| 1989-90 | 5.2 | 0.4 | 18.9 | 20.2 | 7.4 | 2.0 | 11.2 |
| 1990-91 | 5.0 | 3.9 | 15.1 | 15.4 | 10.3 | 13.7 | 8.4 |

Notes: (1) GNP at 1980-81 prices.

(2) Money supply, average of month-end figures, except for 1990-91 which are changes between March 1990 and 1991. Corresponding point-to-point growth rates for 1989-90 are 22.2 for M₁ and 19.4 for M₂.

(3) Wholesale price index average of weeks, base 1981-82.

Sources: Reserve Bank of India, *Report on Currency and Finance, 1986-87 and 1989-90*; Government of India, *Economic Survey, 1990-91*.

There is no uniform relationship between fiscal deficit and current account deficit in either developed or developing countries. In USA the current account deficit is a mirror reflection of the fiscal deficit. But in UK the current account has worsened in the 80s despite a significant improvement in the fiscal balance. In other developed and developing countries also there is no uniform relationship between fiscal and current account deficit.

Table 1 shows that there is no systematic relationship between the public sector saving-investment gap and the current account deficit in India. The public sector saving-investment gap has widened during the 80s more due to a fall in the public saving rate than a rise in the public investment rate. Private saving-investment gap has also widened, again more due to increase in private saving than a fall in private investment.

Table 2 shows that the public sector saving has declined basically due to increasing dissaving by general government. Further, general government dissaving has increased mainly due to a relatively faster growth of current transfers over government current revenue. Government consumption has increased almost at the same rate as government current revenue. Econometric results suggest that private propensity to save out of government transfers—interest on public debt, subsidy, etc.—is higher than out of other disposable income [Bhattacharya and Guha, 1990b]. A reduction in the fiscal deficit may therefore increase public saving partially at the expense of private saving.

The exchange rate of the rupee has depreciated continuously throughout the 80s. But so far it does not seem to have made any impact on either the trade balance or the current account deficit (see Table 3). Rupee has been depreciated by another 20 per cent in July 1991. The immediate impact of this is likely to be on the price level, which in turn may have an adverse effect on trade balance and fiscal balance. In this respect there appears to be an inconsistency between the objectives of trade policy of 1991 and the budget for 1991-92.

FISCAL DEFICIT AND INFLATION

The budget aims to control prices through restraint on the money supply growth rate. Money supply is, however, one of many factors that influence the price level in India. Differential growth of agricultural and non-agricultural output, administered price, procurement price, public distribution of foodgrains, wage rate, import price and exchange rate are other major determinants of inflation in India. Table 4 shows that there was no excessive growth of money supply (either M_1 or M_2) in 1990-91; in fact money supply growth rate in 1990-91 was lower than that in the last few years. And yet the inflation rate in 1990-91 was higher than in the past several years. The main reasons for this is the steep rise in procurement price and im-

port price and fall in exchange rate. In 1991-92 exchange rate has already depreciated by nearly 30 per cent (July 1991 over March 1991). Procurement prices have already been hiked for the 1991-92 kharif season by 5 to 15 per cent. Administered prices for petroleum products have been increased by 20 per cent. Railway tariff has also gone up by 10 per cent. There is likely to be a general cost push inflation with or without accommodating money supply.

The 1991-92 budget makes a bold attempt to reduce the fiscal deficit (see Table 5). If the budget succeeds then monetised deficit (RBI net credit to the government) and primary deficit (gross fiscal deficit less interest payments) in 1991-92 would be lower than in any year in the 80s. Budget deficit (government short-term borrowing and cash balance adjustment) and gross fiscal deficit would be in the range of that in the early 80s and the revenue deficit would be of the level of the mid-80s. In the past, however, there has been a big discrepancy between budget estimates and the actual deficit. In 1990-91 for instance the revised estimates of revenue deficit, budget deficit and monetised

deficit were nearly 50 per cent larger than the budget estimates. Primary deficit and gross fiscal deficit are also significantly higher than budget estimates. All this happened despite periodical monitoring of deficits by parliament.

When the general price level rises government current expenditure tends to increase faster than government current revenue. When this happens the government either slows down public investment and/or resorts to increasing deficit financing. The first would adversely affect growth and the second would increase the inflation rate. The annual inflation rate at present (first quarter of 1991-92) is about 11 per cent. Exchange rate depreciation (20 per cent), petroleum price rise (20 per cent) and railway tariff hike (10 per cent) together may accelerate the inflation rate in the coming months. If the procurement prices are increased further and issue prices of public distribution system are raised then the annual inflation rate in 1991-92 could be well above 15 per cent. If kharif output fails and money supply is adjusted to fill the gap between government revenue and expenditure then the inflation

TABLE 5. VARIOUS MEASURES OF DEFICIT IN CENTRAL BUDGET
(As per cent of GDP)

| Year | Revenue Deficit | Budget Deficit | Monetised Deficit | Gross Fiscal Deficit | Primary Deficit |
|--------------|-----------------|----------------|-------------------|----------------------|-----------------|
| 1980-81 | 0.6 | 1.8 | 2.6 | 6.2 | 4.2 |
| 1981-82 | 0.1 | 0.9 | 2.0 | 5.4 | 3.4 |
| 1982-83 | 0.7 | 0.9 | 1.9 | 6.0 | 3.8 |
| 1983-84 | 1.2 | 0.7 | 1.9 | 6.3 | 4.0 |
| 1984-85 | 1.8 | 1.6 | 2.6 | 7.5 | 4.9 |
| 1985-86 | 2.2 | 2.0 | 2.4 | 8.3 | 5.4 |
| 1986-87 | 2.8 | 2.8 | 2.4 | 9.0 | 5.8 |
| 1987-88 | 2.7 | 1.7 | 2.0 | 8.1 | 4.7 |
| 1988-89 | 2.7 | 1.4 | 1.6 | 7.8 | 4.2 |
| 1989-90 | 2.7 | 2.4 | 3.1 | 8.0 | 4.0 |
| 1990-91 (BE) | 2.5 | 1.4 | 1.7 | 7.1 | 3.1 |
| 1990-91 (RE) | 3.4 | 2.1 | 3.0 | 8.4 | 4.1 |
| 1991-92 (BE) | 2.3 | 1.3 | 1.3 | 6.3 | 1.7 |

Note: GDP at current market prices in 1991-92 is assumed to grow at 16 per cent (4 for growth and 12 for inflation) over 1990-91 which in turn is assumed to be 16.5 per cent more than 1989-90.

Sources: Government of India, *Economic Survey*, 1989-90 and 1990-91; Government of India, *Budget at a Glance*, 1991-92.

TABLE 6. MATURITY PATTERN AND INTEREST RATES ON GOVERNMENT SECURITIES

| Year | Maturity Pattern (Per Cent to Total) | | | Interest Rate (Per Cent Per Annum) | | |
|---------|---|------------------|--------------|---------------------------------------|------------------|--------------|
| | Under 5 Yrs | Between 5-10 Yrs | Above 10 Yrs | Between 1-5 Yrs | Between 5-15 Yrs | Above 15 Yrs |
| 1970-71 | 35.6 | 14.5 | 43.0 | 3.9-4.3 | 4.3-4.8 | 4.8-5.5 |
| 1975-76 | 16.3 | 22.6 | 57.5 | 5.2-6.0 | 5.5-6.0 | 6.1-6.5 |
| 1980-81 | 11.9 | 16.5 | 70.0 | 4.7-6.0 | 5.8-6.8 | 6.4-7.5 |
| 1983-84 | 12.4 | 14.2 | 72.4 | 4.5-7.1 | 5.7-9.0 | 6.5-10.0 |
| 1984-85 | 11.2 | 14.9 | 73.0 | 4.2-8.3 | 6.5-9.0 | 7.9-10.5 |
| 1985-86 | 10.2 | 15.5 | 73.6 | 5.4-9.8 | 6.5-9.5 | 8.4-11.5 |
| 1986-87 | 10.9 | 12.0 | 77.1 | 5.1-11.6 | 6.5-10.9 | 8.9-11.5 |
| 1987-88 | 9.8 | 9.8 | 80.4 | 6.9-15.8 | 6.5-11.7 | 9.2-11.5 |
| 1988-89 | 9.2 | 9.0 | 81.8 | 7.0-23.9 | 6.8-13.8 | 9.4-11.7 |
| 1989-90 | 11.0 | 6.0 | 83.0 | 7.6-18.4 | 9.4-11.7 | 10.0-11.8 |

Source: Reserve Bank of India, *Report on Currency and Finance*, 1986-87 and 1989-90.



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could be still higher. In the past a hard squeeze on the money supply growth rate has reduced inflation rate by lowering the output growth rate.⁷ If the government tries to maintain deficit targets (IMF loan may be linked to deficit targets) by restraining growth of public investment then it may result in stagflation. The critical question is which section of the society would bear the brunt of recession and inflation? A cost push inflation, particularly related to agricultural prices, would adversely affect the welfare of the poor. Since the degree of adjustment in the budget is very limited, this year, and perhaps next two years as well, may have high inflation and unemployment with a low output growth rate. To a significant extent the adverse impact may be mitigated through a rigorous check on the procurement price, which would require a strong political will. Any further depreciation of the exchange rate and upward revision of administered price may also be counter-productive.

DEBT AND INTEREST RATE POLICY

The government budget has an inherent dynamism: deficit in the current year leads to borrowing in the current year, this in turn increases interest on public debt in subsequent years, which in turn hikes deficit and borrowing. This chain causation is further strengthened if the interest rate is raised.

There was a general increase in the interest rates structure in the 80s in comparison to the 70s. Interest rates have been further raised in the recent months. Table 6 shows that there is a dramatic shift in the maturity pattern of government securities. Long-term securities with higher interest rates now account for more than 80 per cent of outstanding government securities as against 43 per cent in 1970-71. There has been also a gradual increase in the interest rates on government securities (Table 6). The average cost of borrowing by the government has increased from about 6 per cent in 1980-81 to more than 10 per cent in 1989-90 [Bhattacharya and Guha, 1990a]. The rate of return on public investment has however remained more or less the same at around 1-2 per cent. The gap between the cost of borrowing and rate of return has therefore widened further during the 80s. Furthermore, a significant proportion of government borrowing (40 per cent in 1990-91) is now utilised for revenue expenditure yielding no return. What was needed was therefore a decrease rather than increase in the interest rates structure.

It might be argued that a fall in interest rates may discourage household saving, increase money demand and encourage use of capital *vis-a-vis* labour in production. All the three arguments are perhaps exaggerated in the Indian context. First of all the interest elasticity of household saving [Bhattacharya, 1985; and Krishnamurthy and Saibaba, 1982] and money demand is not very high in India. Secondly, a hike in the interest rates struc-

ture has not encouraged use of labour *vis-a-vis* capital in the 80s. On the contrary, NSS data shows a deceleration of employment growth rate during the 80s.

Apart from improving the fiscal balance, a lower interest rates structure may promote private investment and reduce cost of production, especially of those units which depend heavily on borrowed capital. International evidence suggests that a high interest rates structure has an adverse effect on growth. Thus from both fiscal point of view and growth point of view the interest rates structure should be reduced rather than increased.

STRUCTURAL ADJUSTMENT

It is now more or less certain that the government will borrow from the IMF \$ 5-7 billion under the structural adjustment programme. The new exchange rate policy, trade policy and industrial policy and the union budget for 1991-92 are designed to satisfy the conditions of structural adjustment. The IMF structural adjustment programme so far has had a mixed record [World Bank, 1991]. There is a special difficulty in implementing it in a democracy.

The basic problem in the Indian economy today is low productivity and excessive borrowing. Productivity is low not only in public sector but also in many private sector units which are sheltered by protection and administered price policy. What is needed is a conscious attempt to improve productivity of both labour and capital in both public and private sectors. But is it necessary to do so only through imports and external borrowing? As it is, there is a great difficulty in servicing the existing external debt. If the structural adjustment programme increases import intensity then there may be even greater difficulty in generating a trade surplus and servicing external debt. The experience of liberalisation in the 80s in this respect is quite discouraging [Mani, 1991]. Much of the problem today is due to the excessive external borrowing in the 80s. If another \$ 5-7 billion is taken now then there is a great danger of getting caught in a debt trap. The union budget for 1991-92 has many positive features: curb on deficits, lower non-plan expenditure, cuts in defence expenditure and subsidy and increase in direct tax revenue. But it makes no attempt to curb imports and external borrowing which may have dangerous implications in the long run.

Notes

- 1 According to the government of India's *Economic Survey*, 1990-91 (p 169), total external debt, including NRI deposits, as on March 31, 1991 is Rs 1,20,000 crore, which is about 23 per cent of GDP of 1990-91. However according to the World Bank's *World Debt Tables* India's external debt is about \$ 67 billion, which at the current external debt is about \$ 67 billion, which at the current exchange rate (July 1991) works out to be 33 per cent of GDP.

- 2 Growth of internal debt and its implications are discussed in Bhattacharya and Guha (1990a).
- 3 The IMF structural adjustment programme and its success are evaluated critically by Taylor (1990).
- 4 Cost of investment generally rises faster than general price index. In real term, plan outlay therefore may be more or less same as last year.
- 5 For a survey of empirical works on inflation in India, see, Bhattacharya and Lodh (1990).
- 6 The forecasting efficiency of the budget is examined in Bhattacharya and Anita Kumari (1988).
- 7 This result is confirmed by counter-factual simulation with macro-econometric models by Bhattacharya (1984) and Krishnamurthy and Pandit (1985).

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The Budget and Its Relevance for 'Restructuring the Economy'

Arun Ghosh

The greatest failing of the budget for 1991-92 is that there is no progress towards decentralisation. Together with the danger that in the totality of the revenue and expenditure proposals, we may not succeed in achieving the macroeconomic balance that is urgently necessary, the budget—in association with other economic policies—may end up only imposing increased hardship on the common man, instead of restoring balance (and confidence) in the economy.

What we need most urgently today is to make a serious effort to equate domestic saving with domestic investment, for which we need a two-pronged thrust: (a) a more purposive attack on the 'dissaving' by government administration by raising more taxes and by improving the functioning of government enterprises; and (b) an attempt to increase the savings of the community by stimulating 'local area planning' through devolution of both authority and finances.

SO much has already been written about the budget and the other elements of the 'package' of economic policies that the reader is certain to find considerable repetition of points made earlier, even in the *EPW*. Nonetheless, a focus on the relevance of the budget for the 'restructuring' of the economy is necessary even at the cost of repetition. The question that needs to be asked is: what is the pattern of 'restructuring' that we are seeking, what sections of the population does it purport with a vision of peaceful growth of the diverse peoples of this country, are they consistent with the growth of a democratic polity?

The *Economic Survey*, which precedes the presentation of the budget, has of late been giving an increasingly fair indication of the problems faced by the economy. Take, as the starting point, the following statement which occurs in the *Economic Survey 1990-91*: "Macroeconomic imbalances characterised by high fiscal deficits and a growing revenue deficit have continued to remain a major source of concern for the government during the past few years" (emphasis added). This concern has been expressed in every *Economic Survey* presented over the past few years, but unfortunately the same concern has not been reflected in the fiscal management of the country by the central government.

Consider the following facts. The revenue deficit of the central government was 0.6 per cent of the GDP in 1980-81, and increased to 1.5 per cent of the GDP in 1984-85. By 1986-87 (during the Seventh Plan) this deficit had jumped to 2.7 per cent of the GDP, and continued at this high level all through the Seventh Plan period. In 1990-91, the revenue deficit of the centre had increased to a staggering 3.4 per cent of the GDP.

As per the National Accounts Statistics, gross domestic investment exceeded gross domestic saving by 2.8 per cent of the GDP in 1988-89, and by 2.4 per cent in 1989-90. The euphoria of a high growth rate of the GDP in the Seventh Plan period seems to have blinded us to the stark reality that no individual, no country can go on living

beyond its means for ever. One recalls in this context the howls of derision which greeted the announcement by the erstwhile Planning Commission under Ramakrishna Hegde that the Eighth Plan would be drawn up on the assumption of a GDP growth rate of 5.5 per cent per annum (even though the actual GDP growth rate achieved during the Seventh Plan has turned out to be 5.6 per cent).

Against the above background, it is unfortunate that in a television interview on the night of the budget, the finance minister should have blamed his two predecessors (Madhu Dandavate and Yashwant Sinha) for leaving the finances of the country in a mess. The crisis as stated by even the present governor of the Reserve Bank of India (reported in *The Economic Times* of May 8) has been in the making for about a decade.

While this point has been made earlier (in this column), it needs to be repeated that the crisis has really been accentuated since 1986 or thereabouts, following misconceived policies like virtual freedom for foreign collaboration associated with import liberalisation—leading to an import intensive pattern of industrialisation catering to the demand for elitist consumer goods and more particularly, the pursuit of grandiose, capital intensive schemes to the neglect of an employment oriented approach to development. Guided, in fact goaded, by the World Bank, we not only started borrowing heavily from abroad, we started relying primarily on short-term borrowings for our development programme—a fact glossed over in the *Economic Survey*. Consider the accompanying figures, taken from the *Reserve Bank Bulletin* for July 1991, which bring out our growing dependence on short term borrowings in recent years (Table 1). The *RBI Bulletin* gives no details (or explanation) of items that constitute 'other capital (net)'. It is possible that a large part of this inflow is made up of borrowings of less than one year maturity (obtained by institutions like the State Bank of India, on the assumption that these debts would

be rolled over). This, however, is only a conjecture.

It is to be noted that even excluding 'other capital (net)' and taking only commercial borrowings and non-resident deposits (which total Rs 3,123 crore in 1987-88, Rs 5,208 crore in 1988-89 and Rs 5,041 crore in 1989-90), short-term borrowings were 41.7 per cent of total capital inflow in 1987-88, 50.5 per cent in 1988-89, and 48.6 per cent in 1989-90. If 'other capital' is really made up of essentially short-term flows, the percentage of short-term borrowings in 1989-90 would be above 70.

The clue to the balance of payments crisis is, thus, neither the Gulf war nor sudden mismanagement of the economy. Even without the Gulf war, the country was heading for trouble; the Gulf war merely hastened the crisis. This point is being emphasised because a 'structural readjustment' is now obviously necessary, but the structure of the economy that we foresee as the answer to our problems has to take note of some of the basic maladies that have plagued our economy. The country really and truly needs a basic structural transformation, and not the type of pseudo-industrialisation that was pursued during the 80s.

It is particularly important to recall in this context that as per the National Sample Survey, over the period 1983 to 1987-88, overall employment growth was no more than 1.55 per cent per annum (when population was growing at more than 2.1 per cent). Indeed, employment in organised private industry recorded a decline between 1980-81 and 1988-89. Again, as per the National Sample Survey data on household consumption expenditure, analysed state by state by B S Minhas and L R Jain (of the Indian Statistical Institute) and S D Tendulkar (of the Delhi School of Economics), on an all-India basis, 45 per cent of the rural population was below the poverty line in 1987-88; and if 20 major states are taken into consideration, the percentage goes up to 49. Seven states (U P, Bihar, West Bengal, Maharashtra, Madhya Pradesh, Tamil Nadu and Orissa) accounted for 201 million poor

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in the rural areas. (For the urban areas, the percentage are 37 and 38 per cent, respectively.) (See B S Minhas, L R Jain and S D Tendulkar, 'Declining Incidence of Poverty in India: Evidence versus Artefacts', *EPW*, July 6-13, 1991, p 1673.) Most of the rural population below the poverty line in rain-fed areas and at the all-India level, some 100 million hectares out of the total cultivated area of 180 million hectares, stand 'degraded', with very low productivity of the land. Crises which appear to be the major concern of people in New Delhi do not affect this population except insofar as the fiscal crisis leads to cutbacks in programmes intended for this segment of the population, seeking to provide employment or minor irrigation, or the development of sericulture, handloom cloth production, etc. The 'structural adjustment' of the economy that we attempt has to be addressed not only to the crisis in the balance of payments but to the deepening longer-term crisis of increasing unemployment and low productivity of a large section of the population, primarily in the rural areas.

The crisis in India today is, at one level, an acute fiscal and balance of payments crisis; and at another level, growing unemployment, growing imbalance in regional growth, and increasing social tensions arising therefrom.

Perhaps it needs to be reiterated in this connection that both development programmes and stabilisation programmes can be rendered inoperable by growing social tensions which are essentially a reflection of the growing economic inequalities and imbalance in the country. The finance minister has acknowledged as much, and has prefaced his budget speech by calling it an attempt at 'adjustment with a human face'. After all, the central government budget remains the most potent instrument at the command of the authorities for tackling the problems facing the country. And yet, it is easy to forget that the 'adjustment process' must help, and not ignore the interests of the poor. We must remember this while reviewing the budget because, living in towns, we are all overly obsessed by the external transactions of the economy. We from the middle classes are not really concerned with the effect of our policies on the majority of the people. The media appear to be generally concerned with

the future of the little world of the educated elite, the upper middle classes living in the metropolitan areas, not even the small towns.

THE BUDGET

The budget for 1991-92 has to be examined from three angles. First, does it seek to restore overall balance (between aggregate supply and demand in the economy)? In this context, one has to look at the revenue deficit, the overall budget deficit, and the impact of the budget on private demand and supply. Does it create a problem on the balance of payments front? For there is no 1:1 relationship between the budgetary deficit and the balance of payments deficit, though the budgetary deficit can create balance of payments problems if it leads to aggregate demand in the economy to surpass aggregate supply. It would be unfortunate if the short-term solutions to the problem do not mesh into the medium-term policies that we need to adopt—in any case, the finance minister says that it will take a few years to restructure the economy—and the medium-term policies must mesh into the longer term strategy, which in turn must be based on the vision and perception we have of the process of growth of all the peoples of this country.

Secondly, the budget has to be analysed from the angle of the manner in which resources—via taxes—are raised. Is the pattern of resource raising equitable? What is likely to be the impact of the resource raising effort on prices? on savings generally? on the distribution of income and therefore the pattern of demand?

Finally, the budget has to be seen from the way expenditures are allocated. What is the extent of current consumption expenditure, of socially useful development expenditure, of capital formation in infrastructure facilities and other essential services? What is the redistributive effect, if any, of the budget? (This applies to both revenue raising and the pattern of expenditure.) What is the extent to which the criteria of economy and efficiency are applied to expenditures by the central government? In the last context, what is the extent of devolution of responsibilities (and of funds) for social development expenditures? For, it is a well known axiom in public finance that while revenue

collection is by and large best done centrally (so as to avoid irritants to commerce like the 'octroi' or entry or exit taxes), the delivery of social services is best organised in a decentralised manner, by the local authorities. One knows, for instance, that attendance by teachers in primary schools improved dramatically in Karnataka when the administration of primary education and primary health was handed over to the Mandal panchayats. One knows also that, as of today, different agencies and organisations of the central government are separately and independently attempting to reach down to the people, spread over more than five lakh villages and around a thousand urban areas (quite a few of them little better than overgrown villages with no urban facilities). The criterion of 'efficiency' requires in this context the 'convergence of services' by local authorities/agencies, so that services like health and sanitation, maternity and child care, and even primary education for very small children could be rendered by the same (local) agency, thereby increasing the efficiency of these services, and making such services more widely available (without any large increase in expenditure).

What, in brief, is the extent of devolution of funds from the centre, which is cardinal to the principle of decentralisation of services?

OVERALL BALANCE

One must accept that the budget—if all the budgeted numbers turn out to be correct—seeks to commence the process of restoring the balance between aggregate demand and supply in the economy, through a substantive reduction in both the revenue and the overall budgetary deficits. No one would recommend that from a level of 3.4 per cent of the GDP in 1990-91, the revenue deficit should be brought down to zero in one fell swoop. That would usher in an unprecedented deflation in the economy. The revenue deficit is to be brought down from Rs 17,585 crore in 1990-91 (Revised Estimates) to Rs 13,584 crore in 1991-92. That is a substantial decline, if it can really be managed. The GDP in 1989-90 was of the order of Rs 4,430 billion. Assuming an increase of 5 per cent in real terms and a price increase of 12 per cent over the year (as stated in the *Economic Survey*), the GDP in 1990-91 (at current prices) may be estimated at Rs 5,183 billion. (This figure is roughly confirmed by the estimate of the revenue deficit in 1990-91 being 3.4 per cent of the GDP, as per the *Economic Survey*.) The finance minister has stated that real income in 1991-92 would grow by 4 per cent and price increase limited to some 9 per cent. At this rate, the GDP at current prices would reach the figure of Rs 5,857 billion; and the projected revenue deficit of Rs 13,584 crore would come close to 2.4 per cent of the GDP in 1991-92.

The overall budgetary deficit which leads

TABLE 1. INDIA'S OVERALL BALANCE OF PAYMENTS

| | 1987-88 | 1988-89 | 1989-90 |
|--------------------------------|-----------|------------|------------|
| 1 Current account (net) | (-) 6,293 | (-) 10,410 | (-) 10,391 |
| 2 External assistance (net) | 2,928 | 3,210 | 3,054 |
| 3 Commercial borrowings (net)* | 1,283 | 2,743 | 2,866 |
| 4 Non-resident deposits (net) | 1,840 | 2,465 | 2,175 |
| 5 Other capital (net)** | 1,442 | 1,887 | 2,246 |
| 6 Total capital account | 7,493 | 10,305 | 10,341 |

Notes: * Commercial borrowings exclude refinancing borrowings and borrowings of less than one year.

** Presumably, borrowings of less than one year, among other items.

Source: *RBI Bulletin*, July 1991.

NEW INDUSTRIAL POLICY

SALIENT FEATURES

Gujarat has announced its new Industrial Policy, offering package of incentives to boost the industrial growth in the State. The new package offers Capital Investment Subsidy, Sales Tax benefits, incentives to Employment Oriented Industries, Pioneer Unit Incentive, Prestigious Unit Incentive and Special Incentive for setting up 100% Export Oriented Units. The new policy also offers special incentives to electronic industry.

The salient features of the new incentive package are as below.

- ★ Additional incentives to employment oriented industries
- ★ Special incentives for setting up 100 per cent Export Oriented Units
- ★ Incentive Scheme for prestigious units.
- ★ An attractive offer for the development of electronics industry
- ★ Incentives for rehabilitation of sick industrial units
- ★ As many as 140 out of 184 talukas are made eligible to avail benefits under Incentive Package
- ★ 8 Special backward areas are made eligible for incentives.
- ★ A number of measures announced for promotion of cottage, village and tiny sector industries
- ★ The tiny sector units have been separated from small scale industries and are offered incentives at higher rate.
- ★ The policy offers attractive schemes for the small, medium and large scale units
- ★ The definition of fixed assets liberalised
- ★ The pioneer unit incentive scheme made more attractive
- ★ Incentives offered for existing units undertaking expansion or diversification.

Industry Status for Tourism

The new Tourism Policy announced recently by the Chief Minister Shri Chimanbhai Patel giving tourism the status of an industry makes it eligible for certain concessions and reliefs in some taxes and financial assistance like that given to other industrial units.

The new Tourism policy, was made effective from January 1, 1991 to make it a new year gift.

The tourism industry has been divided into three categories—A, B and C—and different norms of incentives have been fixed for these categories. In category A there are 50 places of tourist and historical interest while category B is for wayside facilities on state and national highways.

The maximum relief has been provided in category C which has been reserved for the setting up of amusement parks, water sports including boating and ropeways. These facilities would be fully exempted from entertainment tax for the first six years.

The main purpose of this policy was to promote tourism in the State on the pattern of Haryana International airport at Ahmedabad would further promote tourist traffic to the State.

The concessions for hotels and motels would not remain restricted to the private sector only, but joint sector units, with the Gujarat State Tourism Corporation, would also be entitled for the benefits.

The State Government had decided to bear half of the tuition fees of the students taking up courses in hotel management.

Under the policy, a hotel or motel set up within 5 km. of the notified 50 places would get full exemption in sales tax on the food served, 40 per cent concession in electricity duty and 50 per cent exemption in luxury tax. All these incentives will be given for the first six years only.

In the second category of hotels and motels on the wayside, exemption in sales tax would be 50 per cent, in electricity duty 25 per cent and in luxury tax 25 per cent. These incentives would also be for the first six years. These facilities should be within 1.5 km. of the State and national highway.

A committee under the Chairmanship of the Secretary, Information, Broadcasting and Tourism Department has been set up to fix the qualifying norms of facilities for the motels and hotels so that they could avail of the concessions.

Government of Gujarat

to the creation of additional reserve money (through government borrowing from the Reserve Bank of India) leads to an increase in money supply directly, and thereby causes an inflationary impact on the economy when aggregate demand is already in excess of aggregate supply. This overall deficit is likely to be Rs 10,772 crore (or 2.1 per cent of the GDP) in 1991-92 as against Rs 7,719 crore (or 1.3 per cent of the GDP) in 1990-91, a really significant decline if it can be achieved. The new fangled concept of the 'fiscal deficit' is in a sense confusing because while government borrowing from the private sector withdraws part of private saving, government lending to the private sector (through public financial institutions) compensates for it and augments private savings available for investment. (See, in this context, I S Gulati, 'Reducing the Fiscal Deficit: Soft and Hard Options', *EPW*, July 20, 1991.) Even so, using this IMF favoured concept, the fiscal deficit (Rs 37,727 crore) works out to 6.4 per cent of the above projected figure of the GDP (though this deficit is stated by the finance minister to be 6.5 per cent). Again, on the assumptions made earlier, the decline in the fiscal deficit would be from 8.3 per cent of the estimated GDP of Rs 5,183 billion in 1990-91.

The precision of the above estimates cannot be pushed too far; they are based on certain assumptions regarding GDP growth and the anticipated price changes. On the face of it, the pace of slow down of the revenue and budgetary deficits would appear to be reasonable; but in fact, are they? Also, can the finance minister stick to these budgeted figures?

As has already been highlighted in *The Economic Times*, most of the expenditure estimates for 1991-92 are a repetition of the estimates presented in March 1991 by Yashwant Sinha for purposes of obtaining a 'vote on account' for four months. In fact, whether by oversight or in a hurry, Annexure 7 of Volume I of the Revenue Budget gives an estimate of the 'Strength of Establishment and provision therefor'. The estimate of staff strength remains unchanged from the March budget, namely, 42 lakhs in March 1992 as compared to 41 lakhs in March 1991. There is not only to be no retrenchment but addition to staff strength by 2.5 per cent over the year. How is this consistent with the promised reduction in revenue expenditure (other than interest payment) by 4.9 per cent over the year?

It is, of course, possible that in a hurry to cobble together the budget for 1991-92—so as to lose the minimum amount of time for raising tax revenues for the year—the finance minister did not have time to go through the detailed budget of each ministry/department. Nor is the finance minister expected to go through every detailed figure in the budget papers; and the increase in staff strength may not actually materialise. Nonetheless, it is curious that in the Revenue Budget, volume I, the proposed expenditure by broad categories re-

mains generally unchanged from the figures indicated in March by Yashwant Sinha. The most startling is the proposed expenditure in 1991-92 of the Ministry of External Affairs, which remains unchanged despite the devaluation of 20 per cent in the value of the rupee in July. How will our embassies and foreign missions function unless it is proposed to close down some of them? One is left wondering as to whether the budget estimates are realistic, and as to how, in fact, the finance minister proposes to bring down administrative expenditures in the revenue budget (other than on interest payments) by 4.9 per cent over 1990-91. In the absence of an indication of the game plan, particularly whether there is to be retrenchment of staff, or the impounding of dearness allowances—there is not even a mention that there would be a temporary halt on the use of the Leave Travel Concession—one would be forced to conclude that either there would occur considerable retrenchment (which is not being overtly admitted), or the revenue expenditure would not be contained to the budgeted figures. One cannot say that the staff needs of agencies like the CCIE and the DGTD would remain the same, after the sweeping changes introduced in the licensing/trade control regimes. But the matter does not appear to have been thought through. There is no clear programme for the redeployment of surplus staff. And the size of the council of ministers and the penchant of ministers to order alterations in their offices/residences does not set a good example for austerity or economy in respect of administrative expenditures.

In fact, there is some danger that even as we go on proliferating the number of ministries/departments of the central government—and increasing the number of senior bureaucrats—the axe will fall on the doubtless redundant staff in organisations like the CCIE/DGTD/Iron and Steel Control, without any plan to redeploy the personnel. But there is so much other work to be done. To take but one example, it is well known that of late, exporters are keeping back their foreign exchange earnings in expectation of further devaluation. One estimate places such delayed remittances at some \$ 2 billion (the amount we are seeking from the IMF today). The Reserve Bank of India gets a copy of the export documents from the customs, but there are millions of them stored away, because the RBI does not have the personnel to check whether remittances against such documents have been encashed. The large number of officers and staff in the organisations mentioned earlier could be deployed to take up this task of checking, under RBI supervision. But nobody is bothered, and jurisdictional prerogatives are unlikely to make this a possibility. The surplus staff would remain surplus; meanwhile, vital new tasks would not be undertaken.

It is this lack of clarity in regard to the precise manner in which the revenue deficit is to be brought down which causes deep

unease. Could we not have raised larger resources by way of direct taxes? Was another appeal to tax evaders to come clean necessary? Is it all that difficult to pinpoint people who are evading taxes, who reside mainly in big towns and cities? In metropolitan areas, at any rate, the tax evader has of late started flaunting his wealth unabashedly; it is not difficult to pinpoint quite a few of them.

The trouble is, some of the big tax evaders wield enormous political clout, and an income tax officer would be really afraid to nail them down in the present atmosphere of secret patronage, lack of openness in governance, and arbitrary, *ad hoc* promotions/demotions, even incarceration, of civil servants. We want to opt for a market oriented capitalist system without observing some of the ground rules of the capitalist system. (That we have never encouraged competition is part of this ethos.) In the US, a tax evader—no matter who he is—is sent to jail. A former vice president of the US, while he was still in office, was indicted for tax evasion, had to resign in ignominy and had to obtain a presidential pardon to avoid going to jail. Have we ever taken such a drastic step? Maybe our tax laws need an amendment. But the finance minister could have announced that he is introducing a bill which would empower the tax authorities to send any tax evader—even those who have held high office, for instance—to jail (with hard labour, and not as a class I prisoner). And a dozen prominent persons sent to jail would have sent the correct signals to those who evade taxes and yet openly flaunt their wealth. Maybe not every small tax evader would get caught, but two resolute actions—one, the actual purchase of urban property by the government at 10 per cent more than the officially declared price, a power which already exists; and secondly, conviction and jail terms for a few prominent persons for tax evasion—would have had salutary effects. A lot of evaded income taxes would have got paid, with penalty where due, and the salaried person would not have complained that he is among the few who have to pay the income tax. Furthermore, an incidental effect of such action would have been to render black money into an idle 'hoard' and, therefore, without an adverse impact on the economy, for all practical purposes. That would have stopped the spiral of price increase, and in that event, the deficit (as planned now) would not have led to any price increase. There would still have occurred some increase in prices because of devaluation (and costlier raw material imports), excise duties and higher administered prices. But it is possible that a simultaneous drive for greater efficiency and higher productivity may have helped to keep the price increase down significantly. In fact, people's response to appeals for austerity, for greater efficiency and productivity depends on the general atmosphere of austerity and efficiency. The example set by the leaders can make a lot of difference to

the functioning of the economy

Indeed, with the type of crisis that we are facing, why can the surcharge on the income tax not be raised? Why do we have to have a multiplicity of exemptions which make the effective rate of tax quite low for the affluent sections of the people?

And now, with the possibility of a partial failure of the monsoon, particularly in the northern states, there could arise distress in some of these states, the need for increased relief expenditure, and certainly an increase in food subsidy by extending the PDS to the rural poor (Punjab, Haryana and western UP are protected by irrigation, but not the other areas). The budget proposals may not be able to keep down price inflation below double digit figures during 1991-92. And the budget does *not* inspire confidence that it will either be able to hold down prices or even protect the employment and income of the masses of rural people who in any case face underemployment for most part of the year. We should have taken bold steps to augment revenues through direct taxation in this year of crisis.

One of the problems in attacking tax evasion is that many prominent persons may find it difficult to explain how they came to acquire assets well beyond their known sources of income—a criterion often applied selectively for some civil servants—and how they can afford the living style that one sees flaunted openly, publicly. Has any income tax officer ever queried the people who throw lavish wedding parties, with thousands of guests, in five-star hotels? Also, in the same context, there is now a widespread trend of personal expenditure being shown as business expenditure. Business entertainment is only one of them. There is need for stricter norms in regard to 'deductions' of business expenditure from income, for purposes of calculation of the taxable income.

Briefly, and to repeat, it would be a good thing if a large part of untaxed money is suddenly driven underground and becomes an idle hoard. There would doubtless be a reduction in some economic activity as a result, particularly in many urban areas. Equally, there would be less money available for speculative purchases of crucial items of common consumption by hoarders. For, given the will to do so, such hoards can also be unearthed, at least in urban areas.

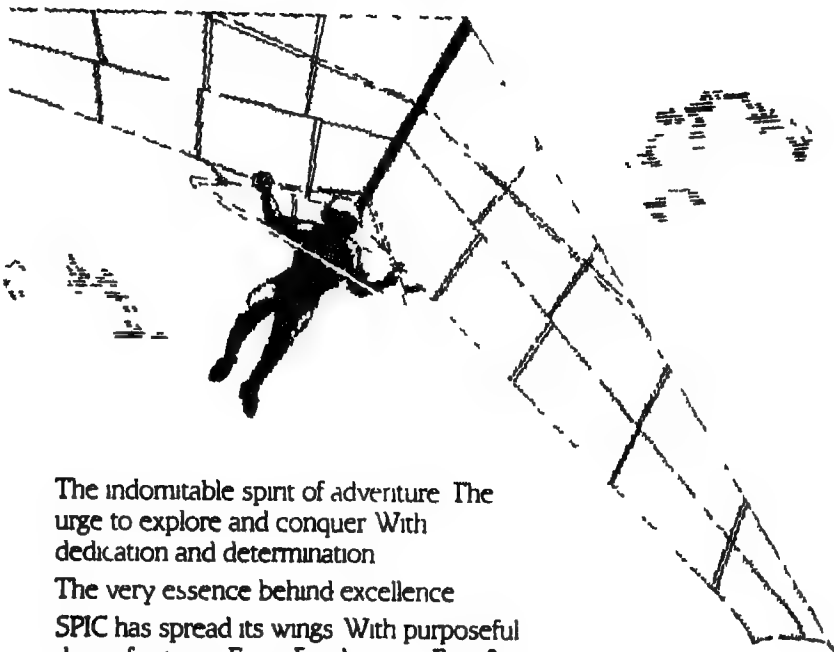
It is necessary perhaps to only mention the abject surrender, recently announced, in regard to the proposed hike in fertiliser prices. Only two points need to be made in this connection. First, the proposal to exempt small and marginal farmers from the price hike could lead to large-scale corruption in the distribution of fertilisers in the absence of democratic decentralisation and the system of distribution being entrusted to democratically elected people's representatives, and small and marginal farmers may not really get the benefit of the concession. Unfortunately, all political parties are guilty of pandering to the farm lobby in this con-

text. Moreover, the reduction in savings in the total subsidy appears to be grossly underestimated. Secondly, if we surrender on this front, can we hope to stem the losses of the state electricity boards through the virtually free supply of electricity to the lucky farmers served by power supply? How can we save the mounting losses on electricity and irrigation water supply? And if we cannot do so, how can we increase the resources available to the state governments?

Thus, the revenue deficit (as well as the overall budget deficit) could have been brought down further. In any case, we need more revenues to keep the revenue budget

deficits down to the levels planned, for the budget estimates of expenditure appear to be understated. Also, as we would note later, there is need for greater employment generation, particularly in the rainfed areas where the monsoon may play truant this year. We really need a massive employment guarantee programme even to achieve a structural transformation of the economy, for which we are supposedly 'adjusting'. But a discussion on this issue must wait, though it needs to be reiterated even at this stage that the combined effect of devaluation, failure of the monsoon, and a budgetary deficit which appears to be based on underestimation of

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'adjustment programme' which has been hastily put together without proper examination of the implications of many of the steps taken

REVENUE

We have already partly discussed the revenue side of the budget in the context of the overall budget balance. Perhaps the finance minister has also underestimated the revenue. To begin with, without taking credit for raising the corporate tax rate, the revenue from corporate taxes seems to have been understated. The revenue budget indicates the receipt from corporate taxes to be Rs 5,400 crore in 1991-92 against Rs 6,350 crore in 1990-91 (RE). This is inexplicable. Also underestimated is the collection from the removal of tax exemption of 'investment trusts', which was a neat ploy adopted by many big businessmen. Business circles estimate the tax collection from this source at Rs 400 crore, and not Rs 25 crore for which credit has been taken in the budget. The reason for these underestimates could be abundant caution, or the desire to show better performance than budgeted indicating greater vigilance. The fact remains that the budget must always give the best possible estimate of revenues and expenditure and this does not appear to be the case in the 1991-92 budget.

Unfortunately, while some 'exemptions' are being reduced/tightened, new types of exemptions are now being introduced. As it is, many of the private 'trusts' are now being used increasingly as private tax shelters. We now have a proposal for income tax concession "for financing schemes for meeting urgent needs of the people". Should the government not be meeting the urgent needs of the people? The government of India is afraid of even considering implementing the Right to Work—which implies essentially, the right to provide eight hours of physical labour at the minimum wage—and at the same time permits the proliferation of untaxed incomes, which has resulted in growing inequality in the distribution of income. The attack of international institutions (the IMF and the World Bank) is always on overt subsidies, some of them meant for the poor, e.g. the food subsidy. And our ruling elite is also inclined the same way, while ridiculing the notion of the employment guarantee scheme. As per calculations made by Sudipto Mundle and Govind Rao of the National Institute of Public Finance and Policy, in 1987-88, between the centre and 14 major states, total subsidies accounted for some 14 per cent of the GDP, of which overt subsidies on food, fertilisers and export promotion were but a small fraction (see, *EPW*, May 11, 1991).

The flat increase in excise duties on all items, following upon the hike of railway freight rates and passenger fares, is likely to impinge heavily on the poor. These measures would also contribute to inflation. The in-

crease in the price of petrol is likely to accentuate the tendency to displace passenger vehicles which would be bad for the economy because we are heavily deficit in diesel oil which is required to be imported in addition to crude oil. The increase in the excise duty on luxury consumption goods is really marginal. All in all, the revenue effort through taxation is not really much, and recourse to indirect taxes makes the tax structure even more regressive. Direct taxes account for no more than 10 per cent of total government receipts (including borrowing and deficit finance) whereas indirect taxes and non-tax revenue account for 53 per cent of government receipts. The reduction in the deficit of the government is really brought about by the sale of a part of the equity of profitable public sector enterprises, which ought to be treated as a capital receipt and not a revenue receipt. It reduces the fiscal deficit but not the revenue deficit. The sale of assets would reduce the future flow of income to the public sector.

There is therefore a clear case for an effort at larger resources raising through direct taxes.

EXPENDITURE

It is really the expenditure side of the budget which deserves careful attention because government expenditures, transfers and capital formation constitute a means of promoting both social welfare and social development. One has also to worry about the effectiveness and efficiency of government expenditure, and the solution to inefficiency is not the abandonment of the role of government but improving its efficiency and performance through effective monitoring and performance audit of all expenditures.

Consider in this context the pattern of government expenditure in 1990-91 (revised) and 1991-92 (budget), as summed up in Table 2. The savings effected by the finance minister are (a) Rs 435 crore by way of non-Plan loans to public enterprises, (b) Rs 400 crore of fertiliser subsidy, and (c) Rs 451 crore in various non-Plan outlays other than interest payment. The second of the above is now out, and one is not sure whether (a) and (c) would really materialise, but we have discussed the issue earlier. Incidentally, the fertiliser subsidy has been getting out of

TABLE 2 CENTRAL GOVERNMENT EXPENDITURE

(Rs crore)

| | 1990 91 (Revised) | 1991 92 (Budget) | Difference |
|---|----------------------|---------------------|------------|
| Non Plan | | | |
| 1 Interest payment | 21850 | 27450 | (+) 5600 |
| 2 Police | 1581 | 1758 | (+) 177 |
| 3 Defence | 15750 | 16150 | (+) 600 |
| 4 Postal deficit | 150 | 243 | (+) 93 |
| 5 Elections | 60 | 200 | (+) 140 |
| 6 Charges payable to IMF | 205 | 409 | (+) 204 |
| 7 Export promotion | 2700 | 1224 | (-) 1476 |
| 8 Non plan loans of public enterprises | 1067 | 632 | (-) 435 |
| 9 Write off of loans to states (as per NFC recommendations) | 966 | — | (-) 966 |
| 10 Gulf evacuation | 300 | — | (-) 300 |
| 11 Food subsidy | 2450 | 2600 | (+) 150 |
| 12 Fertiliser subsidy | 4400 | 4000 | (-) 400 |
| 13 Others | 25282 | 24831 | (-) 451 |
| Total Non Plan | 76761 | 79697 | (+) 2936 |
| 14 Central plan outlay | 17594 | 19015 | (+) 1411 |
| 15 Central assistance to state and UT plans | 12362 | 14710 | (+) 2348 |
| Grand total | 106717 | 113422 | (+) 6695 |

TABLE 3 CENTRAL ASSISTANCE TO STATES OTHER THAN STATUTORY AND OBLIGATORY TRANSFERS
(Rs crore)

| | 1990 91 (Revised) | 1991 92 (Budget) | Difference |
|--|----------------------|---------------------|------------|
| 1 Loans against small savings | 6770 | 6865 | 95 |
| 2 Block grants advance plan assistance | 3516 | 4271 | 755 |
| 3 Block loans/advance plan assistance | 5908 | 6874 | 966 |
| 4 Loans to rural electrification corporation | 115 | 125 | 10 |
| 5 Total | 16309 | 18135 | 1836 |
| 6 Less Recoveries of loans from states | (-) 3797 | (-) 3143 | |
| 7 Less Interest receipts from states | (-) 5577 | (-) 6790 | |
| 8 Total recoveries from states | (-) 9374 | (-) 9933 | |
| 9 Net assistance to states | 6935 | 8202 | 1267 |
| 10 Total central budgetary support to central plan | 17594 | 19015 | 1421 |

Source: Budget papers July 1991-92

hand because of the cost *plus* formula accepted by government; and the solution to the problem has been discussed at length in this column earlier. Incidentally, if the fertiliser price hike is reduced from 40 to 30 per cent, and if roughly one-third of the total supply of fertilisers is made available (to small and marginal farmers) without any price increase, the additional expenditure should be much higher than announced by the finance minister.

(*Postscript:* As of going to the press, we hear of the refusal of the states to implement the revised policy because they realise that the cost would be substantially more than the Rs 405 crore allowed by the finance minister.)

The real issues which nobody appears to be bothered about, however, are: (a) Why do we have to increase the budget for the police when all other administrative expenses are being cut? (b) Non-Plan loans to public sector enterprises (PSEs), are really a way of covering up their losses, and it would be good if this covert subsidy could be entirely eliminated. But this cannot be done suddenly, offhand, without careful restructuring of the public enterprises. Some other questions also arise in this context. In 1990-91, there was an allocation of Rs 22.50 crore (RE) for 'Implementation of Labour Rehabilitation Scheme' for which the provision in 1991-92 is zero. Is this wise? Particularly in the context of the steep reduction in the non-Plan loan to the Hindustan Steel Works Construction from Rs 36 crore to Rs 9 crore and of the DTC from Rs 120 crore to Rs 35 crore? The question arises as to whether such provisions are realistic. If the DTC is required to raise its fares, it will hit the common man, because public transportation is really used by the poorer sections of the population. Incidentally, there is genuine need to restructure the PSEs. Why does the government not come out with a White Paper on PSEs? Two drafts of such a White Paper exist, one prepared by the Rajiv Gandhi government, and the other, a revised paper prepared by the V P Singh government. The Industrial Policy Statement is not adequate in this context; and instead of mixing up the good, the indifferent and the bad PSEs and lumping them all together and issuing general statements about over-manning and inefficiency, we should segregate them. Many of them suffer from poor management, and the latter can be traced back to the exercise of authority (without responsibility) by both politicians and bureaucrats. The MOU is *not* an effective answer; and in any case, MOUs have been finalised only for a handful of enterprises. To this extent, the idea of selling part of the equity of PSEs to workers and private persons (with a ceiling on individual holding) is desirable *not* only for profit-making PSEs but *all* PSEs. (In the process, the equity of some may have to be sold at a discount, which would be a good thing in that the *capital of some PSEs needs to be written down*. This is perhaps the first

prerequisite to the functioning of the capitalist system.) In any case, what precisely is the game plan of the government in regard to the loss-making PSEs? (c) Thirdly, savings of Rs 1,266 crore (mainly in respect of write-off of loans to states which was a heavy expenditure item in the 1990-91 budget, arising from a recommendation of the Ninth Finance Commission in this behalf, as well as the unusual expenditure incurred for evacuation of Indians from the Gulf area) are fortuitous, and again highlight the inadequacy of the total effort made to reduce the overall budget deficit (in the context of the near bankruptcy in external payments), and therefore the inadequacy of the effort at direct taxation. (d) The budget makes no progress in the matter of decentralisation

and the devolution of funds, and therefore in the efficiency of public expenditure. Other than *statutory transfers* or those made as per the recommendations of the Ninth Finance Commission (or transfers such as to MP for Bhopal Gas tragedy victims), the total transfers to states, as well as 'recoveries' from states over 1990-91 and 1991-92 are briefly indicated in Table 3.

In a sense, the central loans to states against small savings should have been excluded from the figures of central assistance to states, but this item needs to be shown because 'recoveries' include recoveries of (and interest on) loans against small savings.

It would easily be seen that direct central assistance to states is considerably exceeded by budgetary allocations for the central plan.

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It may also be added that the budget papers seek to confuse the lay reader because different tables in volumes I and II of the Expenditure Budget give different figures of plan outlay and central assistance. This is because of the enormous central intervention today in fields of activity which, under the constitution, are clearly the responsibility of the states, but central schemes and centrally sponsored schemes predominate in these areas, and in a way compel the states to make 'matching' contributions for the centrally sponsored schemes. These allocations are shown as part of central assistance for state plans.

As is well known, much of the central outlay on such schemes is spent on the 'delivery' of the requisite services. The expenditure on central and centrally sponsored schemes increased from 5,165 crore in 1990-91 (revised estimate) to Rs 6,483 crore in 1991-92 (budget) for the states, excluding the union territories with legislatures (for which such outlays increased from Rs 86 crore to Rs 104 crore). Thus, the increase in the outlay on central and centrally sponsored schemes for the states increased by as much as Rs 1,318 crore over the year, more than the increase in the net assistance to the states—which, as seen earlier, increased by only Rs 1,267 crore over the year.

It is in the above context that one has to consider the efficiency of central government outlays, since, as stated earlier, the delivery of social services is best arranged at a decentralised level, and yet the budget for 1991-92 evinces greater centralisation rather than decentralisation.

RESTRUCTURING THE ECONOMY

The restructuring of the economy has to start with improving the productivity of the land, which calls for a massive programme for local area development. Restructuring would also call for increasing the *average* productivity of the workforce which would involve gainful employment for all those who are currently unemployed/underemployed. Both the above objectives can be combined by making provision for increased employment—through an employment guarantee scheme—of people for local 'watershed' area planning, which would involve a massive programme of land re-shaping, land levelling, tree planting, and diverse works to improve the moisture retention capacity of the soil in rainfed areas (or improved drainage of water in some other areas), together with small irrigation works, creation of a small weir or check dam here, a tubewell there, deepening ponds and lakes where possible, bunding and terracing the land where necessary.

In urban areas, there is again need for massive construction of urban facilities like sewage, roads, proper housing, removal/improvement of slums, provision of safe drinking water to all (in both urban and rural areas).

All these require massive inputs of labour. They cannot be directed centrally, nor even

from state headquarters. What is required is local area planning by village panchayats and urban municipalities, for which there is need for devolution of finances and assistance by way of support by technical people to the village panchayats, so that agrarian (and other) developments may be carried out scientifically. Such a programme would require (a) massive devolution of both authority and finances, and (b) the generation of a higher rate of saving within the economy.

The latter is easily possible, for people would be enthused to save provided they see such savings as a way of improving their own living standards. An easy way would be to give incentives by way of devolution of funds provided local savings are generated (e.g., by way of provision of labour for area development, which would increase the rate of domestic saving/capital formation). In other words, we go back to the Nurkseian concept of using idle labour to increase capital formation, through a massive works programme.

Such a programme would help to restructure the economy, but there is no hint of such a programme in the budget or in any of the other policies announced by the government. Such a programme can be implemented only by effective decentralisation and a genuine democratisation of the Indian polity.

Also, we need to really improve our infrastructure, if even the liberal industrial licensing system has to spark off new industrial activity and employment. We need better roads, a more efficient railway transport system, better, cheaper and a more plentiful power supply, cheaper availability of basic intermediates, all of which may call for significant investments (mainly by the public sector) as well as greater efficiency of all PSEs. The budget can address itself to the first of these problems and therein it is found to be wanting.

It is only in such a framework and with a new thrust that the debureaucratisation of the Indian polity, of the industrial and foreign trade regimes, can succeed.

There arises the question as to how the immediate foreign exchange crisis can be averted. This concerns the budget only to the extent that it can reduce the revenue as well

as the overall budget deficit (as distinct from the fiscal deficit). As seen earlier, the budget could and should have addressed this question through a frontal attack on tax evasion, and by the collection of more direct taxes.

Incidentally, though this matter does not concern the budget, in his budget speech, the finance minister announced two parallel schemes: (a) people with tax evaded funds can pay 40 per cent tax on any amount held by them and convert the rest into white money, with no further questions asked; and (b) anybody getting foreign exchange remittances as 'gifts' would be exempt from the gift tax and the income tax, and again, there would be no questions asked as to the source of the remittance.

With the *hawala* rate for the dollar openly quoted at between Rs 31 and 33 per dollar, a holder of large amounts of black money can buy foreign exchange at this rate, and bring it back as a 'gift' from a non-existent friend/relative. Thereby, he discounts his black money at anything between 20 and 30 per cent, and converts it into white money without paying any kind of tax.

Apart from the highly objectionable ethics of this process, the policy is also bad economics, sets a bad example, and reveals a state of panic in the policy makers. Has the government lost all authority?

To conclude, there is no progress towards decentralisation in the budget for 1991-92. That is its greatest failing. Together with the danger that in the totality of the revenue and expenditure proposals, we may not succeed in achieving the macroeconomic balance that is urgently necessary, the budget—in association with other economic policies—may end up only imposing increased hardship to the common man, instead of restoring balance (and confidence) in the economy. What we need most urgently today is to make a serious effort to equate domestic saving with domestic investment, for which we need a two-pronged thrust: (a) a more purposive attack on the 'dissaving' by government administration by raising more taxes and by improving the functioning of government enterprises; and (b) an attempt to increase the savings of the community by stimulating 'local area planning' through devolution of both authority and finances.

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Finances of Government of India

TABLE I BUDGETARY POSITION

| | 1991-92 | 1990-91 | 1990-91 | 1989-90 | 1988-89 | 1987-88 | 1986-87 | 1985-86 | 1984-85 | 1983-84 | 1982-83 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Budget | Revised | Budget | Actuals | Actuals | Actuals | Actuals | Actuals | Actuals | Actuals | Actuals |
| (Rs crore) | | | | | | | | | | | |
| I Revenue Account | | | | | | | | | | | |
| Receipts | 65524 | 57381 | 55144 | 52296 | 43591 | 37037 | 33083 | 28035 | 23466 | 19711 | 17036 |
| Expenditure | 81383 | 74966 | 71142 | 64208 | 54106 | 46174 | 40860 | 33924 | 27691 | 22251 | 18742 |
| Deficit | -15859 | 1785 | 15798 | -11912 | 10515 | 9137 | -7777 | -5889 | 4225 | -2540 | -1706 |
| II Capital Account | | | | | | | | | | | |
| Receipts | 38174 | 38564 | 30198 | 10018 | 29878 | 25408 | 21572 | 19315 | 16421 | 14406 | 10995 |
| Expenditure | 12039 | 31751 | 23565 | 28698 | 25005 | 22087 | 22056 | 18741 | 15941 | 13283 | 10945 |
| Deficit | +6135 | +6813 | +6633 | +1320 | +4873 | +3321 | -484 | +575 | +480 | +1123 | +50 |
| III Total | | | | | | | | | | | |
| Receipts | 103698 | 95945 | 85542 | 82314 | 73469 | 62445 | 54655 | 47350 | 39887 | 34117 | 28031 |
| Expenditure | 113422 | 106717 | 94707 | 92906 | 79111 | 68261 | 62916 | 52665 | 43632 | 35534 | 29687 |
| Overall Deficit* | -9724 | 10772 | 9165 | -10592 | -5642 | -5816 | -8261 | -5314 | -3745 | -1417 | 1656 |
| Total Expenditure as per cent of GDP (at current prices) | | | | | 20.2 | 20.5 | 21.4 | 20.1 | 18.9 | 17.2 | 16.7 |

Note * Excludes Rs 1743 crore in 1982-83, Rs 400 crore in 1983-84 and Rs 1628 crore in 1985-86 of loans to State Governments to clear their overdrafts with the Reserve Bank of India

TABLE 2: GOVERNMENT'S RECEIPTS

(Rs crore)

| | 1991-92 Budget | 1990-91 Revised | 1990-91 Budget | 1989-90 Actuals | 1988-89 Actuals | 1987-88 Actuals | 1986-87 Actuals | 1985-86 Actuals | 1984-85 Actuals | 1983-84 Actuals | 1982-83 Actuals |
|---|-------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| I Revenue Receipts | 65524 | 57381 | 55344 | 52296 | 43591 | 37037 | 33083 | 28035 | 23466 | 19711 | 17036 |
| (a) Gross tax revenue (1+2) | 66218 | 58916 | 57988 | 51636 | 44474 | 37666 | 32838 | 28670 | 23471 | 20722 | 17696 |
| (1) Taxes on income, property and capital transactions | 11668 | 12105 | 11152 | 9924 | 8783 | 6742 | 6236 | 5563 | 4627 | 4320 | 3873 |
| of which | | | | | | | | | | | |
| Corporation tax | 5400 | 6350 | 5289 | 4729 | 4407 | 3433 | 3160 | 2865 | 2556 | 2493 | 2185 |
| Taxes on income other than corporation tax | 6027 | 5560 | 5676 | 5004 | 4241 | 3192 | 2879 | 2511 | 1928 | 1699 | 1570 |
| Wealth tax | 240 | 190 | 175 | 179 | 122 | 101 | 174 | 153 | 108 | 93 | 90 |
| (2) Taxes on commodities and services | 54550 | 46811 | 46836 | 41712 | 35691 | 30924 | 26602 | 23107 | 18844 | 16402 | 13823 |
| of which | | | | | | | | | | | |
| Custom duties | 26410 | 20800 | 20625 | 18036 | 15805 | 13702 | 11475 | 9526 | 7041 | 5583 | 5119 |
| Excise duties | 26414 | 24500 | 24735 | 22406 | 18841 | 16426 | 14470 | 12956 | 11151 | 10222 | 8059 |
| (b) States' and UTs' share of tax revenue | 15723 | 14598 | 14481 | 13287 | 10723 | 9651 | 8519 | 7530 | 5820 | 5281 | 4679 |
| (A) Centre's net tax revenue (a-b) | 50495 | 44318 | 43507 | 38349 | 33751 | 28015 | 24319 | 21140 | 17651 | 15441 | 13017 |
| (B) Non tax revenue | 15029 | 13063 | 11837 | 13947 | 9840 | 9022 | 8764 | 6895 | 5815 | 4270 | 4019 |
| (1) Interest receipts | 11009 | 9573 | 9519 | 8466 | 6981 | 5755 | 5353 | 4595 | 3963 | 2668 | 2852 |
| (2) Dividends and profits | 967 | 779 | 721 | 715 | 475 | 605 | 507 | 515 | 407 | 451 | 419 |
| (3) Other non tax revenue | 3053 | 2711 | 1597 | 4766 | 2384 | 2662 | 2904 | 1785 | 1445 | 1151 | 748 |
| II Capital Receipts | | | | | | | | | | | |
| (A+B+C+D+E+F+G) | 38174 | 38564 | 30198 | 30018 | 29878 | 25108 | 21572 | 19315 | 16421 | 14406 | 10995 |
| (A) Market borrowings | | | | | | | | | | | |
| (net) (a b) | 7500 | 8000 | 8000 | 7404 | 8418 | 5862 | 5532 | 4884 | 4095 | 4038 | 3771 |
| (a) Gross | 8918 | 8988 | 8988 | 8044 | 8894 | 6684 | 6570 | 5543 | 4583 | 4382 | 4137 |
| (b) Repayments | 1418 | 988 | 988 | 640 | 476 | 822 | 1038 | 659 | 488 | 344 | 366 |
| (B) External borrowings | | | | | | | | | | | |
| (net) (a b) | 3510 | 3984 | 4327 | 2595 | 2460 | 2893 | 2024 | 1449 | 1452 | 1338 | 1656 |
| (a) Gross | 6915 | 6241 | 6449 | 4443 | 4016 | 4069 | 3040 | 2145 | 2003 | 1892 | 2190 |
| (b) Repayments | 3405 | 2257 | 2122 | 1848 | 1556 | 1176 | 1016 | 696 | 551 | 554 | 534 |
| (C) Recovery of loans (net) | 5666 | 6005 | 4576 | 4980 | 4597 | 4180 | 3491 | 2773 | 2750 | 2793 | 2730 |
| (D) Small savings (centre's share) (a b) | 1135 | 1230 | 500 | 2833 | 1630 | 814 | 611 | 1466 | 1781 | 1137 | 619 |
| (a) Total net collections | 8000 | 8000 | 5000 | 8575 | 5835 | 3911 | 3411 | 4369 | 3716 | 2536 | 1723 |
| (b) Loans to state | 6865 | 6770 | 4500 | 5742 | 4205 | 3097 | 2800 | 2903 | 1935 | 1399 | 1104 |
| (E) Net provident fund | 1300 | 1200 | 1580 | 1115 | 961 | 893 | 767 | 419 | 364 | 228 | 525 |
| (F) Special deposits | 7763 | 8004 | 7272 | 7970 | 6151 | 4381 | 3913 | 1001 | 1315 | 1021 | 838 |
| (G) Other items of capital receipts (net) | 4435* | 3371 | 3943 | 2621 | 1456 | 3288 | 2434 | 4420 | 2729 | 2452 | 856 |
| III Total Receipts (I+II) | 103698 | 95945 | 85542 | 82314 | 73469 | 62445 | 54655 | 47350 | 39887 | 34117 | 28031 |
| IV Central Government's Debt | | | | | | | | | | | |
| (a+b) | 206711 | 183183 | 182888 | 161536 | 140244 | 121869 | 106612 | 89192 | 75174 | 65183 | 60621 |
| (a) Internal debt | 171589 | 151352 | 151037 | 133193 | 114498 | 98646 | 86313 | 71039 | 58537 | 50263 | 46939 |
| (b) External debt | 35122 | 31831 | 31851 | 28343 | 25746 | 23223 | 20299 | 18153 | 16637 | 15120 | 13682 |
| Ratios (percentages) | | | | | | | | | | | |
| (1) Centre's tax revenue to total revenue | 77.1 | 77.2 | 78.6 | 73.3 | 77.4 | 75.6 | 73.5 | 75.4 | 75.2 | 78.3 | 76.4 |
| (2) Taxes on income, property and capital to gross tax revenue | 17.8 | 21.1 | 19.2 | 19.0 | 20.1 | 18.2 | 18.8 | 19.8 | 19.7 | 21.9 | 21.9 |
| (3) Taxes on income, property and capital to GDP at market prices | | | | | 2.2 | 2.0 | 2.1 | 2.1 | 2.0 | 2.1 | 2.2 |
| (4) Taxes on commodities and services to GDP at market prices | | | | | 9.1 | 9.3 | 9.1 | 8.8 | 8.2 | 7.9 | 7.8 |
| (5) Central government's debt to GDP at market prices | | | | | 35.9 | 36.7 | 36.3 | 34.0 | 32.6 | 31.6 | 34.1 |
| (i) External debt | | | | | 29.3 | 29.7 | 29.4 | 27.1 | 25.4 | 24.3 | 26.4 |
| (ii) Internal debt | | | | | 6.6 | 7.0 | 6.9 | 6.9 | 7.2 | 7.3 | 7.7 |

* Includes Rs 2500 of disinvestment of equity holding in Public Sector Enterprise.

TABLE 3: GOVERNMENT'S EXPENDITURE

(Rs crore)

| | 1991-92 Budget | 1990-91 Revised | 1990-91 Budget | 1989-90 Actuals | 1988-89 Actuals | 1987-88 Actuals | 1986-87 Actuals | 1985-86 Actuals | 1984-85 Actuals | 1983-84 Actuals | 1982-83 Actuals |
|---|-------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| I Non-Plan Expenditure | 79697 | 76761 | 64514 | 64505 | 52960 | 44052 | 39920 | 32811 | 27026 | 21496 | 17774 |
| (A) Interest payments | 27450 | 21850 | 20850 | 17735 | 14278 | 11251 | 9246 | 7512 | 5974 | 4795 | 3938 |
| (B) Defence | 16350 | 15750 | 15750 | 14416 | 13341 | 11968 | 10477 | 7988 | 7061 | 5831 | 5021 |
| (C) Subsidies | 10395* | 12121 | 10624 | 10677 | 7732 | 5980 | 5451 | 4796 | 4038 | 2749 | 2262 |
| (1) Food | 2600 | 2450 | 2200 | 2476 | 2200 | 2000 | 2000 | 1650 | 1101 | 835 | 711 |
| (2) Fertilisers | 4000 | 4400 | 4000 | 4601 | 3201 | 2164 | 1898 | 1924 | 1928 | 1042 | 603 |
| (3) Export promotions | 1224 | 2700 | 2316 | 2089 | 1386 | 962 | 785 | 603 | 518 | 463 | 477 |
| (4) Other subsidies | 1071 | 1071 | 2108 | 1511 | 945 | 854 | 768 | 619 | 491 | 409 | 471 |
| (D) General services | 6629 | 7186 | 5641 | 5283 | 4979 | 4388 | 3633 | 3030 | 2051 | 2017 | 1680 |
| of which | | | | | | | | | | | |
| Police | 1758 | 1581 | 1394 | 1298 | 1132 | 980 | 819 | 631 | 520 | 429 | 363 |
| (E) Social services | 2046 | 1855 | 1891 | 1340 | 1293 | 1309 | 1206 | 877 | 669 | 547 | 412 |
| (1) Education | 758 | 720 | 664 | 536 | 474 | 608 | 499 | 328 | 242 | 223 | 209 |
| (2) Health and family welfare | 261 | 239 | 242 | 159 | 140 | 163 | 145 | 117 | 91 | 79 | 71 |
| (3) Labour and employment | 319 | 267 | 271 | 251 | 231 | 163 | 232 | 166 | 159 | 93 | 76 |
| (4) Information and broadcasting | 345 | 301 | 310 | 221 | 150 | 164 | 125 | 99 | 53 | 18 | 24 |
| (5) Other social services | 363 | 328 | 404 | 173 | 298 | 211 | 205 | 167 | 124 | 134 | 32 |
| (F) Economic services | 2618 | 2640 | 2777 | 2792 | 1944 | 1894 | 1437 | 1361 | 1406 | 1034 | 1010 |
| (1) Agriculture and allied services | 391 | 404 | 427 | 381 | 261 | 243 | 164 | 243 | 265 | 177 | 21 |
| (2) Energy, industry and minerals | 821 | 959 | 748 | 1096 | 672 | 805 | 469 | 381 | 748 | 423 | 177 |
| (3) Transport and communications | 302 | 280 | 287 | 277 | 232 | 207 | 183 | 150 | 6 | 42 | 202 |
| (4) Science, technology and environment | 623 | 554 | 567 | 574 | 427 | 376 | 343 | 297 | 237 | 203 | 197 |
| (5) Postal deficit | 243 | 150 | 492 | 260 | 170 | 191 | 215 | 162 | 124 | 73 | 79 |
| (6) Other economic services | 481 | 443 | 256 | 464 | 352 | 263 | 278 | 290 | 150 | 189 | 334 |
| (G) Expenditure on union territories without legislature | 985 | 953 | 922 | 1098 | 725 | 437 | 556 | 413 | 321 | 284 | 253 |
| (H) Grants to states and union territories | 2613 | 2930 | 2986 | 2167 | 2186 | 1789 | 1714 | 1786 | 1027 | 879 | 824 |
| (I) Other grants | 181 | 222 | 190 | 123 | 124 | 139 | 114 | 81 | 89 | 90 | 78 |
| (J) Loans and advances to state and union territories | 6934 | 7356 | 56 | 5793 | 4293 | 3134 | 3722 | 4206 | 3272 | 1976 | 87 |
| (K) Other loans | 2077 | 2521 | 1645 | 1722 | 1107 | 905 | 1769 | 217 | 141 | 778 | 1964 |
| (L) Non-plan capital expenditure | 1176 | 1227 | 1182 | 1099 | 788 | 667 | 380 | 382 | 853 | 443 | 245 |
| II Plan Outlay | 33725 | 29956 | 30192 | 28401 | 26151 | 24209 | 22996 | 19854 | 16606 | 14038 | 11913 |
| (A) Budget support for central plan | 19015 | 17594 | 17344 | 18159 | 16333 | 14458 | 15001 | 12791 | 11517 | 9220 | 7456 |
| (1) Economic services | 14517 | 14108 | 13721 | 14852 | 13073 | 11756 | 12809 | 10932 | 9784 | 7805 | 6424 |
| (a) Agriculture and allied services | 1813 | 1358 | 1546 | 1330 | 1275 | 1111 | 1375 | 1302 | 1086 | 1117 | 933 |
| (b) Rural development | 2702 | 2532 | 2664 | 2637 | 1753 | 1844 | 1360 | 706 | 729 | 383 | 244 |
| (c) Irrigation and flood controls | 267 | 186 | 224 | 191 | 209 | 158 | 114 | 58 | 74 | 47 | 54 |
| (d) Industry and minerals | 2412 | 2789 | 4438 | 2828 | 2846 | 3018 | 5074 | 4485 | 3918 | 3452 | 2439 |
| (e) Energy | 3083 | 3707 | 2146 | 4140 | 3575 | 2916 | 1566 | 1789 | 1514 | 995 | 1171 |
| (f) Transport | 2563 | 2313 | 2272 | 2419 | 2411 | 2015 | 2088 | 1602 | 1381 | 1144 | 1081 |
| (g) Communications | 92 | 111 | -34 | 285 | 194 | 151 | 616 | 472 | 451 | 358 | 277 |
| (h) Science, technology and environment | 961 | 749 | 102 | 636 | 660 | 499 | 477 | 445 | 404 | 245 | 94 |
| (i) General economic services | 624 | 363 | 363 | 386 | 150 | 44 | 139 | 73 | 227 | 64 | 131 |
| (2) Social services | 4473 | 1463 | 1605 | 3254 | 3202 | 2633 | 2134 | 1801 | 1593 | 1363 | 1012 |
| (a) Education, arts and culture | 1127 | 952 | 1001 | 902 | 1063 | 645 | 398 | 297 | 212 | 153 | 192 |
| (b) Health and family welfare | 1051 | 1040 | 950 | 864 | 872 | 750 | 728 | 690 | 637 | 552 | 211 |
| (c) Water supply, sanitation, housing and urban development | 1003 | 558 | 591 | 514 | 456 | 287 | 382 | 381 | 319 | 310 | 117 |
| (d) Information and broadcasting | 305 | 179 | 271 | 284 | 225 | 198 | 232 | 106 | 101 | 65 | 33 |
| (e) Welfare of SC/ST and other backward classes | 414 | 321 | 120 | 339 | 299 | 234 | 218 | 203 | 206 | 183 | 149 |
| (f) Labour and labour welfare | 95 | 49 | 85 | 30 | 20 | 15 | 15 | 10 | 12 | 7 | 298 |
| (g) Social welfare and nutrition | 478 | 364 | 387 | 321 | 267 | 504 | 161 | 114 | 106 | 93 | 0 |
| (h) Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 12 |
| (3) General services | 25 | 23 | 18 | 53 | 58 | 69 | 58 | 58 | 140 | 52 | 20 |
| (B) Central assistance for state plans | 13428 | 11354 | 11778 | 9394 | 9082 | 8923 | 7079 | 6383 | 4554 | 4356 | 4043 |
| (C) Central assistance for union territory plans | 1282 | 1008 | 1070 | 848 | 736 | 828 | 916 | 680 | 535 | 462 | 414 |
| III Total Expenditure | 113422 | 106717 | 94706 | 92906 | 79111 | 68261 | 62916 | 52665 | 43632 | 35534 | 29687 |
| Defence expenditure as per cent of total expenditure | 14.4 | 14.8 | 16.6 | 15.5 | 16.9 | 17.5 | 16.7 | 15.2 | 16.2 | 16.4 | 16.9 |
| Plan outlay as per cent of total expenditure | 29.7 | 28.1 | 31.9 | 30.6 | 33.1 | 35.5 | 36.5 | 37.7 | 38.1 | 39.5 | 40.1 |

* Includes debt relief to farmers Rs 1500

TABLE 4: REVENUE FROM CUSTOM DUTIES

(Rs crore)

| | 1991-92 Budget | 1990-91 Revised | 1990-91 Budget | 1989-90 Actuals | 1988-89 Actuals | 1987-88 Actuals | 1986-87 Actuals | 1985-86 Actuals | 1984-85 Actuals | 1983-84 Actuals | 1982-83 Actuals |
|--|-------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Gross Customs Duties | 27357 | 21562 | 22089 | 18562 | 16234 | 14039 | 11771 | 9785 | 7235 | 5760 | 5239 |
| Refunds and dutydrawbacks | 948 | 762 | 629 | 654 | 479 | 424 | 300 | 267 | 241 | 191 | 194 |
| Net customs duties | 26410 | 20800 | 21460 | 17900 | 15755 | 13635 | 11471 | 9518 | 6994 | 5569 | 5045 |
| (1) Import duties | 27015 | 21323 | 21838 | 18326 | 16019 | 13825 | 11507 | 9572 | 7071 | 5617 | 5119 |
| | (26071) | (20563) | (21213) | (17675) | (15546) | (13405) | (11209) | (9309) | (6834) | (5428) | (4930) |
| <i>of which</i> | | | | | | | | | | | |
| Fruits | 128 | 97 | 70 | 80 | 77 | 63 | 67 | 48 | 45 | 51 | 49 |
| Animal or vegetable fats and oils, etc | 582 | 520 | 431 | 249 | 626 | 619 | 271 | 92 | 74 | 49 | 35 |
| Mineral substances | 285 | 210 | 171 | 153 | 120 | 90 | 76 | 58 | 59 | 86 | 60 |
| Petroleum oils and oils obtained from bituminous minerals, crude | 3390 | 3150 | 2710 | 2149 | 1917 | 1862 | 857 | 755 | 138 | 25 | 17 |
| Other mineral fuels, oils, waxes, etc | 472 | 350 | 161 | 165 | 160 | 84 | 56 | 37 | 66 | 25 | 24 |
| Chemicals and pharmaceuticals | 2260 | 1874 | 1919 | 1613 | 1408 | 995 | 933 | 1013 | 790 | 541 | 428 |
| Dyes, colours, paints and varnishes | 227 | 180 | 151 | 131 | 100 | 91 | 99 | 59 | 53 | 48 | 33 |
| Plastic and articles thereof | 1805 | 1400 | 1229 | 997 | 869 | 703 | 597 | 475 | 306 | 231 | 226 |
| Manmade filaments and fibres | 530 | 431 | 394 | 328 | 219 | 198 | 276 | 291 | 179 | 246 | 391 |
| Iron and steel, etc | 2807 | 2180 | 2212 | 1926 | 1662 | 1203 | 844 | 1012 | 784 | 544 | 574 |
| Copper | 664 | 525 | 572 | 439 | 431 | 401 | 238 | 315 | 194 | 205 | 169 |
| Machinery, machinetools, electrical machinery | 5193 | 3805 | 3565 | 3584 | 2689 | 1946 | 2063 | 2134 | 2962 | 1729 | 1498 |
| Motor vehicles and parts thereof | 466 | 340 | 379 | 297 | 265 | 235 | 253 | 190 | 141 | 109 | 104 |
| Instruments (optical, surgical, etc.) | 489 | 360 | 322 | 317 | 193 | 175 | 212 | 171 | 133 | 109 | 107 |
| Projects imports | 1747 | 1325 | 1520 | 960 | 1154 | 1710 | 1306 | — | — | — | — |
| (2) Export duties | Neg | 1 | 6 | 6 | 26 | 49 | 83 | 70 | 70 | 70 | 57 |
| | (0) | (1) | (6) | (5) | (23) | (47) | (82) | (68) | (67) | (69) | (56) |
| (3) Cesses on exports | 46 | 34 | 40 | 32 | 30 | 25 | 17 | 15 | 14 | 13 | 13 |
| | (45) | (33) | (39) | (31) | (30) | (24) | (17) | (15) | (14) | (12) | (11) |
| <i>of which</i> | | | | | | | | | | | |
| Coffee | 3 | 2 | 3 | 3 | 3 | 1 | 1 | 1 | 1 | 1 | 1 |
| Tobacco (unmanufactured) | 2 | 1 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Marine products | 8 | 6 | 6 | 5 | 4 | 4 | 4 | 3 | 3 | 2 | 3 |
| Iron ore | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 |
| (4) Other receipts | 297 | 205 | 205 | 198 | 159 | 161 | 164 | 127 | 80 | 60 | 51 |
| | (293) | (203) | (202) | (196) | (156) | (159) | (163) | (126) | (78) | (60) | (48) |

Notes (1) Figures in brackets are net of refunds and drawbacks (2) Due to change in budget heads from 1986-87 the figures for years prior to 1985-86 individual commodities are not strictly comparable (3) Data on individual commodities for year 1985-86 are revised budget figures and not actuals (4) Due to rounding off totals do not tally

TABLE 5: REVENUE FROM UNION EXCISE DUTIES

(Rs crore)

| | 1991-92 Budget | 1990-91 Revised | 1990-91 Budget | 1989-90 Actuals | 1988-89 Actuals | 1987-88 Actuals | 1986-87 Actuals | 1985-86 Actuals | 1984-85 Actuals | 1983-84 Actuals | 1982-83 Actuals |
|--|-------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Gross Union Excise Duties (excluding electricity) | 27075 | 25001 | 25510 | 22670 | 19122 | 16591 | 14544 | 13070 | 10945 | 10116 | 7981 |
| Refunds and dutydrawbacks | 661 | 501 | 385 | 380 | 296 | 169 | 56 | 63 | 81 | 89 | 132 |
| Net Union Excise Duties | 26414 | 24500 | 25125 | 22290 | 18825 | 16422 | 14488 | 13007 | 10864 | 10027 | 7849 |
| (A) Basic excise duties | 21758 | 19818 | 20072 | 17719 | 15308 | 13216 | 12016 | 10881 | 8930 | 8259 | 7094 |
| | (21097) | (19316) | (19687) | (17339) | (15012) | (13047) | (11960) | (10818) | (8848) | (8170) | (6962) |
| <i>of which</i> | | | | | | | | | | | |
| Tea, etc | 82 | 80 | 87 | 79 | 77 | 77 | 73 | 81 | 62 | 54 | 54 |
| Vegetable oils and fats, etc | 117 | 100 | 126 | 103 | 100 | 104 | 68 | 140 | 66 | 61 | 59 |
| Cane or beat sugar, etc | 235 | 224 | 204 | 200 | 185 | 164 | 140 | 127 | 148 | 161 | 168 |
| Molasses | 74 | 63 | 41 | 52 | 26 | 16 | 9 | 8 | 9 | 8 | 8 |
| Tobacco manufactures | 1803 | 1648 | 1653 | 1506 | 1291 | 1158 | 1013 | 990 | 783 | 769 | 582 |
| Cement of all sorts | 1171 | 1065 | 1058 | 951 | 898 | 870 | 826 | 746 | 650 | 560 | 336 |
| Kerosene | 282 | 267 | 301 | 268 | 241 | 250 | 233 | 204 | 164 | 176 | 168 |
| Motor spirit | 1366 | 1276 | 1339 | 1201 | 1034 | 903 | 814 | 755 | 678 | 527 | 559 |
| R D oil | 806 | 768 | 857 | 731 | 683 | 646 | 596 | 575 | 425 | 423 | 380 |
| Cosmetics, toilets, soaps, etc | 400 | 359 | 338 | 306 | 278 | 256 | 194 | 155 | 125 | 97 | 88 |
| Plastic and articles thereof | 500 | 462 | 491 | 441 | 359 | 280 | 254 | — | — | — | — |
| Tyres and tubes, etc | 890 | 824 | 900 | 629 | 676 | 557 | 520 | 480 | 410 | 400 | 403 |
| Cotton and cotton yarn | 210 | 197 | 184 | 129 | 118 | 119 | 140 | 132 | 109 | 109 | 83 |
| Iron and steel and articles | 1226 | 1166 | 1339 | 1070 | 829 | 631 | 537 | 481 | 377 | 366 | 381 |
| Aluminium and articles | 627 | 575 | 609 | 523 | 271 | 194 | 157 | 161 | 146 | 115 | 112 |
| Refrigerators and air conditioners | 235 | 205 | 233 | 180 | 153 | 126 | 108 | 78 | 49 | 53 | 57 |
| Motor cars, tractors, etc | 631 | 575 | 602 | 437 | 334 | 381 | 315 | 440 | 383 | 322 | 306 |
| (B) Additional duties on textiles and textile articles | 383 | 301 | 280 | 209 | 189 | 176 | 185 | 160 | 159 | 146 | 83 |
| (C) Additional duties in lieu of sales tax | 1815 | 1680 | 1656 | 1475 | 1276 | 1147 | 1111 | 928 | 811 | 680 | 496 |
| <i>of which</i> | | | | | | | | | | | |
| Sugar, etc | 265 | 253 | 233 | 229 | 226 | 197 | 163 | 148 | 167 | 135 | 116 |
| Tobacco products | 881 | 804 | 806 | 659 | 526 | 508 | 481 | 469 | 391 | 298 | 214 |
| Textile products | 669 | 623 | 617 | 587 | 524 | 438 | 460 | 329 | 253 | 247 | 166 |
| (D) Cess on commodities | 3119 | 3203 | 3503 | 3267 | 2948 | 2052 | 1232 | 1101 | 1045 | 1031 | 307 |
| <i>of which</i> | | | | | | | | | | | |
| Crude oil | 2750 | 2857 | 3149 | 2947 | 2029 | 1770 | 980 | 873 | 844 | 839 | 196 |
| Coal and coke | 81 | 75 | 77 | 70 | 65 | 58 | 63 | 66 | 58 | 56 | 35 |

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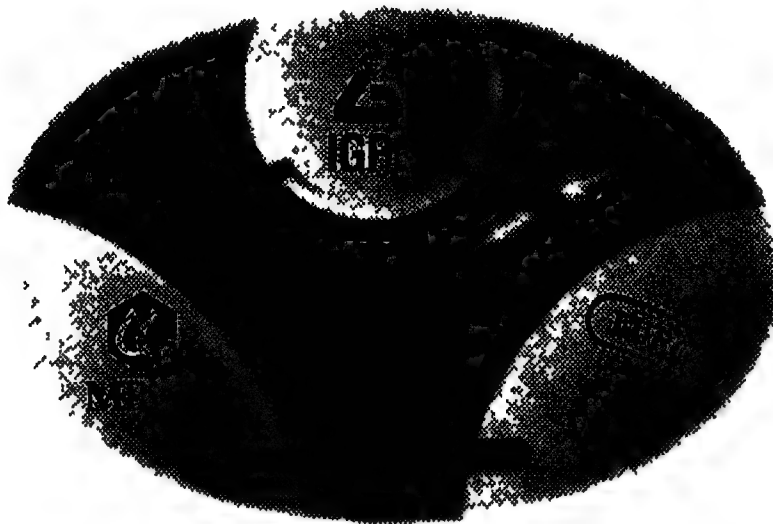
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Women in Hindutva Movement

A sinister feature of the Hindutva movement has been the projection of the militantly communal Hindu woman in a variety of unprecedented ways. The Rashtrasevika Samiti, the women's wing of the RSS, and the Ram Janmabhoomi movement

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Towards Consensual Politics

SOME of Ajit Roy's remarks (June 15) have proved to be prophetic. There is no one party or coalition with an absolute majority. The largest single party, Congress(I) has been invited by the president to form the government which of course is a minority one. A firm parliamentary majority is no more there. A basic shift in the existing correlation of forces is very much on the agenda. The idea of a socialist revolution, according to Roy, is far in the offing and for the present what we can think of is a neo-Nehruvian model. But he has not developed the idea any further even as he has sketched a strategic conception and then the tactical tasks. He has talked about a broad centre-left alliance which would address the neo-Nehruvian model of development. Further, he says, "the main tactical tasks should be to isolate the BJP and its sympathisers on the one hand and to mobilise the bourgeois democratic elements as far as possible on a wide platform ideationally motivated by the left, on the other". I strongly feel that if BJP is isolated by non-BJP opposition making an alliance with the Congress(I), the ruling party, the consequence would be that all the negative votes in the next election will be cast in favour of BJP, strengthening the BJP in the process. Another important point is the weakness of the analytical method by which one first identifies the main enemy, then becomes part of the mobilisation against it and then, stage by stage, deals with all the enemies. This 'stagist approach' does not really address the diverse world views and realities of the Indian context which demand the 'simultaneous operations and interactions of number of factors and processes'.

Both Congress(I) and BJP nurture the idea of a centralised rule with an absolute majority promising 'national integration' and 'stable administration'. It might be true had the NF-LF alliance been elected with an absolute majority it's rule also would have been a prototype of the centralised Congress(I) rule. But the logic and the dynamics of the very configuration of NF-LF alliance contradict a centralised rule and demand a consensual political process. Now that consensual politics has emerged in the political scene through a hung parliament. As a ruling party, Congress(I) cannot exercise its authority with all the 'luxuries' of a ruling party and the opposition no more enjoys the privileged position by which it can put the blame for

everything on the ruling party as it has to share the responsibility of at least the major consensus decisions. In one sense this is the strength of the NF-LF alliance despite its fewer seats in parliament—it could force the ruling party to a minority status and subject it to consensual politics. As a result of this the nature of both the ruling party and the opposition undergoes changes. Identities of both are expressed at the level of how one is addressing key issues affecting the nation or how one plays one's cards in the resolution of contradictions existing in the country.

While NF-LF alliance would be acting this role in the 'opposition' it should continue its search for a new political model of consensus-building among diverse and pluralist forces based on nationalities, ethnicities, caste/class identities and movements based on issues affecting the nation. Consensual politics is basically anti-authoritarian and it is precisely because of this characteristic that the NF-LF alliance is poised against both BJP and Congress(I). Values like democracy, secularism, etc, are translated afresh into concrete issues and slogans (Mandal, masjid, etc) and they remain reference points for consensus-building among partners of NF-LF alliance. As the consensus-building politics asserts itself the classical right-left analytical frame recedes to the background. The traditional left parties, although they are part of this political praxis, have failed in giving it a theoretical articulation. But then what is more important is practical politics to

which they make definite contributions.

A neo-Nehruvian model would perhaps envisage a controlled economic process and centralised planning. But the recent trend in the global economic process is to decontrol the national economies and to consider the whole world as a single economic unit. The US-EEC-Japan axis at the helm of global politico-economic affairs, despite their competition among themselves, will see that any resistance to their riding high will be either neutralised or suppressed thanks to the eclipse of the socialist camp and the impotency of the NAM. We have seen Iraq biting the dust and now Yugoslavia is getting Balkanised; so the chances of any single nation putting up a fight and coming out successfully seem to be quite bleak. National sovereignty has almost become a myth. Any new move on the basis of nationalities, ethnicities, marginalised communities are neutralised and co-opted. The main trap is the 'development' model pursued by the given leadership of the poor nations in the hands of the monopolies. They should be isolated. The poor nations and nationalities, ethnic and marginalised communities of the world, today must address the development question on a new basis with a concerted and a co-ordinated fight on a global plane, perhaps taking lessons from the eclipse of socialist camp/NAM models.

K M THOMAS

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Waiting Game

FOLLOWING a private member's resolution moved by the CPI(M)'s Joyneil Abedin seeking restrictive legislation on religious places, the Places of Worship (Special Provisions) Bill has been introduced in parliament. The statement of objects and reasons of the bill pre-empted attempts at inciting controversy in respect of places of worship in existence on August 15, 1947 by proposing that their status remain the same as it was on that date. The disputed site at Ayodhya that is currently at the centre of protracted conflict and shrines in Jammu and Kashmir are exempted from the purview of the bill. To take retrospective effect from July 11, 1991 the bill stipulates imprisonment up to three years and a fine for contravention of its provisions.

A bill that should on the face of it have invited strident attacks from the BJP and kindred mass fronts has on the contrary attracted some nonchalant, almost disinterested protest. Certainly the party voiced its opposition to the bill in tonal variations that ranged from the more sophisticated technical criticisms of Jaswant Singh to some sectarian rabble-rousing by its more rudimentary members. But these protests have been confined within more or less parliamentary limits and the controversy is scarcely of the magnitude that was perhaps anticipated and possibly even desired by sections of the political establishment. The suspicion that these protests are entirely for the record and no more may not be altogether unfounded.

The political motivations behind the introduction of the bill and those behind the BJP's subdued reaction fit well into the pattern of politics that has evolved in the post-election phase. At one level both reflect a carefully nuanced process of vying for the Congress(I)'s attentions. The unwritten entente within parliament between the Congress and the BJP has shown little sign of wear and tear, much to the discomfort of the National Front and the left. Forcing the Congress to take an open stand to the detriment of 'Hindutva' apart from projecting the desired image to the minorities had also the potential of providing an edge of tension to the relations between the Congress and the BJP. Suggestions of an ongoing realignment involving the Congress and the Janata Dal, that were simultaneously in circulation, were too well timed to have been accidental. The intention may well have been to publicise a possibility and entice a realignment with the bill as a catalyst.

The bill's potential appears not to have been realised, at least for the present. The Congress, reluctant to foreclose any options regarding outside support, is content to be cool and accommodative. Under pressure from the National Front and the left, it conducted itself impeccably. For its part

the Congress has been discreet about an unavoidable commitment to see the bill through parliament, leaving the more vigorous defence of the bill to the opposition. An added if minor reprieve for the Congress is that support for the bill will silence, even if only momentarily, those within the party who are inclined to embarrass the leadership by publicly criticising any act of overt or covert co-operation with the BJP. As for the BJP the tepid response suggests that it sees little profit in an immediate confrontation. By merely displaying its indignation in parliament, voting against the bill and then allowing the whole issue to subside it may have far more to gain. A handful of perfunctory 'countrywide' agitations and some well modulated protests can take care of its Hindutva credentials while the bill, when eventually passed, will partly take care of the task of keeping the VHP in check.

The more immediate problem that the BJP faces *vis-a-vis* the VHP is the Ayodhya dispute. Though the VHP leadership is itself cautious about making things too difficult for the Kalyan Singh government in UP, compelled on account of restive cadres to be seen to be taking the initiative, it periodically issues ultimatums to the state government which being in no position to oblige has been proceeding with a degree of circumspection. Should the VHP, feeling the need to distance itself from this inactivity, lay claim to the other two sites—Krishnanjanmabhoomi and Kashi Vishwanath—as a diversionary move at a time when the BJP finds it inopportune, the latter can evade the dilemma of having to be the restraining influence. In such an instance the act can be allowed to regulate its relationship with the affiliated organisation.

The party may also see little reason to rupture the surreptitious goodwill that exists between it and the Congress. Between the fall of the National Front government and the general election the BJP made a virtue of its isolation. Following the elections, as the largest opposition in a hung parliament, the BJP has manoeuvred itself into a fairly profitable bargain. Forfeiting this over what is currently a non-issue for it is scarcely in keeping with the party's pragmatism. Most importantly, the BJP after its recent mass undertaking is fully alive to the limitations of mere legislation in the face of hysterical opposition. Should it see the need to deviate from its present line of moderation, a campaign can easily be mobilised against the 'black law' that deprives the devout of their fundamental right to worship. And as the 'rath yatra' to Ayodhya has amply demonstrated, a placid interregnum need not necessarily subtract from the pitch to which frenzy can be whipped up.

PUBLIC DISTRIBUTION SYSTEM Fact and Fancy

THE public distribution system for foodgrains and a few other essential consumption articles has figured prominently in the public pronouncements of the prime minister, no doubt in an attempt to foster the impression that in all the hard-headed pursuit of market-dictated economic efficiency under the supervision of the IMF social welfare concerns are not being jettisoned altogether. In his independence day address Narasimha Rao had announced that the PDS would be extended to 1,500 blocks in remote areas on a priority basis. And last week he inaugurated the meeting of the advisory council on the PDS with a rather lengthy address and told the assembled chief ministers—not too many were present though—and state food and civil supplies ministers that he would call another meeting after a month to work out details for making the PDS effective in the more remote and backward areas.

Certainly no one can say that the prime minister's focus on the PDS is unwarranted. With the rise in prices rapidly gathering momentum after the devaluation of the rupee and in the wake of the 1991-92 budget proposals, the PDS—even such as it is, confined, with the exception of one or two states, largely to the urban areas and not covering even these fully or adequately—will need to play a major role in protecting the essential consumption of the people within its reach. However, the available indications about what the government actually proposes to do in regard to the PDS do not quite match the prime minister's verbal concern.

Take the budget: the finance minister's decision to step up the provision for food subsidy to Rs 2,600 crore in 1991-92, compared with only Rs 1,800 crore provided in the Chandra Shekhar government's interim budget and Rs 2,450 crore allocated in the revised estimates for 1990-91, would seem a rather bold move in the face of the IMF's injunction to do away with all subsidies. But the convoluted arithmetic contained in the budget documents does not quite bear out this impression. A comparison with the 1990-91 budget shows that the Food Corporation of India's average sales realisation—which, it is to be presumed, would reflect the issue prices of the grain distributed through the PDS—would be higher by just over 15 per cent this year compared to last year in the case of wheat (Rs 229.42 per quintal against Rs 199.05 per quintal) and by nearly 29 per cent in the case of rice (Rs 375.22 per quintal against Rs 291.20 per quintal) and the subsidy per quintal

is to be reduced from Rs 116.22 to Rs 111.92 for wheat and very much more sharply from Rs 128.03 to Rs 80.50 for rice. Is this lowering of the subsidy per quintal to be squared with the larger amount of food subsidy provided in the 1991-92 budget in terms of larger quantities of foodgrains proposed to be distributed through the PDS this year? But no; the expected offtake of foodgrains from the FCI's stocks is kept exactly at last year's level—a neat 85 lakh tonnes each for rice and wheat. Thus the purported increase in food subsidy in the 1991-92 budget remains something of a puzzle.

In his address to the PDS advisory council the prime minister pointed out, quite correctly, that the government's employment generation programmes provide a very effective means of ensuring that the grain distributed through the PDS reaches the neediest sections of the people and suggested a target of supply of 20 lakh tonnes of grain to those who seek employment under these programmes through a part-cash-part-kind wage payment system. The suggestion is by no means novel, but both the centre and the states are evidently becoming progressively less willing to act upon it.

The annual report of the department of food for 1990-91 shows that the quantity of grain supplied under the employment generation programmes was 24 lakh tonnes in 1986-87, 10 lakh tonnes in 1987-88, 4 lakh tonnes in 1988-89, 2 lakh tonnes in 1989-90 and a grand 6,000 tonnes in 1991-92. The report does not, of course, attempt anything so indiscreet as to look for explanations for this steep and steady decline, but what is significant is that, apart from the prime minister, none of the others, including the state chief ministers and ministers of food and civil supplies, at the PDS advisory council meeting were at all concerned about it. This is undoubtedly an accurate measure of how much they really care about the PDS serving the needs of the poor and that being the case the follow-up meeting which the prime minister has called after

a month specifically to discuss ways of extending the PDS to remote and backward areas will be just so much waste of more public money.

PUNJAB Familiar Charade

MOVES are reportedly afoot for discussions between the Congress and the other main political parties on the holding of elections in Punjab. A plausible inference is that even on the Congress, or at least on a section of it, realisation has dawned that the mechanical pursuit of the methods dictated by the received wisdom on Punjab is no longer profitable. On the other hand, it is more than just probable that the prime minister's initiative is part of the now familiar charade enacted whenever constitutional obligations relating to Punjab have to be fulfilled. On the present occasion what is exercising the ruling party is not only the November 1991 deadline for the renewal of president's rule. There is the additional and more immediate inconvenience of having to deal with the existing notification for the elections that were originally scheduled to be held on June 22 but were postponed whimsically by the chief election commissioner to September 25 barely 30 hours before polling was due to commence.

As things stand, while the constitution provides for indefinite postponement of elections it does not permit denotification. This is particularly embarrassing to the Congress since the party has boycotted elections under the extant notification. The current exertions of the party seem to stem entirely from the need to circumvent this problem. In the past the haze of prevarication, engineered by the law and order and civil bureaucracies, which obscured the material facts about the situation in Punjab, facilitated unanimous all-party conspiracies to thwart the electoral process in the state by the periodic abuse of Article 356. The facts continue to be obscured but this time around the

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by the BJP's intransigence ever since it discovered new possibilities for itself

The BJP's shifting stance on Punjab is finely tuned to the circumstances that the party finds itself in. In March this year when an amendment of the constitution was required in order to further extend president's rule the party was unwavering in its conviction that Punjab was not ready for elections and delivered patriotic sermons to those pleading for early elections. Immediately after came the civic polls in parts of the state with the party capturing the municipal corporations of the Amritsar and Ludhiana and narrowly losing to the Congress in Jalandhar. Consequently when the chief election commissioner peremptorily notified elections in Punjab, the BJP's protests were considerably diluted.

Now that the Congress has somehow to obstruct an election in which it is unable to participate the BJP's sanctimonious posturing has shifted from the patriotic to the democratic variety. Perhaps the BJP, with an eye on the 'non Sikh' votes would rather that if elections are to be held at all, they should be held under the existing notification. In order to profit from the absence of the Congress the BJP may well oppose the proposed amendment to enable denotification.

However the Congress, it would seem, has little cause to be overly alarmed. The left for either strategic or sentimental reasons it is still to be established which—has expressed its willingness to bail the Congress out of its difficulties. The CPI(M), concluding that an election is meaningful only if the participation of the Congress is ensured is all for amendment of the constitution. The CPI, which earlier in the year favoured elections in the state, began to backtrack under pressure from its Punjab unit. The party is willing to go along with the prime minister's suggestion that the election process be altered to bar avowed secessionists from contesting. Denotification will, of course be unavoidable in such an event.

If this kind of support does not suffice, other stratagems well suited to present requirements are available to the Congress. An escalation of violence in the state is calculated to ensure that elections are obstructed. In the past such coincidences have come to the aid of the government. This time too the security forces can, without too much effort, be persuaded to contrive an increase in the tally of killings. The law and order agency's efficiency in this regard is beyond question. And as if this is not enough, by another uncanny coincidence diverse Sikh groups, both moderate and militant, have been gathering repeatedly at Anandpur

and issuing precisely the kind of statements guaranteed to provoke the cancelling of elections. In the face of such smooth arrangements and all round co-operation even the BJP cannot perhaps do much.

WEST BENGAL

Self-Critical Exercises

A Correspondent writes

IT seems West Bengal chief minister Jyoti Basu has come into a sort of introspective mood in the wake of the recent elections. Immediately after his installation in the chief minister's chair for the fourth time, he started urging the party and the Left Front ranks to be modest and restrained in their dealings with the people. Then while addressing a meeting of artistes and intellectuals in Calcutta he made a critical analysis of the Left Front's campaign against the BJP's Hindu fundamentalist onslaughts and underlined their shortcomings. He emphasised the need for a deeper and more thoroughgoing counter offensive extending to broader ideological and cultural areas.

More recently, he has gone a step further in sharply coming out against the cult of violence and individual murders which seem to have become part of the prevailing political culture. He did not have only Punjab and Jammu and Kashmir in his mind. The provocation was a recent murder in Calcutta's south western suburb of Garden Reach resulting from feuds between two mafia gangs. A Congress councillor of the Calcutta Municipal Corporation was shot dead at his own doorstep. Subsequently another councillor was arrested by the police in connection with this crime. While the victim was elected on the Congress ticket his alleged assailant is identified with the CPI(M). The notoriety of these two characters and their associates is beyond question. This, however, has not deterred the Congress from making a hero of the victim and running a vigorous campaign calling for local bandhs, gheraos, and so on, totally ignoring the criminal connotation of the confrontation between the two mafia dons.

In this climate Jyoti Basu's admonitions have an extremely salutary relevance. It is, therefore, to be hoped that he will not only continue to make the self-critical exercises that he has recently initiated, but will also ensure effective follow up measures to translate the corrective guidelines into action. Otherwise, his critical observations would amount to only a stale repetition of Jawaharlal Nehru's similar exercises, in which Nehru often appeared in the role of his own loyal opposition.

TWENTY YEARS AGO

EPW, August 28, 1971

Isn't it time someone told the government how foolish it is beginning to look in its current exchanges with the three foreign oil companies? Speaking in Bombay last week, the union minister for petroleum and chemicals, P C Sethi, charged the companies with having refused to refine crude oil emanating from government sources. For good measure, he added the complaint that industrial relations in the oil companies were also 'none too happy'. Simultaneously there have appeared in the press reports of how, by way of preparing for the contingency of their being nationalised the oil companies have been dipping into their reserves to repatriate profits in excess of current earnings. As part of the same game, the companies had also stopped incurring new capital expenditure, cut operating inventories to the bare minimum and switched to borrowed funds for carrying on business. Other reports have charged the two American companies, Esso and Caltex, with deliberately keeping a part of their capacity idle, resulting in a shortage of petroleum products in the face of increased demand caused by "the Bangladesh situation". Surely, so awesome an inventory of misdemeanours calls for the most severe punitive measure. Nationalisation? Why not? After all, as P C Sethi told his Bombay audience in all seriousness, for a government which "could take powers for amending the Constitution, the issue of dealing with the oil companies was certainly not an intractable one". All this is, let us face it, so much nonsense. What the Government needs to do, instead of merely frothing at the mouth, is to get down to working towards a viable long term position in the oil industry. The first step in this direction would be the formulation of a realistic fuel policy based on recognition of the fact that in the foreseeable future we will continue to be dependent on imports of crude petroleum. The government has at the same time to give evidence of being able to establish independent sources of crude. Along with crude supplies the government has to make sure of the means of transport. These are the kind of problems that the government should be addressing itself to if it wants to get into a bargaining position which the oil companies can be made to respect. Instead the oil minister chooses to lose sleep over the state of industrial relations in the oil companies!

Record Crop Fails to Dampen Prices

D P Sharma

RECORD high prices in a year of record indigenous supply could well be described as the most outstanding aspect of the edible oils market scene during the current oil year (November-October) which has now two more months to go. Edible oil prices touched their all time highs in the first week of August. The quotation for groundnut oil in Bombay (wholesale market) was marked up to Rs 37,700 a tonne. The other quotations were kardi oil Rs 40,500, refined rapeseed oil Rs 33,700, refined cottonseed oil Rs 35,100, refined soybean oil Rs 35,500 and edible grade rice bran oil Rs 29,500. The rise in prices since the beginning of the season ranges from 16 per cent to 27 per cent.

The rise in prices has occurred despite increased availability, reduced imports notwithstanding. Going by government estimates, oilseeds production in 1990-91 is a record 192.3 lakh tonnes, showing an increase of 14.8 per cent over the previous season's figure of 167.49 lakh tonnes and an increase of 6.7 per cent over the previous record production of 180.33 lakh tonnes in 1988-89. Edible oil imports in the current year so far are placed at 90,000 tonnes against 6.07 lakh tonnes in 1989-90 and 3.73 lakh tonnes in 1988-89. Taking domestic production and imports, edible oil supply this season will be the highest ever. This does not necessarily imply a reduction in the demand supply gap as the increase in demand has been higher than that in supply.

Several factors have contributed in varying measure to the surge in prices. These include the all pervading influence of increasing inflationary pressures in the economy, continuing big gap between demand and supply (imports included), distortions in the national demand supply equation caused by certain actions of state governments—the imposition by the Gujarat government of levies on the oil produced by millers is a case in point—speculative holding and hoarding of stocks by the private trade mainly with black money and lack of any discipline on the co-operatives and NDDB which are exempted from the purview of stock and credit limits applicable to private trade and industry.

The current oil season has witnessed the complete collapse of the price band scheme conceived as the key element in the integrated policy for oilseeds/oil evolved by the technology mission on oilseeds. That NDDB should continue to talk glibly about its role as a market intervention agency has an ironic ring about it as edible

oil prices have kept surging ahead all the time. NDDB's purchases of oilseeds/oils as also its sales have been essentially in the nature of commercial operations based on market judgment. Despite NDDB's claims, its sales of 'Dhara' groundnut oil cannot be treated as market intervention operation aimed specifically at imparting price stability in the market.

If Dhara brand groundnut oil is being sold at a price lower than the ruling price of groundnut oil from other sources of supply it is not because of a policy decision by NDDB to protect the interests of consumers. Nor is it because NDDB enjoys certain cost advantages by way of exemption from the rigours of credit and stock limits prescribed for private trade. The real explanation for Dhara's apparently lower price lies in the brand quality preferences for groundnut oil from other sources of supply. This assessment is supported by the fact that NDDB's operations have not had any chastening effect on the edible oils market.

This is not to argue that NDDB's operations are of little relevance for the oilseeds market economy. While the relief consumers have derived from NDDB's operations is questionable, oilseeds growers have certainly benefited from NDDB's procurement operations during the harvesting period. The NDDB has claimed that ever since it was entrusted with the market intervention operation it had ensured that imports were not used against farmers. It is true that NDDB has been opposed to imports (except when it wanted to export milk powder and import edible oil). But it is also common knowledge that edible oil imports had to be restricted during the past few years not because farmers' interests needed to be

safeguarded but because the rapidly deteriorating foreign exchange position did not permit imports on a large scale.

Recently, all kinds of reports have been going round about the government considering import of edible oils if only it did not involve any foreign exchange outgo. According to reports from New Delhi, the centre has evolved a scheme to meet the states' edible oil requirements for the public distribution system. Under the scheme, the states will receive oil supply from the STC against the foreign exchange earned by them from exports of non-traditional items. The Gujarat government is said to be the first to take advantage of the scheme. It will export around 30,000 tonnes of soda ash and after realisation of the proceeds, edible oil of equivalent value will be supplied by the STC.

There have been reports that the department of economic affairs had concluded an agreement with the US authorities for supply of substantial quantities of edible oil (upwards of 6 lakh tonnes a year) under P1460 stage III programme. But these reports have been denied by a US embassy diplomat in New Delhi who stated the other day that 'we had no formal request from India for vegetable oil under P1460 and that we're not in a position to do anything about it anyway for the rest of this year'.

According to another source claiming to be keeping a close watch on the goings on in New Delhi, a foreign party has been having discussions with the Indian government for setting up an oilseeds crushing plant based entirely on imported seed which will not involve any foreign exchange expenditure. This will have the benefit of augmenting supply of edible oil for the PDS at a concessional price and earning foreign exchange through export of oilmeal. Yet another proposal relates to supply of palm oil by Malaysia on an

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Those interested may correspond with the Director and send their detailed curriculum vitae on or before 5th October 1991.

TABLE : EDIBLE OIL PRICES IN BOMBAY MARKET (WHOLESALE)

(Rs per 10 kg)

| | 1.11.1990 | 6.8.1991 | 29.8.1991 | Year Ago 29.8.1990 | Percentage Rise since 1.11.1990 | Percentage Rise over 12-Month Period |
|------------------------|-----------|----------|-----------|-----------------------|---------------------------------------|---|
| Groundnut oil | 315 | 377 | 365 | 304 | 15.9 | 20 |
| Sesame oil | 260 | 320 | 330 | 250 | 26.9 | 32 |
| Kardi oil | 335 | 405 | 400 | 320 | 19.4 | 25 |
| Rice bran oil | 214 | 295 | 265 | 195 | 23.8 | 35.9 |
| Refined soya oil | 275 | 355 | 327 | 270 | 18.9 | 21.1 |
| Refined rapeseed oil | 268 | 337 | 325 | 258 | 21.3 | 25.9 |
| Refined cottonseed oil | 290 | 351 | 342 | 272 | 17.9 | 25.7 |

annual basis for the next few years on easy credit terms.

Edible oil prices have registered modest declines from their early August highs. This, however, has brought hardly any relief to consumers as there has been little change in prices at the retail level. That apart, the ruling prices are substantially higher than the prices which prevailed a year ago. The rise in prices ranges from 17 per cent to 36 per cent, depending on the oil (see accompanying table).

It is difficult to predict how edible oil prices will behave during the lean months of September and October when the market will have to reckon with reduced domestic supply and increased festival demand. Much will depend on the arrangement the government makes for the supply of imported oil and the trade's assessment of new crop prospects. Un-

certainty surrounding the quantum of imports will tend to have a bullish effect on prices and one need not be surprised if prices move beyond their early August highs. However, if weather conditions continue to be favourable and general expectations of record kharif crops—essentially groundnut and soybean—materialise, speculative elements in the trade are unlikely to put up an aggressive posture. The groundnut and soybean crops are expected to set new records if climatic conditions remain favourable during the crucial period ahead.

Inquiries with informed market sources indicate that several big houses are very keen on acquiring solvent extraction plants in order to avail of the liberal incentives and tax concessions which have now been allowed to manufacturer-exporters.

COMPANIES

Larger Market Share

TATA OIL MILLS COMPANY (TOMCO) recorded an increase of 13 per cent in net sales during 1990-91. According to the company, it was able to increase its market share in soaps, detergent cakes and powder despite severe competition. However, the company's exports suffered a set back due to the Gulf crisis which brought down export earnings to Rs 8.22 crore from Rs 28.72 crore in 1989-90. Exports to USSR also saw a decline.

Overall profits and profitability came under pressure in 1990-91. There was a sharp escalation in the prices of edible and non-edible oils, mostly as a result of the government's decision to reduce imports drastically. Besides, a large quantity of rice bran oil was diverted for use by the vanaspati industry and this affected the availability and prices of this commodity for the soap industry. Operating profits showed a rise of 5.2 per cent, while net profits were up by 5.4 per cent. The rate of dividend was maintained at 20 per cent.

Production of soaps recorded a slight decline of 0.9 per cent from 1,07,653 tonnes to 1,06,637 tonnes. Production of synthetic detergents fell sharply by 57 per cent

from 13,485 tonnes to 5,833 tonnes. Production of vegetable oils also saw a decline from 4,865 tonnes to 3,544 tonnes. However, production of cattle and poultry feed recorded a rise. Out of total sales of Rs 381 crore, soaps formed 62 per cent followed by synthetic detergents (17 per cent), cattle and poultry feed (7 per cent), vegetable oils (5 per cent), toilet preparations (3 per cent), glycerine (2 per cent) and others (4 per cent).

The company's Madras factory, which added toiletries and toilet soaps to its product mix, has been modernised to produce many other items in the course of next year. The new fatty acids plant commissioned at Aurangabad started supplying fatty acids to other factories. Industrial Perfumes, in which the company holds 33 per cent equity, witnessed an improvement in post-tax profits. Tata Vashisti Detergents, a joint venture project with Maharashtra Petrochemicals, is expected to start trial production during current year. Tata Aquatic Farms, Orissa, a 100 per cent EOU, a joint venture project with TISCO, for prawn culture is also making steady progress. Another joint

venture project with West Bengal Industrial Development Corporation is also being proposed.

The company intends to diversify into manufacture of bone-China mixed-table ware. For this purpose a joint venture, Tata Ceramics Kerala, has been formed in collaboration with a British firm as a 100 per cent EOU in the Cochin Free Trade Zone. There is also a proposal to diversify into pigment grade titanium dioxide. The company further entered into a memorandum of understanding with an American company to set up a joint venture project to manufacture public and institutional hygiene and other household cleaning products.

Fund flow during 1990-91 was estimated at Rs 59.28 crore. Borrowings and trade dues formed 89 per cent of the sources of finance. Funds were used mainly for financing inventory, investment and loans and advances.

NOCIL

Squeeze on Profits

NATIONAL ORGANIC CHEMICAL INDUSTRIES, (NOCIL), a leading manufacturer of petrochemicals belonging to the Mafatlal group, showed lower production in 1990-91. A major breakdown of the cracked gas compressor in August 1990 led to a shut down of all plants for four weeks. Production of petrochemicals at 2.90 lakh tonnes showed a decline of 4 per cent over the previous year. Capacity utilisation for petrochemicals which was at 98 per cent was lower than 101 per cent in the previous year. However, the company achieved an increase of 13 per cent in net sales from Rs 395 crore to Rs 446 crore. According to the company, this was due to better realisation from petrochemicals, higher volumes of agrochemicals in a very competitive market and increased exports. Out of the turnover, nearly 69 per cent was realised from petrochemicals, 16 per cent from agrochemicals, 7 per cent from marine products, 5 per cent from seeds and the remaining from trading in detergents, plastics and others. Though the quantum of sales of petrochemicals showed a decline, the value realised registered an increase of 6 per cent from Rs 325 crore to Rs 344 crore.

Export turnover registered a sharp increase from Rs 34.8 crore to Rs 61.9 crore. Supply of manufactured products to exporters under the deemed exports scheme amounted to Rs 3 crore against Rs 2.6 crore in the previous year. According to the company, chemical intermediates and polypropylene-woven sacks were the main value added products exported, with the latter showing good promise for the future. The company made a beginning in the export of soya meal and agro-

products.

The overall expenses-to-sales ratio works out higher at 0.92:1 in 1990-91 than 0.90:1 in the previous year. Consequent to the Gulf crisis, the price of naphtha, the basic feedstock, went up by 24 per cent. This led to an increase in prices of almost all the input materials. Raw materials consumed showed an increase of 18 per cent and power and fuel of 21 per cent. The operating profits of the company recorded a decline of 5 per cent over the previous year and net profits fell sharply by 15 per cent.

The company's programme of modernisation and expansion of its plants at Thane is currently under consideration of the government. The delay has caused considerable cost overrun. The expansion programme includes increasing the capacity for ethylene from 63,000 tonnes to three lakh tonnes and propylene from 37,000 tonnes to 1.4 lakh tonnes at cost of Rs 3,000 crore. Environmental clearance is the basic hitch.

Funds flow during 1990-91 is estimated at Rs 107.25 crore. External sources accounted for Rs 98.8 crore, with borrowings forming 73 per cent. As much as 26 per cent of the total was used for fixed

assets formation, 37 per cent for loans and advances and 19 per cent for investment.

BIRLA JUTE

Improved Profitability

BIRLA JUTE, a highly diversified company, achieved 15.9 per cent increase in net sales. According to the company, this was mainly due to better realisation on cement sales. The ratio of overall expenses to net sales stands reduced at 0.95:1 from 1.03:1. Reflecting this, operating profits and net profits showed sharp improvements.

Production of both cement and clinker were lower than the previous year—that of clinker by 3 per cent from 22.21 lakh tonnes to 21.50 lakh tonnes and that of cement by 5 per cent from 25.70 lakh tonnes to 24.38 lakh tonnes. The production of granulated slag cement fell by 17 per cent from 2.40 lakh tonnes to 1.99 lakh tonnes. The lower production was mainly due to the prolonged disruption in production at the Chittor cement works due to an industrial dispute. Production of jute goods improved from 66,975 tonnes to 7,21,715 tonnes, while that of synthetic, viscose and cotton yarn rose from 6,283

tonnes to 6,359 tonnes.

The new dry process plant at Satna achieved a capacity utilisation of 86.5 per cent for clinker and 84 per cent for cement. Birla Vikas also achieved a capacity utilisation of 44 per cent for cement and 95 per cent for clinker. At the Chittor cement works capacity utilisation dropped to 92 per cent for clinker and 58 per cent for cement. At Birla cement works capacity utilisation of 75 per cent was achieved for clinker and 101 per cent for cement, in spite of planned stoppage for modernisation from time to time. Production and despatches of cement at the Durgapur plant were lower due to frequent load-shedding.

The performance of Birla Synthetics was satisfactory. The plan of modernisation undertaken by the company is expected to be completed by 1992-93. The company exported blended yarns and cotton yarn worth Rs 1.74 crore against Rs 0.44 crore in the previous year. On the export front, Satna cement works and Durgapur cement works exported a total of 11,656 tonnes of cement valued at Rs 1.25 crore to Bangladesh. Besides the company exported a total of 70,730 tonnes of cement valued at Rs 7.81 crore to Nepal. However, the jute mill division witnessed a declining tonnage of exports mainly due to falling demand for carpet-backing cloth and reduction in Russian buying. However, local demand helped to maintain the price of finished goods generally in line with raw jute prices. Total export earning at Rs 32.49 crore formed 6.9 per cent of total net turnover. The devaluation is expected to help the company to increase export earnings in the current year.

The installation of high efficiency separators is in progress and is expected to be completed during the current year. The resultant energy saving and improvement in output of cement is anticipated to be reflected in the working results of the current year. The company has already received letter of intent for 5 lakh tonnes per annum covering the modernisation and expansion of Birla and Chittor cement works. Besides, the company has submitted an application for a letter of intent for a 12 lakh tonne substantial expansion at Satna, taking the capacity at Satna to 27.5 lakh tonnes per annum.

The company improved its profitability ratio substantially during the year. Gross return on net sales went up to 13.97 per cent from 6.57 per cent. The turnover ratio also rose from 0.94 to 1.03. Return on shareholders' capital went up from 2.58 per cent to 19.11 per cent. The dividend on equity was raised from 18 per cent to 30 per cent.

Funds flow in 1990-91 is estimated at Rs 62 crore. This was used mainly for fixed assets formation and tax saving investment.

The Week's Companies

(Rs lakh)

| Financial Indicators | Tata Oil Mills | | National Organic Chemical | | Birla Jute | |
|--------------------------------|----------------|---------------|---------------------------|---------------|---------------|---------------|
| | 1990 March | 1991 March | 1990 March | 1991 March | 1990 March | 1991 March |
| Income/expenses/profits | | | | | | |
| Net sales | 31115 | 35197 | 39463 | 44636 | 40481 | 46925 |
| Other income | 234 | 441 | 2169 | 1785 | 1623 | 1748 |
| Raw material consumed | 21109 | 24256 | 19786 | 23285 | 9791 | 10512 |
| Power and fuel | 1132 | 1281 | 2048 | 2486 | 9862 | 9659 |
| Other manufacturing expenses | 732 | 849 | 4618 | 4728 | 5912 | 6969 |
| Labour cost | 2777 | 3182 | 2379 | 2583 | 5003 | 5540 |
| Other expenses | 4013 | 4434 | 4060 | 4874 | 7295 | 7067 |
| Operating profits | 2152 | 2264 | 9562 | 9083 | 4640 | 8813 |
| Interest charges | 1097 | 1291 | 1406 | 1639 | 1979 | 2277 |
| Gross profits | 1055 | 973 | 8156 | 7444 | 2661 | 6556 |
| Depreciation | 319 | 318 | 1332 | 1419 | 2106 | 2639 |
| Profits before tax | 736 | 655 | 6824 | 6025 | 555 | 3917 |
| Tax provision | 200 | 90 | 2800 | 2450 | 90 | — |
| Profits after tax | 536 | 565 | 4224 | 3575 | 465 | 3917 |
| Dividends | 175 | 207 | 1440 | 1440 | 367 | 611 |
| Liabilities/assets | | | | | | |
| Paid up capital | 926 | 1088 | 3600 | 3600 | 2037 | 2037 |
| Reserves and surplus | 2421 | 2616 | 10985 | 13121 | 15980 | 18455 |
| Long term loans | 3319 | 7257 | 4568 | 7776 | 11528 | 11925 |
| Short term loans | 4915 | 4476 | 5013 | 6321 | 4623 | 4017 |
| Current liabilities | 4469 | 6250 | 9356 | 12039 | 8691 | 9203 |
| Gross fixed assets | 5740 | 6502 | 22210 | 25021 | 46025 | 49027 |
| Accumulated depreciation | 2741 | 3032 | 13193 | 14583 | 19025 | 22447 |
| Inventories | 6370 | 6054 | 8938 | 9740 | 7950 | 8329 |
| Of which finished goods | (2884) | (3512) | (3747) | (4365) | (3506) | (3421) |
| Receivables | 4061 | 3971 | 1812 | 2662 | 3674 | 2915 |
| Loans and advances | 2119 | 4054 | 10600 | 14538 | 2951 | 5231 |
| Cash and bank balances | 178 | 476 | 204 | 462 | 1160 | 1458 |
| Investments | 323 | 1600 | 2951 | 5017 | 124 | 1124 |
| Other assets | — | 62 | — | — | — | — |
| Total liabilities/assets | 16050 | 21687 | 33522 | 42857 | 42859 | 45637 |
| Key financial ratios | | | | | | |
| Turnover ratio | 1.94 | 1.62 | 1.18 | 1.04 | 0.94 | 1.03 |
| Return on sales | 3.39 | 2.76 | 20.67 | 16.68 | 6.57 | 13.97 |
| Return on investment% | 6.57 | 4.49 | 24.33 | 17.37 | 6.21 | 14.37 |
| Return on equity (%) | 16.01 | 15.25 | 28.96 | 21.38 | 2.58 | 19.11 |
| Earning per share | 16.14 | 5.67 | 99.30 | 117.30 | 2.28 | 19.23 |
| Dividend (%) | 20.00 | 20.00 | 40.00 | 40.00 | 18.00 | 30.00 |
| Book value per share (Rs) | 99.61 | 36.87 | 405.30 | 464.50 | 88.44 | 100.60 |
| Current market price (Rs) | — | 90.00 | — | 1650.00 | — | 330.00 |
| Price/earnings ratio | — | 15.87 | — | 14.07 | — | 17.17 |

Tata Timken

TATA TIMKEN, which plans to set up a plant at Bara, Jamshedpur, for the manufacture of 20 lakh tapered roller bearings and 40,000 sets of AP cartridge tapered roller bearings in technical and financial collaboration with Timken, USA, will enter the capital market on September 2 with a public issue of 2 lakh equity shares of Rs 10 each at par and 12.35 lakh (12.5 per cent) secured redeemable partly convertible debentures of Rs 50 each. The total issue consists of Rs 3,600 lakh in equity capital and Rs 1,950 lakh in partly convertible debentures. Shares worth Rs 1,700 lakh each will be subscribed by Timken and Tata Iron and Steel. Shares worth Rs 180 lakh and debentures worth Rs 97.50 lakh will be allotted to employees of the company on a preferential basis. Of the face value of the debentures of Rs 150 the convertible part will be Rs 50 which will be automatically converted on date of allotment into five equity shares of Rs 10 each at par. The cost of the project is estimated at Rs 8,376 lakh including Rs 2,598 lakh in foreign currency. This will be financed by equity capital of Rs 425 lakh, foreign currency loans from financial institutions of Rs 1,673 lakh, rupee loans from financial institutions of Rs 500 lakh from commercial banks of Rs 653 lakh and the non convertible portion of debentures amounting to Rs 1,300 lakh. The company proposes to implement the project in phases over three years and expects to commence commercial production in the first phase by early 1992 while the commencement of production for the fourth phase is expected by the first quarter of 1994. The automobile industry is a major consumer of tapered roller bearings with original equipment manufactures accounting for around 40 per cent of total production. According to a study by the Development Panel on roller bearings, the demand for tapered roller bearings is estimated at 16 million numbers per annum by 1994-95. Cartridge tapered roller bearings find application in railway wagons, coaches and locomotives. The estimated market for cartridge tapered roller bearings is around 1,35,000 per annum. The company does not anticipate any problems in marketing its output.

Radan Tapes and Tubes

RADAN TAPES AND TUBES, which intends to put up a computer tapes unit

and a video software unit, is entering the capital market on September 3 with a public issue of 22 lakh equity shares of Rs 10 each at par. The company's total issue is for Rs 400 lakh, of which shares of Rs 100 lakh are to be allotted to the promoters and their friends, etc, of Rs 60 lakh to NRIs and of Rs 20 lakh to employees. The balance is offered for public subscription. The computer tapes plant will be located at Kodivale in Raigad while the video software unit will be located at Bombay. The project will cost Rs 601 lakh and is expected to be financed by equity capital of Rs 400 lakh, term loans of Rs 198 lakh, and unsecured loans of Rs 3 lakh. Phase I of the project is expected to start commercial production from the second quarter of 1992 and phase II will be taken up from June 1992. The raw material required is magnetic tape and import of the same is allowed under OGL. The demand for computer tapes is estimated at 6,83,000 tapes of 2,400 ft each per year and, in the absence of any local producers, the company does not anticipate any difficulty in marketing its products. In phase II, the company is installing the most advanced Betacam SP editing facilities and computerised animation system.

Shreyans Paper Mills

SHREYANS PAPER MILLS, which has an impressive track record of growth in sales, profits and earning per share and dividend, is entering the capital market on September 3 with a public issue of 2,43,850 secured partly convertible debentures of Rs 300 each at par for Rs 732 lakh. The total issue is for Rs 2,100 lakh of which debentures of Rs 1,045.50 lakh is reserved for allotment to shareholders on rights basis, of Rs 105 lakh is reserved for employees, of Rs 112.50 lakh for non resident Indians and of Rs 105.45 lakh for shareholders of Adinath Textiles. The convertible portion of the debentures is Rs 200, which will be automatically converted into 5 equity shares of Rs 10 each at a premium of Rs 30 each on expiry of nine months from the date of allotment of the debentures. The company is implementing a project to set up a spinning unit with 24,960 spindles for the manufacture of carded/combed/industrial cotton yarn with advanced technological features including chute feed system of transfer from blow room to cards, auto doffing in cards for improved cleanliness, automatic dust collection system, auto cones, etc. The project is located at Machhiwara in Ludhiana and is estimated to cost Rs 3,700 lakh. This will be financed by the present issue of

Rs 2,100 lakh, term loans from financial institutions of Rs 1,500 lakh, cash accruals of Rs 70 lakh and state subsidy of Rs 30 lakh. The company is implementing the project in a phased manner and 6,000 spindles are already in operation. The company expects to put about 18,000 spindles in operation by October 1991 and complete complement of 24,960 spindles are expected to be fully operational by mid-1992. The company's project is located in the cotton producing belt. The hosiery counts will be marketed in the major centres close to Ludhiana, Saharanpur, Kanpur and Meerut. The industrial counts are proposed to be sold as tyre cord to cycle/rickshaw tyre manufacturers. The combed yarn is proposed to be exported as hosiery yarn to EEC countries, USA, Japan and Hong Kong. Cotton yarn is in great demand world wide. The company proposes to export 25 per cent of its cotton yarn. The profitability of the company's paper unit is also expected to improve with the completion of a modernisation and expansion programme.

Maral Overseas

MARAL OVERSEAS, which is setting up a 100 per cent export oriented spinning mill with an installed capacity of 20,160 spindles at Khalbujurg in MP, is entering the capital market on September 3 with a public issue of 37.87 lakh equity shares of Rs 10 each at par. The total issue is for 133.60 lakh shares, of which 84.10 lakh shares have been reserved for allotment to promoters, their friends, etc, 4.95 lakh shares to shareholders of Hindustan Electrographite and Rajasthan Spinning Mills and 6.68 lakh shares to employees of the company. The total cost of the project is estimated at Rs 34 crore to be financed by the present issue of Rs 13.36 crore, rupee loans from IFCI and IDBI of Rs 5.09 crore, foreign currency loans from Canara Bank, Bank of Baroda and ICICI of Rs 15.45 crore and state subsidy of Rs 0.10 crore. The plant is expected to be fully operational by January 1992. Raw material, namely, raw cotton varieties like F-414 and H-4 are available in the cotton growing belt of Madhya Pradesh. Export of cotton yarn from India has shown a steadily growing trend. The company has started seed marketing and exported yarn worth Rs 37 lakh to different European markets. It has also entered into a MOU with Ballward, UK and Currimee Jevanj, Mauritius, for supply of 400 tonnes per month of cotton yarn for a period of five years which will ensure offtake of the company's entire production.

Restoration Tragedy, Russian Style

GPD

It is a tragedy that Russia is going back to the age of the Tsars. Some people in our country see in all this increasing 'democratisation'. Well, if that is so, then Russia is 'democratically' going back to Tsarism. Yeltsin is the new Tsar.

RESTORATION tragedy is quite famous in English literature. It would seem that, beginning with August 19, the Russians are performing their own variation of the same. The coup led by Yanayev and its failure three days later have been much commented upon. The substance of the comments on the coup and its aftermath amounts generally to saying two things. One is the inept manner in which Yanayev and his colleagues went about their job. The other is the constant refrain, almost as gleeful as some people's response to Gorbachev's fall, that the days of Marxism-Leninism are over. We cannot claim any special knowledge in the matter of ideology. But it does seem as hasty and as unhistorical to pronounce the death of communism as was the earlier enthusiasm for possible return to the older order under the 'enlightened' leadership of the gentleman by the name of Yanayev.

But George Bush has done precisely that. Way back in 1974 Deng Xiaoping had pronounced the death of the socialist camp. Now George Bush has talked of the death knell of communism. It has obviously taken quite long for the patient to die. It seems clear that socialism is dead as far as Europe is concerned. The only world which matters is the European world anyway. Our commentators and experts, who think of themselves as Europeans, naturally think of the phenomenon as insiders. Having been colonised for over a century and a half, such identification is understandable, perhaps unavoidable. It gives them the satisfaction of being honorary whites for a while in much the same way as enthusiastic support for Yanayev gives some people the satisfaction of being honorary revolutionaries.

And yet these two things by no means exhaust what has been happening in Russia. A part of the credit for the initial 'coup' should go to the Americans and the G 7 in general. Had the west not given the impression that it was undecided about its support to Gorbachev, the foolish eightsome would not have indulged in their adventurism. If what they did had anything 'left' about it then it was a classic case of 'leftwing' adventurism—an infantile disorder. Anyway they made brave to do what they did because of, among other things, the humiliation heaped on Gorbachev in the summer meeting of the G 7. He went there with a begging bowl and returned empty handed. This created the impression that the west was

not interested in the Gorbachev experiment. Gorbachev, on the other hand, has been making one concession after another in the hope that he would persuade George Bush that Gorbachev was his best bet in Russia. The result has been the near certain disintegration of the Soviet Union. The economy has been in ruins and Russian nationalism has been on the rise. The so-called hardliners read the signals not entirely wrongly. The western indecision provided the right opportunity to attack. And they did. Whether they were 'hard' or 'left' is clearly beside the point. Because, apart from the 'integrity' of the Soviet Union, they had no other programme. Besides, as Yeltsin viciously but not entirely unjustifiably pointed out, all of them had been hand-picked by Gorbachev himself. To call them 'hardliners' as everyone seems to be doing, is not very different from calling them 'liberators'. But then we live in an age in which words are either losing their meaning or acquiring meanings which are the exact reverse of their original meanings. The ancient Indian belief is that the world began with the word. In Russia the tragedy has begun with the distortion of the word.

It is a tragedy that Russia is going back to the age of the Tsars. Some people in our country see in all this increasing 'democratisation'. Well, if it is so, then Russia is 'democratically' going back to Tsarism. Yeltsin is the new Tsar. For him Russia is *ueber alles* (over and above everything). Naturally, he himself is also *ueber allen* (over and above everyone). One suspects that he does not mind the other 14 republics going away. In a sense disintegration of the Tsarist empire is perhaps the only guarantee of the new Tsar's survival. There was nothing 'civilisational' about Tsar's and Stalin's expansion. So it was good as long as it lasted. If it breaks up now, Yeltsin has nothing to lose. The plain fact is that the break up of the Soviet Union does not hurt 'Russian' interests. The nationalities thesis which nobody has ever clearly understood anywhere anyway, seemed to give the impression that Russian interests would actually be hurt if the union were to break. All our Hindu nationalists talk of 'Akhand Bharat'. But they know that the partition of India has in fact strengthened them. If the Punjab and the Kashmir troubles were to get out of hand, they would be the next rulers of India. Something similar has been happening in the

Soviet Union. For the last two decades, Russian chauvinism has been on the rise. It must be understood that it will benefit from the break-up of the union, all chauvinisms do. For all one knows, there might be a strange unanimity in Yeltsin's and American perceptions. *Solzhenitsyn Talks to the West* is the title of a collection of three lectures that the exiled Russian author had delivered in the United States in the 70s. One underlying theme of these lectures was his moral indignation that the west in general and the Americans in particular do not understand how Bolsheviks had destroyed (rather attempted to destroy) Mother Russia. It would seem that the Americans have finally seen the light. Hence their enthusiasm for Yeltsin.

It cannot be ruled out that the armaments industry in the US needs an aggressive nationalism in Europe both as its own *raison d'être* and also as a counterpoint to the rising German power. One can almost see the Anglo-American delight that Boris the Bully has risen in Russia now that Bolshevism has finally been buried. The fact of the matter is that they cannot afford unqualified peace in Europe. They would want a bully around. Of course, Yeltsin is not going to launch a war. But then Brezhnev did not either. It is the general direction of Yeltsin's politics which is desirable. 'There is a bully in the Kremlin and all is well with the world'—this has been the fundamental principle of American foreign policy for the last few decades. Under Yeltsin it will get another lease of life.

This is the reason why the irrelevant issue of the rise or fall of socialism should no longer be discussed. On the contrary, the time has come to say that in our opinion what has happened (or did not happen) in Russia is of particular relevance to our plight. If anything, it has made our pathetic situation more than obvious. This amounts to taking an unpopular view. But that has to be done. In the 18th century there was a playwright critic by the name of Gottsched in Germany. He was hailed as someone who had given 'a new direction' to the German (dramatic) scene. Talking about him, G E Lessing, the founder of modern German, in fact European, drama, said:

No one we are told will deny that the German stage owes a great deal of its initial improvement to Professor Gottsched. I am this no one, I deny it outright. His desire was not so much to improve our former theatre as to create a completely new one. And of what kind? A Frenchified one (*eines franzoesevenden*), without inquiring whether or not this Frenchified theatre was appropriate [to Germany].

Just read Gorbachev and Yeltsin for Gottsched, economy for theatre and westernised for Frenchified. Lessing's defiant remarks have a validity of their own, particularly because the tragedy of Tsarist restoration has just begun in Moscow.

India's International Accountability on Human Rights

A G Noorani

The UN International Covenant on Civil and Political Rights requires India to report on its observance of the Covenant. This year India filed its report belatedly after at least five reminders. And when the report was examined by the Human Rights Committee set up by the covenant, India's attorney-general, who appeared before the committee, emerged from the examination badly battered.

IT remains unpublicised by the official and demi-official media, but India is liable to be asked to account regularly to a UN forum for its observance of human rights and its representative grilled to answer specific questions by a body of informed independent experts. This is because the Janata government had ratified the UN International Covenant on Civil and Political Rights in 1979. It requires India to report on its observance of the covenant. The report is examined by a Human Rights Committee set up by the covenant. It consists of experts who function in their individual capacity.

In 1984 attorney-general, K Parasaran, was grilled. This year the report was examined in March. It had been filed belatedly after several reminders—at least five. The attorney-general, G Ramaswamy, appeared before it and came out badly battered. The committee examined India's report on March 26 and 27, 1991 at New York. Its chairman was an Italian jurist Pocar, an extremely able person. Ramaswamy began by waxing eloquent on India's report. He cited "the free press, the All-India Radio and the independent judiciary" as "the most important vehicles for stimulating public opinion and creating an atmosphere in which human rights could be observed and protected". Is AIR flattered by such false praise?

The chairman thereupon brought our voluble Ramaswami down to earth by raising specific issues. The authoritative Summary Record of the proceedings are most instructive:

The Chairman read out section I of the list of issues concerning the second periodic report of India, namely: (a) the status of the covenant within the Indian legal system and the resolution of possible contradictions between domestic legislation and the covenant, (b) any cases during

the period under review where the provisions of the covenant had been directly invoked before the courts or referred to in court decisions or where a law had been disregarded by a court on the grounds that it was contrary to the covenant, (c) measures which had been taken since the consideration of India's initial report to disseminate information on the rights recognised in the covenant, particularly among the various minority communities in their own languages, and (d) factors and difficulties affecting the implementation of the covenant.

Mr Ramaswamy (India) said, with respect to section I(a) of the list of issues, that in his country the rules of international law were incorporated into national law and considered to be part of it unless they were in conflict with an Act of Parliament; national courts were under an obligation, within reasonable limits, to interpret national law so as to avoid confrontation with the community of nations or the well established principles of international law. In 1990 the Supreme Court of India had observed that in the event of doubt the national rule was to be interpreted in accordance with the international obligations of the state. The rights included in the covenant had already found their place in the Indian Constitution and other laws, and so the question of contradictions between Indian legislation and the covenant was purely hypothetical. No such contradictions had been encountered, and in the period under review Indian courts had not been required to adjudicate any case arising from such contradictions; had they been required to do so, they would have attempted to achieve an interpretation reconciling international law and national legislation.

He proceeded to answer queries in the same formal vein. The member's concern, as Nandita Haksar has pointed out so ably, centred on the Armed Forces (Special Powers) Act and the TADA.

Rosalyn Higgins is a noted authority on international law. She took up Ramaswamy on international law. He rejoined by saying international law conferred no rights on the individual who could rely only on domestic law. Rosalyn Higgins' observations deserve to be quoted:

Mrs Higgins said that while from a common law point of view she understood the theory behind the statement that the guarantees required by the covenant were all present in existing Indian law, she was somewhat puzzled as to practical application, given the reservations expressed, which suggested that the covenant was to be interpreted in line with Indian law, rather than the other way round. She would appreciate a comment on that point.

She agreed with Mr Lallah that the National Security (Amendment) Act and the Terrorist and Disruptive Activities (Prevention) Act entailed derogations from rights under the covenant. Although occasioned by an emergency, those acts had not been proclaimed as emergency legislation. She wished to know why that was so, and why they had not been notified as derogations from the covenant, as required by the covenant itself. She noted, moreover, that no time-limit had been specified for some of the provisions. As the covenant seemed to be subordinate to the Indian Constitution and there were derogations from it, some of them without time-limit, covering wide areas of Indian territory, she would appreciate a statement on how the covenant could be said to apply in India.

She raised another pertinent point:

Mrs Higgins said that it was clear that the Terrorist and Disruptive Activities (Prevention) Act and the National Security (Amendment) Act provided for limitations in respect of the right of assembly, the courts and detention. Since those acts appeared to constitute derogations from the provisions of the covenant, it would be interesting to know why India had submitted no notification of derogation to the committee, as it was bound to do under article 4(3).

Other issues raised by the chairman related to emergency powers, non-discrimination, the death penalty, use of firearms by the police and security forces, treatment of prisoners and other detainees. The chairman's list on the last topic is interesting:

The Chairman read out section V of the list of issues concerning the second periodic report of India, namely: (a) detailed information regarding pro-

cedures for receiving complaints under the Bonded Labour System (Abolition) Act, 1976; (b) consideration to updating the Prisons Act, 1899; (c) controls to ensure that persons arrested or detained are not subjected to torture or to cruel, inhuman or degrading treatment; (d) machinery for carrying out an independent and impartial investigation into allegations of torture and of summary, arbitrary and extrajudicial executions, and independent investigations, if any, and their results; (e) information on arrangements for the supervision of places of detention and on procedures for receiving and investigating complaints; (f) compliance with the United Nations Standard Minimum Rules for the Treatment of Prisoners and accessibility of relevant regulations and directives to prisoners; (g) information on the scientific classification of prisoners with a view to preventing exposure to criminals during custody (para 65 of the report); and (h) information on detention in institutions other than prisons and for reasons other than crimes (e.g., in psychiatric institutions).

All these do not exhaust the topics raised, legal delays and freedom of movement among them. So were freedom of association, freedom of religion and freedom of press. On Prasara Bharati, Ramaswamy gave this assurance:

In 1990, the parliament had passed the Prasara Bharati (Broadcasting Corporation of India) Act. That Act sought to place the mass media, such as television, in the corporate sector, taking it away from full government control. The Prasara Bharati Board would be responsible for the supervision, direction and management of the affairs of the Broadcasting Corporation of India.

These extracts from the proceedings speak for themselves:

The Chairman read out section XIII of the list of issues concerning the second periodic report of India, namely: (a) clarification of the statement in paragraph 134 of the report that the reference to 'ethnic' minority did not apply to Indian society; (b) special factors or difficulties in the effective enjoyment by minorities of their rights under the covenant; and (c) additional information on the work and functions of the Minorities Commission and its effectiveness.

Mr Ramaswamy (India) said that although there were religious and linguistic minorities in India, the Indian people formed a composite whole racially, and hence the concept of ethnic minorities and ethnic majority did not apply.

With regard to section XIII (b) of the list of issues, he said that all human and fundamental rights and mechanisms for

redress were equally available to minorities, which, further, enjoyed a specific Constitutional right to establish and administer educational institutions, so there were no special factors or difficulties in the effective enjoyment of human rights by minorities in India. . .

Mr Sadi noted that Amnesty International, a respected international organisation, had recently published a detailed account of alleged torture and extrajudicial executions in the state of Manipur. He felt that India should have an opportunity to respond to such serious allegations, perhaps in writing, to the committee.

Mr Ramaswamy (India) observed that Mr Sadi had raised a very sensitive issue, because the Indian government, convinced that Amnesty International reports were one-sided and not impartial, did not recognise it as an official body with authority to supervise its activities. It would be recalled, incidentally, that he himself had acknowledged earlier that

thousands had been killed by terrorists in the disturbed areas of the country and that the government was trying to prevent such violence. However, if Mr Sadi personally brought up any allegations, he would personally order a government investigation into the matter and would inform Mr Sadi of the outcome. In ratifying the covenant, India had committed itself to making all rights available to all its citizens; and it had taken action on individual violations without, of course, having achieved Utopian conditions. India's judiciary was one of the best in the world, and its outstanding public interest litigation had in general uncovered all human rights violations, no matter where in India they occurred. The country as a whole was very sensitive to human rights and none were better sentinels of human rights than the Indian people themselves.

The sheer pomposity of our attorney-general is amazing. No wonder he made a poor impression on the committee.

Cholera's Return to Central America

CHOLERA's sudden appearance in Latin America, after almost 100 years in abeyance, presents health authorities with an extremely volatile situation. Every week more Peruvians fall victim to the disease: so far over 1,000 have died with 52,000 hospitalised out of 1,42,500 cases. The sickness has been discovered in Colombia, Ecuador and just recently, in Brazil, according to *Central America Report*, Guatemala. With the exception of Costa Rica, which possesses an acceptable potable water system and sufficient preventive medicine, the other countries of the region could be hit even harder than Peru. It is estimated that in Honduras, more than 30,000 people would be infected in less than three months once the disease gained entrance, with more than 80 per cent of the population (4,00,000) in the capital of Tegucigalpa possibly exposed to the bacteria. In Guatemala, according to Public Health Ministry data, the one million Guatemalans (10 per cent of the total population) who live in poverty belts within the metropolitan area have no access to any type of public services. Only 68 per cent of all homes in Guatemala City have access to potable water, while the purity of what is available elsewhere in the country is questionable. In rural areas, less than 50 per cent of the population have water at their disposal. With the prevailing cholera scare, the fears of many Guatemalans that their supposedly clean water is seriously contaminated are substantiated by daily newspaper reports. According to conservative data, in Guatemala only 38 per cent of the population have access to water; in Nicaragua, 49 per cent; Honduras, 50 per cent; El Salvador, 52 per cent and Panama, 83 per cent. Given these figures, the advice of health officials to boil water before drinking it and assume good personal hygiene habits, pales before the reality facing much of the region.

The monumental scarcity of water produces a plethora of problems such as overall unsanitary drinking and bathing conditions, disastrous

human waste disposal systems and generally negative health prospects. The international health organisations point out that there is another important factor in the propagation of any epidemic: the high rate of illiteracy. From a medical viewpoint, although the introduction of the bacteria is not fatal, the disease assumes fatal proportions owing to rapid dehydration caused by violent diarrhoea and vomiting. For this reason, immediate treatment is absolutely essential. This is where not only ignorance but a deficient health system come into play. In Peru, health officials have been confronted with public hospitals filled beyond capacity. The threat of a widespread epidemic in this case is a medical nightmare. The University of San Carlos in Guatemala reports that because of the country's precarious hospital infrastructure, Guatemalans today face much the same situation of a century ago when 12,000 people died in a cholera epidemic. According to Argentine biology experts, the elimination of cholera in Latin America will not be a matter of months but will take five to 10 years. The more time that passes, the more victims will die, since every day the number of poor increases. The Latin American Economic Commission (CEPAL) affirms that in the last decade, poverty has increased between 10 per cent and 15 per cent in Central America. If one considers that in 1980, 60 per cent of the inhabitants of the region were already poor, the number of Central Americans living in poverty now is around 75 per cent. The fact that cholera or any other endemic disease is nourished primarily by poverty means that stopgap preventive measures are generally ineffective. The kinds of services and attention most needed at this point are exactly those that have been the first cut as economic structural adjustment has taken its toll throughout the region. The dollar savings from such cutbacks in vital public services will be difficult to justify if the threat of a cholera epidemic becomes a reality in Central America.

NEW DELHI

Charade of Plan Making

BM

With the shadow of the World Bank-IMF combine looming large over economic policy making, the Planning Commission's pretence of carrying on as if nothing was the matter fails to carry conviction

IS the era of planned economic development coming to an end in India? It is not the first time that this question has been raised after India embarked on the path of planned development after gaining political independence. But the persistence and stridency with which it is currently being raised is quite remarkable. The reconstitution of the Planning Commission by the prime minister P V Narasimha Rao, albeit with some delay and, some say also with hesitation and reservations, has not put an end to such questioning. Such questioning has actually become quite cynical. This is not fortuitous either. It is not the incompetence of the planners and their inability to produce a feasible plan or the inability and unwillingness of the administrative set up to implement one which is at the root of the questions being raised and misgivings that are being expressed. In fact the professional planners in Yojana Bhavan can very well claim, as they actually do, that their plan making exercises have become, over the years, more detailed and meticulous. If their labours have proved infructuous and have failed to bear fruit in recent years, the fault is not at their level. If they have been frustrated in the past by policy makers or the lack of appropriate policy decisions at the highest levels of the government and the political leadership they are now facing the position that the philosophy and rationality of development planning is being questioned in the name of so called market friendly approaches to tackling the problems of socio-economic development.

The process of economic development and planning has undoubtedly reached a difficult and complex stage. Uncertainties have grown and the need for radical and decisive action to overcome them has become imperative. The balance of payments crisis on which attention is sought to be focused at present is but part of a cumulative set of problems on a broad front. The fact indeed is that most trying for the politicians and administrators, as for the planners, is the sharpening conflict of interests in the economy,

society and polity which does not give much room for soft options to deal with these conflicts and so manage them in such a manner that orderly planned development becomes feasible and operational. An old hand in Yojana Bhavan wryly remarked that Pranab Mukherjee, the present deputy chairman of the Planning Commission, has become an ardent planner: if he had found some other berth in the Narasimha Rao government, which he would have very much preferred, he would have come down on planning and planners with gusto.

The Planning Commission which has been reconstituted with the appointment of seven full time members has a large complement of cabinet ministers as part time members. This is not a good augury for the professional planners to function well and effectively. Past experience shows that the influx of cabinet ministers as members, which is also accompanied by a large complement of bureaucrats at various levels in the commission set up, has been deleterious for the health of the Planning Commission and has adversely effected its functioning and the quality of its work. The commission, as it has been constituted, does not inspire much confidence as to its technical expertise and comprehension of the problems of building an integrated policy frame and formulating a development plan which would be well structured internally consistent and feasible given the political and social alignment of forces. Another noteworthy feature is that the prime minister chose to reject, by and large, the recommendations of the deputy chairman of the commission on the appointment of the members. The personal contacts and the whims and fancies of the prime minister seem to have played a large part in the appointment of the members. A lacuna can be immediately noticed in the composition of the commission. There is no development planner and model maker among the members, though C Rangarajan is a competent economist in the field of his specialisation. There is a doctor, an educationist, a scientist and one who is interested in

rural development but cannot claim to be an expert in agriculture. It is significant that under the allocation of work to the members of the commission, Rangarajan would look after international economics and trade but financing the development plan has been kept by the deputy chairman under his personal charge. What is sought to be indicated, it is claimed, is a shift of emphasis, so far as the role of the Planning Commission is concerned. Planning of investment with resources which the public authority can mobilise and deploy resources which have shrunk to dangerously low levels, for the growth of industry and agriculture, is not on the cards now. Reliance will have to be placed on private enterprise for the development of industry as well as agriculture. The attention of the planners will be focused on formulating schemes for what is called the social sectors. How exactly these schemes will be financed is not made clear. The agencies that will mobilise resources for deployment in these schemes, presumably under an order of planned priorities, are also not being identified. The relevance of development planning in the liberalisation policy frame which has been projected in the policy announcements immediately after the formation of the Narasimha Rao government is still very hazy. The Planning Commission was not even constituted when the policy announcements were made. The only comfort for the planners may be that even the finance ministry and the commerce ministry have been mere mouthpieces for announcing ready-made blueprints, evidently provided by institutions representing the country's foreign creditors.

The new Planning Commission has decided that it will not engage in another exercise to define afresh the approach to the Eighth Plan beginning 1992-93. While thus formally accepting a two year plan holiday on the conclusion of the Seventh Plan, this decision also casts doubts on the keenness of the official planners to engage in a meaningful exercise to frame a sound Eighth Plan for socio-economic development. It is airily suggested that planners have already with them the two approach documents for the Eighth Plan, one drawn up by the Planning Commission under the aegis of the Congress(I) government before the 1989 general elections and the second one presented by the Planning Commission constituted by the National Front government and approved by the National Development Council in 1990. It is ready to adopt both these documents and the totally divergent approaches they embody and pretend on

that has to be well-equipped to write the Eighth Plan. In addition, there is the hurriedly prepared draft of the Eighth Plan left behind by the Planning Commission set up by the Chandra Shekhar government which, it is smugly suggested, can be given final shape with some minor adjustments, delineation of thrust areas and of course, smart editing of the plan document. This is a fantastic position to take for the Planning Commission of a government which is claiming to make a sharp break with what is loudly denounced as the failed experiment in development planning in the past and proclaiming with gusto a new road to development based on private enterprise and play of market forces. A senior official with experience of old style planning has however been entrusted with the task of preparing a paper which will outline the so called thrust areas for planning and delineate the implications of the growth rate which the new government would like to project for the five year period of the Eighth Plan. The options here are said to be well settled. The thrust areas would be population control, development of infrastructure which will still have to be undertaken in the public sector to boost private enterprise. The definition of infrastructure of course, is still inconclusive and hazy. It includes, unquestionably power, irrigation, transport and communications. But it also includes human resources development which, in addition to technical training would also require primary education and health services to be promoted in a big way. Going on this basis, resources which the government and the public agencies in general will have to mobilise and deploy will still be enormous and pruning of investment in public sector industry is not likely to give much relief to the government in this respect. It is the ticklish question of the resources which has so far stood in the way of drawing up of the Eighth Plan. Also significantly the shrinking resources in the hands of public authorities for investment is also the driving force behind the so called market oriented liberalisation and privatisation policy. The deputy chairman keeping the finance portfolio to himself cannot tackle this problem. It can only be a cause for some embarrassment and friction between the finance ministry and the Planning Commission.

Pranab Mukherjee was denied by the wily prime minister his claim to the office of finance minister. Mukherjee has therefore to attempt to make his presence felt from his perch in Yojana Bhavan. He has, therefore, talked with much ebullience, contrived or sincere about the relevance of development planning and the need to "prioritise the development

process". Even when structural reforms to give market forces a dominant role in the determination of the content and direction of growth as well as growth agents in the economy and society are being pushed through. He was looking forward eagerly to the early constitution of the Planning Commission with members of his choice which would help give him an effective platform to operate in the present political-administrative set up. But he has again been let down with the prime minister ignoring his concerns and recommendations. Narasimha Rao took a long time to make up his mind since the reconstitution of the Planning Commission was evidently a matter very low in his priorities.

The chorus in support of privatisation and structural adjustment with a human face meanwhile is becoming strident as the populist ploy to cover up the true intentions of the vested interests in the economy and society and their political representatives. Mukherjee cannot stand aside and has to join it. He will be called upon to provide in the plan, without resources in sight, for 'safety nets' for the helpless and vulnerable segments of the population. Though 50 per cent of the population in India is still eking out an existence at or below the subsistence level and is outside the pale of what is called the market economy which provides effective demand for market oriented economic activity, the so called safety nets are being concerned partially to take care of only those who would be pushed out of gainful economic activity and made redundant by the so called efficient capital intensive modernisation of the production structure. What is in the offing is the further narrowing of the social base for the development process to make headway. The very idea that the Planning Commission, while it is made to shed its role as the prime agency for planning balanced and equitable socio-economic development, can be converted into an agency for formulating meaningful schemes for the social sector as an integral part of the design for development is, therefore, false, fanciful and deceptive.

While investment plans in the past created a dual society with the upper and middle classes consolidating their positions in the system inherited from the colonial era, any idea of development planning in which institutional reforms is given a role in investment planning now stands condemned by those who call the shots. The drift to a plan holiday has been the inevitable denouement. If the first three year plan holiday in the 1960s was an interruption in medium term development planning which could afterwards be resumed, albeit with significant policy

vacillations and equivocations, the five year holiday in development planning which is at present being observed cannot be easily terminated in order to return to meaningful development planning afresh.

It is necessary in this context to reckon with the dark shadow of foreign creditors and the World Bank/IMF combine over economic policy and planning exercises in India. The structural adjustment of the Indian economy is to be financed by the IMF and other foreign creditors, and involves acceptance, together with foreign credits, of onerous conditions, the primary condition being that development planning be aborted and the role of the Indian state in the development process significantly diluted. The fixing and prioritisation of the so called thrust areas of planning have become anachronistic propositions in the current economic situation.

The Planning Commission is being geared for preparing the draft, or at least a draft outline, of the Eighth Plan in the next couple of months to enable the holding of a session of the National Development Council. Another session of NDC is proposed to be held in February 1992, when the Eighth Plan in a finished form would presumably be presented to it for approval. Whether this time-table set for the planners by the deputy chairman of the Planning Commission will hold is, however, a moot point. The Planning Commission under the Chandra Shekhar government too had been persuaded to call a meeting of NDC in April this year to approve the Eighth Plan. The planners worked feverishly to prepare the chapters of the plan for this meeting. But by January, it had become clear that all this work was in vain and work on the plan had to be suspended when the so called high-powered committee of the prime minister, the finance minister and the deputy chairman of the Planning Commission failed even to meet to take a view on the resources position for the plan. When the presentation of even the budget was postponed, the work on making any kind of a development plan became infructuous and an exercise in futility. That the budget for 1991-92 was finally made and presented by the Narasimha Rao government does not mean that work on making the plan can now be resumed with any assurance or realism. The political uncertainties surrounding a minority government cannot be wished away. The resources position remains stretched. The competing demands on available resources for current consumption remain unchecked. The formulation of the Eighth Plan in these conditions will not carry conviction or credibility.

Pesticides: From Silent Spring to Indian Summer

Aparna Viswanathan

The debate over pesticide use in India has been framed in a false dichotomy: prevention of human and environmental pesticide poisoning versus increased foodgrain production and control of insect-borne diseases. However, analysis of the effects of pesticides reveals that increasing pesticide use does not boost foodgrain production over the long term but, instead, has led to a resurgence of both target and secondary pests

IN the name of science and control over nature, man's systematic pesticide poisoning of plants, animals, soil, water, and the entire ecosystem rages on unabated and unnoticed. In 1962, Rachel Carson published the classic *Silent Spring* which shocked the western world into consciousness and led to the banning of DDT as well as enactment of pesticide regulations in many countries. In 1977 *Rolling Stone* editor David Weir provoked another public outcry by disclosing that US and European corporations were selling drugs, pesticides and other chemicals which were banned in their home countries to the developing world. Other revelations followed in 1975. Ciba Geigy used Indians as human guinea pigs to test the effects of pesticides and sprayed 38 Indians aged 13 to 57 with the organophosphate, Nuvacron 40.

Nevertheless, while *Silent Spring* awakened the western world to the catastrophic implications of the systematic pesticide poisoning of the environment, India still slumbers in a Kumbhakarnic sleep—only one of the world's most hazardous pesticides, known as the 'dirty dozen', is banned in India. The 'dirty dozen' include DDT, BHC (benzene hexachloride), Aldrin, EDB (ethylene dibromide), chlordane/heptachlor, methyl parathion, paraquat, DBCP (dibromochloropropane), chlordimeform, 2, 4, 5-T, toxaphene and PCP (pentachlorophenol). These pesticides are deadly. Even one swallow of paraquat is a lethal dose for an adult. A spoonful of parathion, a nerve gas developed in the second world war, spilled on the skin is also lethal. Nevertheless, only 2, 4, 5-T has been disapproved for registration in India.¹ In sharp contrast, all of the 'dirty dozen' are banned or severely restricted in industrialised countries.

Measured by tonnage, at least 70 per cent of all pesticides used on Indian farms are banned or severely restricted in western countries and identified by the World Health Organisation (WHO) as extremely toxic or hazardous. An even greater percentage of pesticides banned in the west are

used in Indian public health programmes. For example, although DDT has been banned in 24 countries, India consumed 15 826 metric tons in public health programmes in 1984-85.² Similarly, although BHC—twice as toxic as DDT—has been banned in five countries and severely restricted in 15 countries including the US, 25 000 tons were used in India in 1986. And the list goes on—150 tons of heptachlor, three times as toxic as DDT and banned in 20 countries, are consumed annually in India. DBCP, banned in 18 countries including the US, is used on wheat and other crops in India.

India is the largest consumer and manufacturer of pesticides among south Asian and African countries and pesticide use in India has multiplied 20 times between 1960 and 1980. The introduction of high yielding variety seeds during the green revolution increased pesticide consumption as the new varieties are less resistant to pests than traditional seeds.

The risks of increased use of hazardous pesticides are magnified in India, in tropical conditions, it is very difficult to use protective clothing, face masks, gloves and boots while spraying. Furthermore, illiteracy and lack of information among farmers contribute to pesticide misuse. A recent survey of farm workers spraying pesticides in Gujarat revealed that the workers were not given any protective clothing, only 50 per cent covered their faces with a cloth and only 20 per cent washed their hands after spraying.

As a result of the widespread use and misuse of hazardous pesticides, India accounts for over one third of the 5,00,000 acute pesticide poisonings which the WHO estimates occur every year in the developing world. In addition to acute poisoning, exposure to the 'dirty dozen' pesticides produces latent diseases and disorders such as cancer, heart disease, brain, kidney and liver damage as well as sterility, spontaneous abortions and birth defects.

Indians face a much higher risk of death and disability caused by acute and cumulative exposure to pesticides as they

carry more pesticide residues in their bodies than people anywhere else in the world. Indians ingest 40 times as much DDT and BHC as their American and English counterparts.⁴

The level of DDT and BHC residues in food in India is among the highest in the world. According to a 1984 study by the UN Food and Agriculture Organisation (FAO), all of the 1,500 samples of cereals, pulses, milk, oil and meat sampled from all over India contained DDT and BHC, and the residues exceeded the WHO safety limit in 25 per cent of the samples. In contrast, only 12 per cent of the food samples had residues above tolerance levels in market basket surveys in developed countries. Furthermore, Indian babies imbibe eight times more DDT in their mothers' milk than American, Swedish and German babies.⁵

In addition to the catastrophic effects on human health, pesticides have also polluted water, soil and air as they do not degrade easily and can persist in the environment for as long as 20 years. Furthermore, as pesticides are not selective biotic killers, they also kill many non-target species as well as the targeted pest. For example, DDT is highly toxic to aquatic life and bird populations and, due to aerial drift, it is impossible to prevent DDT from spreading to areas even remote from the site of application.⁶

However, the debate over pesticide use in India has been framed in a false dichotomy: prevention of human and environmental pesticide poisoning versus increased foodgrain production and control of insect (vector) borne diseases. The systematic pesticide contamination of the ecosystem is defended as a necessary evil in order to increase agricultural yields and control malaria. However, analysis of the environmental and biological effects of pesticides reveals that increasing pesticide use does not boost foodgrain production over the long term but, instead, has led to a resurgence of both target and secondary pests. Similarly, although pesticides reduced the incidence of malaria following the second world war, a resurgence of malaria has occurred. Like all wonder drugs, pesticides promised miracles but only delivered addiction.

Pesticides have led to a resurgence of pests many times greater than the initial outbreak as, first, they are not selective killers. Pesticides poison many nontarget species including the natural predators and parasites position of the target pest. The few surviving natural enemies starve to death after spraying as the pest populations are temporarily too low to provide sufficient food. Subsequently, the surviving pests multiply without control as their natural enemies have been killed. For example, use of DDT to control the boll

weevil, a cotton pest, destroyed the fire ant, a natural predator of the boll weevil.

Pesticides also destroy the natural enemies of non-target pests thereby disrupting the population control mechanisms provided by nature and transforming insects which previously caused minor problems into serious pests. For example, use of DDT and methyl parathion to control the boll weevil destroyed the beneficial arthropod parasites and predators residing in cotton fields which resulted in an enormous outbreak of the bollworm and tobacco budworm known as the *Heliothis* complex. While the *Heliothis* complex had only caused minor and sporadic damage prior to the introduction of DDT, it replaced the boll weevil as the primary cotton pest by the early 1960s.

In addition to destroying natural enemies pesticides result in the emergence of resistant insect species. Resistance develops according to the Darwinian concept of natural selection. As only the tough insects survive the chemical spraying, they become the parents of the next generation passing down the genetic traits for chemical resistance.

According to a 1980 study by the IAO 432 species of arthropods are resistant to several insecticides. As a result, cotton farmers in Gujarat spray their fields 20 to 30 times more often than before with increasingly toxic and expensive pesticides which constitute over 50 per cent of cultivation costs. In Maharashtra, expenditures on pesticides have increased by 340 per cent without any increase in the average yield. In Andhra Pradesh, the state where the highest amount of pesticides, 15,000 tons a year, are consumed over 15 species of pests have become resistant to the commonly used agrochemicals.

Furthermore, malarial mosquitoes have also developed resistance to pesticides. In 1961, after 10 years of DDT use the number of malaria cases in India had fallen to 50,000. However, the *Anopheles* mosquito has become resistant to organochlorine pesticides such as DDT especially in areas which had adopted high yielding forms of agricultural production. Indian officials have also reported resistance to the more toxic organophosphate and carbamate pesticides. As a result, a resurgence has occurred in malaria cases which number over two million today.

Widespread pesticide use has both eliminated the natural predators and parasites of many pests and produced the emergence of resistant pest species. The consequent explosion of target and secondary pests has diminished crop yields and inflicted prohibitive pesticide costs on farmers. The ineffectiveness of chemical pest control is revealed by the fact that the 1,00,000 tons of pesticides consumed in 1984-85 in India helped save only 10 per cent of foodgrain production.⁹ Therefore,

pesticide poisoning of the ecosystem is not a necessary evil which must be borne in order to increase food grain production or control malaria. On the contrary, the reduction and elimination of pesticide use and the adoption of alternate means of pest control are the first steps toward increasing crop yields and eliminating disease over the long term.

Recognising the ineffectiveness and tremendous hazards created by pesticides, many western countries have shifted towards use of Integrated Pest Management (IPM). The fundamental difference between IPM and pesticide use is that while chemical control spreads an indiscriminate biotic killer in the environment without regard to the interaction of such chemicals with the processes of nature, IPM stresses enhancing pest control mechanisms which already exist in nature and disturbing these natural processes as little as possible.

IPM relies on a combination of techniques which include biological controls such as releasing natural enemies of the target pest in the area where the pest is located, developing host resistance by selective breeding of resistant crop varieties, autocidal controls, that is, tactics which cause the pest to contribute to the reduction of its own population such as release of laboratory propagated sterile males, and cultural controls—techniques which make the environment less favourable to pest reproduction and survival. Cultural controls include early planting to avoid peak pest periods or sanitation to remove food and breeding sites for pests. Crop rotation is also used against pests which cannot survive for long periods of time without crop contact and trap crops are used to attract pests to a small early crop which is then destroyed.¹

Experimental IPM programme in India have successfully reduced use of pesticides on cotton by one half and have increased yields. The IPM programmes emphasise choosing a seed variety which avoids maximum boll formation during the peak period of bollworm activity, sowing in May, use of parasites and sanitation measures such as uprooting crops at the end of the season.²

In Cuttack, Orissa, an IPM programme used early maturing, short duration varieties of rice resistant to gall midges and the stem borer and rice stubble was destroyed by ploughing after harvest to avoid pest carryover. As a result, the major rice pest the stem borer reached the economic injury level only in one of 11 villages and pesticides use was drastically reduced to one spraying in the field and the nursery.³

Biological controls have been proven successful in controlling vegetable crop pests in India. For example, larval parasites were used to control *Plutella*

xylostella, a cabbage pest, by 47 per cent; consequently, 100 per cent of the plants produced normal heads of cabbage with only the outer leaves damaged.¹³

Biological controls have also been successfully used instead of DDT to control malarial mosquitoes. A strain of the bacterium *Bt* var *israelensis* Serotype H-14 is a mosquito larvicidal agent which achieves 100 per cent mortality. Fish have also been used to reduce breeding of the *Anopheles* malarial mosquito from 32.8 per cent to 1 per cent in India one month after introduction into wells in Pondicherry. Another Indian field experiment used natural and synthetic garlic extracts as a mosquito larvicide against *Anopheles*.¹⁴

Instead of using BHC to control storage pests, jute bags treated with either 2 per cent ascorbic acid or 1 per cent acetic acid protected stored wheat grain for three months. Furthermore, the leaves and seeds of the 'neem' tree, indigenous to India, have been used to discourage pests when mixed with grains in storage.¹⁵

Experimental evidence reveals that Integrated Pest Management is a far more sustainable agricultural practice than pesticide spraying as it selectively controls pests without either creating an outbreak of newly resistant species or contaminating the entire ecosystem with toxic chemicals. In a country where over 22,000 deaths from pesticide poisonings occur each year, the manufacture and use of the dirty dozen must be banned and replaced with a more ecologically and economically sound form of agriculture as the silent spring has turned into an even more deadly Indian summer.

Notes

- 1 UN Consolidated List of Products whose consumption and/or sale have been banned, withdrawn, severely restricted or not approved by governments, Second Issue, 1986. Additional Source: Directorate of Plant Protection, Quarantine and Storage, Fardabad.
- 2 'Status Report on Pesticide Residues vis-a-vis Consumer Protection', Department of Science and Technology, Government of India, 1987.
- 3 David Bull, *A Growing Problem: Pesticides and the Third World Poor*, OXFAM, 1982, p. 51.
- 4 'Poison in Your Food' *India Today*, June 15, 1989.
- 5 Ibid.
- 6 Jerry Gips, 'Breaking the Pesticide Habit: Alternatives to 12 Hazardous Pesticides', International Alliance for Sustainable Agriculture, 1987.
- 7 UN Consolidated List, op cit.
- 8 Ibid.
- 9 Ibid.
- 10 Gips, op cit.
- 11 Bull, op cit, p. 136.
- 12 Ibid, p. 136.
- 13 Gips, op cit, p. 162.
- 14 Ibid.
- 15 Ibid.

War by Proxy

Madan Gopal Jajoo

The number of proxies collected by the Ambanis for the L&T extraordinary general meeting has set a record. In view of the possibility of multiple proxies having been given without infringing in law, it is necessary to verify the proxies and weed out the multiple ones. This elementary precaution has assumed significance in this case because it does seem that the cult of booth-capturing is perhaps being extended to corporate disputes

THREE years have elapsed since the Ambanis made their overt moves to take over I & T. The first year, September 1988 to August 1989, was rather uneventful, but the groundwork for waging a war, if it became necessary, had been prepared. Four Ambani nominees had become directors of I & T, one of them, D H Ambani, had become the chairman, and a large amount of Rs 91 crore, had been raised by issue of convertible debentures. The second year, September 1989 to August 1990, saw powerful fireworks and ended with the Ambanis clearly emerging as winners. They had succeeded in making the mega issue of fully convertible debentures (FCDs) of Rs 820 crore and in calling up half the amount, despite a fierce legal battle for purposes which met the pressing financial needs of Reliance companies. This, however, was not disclosed to the shareholders of I & T because they might not have reacted favourably. In the turmoil that followed, the Ambanis were deprived of the suppliers' credit of Rs 635 crore from I & T. But they were assured of satisfactory alternative financing of both Reliance Industries and Reliance Petrochemicals projects. They also lost the chairmanship of I & T but all the professional managers continued to give them due deference. Just as the year was coming to a close, the political climate which had been unfriendly, if not inimical, to the Ambanis in the I & T matter, had started to change in a manner favourable to the Ambanis. A less ambitious person would have been content with these substantial achievements. At this stage the Ambanis' holding in L&T was said to be less than 25 per cent as against the public financial institutions' 37 per cent.

Dhirubhai Ambani is evidently made of sterner stuff. When he sensed the change in the political situation at the start of the third year in September 1990, he decided to press further. Since November 1989 the litigation in the Supreme Court regarding the mega-issue of FCDs of Rs 820 crore had remained dormant. Earlier the court had approved provisional allotment in a manner which suited the Ambanis to the dot. Ambanis revived the litigation, ostensibly

because I & T's Board had decided to prune the size of the mega issue from Rs 820 crore to Rs 640 crore and make the issue partly instead of fully convertible. These changes required the court's approval. A few subscribers to the debentures felt aggrieved and took the matter to the Madras and Gujarat high courts, these came to be transferred to the Supreme Court to be tagged on to the pending litigation. In fact the debenture holders' grievance which was in reality instigated by the Ambanis, became the dominant issue in the Supreme Court proceedings.

During the course of the Supreme Court hearings, I & T's board made another somersault: they did not mind keeping the issue at the original amount of Rs 820 crore instead of pruning it to Rs 640 crore if the court was so inclined. At one stage the judges made a query as to why the company required Rs 820 crore now that they had decided to cancel the suppliers' credit of Rs 635 crore to Reliance companies included in the original estimate of outlay conveyed to CCI (though not to the shareholders). No one, I & T, the financial institutions, the government or the public interest litigants, all together represented by a dozen distinguished counsels, made any effort to inhibit the judges on this score. Ultimately the court gave its approval to the original amount of Rs 820 crore. One regrets to say that the whole legal wrangle fails to inspire respect for the judicial processes in the country.

The Ambanis had another stroke of good luck—a more pliable government had been installed in Delhi. They sought the removal of D N Ghosh from the chairmanship of I & T and the Chandra Shekhar government duly obliged. This, however, proved to be the proverbial half loaf, the Ambanis could not be expected to be reconciled to this. They wanted the company to be wholly under their control but could not even get back into the chairman's seat. The political situation in the country was such that even a pro-Ambani government thought discretion the better part of valour, notwithstanding the fact

that a general election, in which the Ambanis' patronage was a significant factor, loomed large.

There followed a lull of three months: the tragic death of Rajiv Gandhi prolonged the election process and finally a minority government took over the reins. This government swears by the legacy of Rajiv Gandhi, but is evidently not committed to accepting all the suggestions, requests or commands emanating from the Ambanis. In the last week of July the Ambanis made their move to force the hands of the new prime minister and finance minister. They were going to test their strength against the government in open combat.

A wholly owned subsidiary of Reliance Industries, Trishna Investments and Leasings had been the main vehicle for the Ambanis acquiring shares of L&T. Trishna sent a requisition for an extraordinary general meeting (EGM) of I & T, pursuant to its statutory right as holder of more than 10 per cent shareholding, to pass resolutions for (a) appointment of D H Ambani as director and chairman of the board and (b) appointment of Mukesh Ambani as managing director. The requisition stated that Trishna had more than 10 per cent shareholding in I & T; subsequent newspaper reports gave the precise figure 16.02 per cent. The Ambanis have been giving the impression that their total holding in I & T was very substantial—22 per cent, 27 per cent, even 35 per cent have been the figures bandied about.

But there is no possibility of verifying the details of shareholdings, not only of I & T but of any of the Reliance companies. One of the first moves made by the Ambanis after their four nominees joined the board of I & T was to transfer the share registry from Tata Consultancy Services to an in-house company of the Reliance group, Reliance Consultancy Services, located at Chembur, a distant suburb of Bombay. This insures total secrecy, even the largest shareholder, Life Insurance Corporation of India, was, in April 1990, unable to obtain details of I & T shareholdings after it had served a requisition for a meeting. The LIC had to knock at the doors of the high court for directions to the company to make available these details. Another source of verification of shareholdings is the Registrar of Companies. The RoC's office space is quite insufficient and inspection of shareholdings of large companies is practically ruled out. In any event, the RoC's office is equally subservient to the Ambanis. In 1989, this writer was unable to obtain inspection of the prospectus lodged in respect of the mega-issue even though the prescribed fee was collected.

from him.

Requisitioning of the meeting was meant as a warning shot, or, if one may use a different metaphor, beginning of the match between the Ambanis and the government. With a difference. The players on the government side were known—executives of public financial institutions with their benign interest in the outcome—whereas the Ambanis marshalled a team of unlimited numbers. The Ambanis own L&T shareholding, whichever figure was true, would not ensure their winning the match in opposition to the public financial institutions holding. About 1,78,000 persons held the remaining—30 per cent or 38 per cent—shareholding. The Ambanis organised a massive proxy campaign: a very large number of emissaries went round collecting proxies, on piece rate basis, culminating in a claimed 82,964 proxies representing 48.1 per cent of the equity shareholding. These were already lodged with the company by August 23. This was something of an incredible feat: if true, the match is over, the Ambanis having won a resounding victory. But this will be taking a simplistic view.

Proxy is an instrument which enables a shareholder who does not intend to attend a meeting to appoint another person to attend and vote for him. Companies usually supply blank proxy forms which the shareholder signs and, after affixing to each a 30p revenue stamp, these are to be lodged with the company 48 hours before the time of the meeting. Those soliciting proxies may also supply proxy forms. In the case of L&T's EGM, proxy forms were sent out to all shareholders by the company, by Irishi (which had requisitioned the meeting) and some Ambani associates. It is not improper for a shareholder to give more than one proxy, even after having given a proxy; he may attend in person, and if more than one proxy is given, all of them may attend. A proxy can vote only if poll is demanded, and in this eventuality, which proxy is valid is important. The large number of proxies collected by the Ambanis for the L&T EGM has set a record, and in view of the possibility of multiple proxies having been given without infringement of the law, it is necessary to verify these and weed out the duplicate, triplicate and quadruplicate ones. This elementary precaution has become very significant in this instance because a very large number of persons were deployed and allegations are freely aired of a substantial amount expended on the proxy campaign. Perhaps the cult of booth capturing has been extended to corporate disputes.

The ghost of the Ambani type of proxy war must be exorcised at the incipient

stage if the country is to retain a modicum of sanity in its corporate affairs. The Ambanis claim to have lodged with the company, prior to the meeting, 82,964 proxies, an average of about 12,500 proxies per day in 6½ working days between August 14 and 26. This sounds improbable, particularly in the context of the company secretary's quibbling about constraints of space and staff when this writer, as a shareholder, sought inspection of the proxies. These proxies were not just received; the necessary entries were presumably made in proxy register after due verification. And all the while the register of members and other records were tucked away in the Chembur premises of Reliance Consultancy Services.

After a token resistance by the Ambanis, the EGM convened on August 26 was adjourned to September 16, pursuant to the LIC's initiative. It is said that this adjournment was a ploy to avoid taking a decision while parliament remained in

session. Or, as *The Economic Times* said in a leader, the government wished to avoid a showdown until the Finance Bill was safely out of the way. The Ambanis, of course, are aware of this government's predicament and hence the massive proxy vote to force the issue. Since 1980 the Ambanis have moulded major government policies to suit their purposes. Since 1989 they have played a major role in the choosing of prime ministers. The next stage will be their exploiting the factionalism in the Congress(I) and dictating the choice of party's leader.

Since 1990, the Ambanis' aggressive postures have been met by successive governments by seeking soft options. The damage it has caused to the norms relating to corporate finances is all too obvious. The economic policy-makers in New Delhi have not been renowned for their vision in the past. Is the finance minister willing to make a new beginning and stand up to the Ambanis' onslaught?

World Trade in 1990

THE value of world trade rose by about 14.6 per cent in US dollar terms in 1990 compared with about 8.1 per cent in 1989 and 14.5 per cent in 1988, according to data in the 1991 edition of the IMF's *Direction of Trade Statistics Yearbook*. Trade volume growth slowed, however, to about 3.9 per cent in 1990 from 7.1 per cent the previous year, because of a slowdown in world economic activity, the disruption in trade among Central and Eastern European countries, and the rise in oil prices.

In 1990, industrial country trade grew at about the same pace as world trade. Industrial countries' exports rose by 15.3 per cent (or \$ 124.9 billion) and their imports by 14.8 per cent (or \$ 331.8 billion). Boosted by a lower dollar and strong demand from reunited Germany, the value of western European countries' trade rose by more than 20 per cent. In 1990, Germany overtook the United States as the world's leading exporter. The trade imbalances among Japan, Germany and the United States narrowed further in 1990. The US trade deficit declined by \$ 5.6 billion to \$ 123.9 billion. Germany's trade surplus was down by \$ 9 billion to \$ 62.8 billion, and that of Japan narrowed by \$ 12.6 billion to \$ 52.4 billion.

Developing countries' exports increased by 13 per cent or \$ 102 billion in 1990, while their imports rose by 15.3 per cent or \$ 116.7 billion. As a result, their aggregate trade surplus declined last year to \$ 7.3 billion from \$ 22 billion in 1989.

This reflected the mixed effects of the rise in oil prices, continued declines in non-fuel commodity prices, and slower demand from industrial countries. Among regions of the developing world, the west Asia recorded the fastest export growth in 1990 (23.9 per cent), mainly because of higher oil prices. West Asian countries' imports increased by 16.9 per cent. Their aggregate trade surplus increased by \$ 10.5 billion to \$ 30.5 billion in 1990, the highest level since 1981. The aggregate trade deficit of European developing countries widened by \$ 15.2 billion in 1990 to \$ 18.8 billion. These countries' exports declined by 5.8 per cent last year (following a 1.9 per cent decline in 1989), while their imports rose by 13.4 per cent. African countries' exports increased by 16.3 per cent in 1990—mainly driven by the oil exporting countries—while their imports were up 12.9 per cent. As a result, Africa recorded a trade surplus of \$ 3.5 billion in 1990, compared with balanced trade in 1989. The 14.5 per cent increase in the exports of Western Hemisphere countries was also mainly driven by higher oil exports. The region's imports rose by 20.3 per cent in 1990, and its trade surplus contracted by \$ 3.7 billion, to \$ 11.2 billion. In the Asian developing countries, the growth of exports in 1990 (12.3 per cent) was outpaced by that of imports (14.3 per cent)—a trend that held true for the region's leading trading nations. Asia's aggregate trade deficit continued to deteriorate, reaching \$ 19.2 billion at the end of 1990.

Chicken Biryani and the Inconsequential Brahmin

M S S Pandian

The Brahmin community constituting 'barely three per cent' of the population in Tamil Nadu but wielding as it does a near monopolistic control over the press, played a major role during the Lok Sabha elections in dismantling the anti-Brahminism of the Dravidian movement.

OCCASIONALLY greasy and always spicy, chicken 'biryani' has been a sign of good times for the ordinary Tamils—to be precise, for those ordinary Tamils who are chicken eaters. It is the Friday night special in niggardly students' hostels; small-time Chettinad hotels sell a large share of it during that elusive first week of the month when the salaried lower middle classes indulgently think, they have some extra money; the subalterns of urban slums bet in terms of half a plate of chicken biryani. Interestingly, during the recent election in Tamil Nadu, this harmless item in the gastronomical universe of the ordinary was launched on a major political career. It was invested with the supreme task of dismantling the anti-Brahminism of the Dravidian movement.

The new career of chicken biryani began in the Mayiladuthurai constituency in Thanjavur district and the person responsible for this was none less than the Doon School-educated Mani Shankar Aiyar. Aiyar won on a Congress(I) ticket over his DMK rival K P Kaliyanam in Mayiladuthurai constituency, and it was indeed a credible victory. As Aiyar records in a recent article in the *Sunday Observer* (July 7, 1991), "Most Significant of all, I, a Brahmin by birth (if not by conviction) with 'Aiyar' emblazoned (for reasons of regional identity) on my name and on the ballot paper, contested from a constituency of Thanjavur district, the very citadel of the Dravida movement. And became the first Brahmin in a generation to be elected from Tamil Nadu constituency other than Madras South." Epoch-making victories are often not easy victories and Aiyar's was not either. During the election campaign, the rabble-rousers of the DMK got as noisy as they could and accused this "first Brahmin in a generation to be elected to the Lok Sabha" of being just that—a Brahmin. An offended Aiyar writes, "...Kaliyanam (moderately and his DMK cohorts (viciously) went around talking neither of development nor of justice nor of national honour but

how I was - dare they say it?—a Brahmin, no less..." This was the moment of arrival for chicken biryani, a silent spectator so far; it shed its political innocence and came to the rescue of Aiyar. In Aiyar's words, "I went for the DMK arguments with a string of Kaliyanam jokes—challenging him to find the sacred thread on my body; challenging him to an open competition in the village square to see who could eat more chicken biryani—he or Brahmin me..." People of Mayiladuthurai knew, in 'open competition' without reservations, Aiyar was bound to win and he would eat more chicken biryani than the Brahmin-baiter K P Kaliyanam. As if to uphold efficiency in public life, they elected Aiyar.

While Mani Shankar Aiyar was educating the people of Mayiladuthurai that Aiyars are not Brahmins and they eat chicken biryani in village squares, there were other Brahmins who were, with exemplary modesty, claiming that Brahmins of Tamil Nadu are of no consequence anymore and their existence is a mere sociological relic. The campaign of the DMK chief M Karunanidhi, a self-proclaimed Shudra, against the Brahmins understandably provoked V P Raman of Madras. Peace-loving as he was, the only thing he could do was to write a letter to the editor of the *Sunday Observer*. The letter read as follows:

As a shrewd strategist perceiving the wave building up against him, Karunanidhi has chosen to spite and antagonise a community that accounts for a fraction of the state's population.

Karunanidhi squeals and shrieks much too often that he is the sole arbiter of communalism in politics and yet mounts an affront on an innocent and peace-loving community. All this makes me wonder if it is not eminently true that those whom the gods want to destroy they first make mad! (*Sunday Observer*, June 16, 1991).

The community which V P Raman is lamenting about is the Tamil Brahmin. 'Innocent', 'peace-loving' and numerically a fraction—in other words, they are

politically inconsequential. And the gods of V P Raman have always protected the innocent and peace-loving—at least from the days of Manu.

The argument about the inconsequential Brahmin repeats endlessly and V P Raman's letter is only an instance. Reporting the election campaign in the state, P K Balachandran, the Madras correspondent of the *Sunday Observer*, noted, "Karunanidhi's ire against the miniscule Brahmin community, which constitutes barely three per cent, is due to the fact that his tormentor and *bete noire*, Jayalalitha Jayaram, happens to be an Iyengar Brahmin" (emphasis mine; incidentally, it is not only Jayalalitha who 'happens to be' a Brahmin, but P K Balachandran also happens to be one). For P K Balachandran, it was unfortunate that the 'miniscule' and the 'barely three per cent' had to be the target of this heartless attack: "Unfortunately for the Brahmins of Tamil Nadu, all those involved in the ouster of the DMK government were Brahmins. Apart from Jayalalitha who had taken it up as a mission, there was Dr Subramaniya Swamy (a Madurai Iyer), Rajiv Gandhi (seen in Tamil Nadu as a Kashmiri Brahmin) and of course president R Venkataraman, who signed the sack order, is a Puttukkottai Iyer" (emphasis mine). What Balachandran did not mention in his report is that within hours of the dismissal of the DMK government the Brahmins' Association of Pallavaram brought out handbills describing the dismissal as the decimation of the Shudra rule in Tamil Nadu and claiming that Kanchi Mutt would now be the headquarters of the state. The poor, unfortunate Brahmins indeed.

While the Tamil Brahmins were offering to eat chicken biryani in village squares and celebrating their self-proclaimed insignificance, it was in fact a section of the non-Brahmins—the non-Brahmins belonging to the AIADMK—who took up the project of aggressively defending the Brahmins. K A Krishnaswamy, a veteran of the early DMK who willingly accepted endless humiliation from late M G Ramachandran and Jayalalitha to survive the vicissitudes of Tamil politics, was vocal: "Fifty years ago, when Periyar and Anna were leaders, Brahmin domination was conspicuous. Now they are into the modern technological caste free world. They are computer Brahmins, not orthodox ones." (Perhaps K A Krishnaswamy may concede that there are at least a few exceptions to these computer Brahmins such as Era Ramanathan, the AIADMK candidate of Kumbakonam(!) constituency, who sports nonchalantly a fine

Brahminical tuft, and Jayalalitha who, even before the election campaign took off, undertook a 'pilgrimage' to Kancheepuram, ironically the birthplace of C N Annadurai, and got the blessings of the 'acharyas') On a different occasion, he uncharacteristically thundered, "It was past when the Brahmins took all kinds of abuses. Once Brahmins were carrying 'tharuppal pull' [a grass used in rituals], but now they are carrying AK 47s." Though the peace-loving V P Ramaswamy would not have liked K A Krishnaswamy arming the Tamil Brahmins with AK 47s, he in any case would. R M Veerappan, once a book keeper of M G Ramachandran and now a prominent leader of the AIADMK, was equally, if not more, strident. Addressing a public meeting in Alanthur, he said, "During MGR's rule, the Brahmins came to us and complained that they were being frequently harassed by the DMK. We told them, 'All castes have their own associations and why don't you form one to protect yourselves.' Thus we are responsible for the founding and growth of the Brahmins' Association." He continued, "I know Karunanidhi very well. Karunanidhi is only a Shudra, born in a Sudhra family in a Tiruvarur family." Can there be anything without its other, the Brahmin without the Shudra? While K A Krishnaswamy and R M Veerappan were lending their well-trained voices for the cause of the Brahmins, Durai Thirugnanam, the AIADMK secretary of Thanjavur west, went a step ahead. He inaugurated a religious procession of 500 Brahmins in Thanjavur town and sought their support for the AIADMK Congress(I) combine. Searching for an answer to the puzzle of the non-Brahmins appealing the 'miniscule' and 'barely three per cent' takes us once again to Mani Shankar Aiyar. In his *Sunday Observer* essay, he notes, he had more enemies than K P Kalyanaram and also more friends than chicken biryani.

Travellers from distant metropolises would bring to remote Mayiladuthurai headlines from 'national' newspapers, solemnly informing me that Mayiladuthurai was no cakewalk, that I was 'skating on thin ice' and (to complete the composite mixed metaphor) that I was fighting with my 'back to the wall'. I would get flabbergasted, alarmed and despondent in turn, wondering what it was these correspondents knew that was escaping my eye. And then comfort myself with the thought that even if the English 'nationals' were predicting my doom, the Tamil press was veering around to my side. *Kalki* proclaimed that "Mayiladuthurai is in Mani's pocket." *Ananda Vikatan* enthusiastically affirmed that I spoke only in Tamil—and the best 'Thanjavur Tamil' at that. Eventually, the most fulsome tribute to

my campaign came in the Madras edition of *Indian Express*. A six-column spread of pure manna on the very day of the polling. Thankin' you all.

Kalki, *Ananda Vikatan* and *Indian Express*, among others, will always be on the side of Aiyar. *Ananda Vikatan* will never fail to affirm—not merely, but 'enthusiastically'—that Aiyar spoke the best Thanjavur Tamil, even if he protests that it is not so. (In fact Aiyar admits with that arrogance of the English-knowing, that "if Kalyanaram claims to know English, his level of English was exactly equal to my level of Tamil.") *Indian Express* will allot endless six columns for the worthy cause of Aiyar. The reasons are not far to seek. While Mani Shankar Aiyar will characterise them as the 'Tamil press', for years the politically aware Shudras of Tamil Nadu have been seeing them as the Tamil Brahmin press, the day-to-day Manus of the technological computer age. As an illustration, let us take a recent editorial of *Kalki* (May 5, 1991) on Kanchi Sankaracharya's 'padavatra' for communal harmony. The opening sentence of the editorial was categorical: "Caste divisions and religious differences are the first enemies of the nation." It went on to congratulate Ambedkar for reaching positions of eminence without the aid of reservations. Importantly when it turned to politics in Tamil Nadu, it found three parties to be rebuked. Pattali Makkal Katchi, the non-Brahmin party popular in the so-called Vanniar belt, the Dravida Kazhagam and the DMK. It waited. The leader of the Pattali Makkal Katchi is saying 'My motto is to make a Harijan the chief minister.' The DMK's camaraderie continues with the Dravida Kazhagam which thinks, its duty is to create hatred against the Brahmins. It however did not have a single word against all those virulent AIADMK supporters of the Brahmins. That is what Mani Shankar Aiyar's 'the Tamil press' does.

'The Tamil press' that is exactly where the power of the 'barely three per cent' lies, making K A Krishnaswamy and R M Veerappan fall in line. For over a full year,

day after day, tirelessly, they overworked their propaganda machine, 'the Tamil press', and campaigned that the Shudra-led DMK was a party of anti-nationals, collaborators of the LTTE, protectors of gun-runners. They told the people exciting tales about how Tamil Nadu had, under the DMK rule, become one of the biggest centres for arms trade and AK 47s were being auctioned off in bulk in the lane and by-lanes of Thanjavur. The DMK whose armoury never had anything more than those traditional weapons such as soda water bottles and cycle chains, was effectively projected almost as a party of terrorists. (In fact, the armoury of the DMK has shrunk over the years and its cadres no more carry live snakes or earthen pots to be let out in public meetings of other parties.) The DMK's self-serving opportunism and ambivalence towards the Sri Lankan Tamil question was ironed out and it was made to look like a party of constant supporters of all kinds of mindless violence in the name of the Tamil cause. In contrast, Aiyar's Tamil press played down and even silenced the role of the AIADMK and the Congress(I) in promoting the Tamil groups with money and political patronage. The 'barely three per cent' saw to it that the DMK's fate was sealed even before the electoral process began. Hadn't the DMK stepped on their toes by its anti-Brahmin rhetoric and by its electoral support to the Mandal Commission? The same ones knew, to survive is to support the inconsequential Brahmin.

The moral of the story is rather simple even in electoral politics, where numbers are supposed to count, the miniscule Brahmins can tilt the scales and they continue to do it.

Tailpiece Jayalalitha Javaram, the first Brahmin to become the chief minister of Tamil Nadu after the 1950s, has announced a chief minister's fund to protect and renovate Hindu temples. She, as the first one to contribute to the fund, has given Rs 1,00,008—this number is of course, the numerological variant of 108, one of those auspicious numbers in Hindu faith.

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Crippling of BCCI

A Study in Finance Capital

Frederick F Clairmonte

The conflagration within BCCI is not the first and will not be the last in an era of global liberalisation of financial services in which avarice has no bounds. Deregulation of financial services now propounded in GATT by the US and others is fraught with catastrophic consequences, and not only for the third world.

THE script on BCCI's meandering pilgrimage is not yet finalised; and there is no chance that a balanced historical record will ever surface. The ranks of global finance capital whose numbers have thinned over the last decade, and have now become too imbricated and monstrously corrupt suggest that there is no possibility that facts will be sifted from fiction; truth from obnoxious cover-ups. Recent precedents are too appalling to be sanguine on this score. The BCCI imbroglio already has the makings of a Hollywood mega-extravaganza which, with some Ramboesque ingredients, possesses the potential to beat 'Dallas', 'Dynasty' and their likes to a frazzle. All such wonders enacted beneath the triumphal arch of Desert Storm.

The concoctions have all the makings of a north-south morality play with dark skinned West Asians (not inappropriately the mulatto Noriega is dumped into the cast) and their villainous accomplices. Opposing their villainy stand the knights in shining armour upholding the rectitude of Anglo-Saxon banking principles: the Bank of England, the Federal Reserve Board and a spate of US Senate investigators, the latter rushing frenziedly to cash in on the televised bonanza.

Doubtless a crude schematisation, but what we are seeing is that the ideological engineers have already cranked up the engine. *Time's* incantations are redolent of the vitriolic shrieks at the acme of the cold war ('The Dirtiest Bank of All How BCCI and Its Black Network became a Financial Supermarket for Crooks and Spies', *Time*, July 29, 1991). There the BCCI is depicted as a black network whose crimes were all-encompassing: espionage, embezzlement, extortion, terrorism, murder, etc. Is there anything left to say?

Robert Morgenthau, Manhattan's district attorney, dons the mantle of the prince of ethics. BCCI's malpractices are categorised as "the largest bank fraud in world history". The indictment contends that it falsified its capital structure to make it appear as though it were a solvent and profitable bank, whereas its capitalisation and assets were fictitious. In its turn, the Federal Reserve Board

ejaculates that it embezzled \$ 20 bn from depositors by falsifying bank records, as well as illegally acquiring US banks. But that is only the *hors d'oeuvre* of an indictment that runs to over 200 pages.

BCCI's grave irregularities, however, cannot be discarded as mere humbug. But why was BCCI singled out as the nigger-in-the-woodpile? Its crookedness goes well beyond the accounting wizardry and banking stratagems of a small-scale actor in international finance. The totalitarian universe of finance capital is one dominated by around 50 TNC colossi headquartered in six countries. With the possible exception of the Kuwait Investment Organisation (KIO) there are no third world banks of international scope.

These financial behemoths are the determinants of interest rates, as well as the conduit for trillions of dollars of foreign direct investments. The international financial system, strikingly so with the hurricane velocity of deregulation, a device *par excellence* for boosting concentration, is now more rigged than it ever was. To speak of BCCI's malleance as the biggest bank swindle of all times reeks of self-righteous hypocrisy, it betrays the total absence of a sense of perspective; notably so in a land agonising under the most gruesome financial swindles of all times: the Savings and Loan cataclysm gouging the US taxpayer over \$ 550 bn.

The Federal Deposit Insurance Corporation (FDIC) is broke. Poor Seidman has now felicitously flung himself from the sinking ship. Superimposed on this is the sustained putrefaction within every nook and crevice of the US banking, insurance and other financial sectors that exhibit no symptoms of winding down. The recent skulduggery of Solomon Brothers (by far the biggest US treasury bond dealers) involves tens of millions, but that's only a starter as the numbers have not been totted up.

At the individual level nothing highlights more cruelly the plight of millions of American savers than that of a 76-year-old woman that slugged Keating (one of the most notorious S and L crooks) in the face in the courtroom at the start of the S and L trials, and hollered: "You dirty dog; you stole all my life sav-

ings. I've got nothing now." That desperate lady is one of millions whose savings were pillaged, in a land where social security safety nets have been slashed to the marrow; a country with a plethora of legal provisions, which do not function, or function wretchedly.

TNC banks, once again superbly exemplified in Japan Inc, have flouted national legislation. They function outside of any national jurisdiction. Their balance sheets, as even the most junior clerks in the City and Wall Street, know, are the vilest of fabrications stemming from a myriad of criminal wrong-doing, not least, transfer pricing, evasion of tax and currency laws. The multi-billion dollar accounting scams are systemic to the 'normal' functioning of finance capitalism. This has nothing to do with ethical aberrations.

And for such 'normality' the third world is bleeding profusely. Due to TNC complicity in capital flight and other transactions, outflows from the third world easily outstrip \$ 200bn yearly. What has given a new twist to these pillaging techniques are technology strides that transmit billions of dollars around the world with the flip of an electronic button. In the decade of the 80s, the worldwide stock of foreign investments exceeded \$ 1,500bn, transacted by a minuscule number of mega-financial conglomerates. These numbers are gross underestimates as they represent the IMF's recorded flows. In contrast, the unrecorded flows are an estimated \$ 600 bn. Throw in another \$ 225 bn from global narcotics transactions, and you are dealing with very big money. From this perspective, the notion of a global liquidity crisis is a myth.

Although BCCI is involved in almost all financial and commodity transactions, its bite in these licit and illicit aggregate transactions is denisory. Seen in the spectrum of balance sheet engineering, there is nothing complex at all in laundering narcotic money and concealing cash flows. What is vital in the international banking business are political connections, one of BCCI's greatest assets. More crucial than a bunch of highly flexible chartered accountants and lubricious lawyers is that bankers of all colours need cronies in high places, normally high cost merchandise. Politicians as highly commoditised items lend themselves ideally to such transactions. Success or failure of a deal often hinges on this. BCCI had its genesis in 1972, when it obtained a licence to take deposits in its Luxembourg holding company, the Cayman Islands and London. From these strongholds its tentacles ramified worldwide.

FLOATING ON OIL

Like Kuwait's plunge into the unaccountable abyss of finance capital, BCCI was floated on big-oil money. Abu

Dhabi's Sheik Sayed al-Nahyan and his dynasty own 77 per cent of its shares. The BCCI (whose founder is a Pakistani) was never badgered at the Emirate level by quibbles of financial and political accountability. As in Kuwait, the seven-state United Arab Emirates had never made the distinction between the public and private purse. Hence, no indiscrete questions as to the motives and directions of the Emirates' cash flows. A fig leaf of national accounts does exist that presumably suffices to meet the World Bank standards of 'respectability'.

Also, as in Kuwait, the Emirate and BCCI were reinforced by their connections with the ex colonial power and the United States. Here the similitude grinds to a halt. Unlike the KIO, BCCI was a highly decentralised operation impregnated with financial populism. It was policies of this kind that aroused the ire of the British big banks, and subsequently the World Bank and the IMIs. In the UK, its competitive presence, exacerbated by its Middle East provenance, had always been deemed undesirable. In quick order, BCCI had acquired 1,30,000 depositors not all of them British Asians, and this at a moment when the scramble for depositor's savings had reached a new pitch of intensity.

BCCI hesitated (a major tactical error) to play ball with the UK banking cartel that rigs high interest rates, thereby devastating small UK entrepreneurs. Whether BCCI pursued these policies to conform to the ethical principles of Muslim banking, as Agha Hasan Abedi believed, or ultimately to acquire a latter market share, as his competitors stressed, is debatable. The British big banks are understandably euphoric with the crumbling of a ferocious competitor. Indeed, their thinking was perhaps not far removed from the legendary 'robber baron' Commodore Cornelius Vanderbilt (1794-1877) who thundered to one of his competitors: "You've undertaken to cheat me. I won't sue you, for the law is too slow. I'll ruin you" (*The Robber Barons* by Matthew Josephson, 1934).

Global geo politics also played into the hands of BCCI's enemies, prior to and particularly after August 2, 1990. It was stigmatised as a foreign body, anathema not only to British banking, but to British national interests. On the external front, it drew the fire of the TNC banking network and the World Bank. By its accessible credit policies it was charged with not playing the game. What BCCI's critics ignored was that its policies, in Africa in particular, were not formulated at the apex of the decision-making pyramid, but frequently at the grassroots managerial level. Analysed in this niche, BCCI emerges as a decentralised operation, due to policy and ideological divergences within the bank.

Also, it did what TNC banks normally

never do: embark on joint ventures with majority participation by African countries. In Zimbabwe, the government had a 55 per cent majority share, and in most African countries it continues to operate. The stance of the governor of the Central Bank of Sri Lanka is one shared by many third world countries (including India): "We will not be guided by what happens abroad. The bank will thus continue to function irrespective of what happens overseas" (*Financial Times*, July 30, 1991).

Its sectoral investment policies in many African countries ran against the grain of TNC banking policies. Investment in peasant farming covers long gestation periods with exiguous returns. There are many such projects in the joint-ventures in both east and west Africa. It is here that the contradictions within the BCCI become painful. BCCI was sucked into the cold war vortex from its inception by the masters in Abu Dhabi. William Casey was the master orchestrator. Before taking up Reagan's appointment as CIA boss he had been a Nixon appointee as chairman of the Securities and Exchange Commission, a fox called in to protect the chicken coop. Before that, he was a big time international financier and real estate tycoon, huge real estate holdings in Central America.

The deals, political and financial, struck between the autocracy in Abu Dhabi and the CIA, pushed BCCI into a lethal orbit. It contributes also to explain BCCI's phenomenal growth between 1975-1985. A conspiracy theory does not provide the answer to BCCI's indomitable because there is no single spider at the epicentre of this web of influence, peddling and money making. Casey was possibly the nearest thing to being the spider, but he doesn't quite make it.

Under Casey, the CIA redesigned entirely its corporate data base modelled on that of the Sogo Shosha embracing all large and medium sized international firms. Dossiers on firms' official and unofficial business are permanently updated; a firm's political connections, its off the books expenditures and income, and managements willingness to accommodate the CIA. At any appropriate moment, the firm's financial entails can be cycled or re-cycled. Staffed by a mighty array of professionals at Langley and abroad, this Frankenstein will ominously remain Casey's mightiest contribution to the US economic intelligence gathering and its policy effective sequels. BCCI was one of his most brilliant proteges.

Casey's favourite dictum was "We work on both sides of the street, and all parts of the street." Geo politically, BCCI was ideally positioned for the game. At any time, it is imprudent for any firm with US subsidiaries (and not only within the US) to spurn 'The Company' as a suitor. Such recalcitrance could trigger enquiries

by the Internal Revenue Service (the supreme US tax man) of the firm's finances, to be extended, if need be, to management echelons. An operation effectuated without the firm even knowing by and for what reasons the enquiry was set in motion.

Afghanistan was the greatest boon to BCCI's fortunes. All Saudi and Egyptian funds were funnelled almost exclusively through BCCI. Casey made it clear that although the CIA had a \$ 30 bn annual budget (the official number is nearer \$ 50) its operations would have to be funded by others. As it turned out, the petro-autocracies and the sultan of Brunei not only bankrolled the 'Mujahadeen' but CIA operations as well, in Pakistan and Afghanistan. How in heaven's name could the Bush cabal have the temerity to riposte that it knew nothing of such transparent forms of financing?

A stunning precedent was set, and once again it was Casey's grand celebration, a momentous event in the making of Bush's New World Order. The Iran Contra funding operation in which, once again, BCCI excelled was a corollary built on the Afghan precedent. There was not a bank in Islamabad, Rawalpindi and Karachi that did not get their cut from every licit and illicit transaction with the Mujahadeen and their mentors, the Pakistani intelligence agency. To be sure, the Pakistani politicians and senior police officers were never left in the cold. In addition to his huge Saudi personal subsidies, Zia got a cut on all bank transactions, and not only that of the BCCI in which he had been accorded a 3 per cent equity stake.

The Reagan-Bush junta owes a priceless debt to the cold war commitments of BCCI and the West Asian banks. More so than the corralling of Anwar Sadat, it remains Casey's crowning glory. The Afghan war succeeded beyond the wildest expectations of Pentagon planners in bleeding Soviet finances; it didn't leave a dent on US finances. The masterstrokes of the CIA-BCCI duo was one that would be applied elsewhere in the third world.

The conflagration within BCCI was not the first and will not be the last in an era of global liberalisation of financial services in which avarice has no bounds. Deregulation of financial services now propounded in GATT by the US and others is fraught with catastrophic consequences, and not only for the third world, joined to the wholly unaccountable, inhibited concentration of these massive aggregations of economic power. This demonic conjuncture can in no way make for greater stability. Ineluctably, it will entrain in its wake even more ghastly manifestations of which BCCI is but a foretaste.

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Strengthening Public Accountability Can Exit and Voice Help?

Samuel Paul

Technological Capability under Economic Liberalism

Experience of Indian Industry in Eighties

K K Subrahmanian

Do State Level Public Enterprises Need Memorandum of Understanding?

T L Sankar

R K Mishra

R Nandagopal

Understanding Labour-Management Relations Case of Siemens

Radha Iyer

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Sanjay Sinha

Strengthening Public Accountability

Can 'Exit' and 'Voice' Help?

Samuel Paul

This paper presents a theoretical framework for analysing the problem of government's accountability with special reference to public services. An important proposition derived from this framework is that effective public accountability can be sustained only when government's 'hierarchical control' over public service providers is reinforced by the public's willingness and ability to 'exit' (the presence of competition) or to exert pressure on the providers to perform (the use of 'voice'). The paper also examines the conditions under which the use of exit and voice is likely to be efficient and offers a menu of options to strengthen public accountability.

THE objective of public accountability is to promote the congruence between public policy and public actions and services by holding those involved responsible for their performance. In general, public accountability refers to the spectrum of approaches, mechanisms and practices used by a government to ensure that the activities and outputs of its constituent parts meet the intended goals and standards efficiently. At the national (macro) level, a government may be held accountable for its policies, actions and processes (public expenditures, programmes, budgetary process, etc.) through a variety of mechanisms such as elections, legislative reviews, and public expenditure audits. The concept of accountability applies equally well to all levels of government (central, state and local), to public enterprises and to other public agencies that deliver public services to citizens at the micro level, individually or in groups.

There is growing evidence to show that the existence of macro level accountability systems does not guarantee micro level accountability, i.e., at the level of specific public services that affect the citizen. Indian experience bears eloquent testimony to this phenomenon. In spite of democratic elections, audit of public expenditures and parliamentary oversight of government programmes, neither citizens nor governments in power are able to hold public service providers (e.g., in services such as health, education, electricity, transport, etc.) accountable for their performance. The expansion and increasing complexity of public services have so overloaded the public accountability systems at the national level that they are unequal to the task of ensuring accountability at the micro level.

Public accountability involves three groups of inter-related stakeholders. The public and the customers of public services (often a subset of the public at large) are stakeholders interested in service providers being accountable to them for attributes that benefit them most. Political leaders who control government processes and bureaucratic supervisors of service providers are stakeholders who would like the latter to be accountable to them for a mix of public policy and possibly private or parochial goals that interest them. It is the pursuit of private goals by some or all of these stakeholders that results in rent seeking ac-

tivities. Service providers themselves constitute a third category of stakeholders with objectives and interests often different from those of the first two. The public accountability system that finally emerges invariably tends to reflect the relative bargaining power of the different sets of stakeholders involved. Whether public policy goals will be neglected to facilitate rent seeking activities, for example, will depend on who dominates the bargaining process and what their interests are. When those engaged in governance are seen to monitor performance measures consistent with public policy and are motivated to pursue the attainment of public welfare, an effective public accountability system can be expected to exist.

The phenomenon of capture – the tendency of some of the stakeholders (e.g., the elites among the service recipients and those who manage and control the allocation of public services) to appropriate an undue share of the benefits and to engage in rent seeking – is an important barrier to the improvement of accountability in developing countries [Buchanan, et al, 1980, Tirole 1986]. Capture, along with government monopoly of many public services, the limited capacity of the public to demand and monitor good performance, and the problems in measuring and quantifying the benefits of services, make the improvement of public service accountability an especially complex and difficult undertaking.

The concept and practice of public accountability have been greatly influenced by political theories and the professions of public administration and law. They have evolved in the more developed countries in parallel with their socio-political evolution [Jabbar and Dwivedi 1989]. While there have been variations in this evolutionary process, the following landmarks deserve to be noted.

(1) Democratic accountability was the starting point for many countries in the course of the last century. This represents a mix of political (parliamentary) and administrative accountability. The government (ministries, the bureaucracy and its constituent parts) in this system is accountable to the political leadership (elected or otherwise) of the country for its actions and performance. Ministers, for example, are accountable to the parliament/legislature in democratic

countries. Civil servants in turn are accountable to their ministers. Accountability here is a macro level concept with a strong focus on government wide actions and processes. It is difficult for a minister or legislature to supervise or control the individual acts of all civil servants and their departments. It is assumed under this approach that the internal controls of the bureaucracy will ensure the accountability for specific public services. The instruments of macro level accountability include legislative reviews of ministry activities, periodic audit reports on public expenditure, and the practice of questioning ministers in parliament on ongoing government activities. Political leaders/legislatures act as surrogates for the public in the system of democratic accountability. Democratic accountability is applicable not only at the national level but also at the local level. The focus is on the totality of a political unit. Over the years, democratic accountability systems at the central level have been heavily overloaded even in the more developed countries, eroding their effectiveness in the process.

(2) The expansion of public services which required technical expertise in their production and delivery subsequently led to the practice of *professional accountability* in the public sector. The experts (doctors, engineers and other specialists) involved in these tasks are guided by their professional norms in being accountable for the services they provide. They exert considerable autonomy in defining the public interest on the basis of professional norms, and in deciding on the nature and content of the services. The criteria of accountability here are heavily influenced by the norms internally agreed upon (from the supply side) by professionals acting on behalf of the public. This type of accountability at the micro level has much broader application in the context of specific services than is true of the concept of democratic accountability discussed above. It did not supplant democratic accountability, but acted alongside and as a response to the increasing complexity of public services.

(3) In recent years, judicial systems and specially devised laws in some countries have been used to augment the accountability of individual civil servants and units within government who are responsible for specific functions of government and for the production and delivery of public services.

The growing interactions of the public with the bureaucracy, and the dysfunctional impacts of secrecy and anonymity within government on the efficiency and effectiveness of services have contributed much to the emergence of the *legal accountability* concept [Smookler 1989]. By and large its practice is confined to the more developed countries with an educated public and a democratic political system. Its evolution is associated with the public's right to seek information from government, the right to sue individual civil servants and public agencies in law courts and the power of courts to make the latter financially liable for violations of the public interest.

This pattern of the historical evolution of public accountability reveals three interesting features. (1) The original thrust of government accountability to the public rested with the political leadership at the macro level. The rise of democratic or parliamentary accountability did not lead, however, to an automatic improvement in micro level accountability even in developed countries. The expansion of the role of the state and of public services in particular was such that macro level accountability mechanisms were unable to cope with it. Attention to micro level accountability mechanisms to control the behaviour of agencies and their staff in the context of public service—a relatively recent development—was in part a response to this problem. (2) The focus of the key instruments and measures used to ensure public accountability has traditionally been on inputs and not on outputs. In most cases, the latter tend to be diverse and too complex to measure and to aggregate though in recent years there has been some progress on this front. On the other hand, public expenditure which is an input and a common denominator can be easily measured and audited. Internal processes can be assessed as there are generally uniform norms about their use within government (e.g., the sequence and procedures to be followed for decision making and implementation of decisions). (3) Except for legal accountability a recent development, the primary concern of the concept of accountability has been on internal means of control. Political leaders, agencies and bureaucrats act as proxies for the public and hold those reporting to them accountable through control systems within the relevant organisations. Hierarchical control is not, however, an effective device to promote accountability especially when collusion between supervisory and subordinate personnel is likely and the complexity of operations limits transparency. The dominant pattern has thus been one of vertical or 'upward' accountability and not of 'outward' accountability. The key missing element here is the view of the public as 'customers' to be served. The macro level 'upward' accountability system can provide the framework within which this missing element can be located and nurtured. But it is not a sufficient condition for the emergence

of 'customer orientation' (an important aspect of accountability in public services) at the micro level. As shown below, micro level accountability mechanisms can be used to strengthen the overall public accountability in a society. Macro and micro accountability are thus mutually reinforcing.

I Reinforcing Accountability through Exit and Voice

While the concepts of democratic, professional and legal accountability are essential for good governance in any country there are two other factors that are particularly relevant for strengthening the accountability for public services in developing countries. These factors assume special importance in light of the evidence that macro level accountability systems are getting overloaded and are unable to do justice to public service accountability at the micro level. One is the extent to which the public has access to alternative suppliers of a given public service. The question here is whether there is potential or scope for the public to exit when dissatisfied with a public service. If exit by the public has an adverse impact on the public agency involved, as for example, by reducing its revenues or threatening the careers and pay of its staff, it can have a salutary effect on public accountability. The second is the degree to which the public can influence the final outcome of a service through some form of participation or articulation of protest/feedback (individually or through organised groups) irrespective of whether the exit option exists. If *voice* affects the behaviour of the public agency concerned and makes it more responsive to the public, then again, public accountability may be enhanced. Exit is ubiquitous in the competitive market place whereas voice has traditionally been found in organisations such as political parties and voluntary agencies.

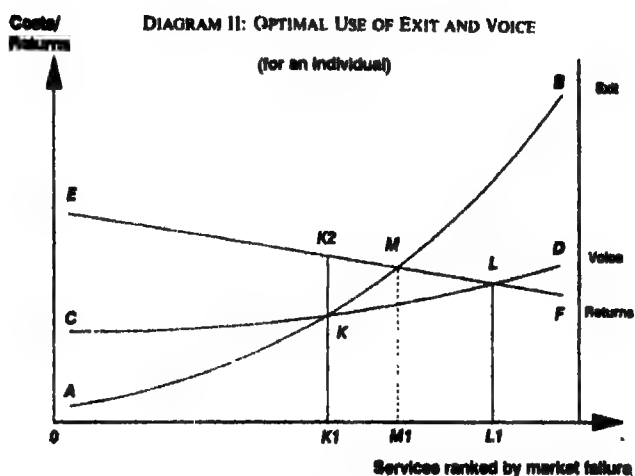
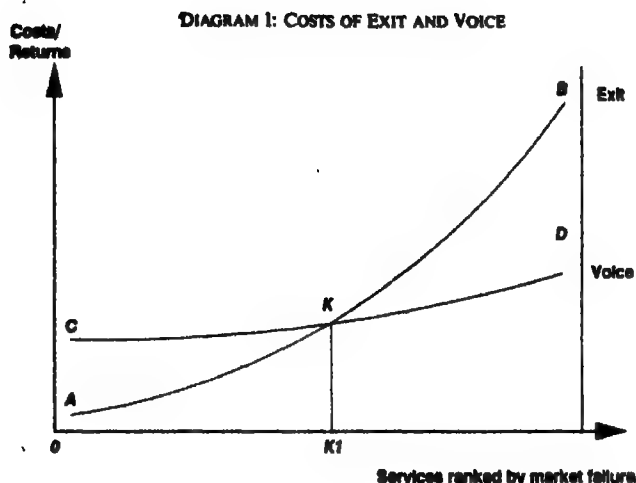
Exit and voice are terms that Albert Hirschman [1970] made popular in his excellent discussion of the ways in which consumers cope with the problem of performance deterioration in the production of goods and services.¹ He treats exit as an economic response mechanism and voice as a political response mechanism. The former is ubiquitous in the competitive market place whereas the latter is found more often in organisations such as political parties and voluntary agencies. The analytical framework of accountability presented below builds on Hirschman's concept of exit and voice but with an exclusive focus on public services. Two interrelated questions will be explored here. Under what conditions are the exit and voice options likely to be efficient in enhancing accountability in public services? How and why do public services differ in their amenability to the use of exit and voice as a means to improve their performance? Answers to these questions

are essential for designing better approaches to public service accountability.

Diagram I provides a simple, but generalised answer to the first question. The public's decision to use exit, voice or a combination of both will depend on two factors, namely, the expected returns resulting from improved accountability (e.g., better quality, reduction in delays and corruption, responsiveness or other attributes that the public value, etc.), and the costs associated with the use of exit and voice. The relative costs of exit and voice and their levels may vary depending on the degree of market failure affecting the services.² Market failure here is treated as external to the service provider and is caused by externalities, decreasing costs (e.g., natural monopoly) and informational asymmetries. In Diagram I, costs and returns are measured vertically while public services are ranked horizontally according to the increasing intensity of market failure.⁴

Assume that the public is willing to use exit and voice in order to improve public accountability. AB represents the cost of exit associated with each of the services on the horizontal axis and incurred by an individual (a member of the public). CD is the cost of voice estimated on a similar basis. Although the cost of voice is often incurred in a group, each point on the curve could be treated as the individual's cost of voice. As expected, for the public, voice costs more than exit for the range of services facing competition, but as market failure increases, exit becomes more costly than voice. The cost of exit is clearly more sensitive to market failure than the cost of voice. For example, the cost of creating an alternative (exit) in the face of a natural monopoly will be enormous. The cost of organising the public to seek changes from the monopoly (voice) will also be substantial. But even the cost of voice tends to go up as the information asymmetries associated with market failure increases along the Y axis. Diagram I shows that the public services within the range of OK will find the use of exit more efficient for improving accountability whereas the services to the right of K will find voice more efficient. When city transport services permit both public and private options, the public will tend to use exit, while faced with urban water supply problems the public is more likely to resort to voice.

Diagram II introduces the concept of the expected value or returns from performance improvement to the public that improved accountability can bring about. EF represents the expected returns to the individual of such performance improvement. Its declining slope signifies the increasing difficulty in improving accountability as market failure increases. A monopoly, for example, is expected to be less responsive to public pressure. Upward shift in the expected returns curve can occur, however, when supervision or incentives are strengthened to make the service provider more



responsive.⁵

Given the exit and voice cost curves, Diagram II shows that the combinations of exit and voice that are efficient for different goods will vary depending on the level and slope of the expected return curves. Thus when EF applies, both exit and voice yield net returns along the range of OK1. Nevertheless, exit is clearly the more efficient option. Within the K1M1 range of services, voice is the superior option though up to M, exit continues to yield net returns. For services beyond OL1, neither exit nor voice seem efficient solutions though an upward shift in the returns curve can reduce their number. Public services can thus be partitioned into three categories by reference to the net returns to performance improvement generated by the use of exit and voice.

Four propositions follow from this simple diagrammatic presentation: (1) Exit is more efficient, and hence more likely to be used in services least affected by market failure whereas voice is relatively more efficient as market failure increases; (2) For many services, either option or a combination of the two will still leave some net returns and therefore the choice may depend also on the preferences of the public for different combinations; (3) The level of expected returns has a direct bearing on the extent to which voice will be deployed especially in the range of services most affected by market failure. In other words, the public is likely to use voice only when there is a high probability that the public sector will be responsive and make this investment worthwhile; and (4) There are some public services for which the use of neither exit nor voice mechanisms will be efficient. If an upward shift in the returns curve occurs, a decline in their number will follow. These are the services most affected by market failure.

BARRIERS TO EXIT AND VOICE

Whether exit is feasible in the context of a public service will depend on several factors. First of all, economies of scale are important in the production of many public and quasi-public goods. Natural monopolies

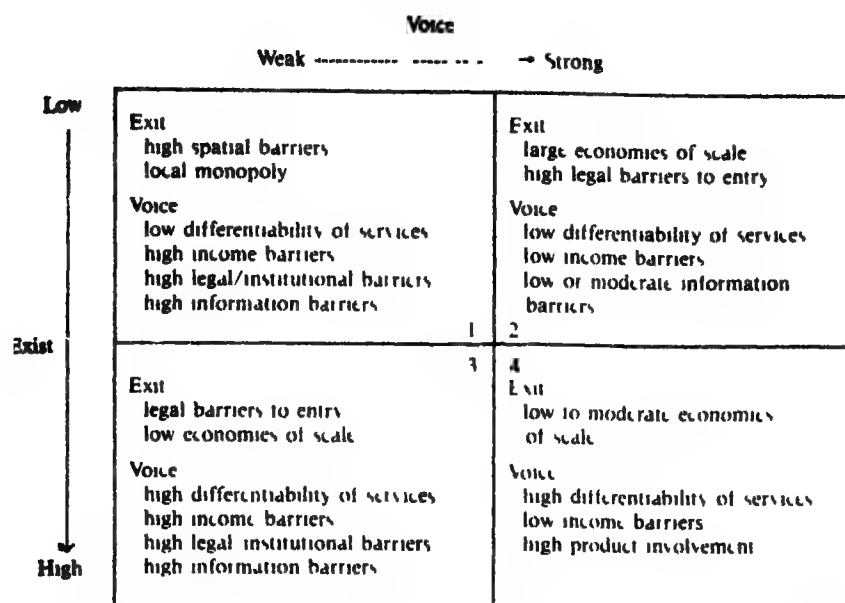
with increasing returns to scale are well known examples. In a country or a geographical area where there is scope for only one enterprise or agency to produce and deliver a service, the public's potential for exit is limited or non-existent, and hence exit cost is high. Second, legal barriers to entry may exist in a country which limits the public's scope for exit. Registration of vehicles and trade controls can be viewed as legal barriers which the public cannot escape unless illegal action is resorted to. In many countries, barriers to entry in sectors such as road and air transport and education illustrate this point. Third, spatial barriers may limit the potential for exit for some segments of the public. Here the problem lies not in the nature of the good or service but in the characteristics of the public. Thus there may be scope for only one small school or health clinic in an isolated village. The constraint is not the existence of scale economies, but rather that certain features of the public (e.g., location) limit their potential exit. Migration by people facing poor performance, of course, is a form of exit, but a costly one under these circumstances. Finally, where the nature of a good or service is such that no member of the public can be excluded from access to it, exit by definition, is ruled out. Pure public goods such as defence or environmental protection are classic examples.

The barriers to the use of voice are also several. First, legal and institutional barriers to voice may exist in a country thus making it difficult for segments of the public to use their voice in support of accountability. In some cases, this could be traced to the nature of the larger political system or ideology. Even where an open or democratic political system exists in a country, its laws and legal and institutional systems may not permit or may constrain the use of voice (e.g., legal barriers to the recognition of user groups, lack of public hearings and denial of the right to sue public service suppliers). Second, informational asymmetries can be a severe constraint on the public's use of voice. Service providers often possess infor-

mation that is not available to the public. Governments may restrict the public's access to information or limit the scope for the media to challenge or publicise the poor quality and other attributes of services. Dissemination of information may also be limited by the poor technologies available in the country. Third, when services can be differentiated, the elites may be able to use their voice or other sources of power to get better quality services, excluding others in the process. On the other hand, non-differentiation of public services can aid the use of voice under certain conditions. A quasi-public good such as drinking water and public parks are non-differentiable products. Since all segments of the public have an interest in their supply and quality, those with a weak voice also gain from the voice of the stronger segments of the public. Fourth, income, education and related attributes of the public increase their ability to use voice. Even when information is available, lack of education may limit its proper analysis and use by the people. The cost of voice can be too burdensome for low income people. Fifth, the relative importance of a service to the public also influences voice. Thus if a person spends a significant proportion of his income or time on a service, or develops a continuing relationship with the service provider ('product involvement'), his incentive to use voice is greater than when the service is of little consequence or is not durable in terms of future relationships or benefits.

The foregoing discussion of the factors underlying exit and voice shows that both the nature of the good or service and the characteristics of the public exert an important influence on the use of these options. Natural or artificial (policy induced) monopoly turns out to be an important attribute of many public services (e.g., electricity, regulatory services) that tends to limit the public's scope for exit. The ability and willingness of the public to respond to this condition through voice can in part be policy induced (removal of legal barriers, information access, etc), but are also a function of

DIAGRAM III



certain attributes of the public (e.g., income, education, location, etc.) In the final analysis, the factors identified above influence the costs facing the public and thus their choices between the two options.

II

Combinations of Exit and Voice

Public services are categorised below into different groups according to the criteria of exit and voice. First, services can be classified according to whether there is scope for the public to exit if dissatisfied with what they get. This is a proxy measure for the feasibility of competition in the production and delivery of services. Second, public services differ in the degree to which their beneficiaries can make their voices heard if dissatisfied with the outcomes. For analytical purposes, Diagram III depicts four different combinations of exit and voice that provide a useful basis for the classification of public services. These should not, however, be treated as watertight divisions. As the vertical and horizontal arrows imply, they reflect degrees of actual or potential possibilities for the use of exit and voice. Examples of public services that fit the different combinations of exit and voice are given in Diagram IV.

Cell 1 (Diagram III) represents public services that fit the low exit weak voice combination. The nature of the services in this category is such that exit will be extremely difficult or costly for the public. At the same time, the beneficiaries involved are disadvantaged in the sense of being either poor or illiterate or both. Hence their weak voice. They have limited capacity to use voice if dissatisfied with the services. This can be exacerbated by legal, informational and institutional barriers. The public services in this cell can be produced efficiently on a

small scale (e.g., to meet the needs of a small town or village). While economies of scale are thus not a barrier, spatial barriers to exit tend to operate. To illustrate, a village needs only a single primary school which can be operated efficiently. If, however, some villagers are dissatisfied with the school's services, the exit option may not be open to them as the next school may be located in a far away place. Distance and not scale economies is the source of the monopoly condition present in this case. Furthermore, the public in this cell do not offer any scope for product differentiation. Health services, agricultural extension, rural water supply and regulatory services affecting the poor (e.g. licensing of vendors) are other examples of services which belong to Cell 1.

A combination of low exit and strong voice characterises Cell 2. Here again, exit for those dissatisfied with a service is impossible or expensive, but the scope for voice is considerable. Scale economies matter a great deal in the production and delivery of services in this cell. Natural monopolies owned or regulated by government illustrate the problem. Voice can be strong here for two reasons. Given the nature of the services, product differentiation is not possible or is extremely difficult to design with the result that the entire public gets more or less the same quality and type of service. Even if only a segment of the concerned public is capable of exerting voice, everyone stands to benefit from such action due to the externality effect explained above. Utilities such as electricity, telecommunications, urban water supply and irrigation are examples of services in this cell. Regulatory services affecting publics with a strong voice also belong to Cell 2 (e.g., industrial licensing, foreign trade regulation, etc.). The public here is capable of using voice on its own initiative. Organised groups of producers and consumers with strong interest in service out-

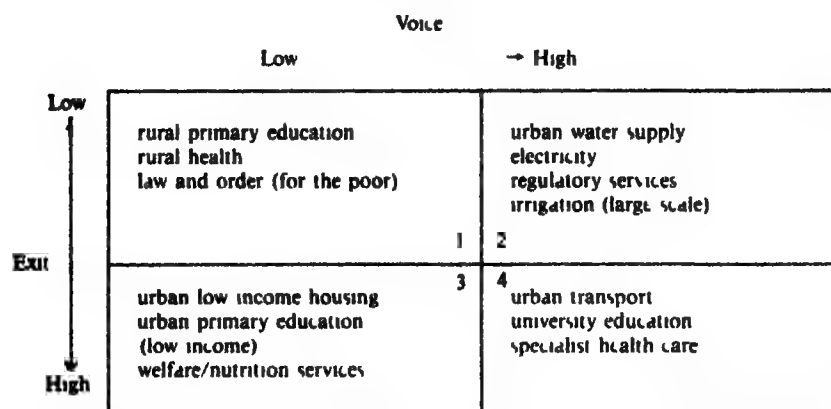
comes are found in these sectors at least in some countries.

If service characteristics such as product differentiation are in fact present in a service in Cell 2, the expected positive externality effect on the use of voice is unlikely to emerge. Thus when there is scope for product differentiation in a service, externalities enjoyed by the weaker segment of the public (low voice) will tend to disappear and the use of voice by the stronger segment will not improve accountability for all. Under conditions of extreme inequality, this may be the case in irrigation, for example, where large farmers could use voice to get a disproportionate share of water at the cost of smaller farmers. Similarly, in the case of electricity, the basic product cannot be easily differentiated, but the related elements of repair and maintenance can be differentiated between different segments of the public. Improved accountability here would still require the use of voice, but possibly with some external assistance for the weaker segment.

Cell 3 depicts services with a high exit weak voice combination. As in Cell 1, the services here are not sensitive to scale economies. This means that in a given geographical area like a city, several units can efficiently produce and deliver the services. When performance deteriorates, this will enable the public to exit provided multiple service providers exist. At the upper end of the spectrum in Cell 3, the scope for exit may be reduced through policy induced legal barriers to entry.⁶ Thus a government may permit education only under public auspices although voluntary agencies or private entities could provide this service. Product differentiation, however, is feasible in these services, thus making it possible for those with strong voice to opt for the quality they prefer. This tendency separates the segment of the public with weak voice from the former. Even if product differentiation is not present, policy induced legal, informational and institutional barriers to voice may also weaken the public's voice. Urban services which lend themselves to differentiation will fall into this cell, e.g., low income housing, and health clinics in poor areas. Between exit and voice, for the weak public in this cell, exit is the more efficient option though voice may play a supplementary role when policy-induced, informational and institutional barriers are eliminated.

Finally, Cell 4 refers to some of the quasi-public and private services that governments might provide under public auspices for a variety of reasons. Here, services are characterised by low to moderate economies of scale so that potentially several units could produce them in a given geographical area. As a result, the potential for the public to exit is high when faced with performance deterioration. The relative importance of these services to the public is high thus causing their 'product involvement' to be high. This, coupled with the fact that services can be differentiated for the benefit of the public with high income, education, etc., may

DIAGRAM IV



facilitate the use of voice by the latter. These services may often be the same as those in Cell 3, but differentiated for the higher income groups who normally can exert a strong voice. High quality schools, hospitals, and air transport are examples.

Some of the barriers and characteristics discussed above are natural whereas others are policy induced or political in nature. Economies of scale, spatial barriers, the relative importance of services, and infeasibility of product differentiation are natural factors. Some of the policy induced factors may originate in political discrimination or denial of rights, e.g., low income or education and some legal barriers. In general, political barriers are reflected in policy induced factors. Legal, information and institutional barriers, and income and education characteristics (to a large extent) are thus policy induced factors. Public services can be categorised in terms of the exit and voice potential they afford the public by reference to these barriers and characteristics.

The mix of barriers and characteristics in the four cells of Diagram III can be used to predict the degree of exit and voice potential that different public services can have. The basis of the prediction is an analysis of the services in terms of these characteristics/barriers and the extent to which they are natural or policy induced. There are, however, some services which are similar in nature between certain cells. This is because when provided to different types of population the same service can be characterised by differing degrees of exit or voice potential. For example, primary education is found in both Cells 1 and 3 of Diagram IV. Nevertheless, from the standpoint of accountability this seeming overlap does not imply a duplication. Contextual features and attributes of the public need not be the same even for identical services. An urban primary school, unlike a rural school, may leave an exit option for the public. If the relative importance of this service to a segment of the public is high (product involvement), voice may be resorted to before exit. This difference is relevant to the determination of the approach to accountability to be adopted. What distinguishes each cell is the positioning of a set of public services

in the context of a unique exit/voice combination.

A useful approach to the improvement of accountability is to devise ways and means to overcome these barriers or to minimise the adverse effects of some of the characteristics of the public discussed above. Clearly, natural factors are more difficult to overcome than those induced by policy. Exit and voice potential can therefore be more easily realised by first eliminating the policy induced barriers. Minimising the adverse effects of natural barriers will call for more time effort and resources. Judged by these criteria, services that the poor (weak voice) required and for which alternative sources of supply are difficult to find (low exit), will be the most difficult to deal with. Natural factors play a dominant role in causing this combination of exit and voice. The guidelines summarised below can assist in the choice of options when the services and the publics involved vary in their characteristics.

- (i) When a public service operates as a local monopoly in small and isolated communities and the public involved is characterised by low incomes and legal, informational and institutional barriers, improved accountability can be achieved through the use of voice.
- (ii) When a public service is characterised by large economies of scale and legal barriers to entry and its differentiation is difficult while the public involved or a segment of it is not constrained by low incomes and limited information, voice can be used to improve public accountability.
- (iii) When a public service can be differentiated but is not constrained by economies of scale in its production and the public involved faces income, informational and institutional barriers, improved accountability can be achieved through the use of exit.

III

A Menu of Options to Improve Accountability

There is a variety of exit and voice mechanisms available today that can be

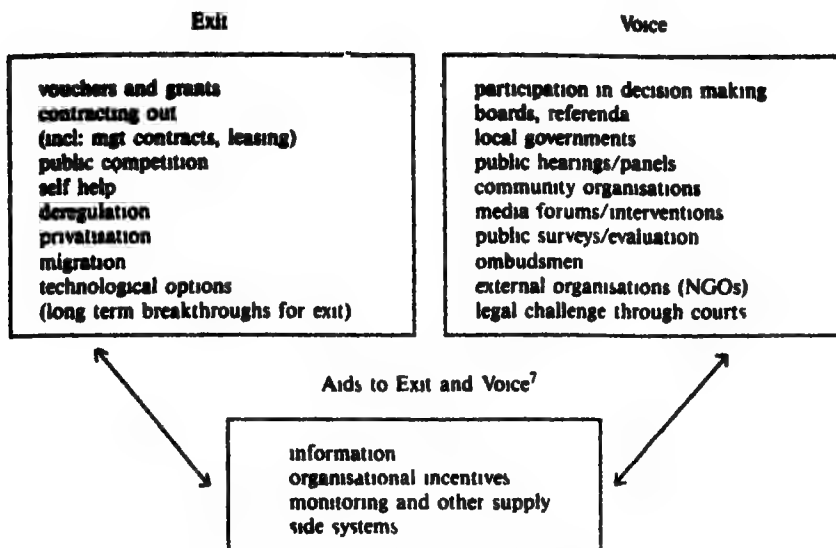
deployed to strengthen the accountability for public services. Needless to say, there is no standard recipe that can be applied as the choice of the mechanisms to be used will depend upon the nature of the services and the characteristics of the publics involved. A careful analysis of the context of the accountability problem must precede the choice of the specific mechanisms from the menu given below.

EXIT MECHANISMS

(1) *Deregulation of services* is an obvious option to consider since there is usually space for both public and private service providers to coexist and compete. For example, deregulatory measures in the education sector may induce the establishment of private schools along side public schools. Monopolies granted to trade agencies, when abolished, will encourage private traders also to enter the field. Since the public involved is poor (weak voice), the public function of regulation and possibly subsidisation is likely to continue. One option is to make grants to the private providers so as to minimise any adverse economic impact of deregulation on the poor. *Grants in aid* to NGOs have been used in both health and education sectors to achieve this objective. Food stamps or ration cards can be used for the same purpose in the area of essential goods distribution.

(2) If for various reasons certain services require close government supervision, *contracting them out* to multiple private providers can be another option. This approach would permit careful monitoring and quality control while affording increased scope for exit to the public. Municipal services of various kinds (garbage disposal, road maintenance, tax or fee collection, etc.), cargo handling in ports and equipment maintenance in railways have been contracted out in some developed countries. An important way in which this mechanism impacts accountability and performance is through its 'contestability effect'. When incumbents (even if they are monopolists) are made to bid for contracts along with outside competitors, they will be more careful about their performance and their terms.

(3) A more direct impact on accountability can be made through the use of *vouchers*. People who deserve special support for income or other reasons can now receive subsidies for certain services while choosing the service providers that meet their needs most efficiently. The administration of vouchers could be more cumbersome than that of grants to the service providers. On the other hand, vouchers are a superior mode for the exercise of exit in comparison to the grant system. Chile successfully replaced housing subsidies through low interest rates with the more direct subsidised method of a voucher programme [Howenstine 1986]. Under this system, beneficiaries pay for the value of a specified house with their own savings, the voucher and a credit obtained from commer-



cial banks at market interest rates. The voucher system will work effectively only when multiple providers exist, customers use the service frequently and are able to evaluate options, and the service providers have to depend on voucher receipts as a major source of revenue [Allen 1989].

(4) Where the private sector is not adequately developed, there may be a case for the public sector to continue to play a service provider role. Instead of outright privatisation, *public-private competition* may then be encouraged. For example, private banks may be permitted to compete with public sector banks. Both public and privately owned airlines may coexist.

(5) Though spatial barriers are the binding constraint on exit, it is possible that *new technologies* for service delivery can be used to augment the scope for exit. For example, under certain conditions, mobile courts, mobile schools and hospitals can cross spatial barriers and offer more options to the public in the fields of criminal justice, education, and health.

(6) An extreme form of exit is the *migration of people* in response to the dismal and persistent performance failure of service providers. Physical relocation by families in the face of malfunctioning schools, for example, is known to occur in several countries. Clearly, this is not an option that the poor can easily resort to.

VOICE MECHANISMS

(1) *Dissemination of information* about services can aid the public in demanding greater accountability from service providers. More systematic pressure can be exerted through a periodic public monitoring and evaluation of the relevant public services. This can be done under public or private auspices. An expert group, for example, can be commissioned to poll the beneficiaries or gather data from them as well as from the service providers for analysis and comparison across locations and over time.

Compared to the direct use of voice, this is less demanding and less costly for the public. Again, this is a surrogate for voice through external intervention and can use local media, NGOs and academic institutions. Its limitation is that such evaluation invariably calls for public resources. Public surveys have been used extensively in Australia, France, Canada and the Netherlands as a usable means of feedback on tax administration [OECD 1987]. Canada, for example, gathers feedback on taxation from clients on a continuing basis. In this context, transparency of the methods and data used and care in the dissemination and use of findings assume special importance.

(2) Complaints procedures and the institutional mechanism of the ombudsman are ways of providing voice to the people when there is no need or incentive for collective action [OECD 1987]. Here the attempt is to let individuals make known their problems to designated authorities for redressal. 'Hotlines' can be established to help the public respond fast to unsatisfactory services or decisions by public agencies. A review of international evidence in this area shows that these mechanisms are in place in many countries, but that their utilisation and impact vary widely. An important finding is that in poor societies, it is the elites who tend to use these devices more effectively. In Tanzania where the ombudsman did not evoke any response from villagers, a special effort was made to reach out by adopting a mobile approach, but with limited results.

(3) Yet another voice mechanism is the *participation of the public's representatives in the decision making bodies* of service providers. For example, users' representatives can be made members of the boards of directors or committees of these organisations. Where appropriate, users may hold stocks of utilities so that they have a stake in their management and performance. When legislation pertaining to utilities is being designed, public comment and participa-

tion of those interested in the proceedings could be encouraged. When local governments act as service providers, participation in their decision-making process can give voice to the public. In many developing countries, such use of voice or 'public participation' is conspicuous by its absence. Legislation is planned as an inter-ministerial technical process with no public involvement. Irrigation projects, for example, are typically owned and managed by governments. Yet, beneficiary farmers could be made joint investors, or made responsible for management and maintenance, thereby creating a strong incentive for them to demand and facilitate good performance.

(4) In developed countries, *public participation in the regulatory process* is an established practice. In the US, many regulatory agencies have a statutory duty to provide a forum for disputes arising in the course of the agency's rule making, or between those regulated and those affected by the actions of the industry concerned. Since public participation in this process was limited relative to that of the regulated industries, intervenor funding mechanisms have been created in some cases to deal with this imbalance. Another example of public involvement is in 'negotiated rule making' that brings together representatives of an agency and the relevant interest groups to negotiate the text of a proposed rule. Regulatory negotiation has been used by the environmental protection agency and other departments of the US government.

(5) Where direct participation of users in decision-making is difficult or inappropriate, it may be possible to consult them on important issues or to afford them opportunities to express their views on key decisions directly affecting them. *Public hearings* on the revision of rates in utilities is a good example of this approach. *Advisory panels* of a standing nature are another institutional mechanism. These devices can be set up by service providers or through regulatory agencies which are in any case necessary given the monopolistic nature of the activities involved.

(6) *Legal action* by members of the public or by consumer action groups against public service providers and their staff is an expression of voice that is becoming increasingly popular. Legal and judicial reform and improved access to information have facilitated the use of this relatively new voice mechanism in some countries. In this context, the decision of the development banks in India to set up consumer testing laboratories is a commendable and farsighted move to strengthen the voice of the public in dealing with both public and private producers of goods and services.

The exercise of voice is not only costly for the poor in terms of time and effort, but is also more risky than exit as the outcomes of voice are less certain. The poor are unlikely, therefore, to readily invest in the use of voice. Given the high costs of voice facing them, the endeavour should be to search for

voice surrogates. These are external agents who mobilise or organise the local public in order to demand and monitor better service performance. Non-governmental organisations (NGOs) are well known for playing this role. In some cases, they may act as service providers too. Media can also play a positive role in strengthening the voice of the poor. Their voice augmenting role tends to reduce the cost of voice to the local public who are generally poor and illiterate. Under monopoly conditions involving the poor, this form of cost internalisation by an external agency can tilt the balance in favour of the use of voice by the public. In health services, population control, and education, NGOs have played this role admirably in many developing countries. The alternative of a local community organising itself or influencing local governments to exert voice is also an important option [Paul 1987].

Improved accountability will result from the use of exit and voice mechanisms only when the latter cause the behaviour of the service provider to change. Since internal control is the instrument for achieving behavioural changes in the service provider, the condition to be met is that its monitoring and incentive systems are adapted in response to exit and voice mechanisms. This is important because if internal control has not been adapted, the public service provider's behaviour is unlikely to be affected and exit and voice would not have had their desired impact on accountability. With the use of exit, for example, some segments of the public may benefit by moving to private providers. The public service provider may still remain as inefficient and ineffective as before if it does not get the right signals through a responsive control system. A measure of the adaptation is the extent to which monitoring by the provider spans the efficiency, access and quality of service instead of being limited to inputs and compliance with internal rules. When such monitoring is reinforced by appropriate incentives to the provider, control can be said to have adapted to exit and voice. Voucher receipts or service fees as a major source of revenue are examples of signals in a control system that can positively influence the behaviour of service providers. If an adaptive response does not follow, exit and voice mechanisms may be further modified so as to give stronger signals to the provider.

IV

Implications for Policy and Action

Public accountability is an important determinant of the outcomes of public services. The poor performance of many developing countries in this area underscores the urgent need to strengthen public accountability. This paper has shown that the impact of accountability on performance can be augmented by moving away from an exclusive reliance on control mechanisms such as monitoring and use of organisational incentives to a system that uses exit or voice

mechanisms in conjunction with control. Whether the public will resort to exit or voice will depend on the relative costs associated with these options and the expected value to them of the performance improvement resulting from their use in a specific context. The costs and returns associated with exit and voice will in turn be influenced by the degree of market failure underlying the services in question.

Exit and voice can be expected to influence accountability both directly and indirectly. The contestability effect of some of the exit and voice mechanisms can have a direct effect on the behaviour of service providers. Through their impact on hierarchical control mechanisms, they can also have an indirect and positive effect on the same set of agents by keeping them 'in line'. It is difficult for an overloaded macro-level accountability system to have this effect on service provider behaviour in the absence of exit and voice mechanisms. The nature and extent of this impact will depend on the relative bargaining power of the multiple stakeholders *vis à-vis* the agents involved.

The factors that influence the potential for exit and voice in the context of different public services are several. The key characteristics on the exit side are the presence of economies of scale (monopoly), legal barriers to entry, and spatial barriers to exit. Voice potential is determined by legal, informational and institutional barriers, the public's level of income and education (and hence political power), the relative importance of the service to the public, and service differentiability. Some of these are natural barriers and characteristics whereas others are artificial or policy induced. Economies of scale, spatial barriers, the relative importance of services, and differentiability are natural factors. Legal, informational and institutional barriers, and income and education characteristics (to a large extent) are policy induced factors. Public services can be categorised in terms of the exit and voice potential they afford the public by reference to these barriers and characteristics. An analysis of the features and barriers of public services and of the publics involved can be used to predict the potential for the use of exit and voice in specific service contexts. This analysis along with the knowledge of the extent to which such features/barriers are natural or policy induced provide a basis for the design of new mechanisms for public accountability and improved service performance.

A useful approach to the improvement of accountability is to devise ways and means to overcome these barriers or to minimise the adverse effects of these characteristics. Clearly, natural factors are more difficult to overcome than those induced by policy. Exit and voice potential can therefore be more easily realised by first eliminating the policy induced barriers. Minimising the adverse effects of natural barriers will call for more time, effort and resources. Judged by these criteria, services characterised by weak voice

and low exit will be the most difficult to deal with. Natural factors play a dominant role in causing this combination of exit and voice. The implications of this analysis can be seen in the menu of options for improving accountability for services that fall under the different combinations of exit and voice potential discussed in Section II. A menu of options that fits the problems of the different exit-voice combinations is a more useful approach to the improvement of public service accountability than one that offers a standard answer for all situations. Some proposals for action are summarised below.

(1) If the power of exit and voice mechanisms in promoting public accountability is accepted, it follows that systematic attention to their identification and potential use must be considered at the design stage of programmes that are meant to deliver services with public good characteristics. During programme preparation, the barriers to accountability discussed above need to be identified and assessed, taking into account the nature of the service and of the public involved. While it is appropriate to strengthen the internal control system in a public agency, one should not assume that accountability for performance will follow simply because hierarchical controls are in place. Reinforcing accountability through a search for exit/voice mechanisms is essential especially in poverty oriented projects where diversion of benefits may not be difficult. Often, the mandates and behaviour of service providers are dominated by their own preferences or the priorities of their supervisors and influential elite groups. The weakest stakeholder is the public or its segments who do not have an adequate 'voice' for the reasons discussed in this paper. It is important to examine the kinds of exit and voice mechanisms that can be mustered to correct this imbalance. Since the costs and benefits of the different options tend to vary a great deal, there is merit in assessing a variety of experience in this regard. Innovations in the design of improved accountability systems must be informed by such evidence on the ground.

(2) In programmes whose outputs/services are meant for reasonably well defined publics (locationally or through targeting), there is merit in eliciting public feedback on government services periodically. The purpose here is to generate information as a basis for both the government and the public to learn, respond and adapt so that performance can be improved. A suitably designed public evaluation should not be a one time affair, but one that is undertaken periodically as a mechanism to enhance transparency and accountability. Task forces or committees of experts should undertake this assessment the findings of which should be publicly disseminated.

(3) In public utilities and other services where the exit option is unavailable, governments need to explore the scope for providing voice mechanisms to enhance account-

agency. Even where regulatory agencies have been set up to deal with monopoly situations, there is a case for increasing public participation. Public hearings, induction of non-officials/experts on boards/advisory panels, public access to important deliberations/meetings, and surveys of public satisfaction are some of the mechanisms that deserve attention. There is a strong tradition in governments of taking key decisions pertaining to such public utilities/agencies within ministries and in secret. Public hearings used to be a feature of the regulation of electric utilities in British India. After independence, the government seems to have abolished this practice. Public dissemination of key performance indicators and the use of local research institutions or media to undertake the comparative analysis and publication of such data and their findings will further reinforce the pressure for accountability.

(4) Voice mechanisms can be built into the device of the memorandum of understanding to improve the economic performance and accountability of a variety of public enterprises and other agencies. Efficiency measures play a key role in these contracts. But exclusive reliance on efficiency indicators may not cause accountability to improve in all cases. There are issues of the effectiveness of the goods and services covered by performance contracts that cannot be easily judged solely by these indicators. Thus if the quality or some other attributes of a service can be assessed only through user feedback, voice mechanisms may be the only valid basis to follow. From the accountability standpoint, a major gap in public agencies is the lack of monitoring systems to track the relevant performance dimensions. Often inputs and technical and financial aspects will be monitored, but dimensions that reflect public responsiveness and satisfaction (access, quality, reliability, etc), may be neglected. Public surveys of users may then have to be built into the contracts. This may be necessary also to counter the tendency of interest groups in large agencies to 'manage' technical data in ways that suit them and as a cross-check with other sources of data on the more difficult to measure attributes.

(5) Accountability at the micro-level will be sustained only when the government and the society at large are concerned and wish to improve governance. Comparative information on how different countries perform in respect of key public services can be a powerful tool to generate greater national and international interest in this subject. Selected indicators of performance based on good professional judgment can be assembled on these services from as many countries as possible for wide dissemination. It will provide the data for governments, scholars, media and the public at large to see where their countries stand in respect of the level and quality of their services. The public's awareness of these matters can often lead to an increased demand for public accountability.

Notes

[The views expressed in this paper are the personal views of the author.]

- 1 Exit and voice options can be both substitutes and complements to each other depending on certain underlying conditions which Hirschman develops in his book. He further notes that the cost of voice could be higher than that of exit in view of the need for collective action and the risk of the less certain outcomes of voice. While Hirschman recognises the relevance of these options to both private and public sectors, he focusses almost exclusively on the world of private goods where both options are readily available. Furthermore, he does not examine the issue of the relevance and design of institutional devices or arrangements for facilitating the use of exit and voice in varying contexts and the conditions under which they will be optimal.
- 2 This generalisation must be qualified in part. In politics, forms of exit do exist (leaving a party). While in the market, the use of voice is not unknown (a public demonstration).
- 3 The level of voice costs will be affected also by the prevailing socio-political environment. For example, a free press, dissemination of information, legal rights, etc, will reduce costs for the individual.
- 4 Note that services here differ only in respect of the degree of market failure. Strictly speaking, only one type of market failure should be considered at a time along the Y axis (e.g. natural monopoly). Needless to say, these are highly restrictive assumptions.
- 5 Returns are the monetary equivalent of the gains from improved accountability that the individual receives as a result of the use of exit or voice. The upward shift is treated here as an autonomous step, but need not always be so.
- 6 Note that scope for exit increases as one moves down vertically from Cell 1 to Cell 3.
- 7 Elements in this cell are the mechanisms of hierarchical control used by a public agency.

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Accelerate Reform of Price Control

As I present my first statement as Chairman of your Company, I would like to record the deep appreciation of the Board for the notable contribution made by my illustrious predecessor, Mr. N.M. Wagle, during his association with the Company.

In the country-wide debate which is now taking place on the steps taken to tackle an economic crisis of unprecedented proportions, there is at last general agreement that sweeping structural changes are necessary to deregulate the economy. The government has taken commendable steps.

There are already some indications that the government is reviewing the Drugs (Prices Control) Order to reduce the number of drugs under price control and to revise the norms for fixing prices. What is needed now are sweeping structural changes of policy and a substantial dismantling of price control. **The objective to make drugs available at reasonable prices is unexceptionable. It is unrealistic under the present conditions to expect the industry to continually absorb higher costs and at the same time, produce and sell medicines at constant, and sometimes even at reduced, prices. Unremunerative pricing results in shortages.**

It is a matter of regret that the new industrial policy does not free drugs and pharmaceuticals from the shackles of industrial licensing. At a time when we are desperately short of foreign exchange, continuing restrictions over local production will compel the



country to spend this valuable resource on imports which could well have been avoided.

The decision to automatically approve foreign equity investment at 51% is, however, a move in the right direction which will be received with favour internationally. It is, however, important to remember that at present there are many competing claims on funds available abroad. The countries of eastern Europe will naturally receive greater attention from the investors of the West. In order to compete effectively with others to attract foreign investment, India will have to provide sufficient assurance to foreign investors that the return on their investments will not only be competitive but also that the projects for which their investments are offered will not be obstructed or held up by red tape and other political problems encountered in the past.

During the year under review, your Company has had to contend with a number of adverse factors common to industry in general. **The Gulf crisis and, more recently, the devaluation of the rupee have added fuel to inflation which is now posing a very serious threat to the economy. Naturally, it has also had its inevitable impact on your Company's performance.** Margins have been eroded steadily because of sharply rising costs which have not been compensated by commensurate price increases. However, growth in volume sales has been satisfactory, and intensive efforts have been made to hold margins by controlling costs of inputs and raising efficiencies. These have helped considerably to improve operating results.

I would like to express my sincere thanks to Glaxo Group U.K. on behalf of us all for its continuing support and expert advice which has always been given so freely and readily. Our thanks are also due to our joint venture partners PICUP and KSIIDC whose support for the projects in the states of Uttar Pradesh and Karnataka respectively is very valuable. I feel sure you will also wish to join me in thanking all employees for their contribution and hard work during the year.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting. For a copy of the Chairman's full statement and the report and the accounts, please apply to the Secretary, Glaxo India Limited, Dr. Annie Besant Road, Worli, Bombay 400 025.

Technological Capability under Economic Liberalism

Experience of Indian Industry in Eighties

K K Subrahmanian

The causality between liberalisation and growth performance and its impact on some qualitative aspects need to be carefully understood before adopting economic liberalism as the corner-stone of future industrialisation policy. This paper explores the direction in which economic liberalism affects one such qualitative aspect, technological capability, and finds that both policy regimes, regulatory planning as well as economic liberalism, could strengthen technological capability, though of different types.

AFTER going through a period of prolonged stagnation since the mid sixties Indian industry showed signs of recovery towards the close of the seventies and manifested buoyancy in growth in the eighties. The latter period also witnessed a swing in the development strategy away in emphasis from economic planning towards economic liberalism. Prima facie, it would appear that industrialisation in India is ingrained to the nature of macro economic policy regime. Some economists regard the protectionist and regulatory policies under planning regime as the basic cause of industrial stagnation witnessed since the mid sixties, attribute improvement in industrial growth in the eighties to the liberalisation of industrial licensing, import control and some other regulatory policies that helped create a somewhat competitive environment and recommend further doses of economic liberalism for the future industrial/technology policy so that the fuller play of market forces and external orientation will ensure a higher rate of growth. In contrast, there is a view that the stagnation was due to some structural constraints and improved performance in recent years coincided with higher rates of growth in public investment and domestic demand. Further the liberalisation is one of the major factors that may have contributed to the recent current economic crisis especially in the external sector of the Indian economy.

It seems that the causality between liberalisation and growth performance and certainly, its impact on some qualitative aspects need to be carefully understood before adopting economic liberalism as the corner stone of the future industrialisation policy. Among such qualitative aspects the one that is fundamental is technology as, "industrialisation is a process of acquiring technological capability in the course of continuing technological change".¹ This paper explores the direction in which economic liberalism affects technological capability.

DETERMINANTS OF TECHNOLOGICAL CAPABILITY

Technological capability is composed broadly of (a) the manufacturing capability (i.e., capability to manufacture goods and

provide services to given designs and specifications) and (b) the design capability (i.e., the capability to design changes in given products/processes or to design entirely new products/processes) in response to changing factor and product market conditions. This capability is enhanced in the course of technological change, which in a developing country context comes through a combined process of import of technology from developed countries and internal development through R and D activities. It can be conceived of shaping itself in response to technological behaviour of micro economic agents (e.g., the firms) in relation to import of foreign technology and indigenous R and D efforts in a sequence as classified by Fransman. Generally, a firm/industry in a developing country can improve its technological capability by moving along a technology dependence independence continuum i.e., importation of technology from foreign countries, internal R and D efforts for local adaptation improvements and innovations—and even export of technology.

Thus viewed the technological capability of a country can be argued to be a function of indigenous research and development (R and D), technology imports (TM) and the relationship between the two.² This relationship is a complex one. Technology import may either substitute or complement (or a combination of both) indigenous research and development activities. The literature on the influence of technology import on domestic R and D *per se* is rather scarce and the available empirical evidence on the nature of relationship between the two has been rather mixed.³ Some country studies have found the relationship to be complementary whereas some others do not lead to any firm conclusion. Also within the same country the relationship is of different nature in different time periods. In fact we have only rough ideas about the determinants of the nature of relationship which are firm specific, industry specific and specific to the economic policy regime. This is rooted in the lack of adequate empirical research on technological aspects of industrial growth.

As for the factors related to policy regime in determining the relationship between

technology import and domestic R and D activities (i.e., technological capability) the analysis of the macro industrial/technology policies and their influence in moulding technological behaviour of economic agents at micro levels may be a good starting point. In this context one may distinguish between the policy regime ingrained in (a) protectionism and (b) liberalism. The first one is based on the principles of economic planning and state regulations and is mainly inward looking in orientation whereas, the second one is based on market forces and is outward looking. To be more specific to the context of the present paper, it should know whether or not economic liberalism encourages the micro economic agents (i.e., the firms in the manufacturing sector) to strengthen their internal technological capability?

In the Indian context, it has been argued that the network of government controls under the planning regime and particularly, the selective technology policy with regard to import of foreign capital and foreign technology denied the firms the free access to import fast changing technologies from advanced countries and thereby contributed to their technological stagnation. In contrast, some doses of economic liberalism introduced in the eighties facilitated liberal import of foreign capital and foreign technology across the board and encouraged participation of transnational corporations in specific industries and in particular in the export sector. These policy changes moved the then inward looking industrial/technology system towards one that is more open to market forces and foreign participation and enabled the firms to acquire modern technologies and thereby attain higher output growth.

Clearly the firms must have been incurring substantial expenditure in connection with technology imports and imposing increasing burden on the country's external balances in the eighties. There is also another interesting aspect to economic liberalism. This is to see whether the liberal import reduced the need (market incentive) to develop the firms' internal technological capabilities and increased their technological dependence. Alternatively, what efforts were made by them towards building up their in-

ternal technological capability through in-house R and D? In order to pose the question in a comparative framework, we should also know what R and D efforts did the firms make during the protectionist policy regime and why did not those efforts enable them to become technologically dynamic to achieve higher output growth? An exploration into these questions is the core of this paper

IMPORT OF TECHNOLOGY AND INDIGENOUS R AND D

We begin the empirical analysis with some general comments on the recent trends in the import of technology (foreign collaborations) and internal research and development of the Indian private sector industry. As a consequence of policy liberalisation, the country has witnessed liberal import of foreign technology during the eighties. This is reflected in the increased number of foreign collaborations including foreign capital participation in Indian industries. The number of foreign collaboration approvals between 1980-1986 averaged 702 per year as against a corresponding figure of 239 between 1965-1979 and the number of cases involving foreign equity participation were 145 and 42 respectively during the above periods. The eighties started with a sudden acceleration in the rate of foreign collaboration and significantly in the proportion of financial collaboration. In a sense, the transfer of technology from developed countries has been the significant direction of technology capability building of Indian industry under the regime of economic liberalism in the eighties.

To the extent, however, that the import of technology is increasingly taking place through mechanisms potent with foreign control, the risk of technological dependence of Indian industry is likely to be high unless the import of technology is being supplemented with internal R and D effort for adaptive changes (mastering the manufacturing capability) as well as innovations to develop new processes and products (design capability). This leads us to examine the trend in indigenous innovative efforts measured by the expenditure on internal R and D during the eighties.

At the outset, we need individual firms wise data on the expenditure incurred by the firms for the import of technology and also on their internal research and development activities in order to comment upon the relationship between the two and thus, on the trends in the attitude of Indian industry towards acquiring technological capability. The relevant data available for the eighties being scanty a rigorous analysis is difficult at this juncture.

Nevertheless, certain unhealthy tendencies under the liberalised policy regime can be discerned from the data on R and D in industry being published by the department of scientific and industrial research, ministry of science and technology, New Delhi.

Particular mention may be made of the tendency towards stagnation in the R and D efforts of the private sector in general. This is indicated by the fact that R and D expenditure as a percentage of sales turnover of firms in the private sector as a whole has declined on an average from 0.78 per annum during the period 1975-76 to 1979-80 to 0.68 in the period 1980-81 to 1986-87 (see Table 1a). Yet another way of illustrating the point is to examine the growth trends in expenditure on in-house R and D. Here again, it is seen that the growth rate recorded in the private sector is lower than the one in the public sector and more significantly, it is lower during the eighties as compared to the seventies (see Table 1b).

Some ideas of the trends in the relationship between domestic R and D efforts and the import of technology can be formed from the Reserve Bank of India survey data on finances of non-financial, non-government public limited companies for different years. The data for the years since 1983-84 provide information on the combined expenditure on (RDE) and also on expenditure in foreign currencies on account of dividend, royalty, technical fees, etc (which we call here, technology-import expenditure (TME)) incurred directly in connection with foreign collaboration arrangement by the companies covered in the sample study. The relevant data for three broad manufacturing sectors as classified by Reserve Bank study (viz, (I) food, textiles, tobacco, leather and products thereof, (II) metals, chemicals and products thereof, and (III) manufacture not elsewhere classified) are presented in Table 2.

It is seen that the combined expenditure of the companies (which can be taken as proxy for the private manufacturing sector) on the import of technology is greater than the corresponding expenditure on internal research and development both in absolute amount and in relation to the sales turnover in each of the manufacturing sector considered. For the five year period as a whole, the annual direct expenditure on the technology import worked out to be 0.547 per cent, 0.71 per cent and 0.70 per cent of the total as against corresponding R and D expenditure figures of 0.06 per cent, 0.19 per cent and 0.12 per cent in sector I (food, tobacco, textiles, etc), sector II (metals and chemicals) and sector III (manufacturing, nec.) respectively.

From the perspective of building up the technological capability of the industrial sector with reduced degree of external dependence over time, it is necessary that the firms constituting the particular industries should allocate proportionately more expenditure on internal research and development (RDE) relative to the expenditure on technology import (TME) over time. In order that the relationship between RDE and TME should be complementary in any given industrial sector, the elasticity of expenditure on R and D with respect to technology

import should be positive in sign and significantly not less than unity in value. That is to say, the rate of increase in expenditure on R and D should be greater than on the import of technology over time. To put in a statistically testable form, if RDE is postulated as a linear function of TME, i.e.,

$$\log RDE = a + b \log TME + e$$

the 'b' coefficient should not be negative in sign and not less than unity in value, when that industry can said to be building up its technological capability with lesser degree of external dependence through a process of complementarity between domestic research and development activity and technology-import.

When the RBI data on the finances of non financial and non-government companies were put to the above statistical test by pooling the data for five years for the three broad manufacturing sectors the following log linear relationships were obtained:

$$RDE = -1.3131 + 0.8361 TME \quad R^2 0.7464$$

$$(-2.2560)^* (6.1850)^*$$

$$RDE/N = 2.5518 + 0.7108 IMF/N$$

$$(-5.6466)^* (3.0300)^*$$

$$R^2 0.41258$$

where, RDE/N per firm R and D expenditure and

TME/N per firm expenditure on technology import

Although the above regression analysis is carried out with the data on the combined expenditure of the firms including those which did not either undertake R and D or did not incur expenditure on import of technology, it is amenable to draw an inference of a general nature that expenditure on internal research and development activities increased with increasing expenditure on the import of technology but less than proportionately in the private manufacturing sector during the eighties. That is to say Indian industry was found backing up its import of technology with internal research and development but not adequately enough to reduce its external dependence. In other words, the relationship between R and D

TABLE 1A R AND D EXPENDITURE AS
PERCENTAGE OF SALES TURNOVER OF
FIRMS IN PRIVATE SECTOR

| (Per cent) | | | |
|----------------|------|----------------|------|
| 1975-76 | 0.76 | 1980-81 | 0.77 |
| 1976-77 | 0.71 | 1981-82 | 0.76 |
| 1977-78 | 0.78 | 1982-83 | 0.50 |
| 1978-89 | 0.79 | 1983-84 | 0.52 |
| 1979-80 | 0.85 | 1984-85 | 0.72 |
| | | 1985-86 | 0.70 |
| | | 1986-87 | 0.81 |
| Annual Average | 0.78 | Annual Average | 0.68 |

Source: Based on data from DSIR, *Research and Development in Industry*, Ministry Science and Technology, Government of India, New Delhi (various issues)

and technology-import was complementary in nature but tended to be "rather limited" and weak in magnitude during the eighties.

The foregoing pieces of evidence gathered from different sources of data, viz, the data on R and D expenditure of the firms in Indian industry compiled by the ministry of science and technology and on the finance of non-financial non-government companies

surveyed by the Reserve Bank of India, illustrate the general tendency for internal R and D efforts to remain less dynamic as compared to the import of technology in Indian industry with the result that the process of technological capability-building tend to be biased towards external dependence under economic liberalism

DIRECTION OF TECHNOLOGICAL CAPABILITY BUILDING: A CASE STUDY OF ELECTRONICS

A more direct method of determining the direction of technological capability building requires analysis of individual firm wise data on expenditure on in plant R and D relative to import of technology by the firms during the eighties. In the absence of relevant data on technology payments by the firms who also undertake internal research and development activities, we can not attempt such an analysis. As an alternative, we may adopt the following method of firm wise analysis. We ask whether the annual R and D expenditure incurred by technology importers in a given industry is higher than non importers in a sample of firms undertaking R and D during the eighties. Since the R and D intensity is generally hypothesised to vary with the size of firms, we also examine the influence of the firm size on R and D expenditure. These propositions are empirically tested by using

a multiple regression equation of the following type

$$\log RD = a + b_1 TM + b_2 \log SV$$

where, RD is the level of R and D expenditure, TM is a dummy variable taking values 0 and 1 respectively for firms that are non importers and importers of technology and SV is the value of sales used here as a measure of the size

In applying the statistical model outlined above we need information on R and D expenditure of firms in the industrial sector. The department of science and technology (DISTR) surveys the firms registered with it and publishes a *Compendium of In-House R and D Centres*, which gives information on sales turnover, foreign collaboration, R and D expenditure, etc. of the firms. On the basis of above information it is possible to separate out technology importers and non importers undertaking R and D, and carry out the empirical test outlined above. As the test on the data of the firms within a particular industry gives a more stable behavioural pattern than the one across industries, we limit our analysis to one industry, viz, electronics

The choice of electronics industry is guided by the considerations that (1) it has witnessed fast changing technological advances in the world of technology in the recent years, (2) it is the key to modernisation of the industrial sector, (3) it is a 'new' industry developed on modern lines in India in the seventies, (4) its dependence on import of technology was minimal in the seventies but increased at a rate faster than for the total industrial sector during the eighties, and (5) its growth in India was rather slow earlier under the inward looking strategy and now is fast under economic liberalisation.

We collected the required data relating to electronics industry for three years (1985-86, 1986-87 and 1987-88) of the eighties from the DISTR's *Compendium of In-house R and D*. The sample covered in each year being not identical the statistical testing was carried out for each year separately. The sample firms were classified into two groups, viz non importers of technology and importers of technology. The value of sales turnover was taken as a proxy variable for the size of the firms. The results of the multiple regression show the estimates of the coefficients (Table 3)

Two interesting findings emerge from the statistical testing on the data from electronics industry though the explanatory power of the model is not high. First, the coefficient of S (proxy for size) is positive and significant but less than unity. This would imply that the increase in R and D intensity is in direct relation, but not proportionate to the size of the firms. In other words larger firms do not undertake proportionately more R and D than smaller ones. Second the coefficient of dummy variable has positive sign but is not significantly greater than zero. In other words,

TABLE 1B TRENDS IN EXPENDITURE ON IN-HOUSE R AND D (1970-71 PRICES)

| Year | Public Sector | Private Sector | Total |
|---------------------------------------|---------------|----------------|-------|
| 1976-77 | 1915 | 2920 | 4835 |
| 1977-78 | 2175 | 3377 | 5553 |
| 1978-79 | 3141 | 4319 | 7460 |
| 1979-80 | 3496 | 4850 | 8348 |
| 1980-81 | 3851 | 5381 | 9235 |
| 1981-82 | 4407 | 6023 | 10431 |
| 1982-83 | 4634 | 7455 | 12090 |
| 1983-84 | 5575 | 7167 | 12742 |
| 1984-85 | 5496 | 7485 | 12981 |
| 1985-86 | 5919 | 7508 | 13428 |
| 1986-87 | 6578 | 8827 | 15405 |
| Annual average growth rate (per cent) | | | |
| 1976-77 to 1979-80 | 26.22 | 22.60 | 24.07 |
| 1980-81 to 1986-87 | 8.34 | 7.94 | 8.11 |

Source: as in Table 1A

TABLE 2 TRENDS IN EXPENDITURE ON R AND D AND TECHNOLOGY IMPORT

| Items | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 |
|------------------------------------|----------|----------|----------|----------|----------|
| I Food, textiles etc | | | | | |
| Sample Company Nos | 429 | 429 | 435 | 435 | 435 |
| Sales Rs Cr | 8413.46 | 9509.74 | 10319.10 | 10904.40 | 12279.40 |
| RD | 4.78 | 4.94 | 4.00 | 8.60 | 8.30 |
| TM | 21.36 | 36.58 | 59.70 | 82.50 | 88.70 |
| Per firm RD Rs Cr | 0.01 | 0.11 | 0.09 | 0.19 | 0.19 |
| Per firm TM | 0.05 | 0.08 | 0.14 | 0.19 | 0.20 |
| RD/Sales ratio per cent | 0.06 | 0.05 | 0.04 | 0.08 | 0.07 |
| TM/Sales ratio per cent | 0.25 | 0.38 | 0.58 | 0.76 | 0.72 |
| II Metals and Chemicals etc | | | | | |
| Sample Company Nos | 789 | 789 | 869 | 869 | 869 |
| Sales Rs Cr | 17808.95 | 20602.59 | 24367.50 | 26931.70 | 29936.50 |
| RD | 12.77 | 17.02 | 24.10 | 2.20 | 33.40 |
| TM | 123.95 | 144.70 | 182.20 | 191.30 | 206.30 |
| Per firm RD | 0.02 | 0.02 | 0.03 | 0.03 | 0.03 |
| Per firm TM | 0.16 | 0.18 | 0.21 | 0.22 | 0.24 |
| RD/Sales ratio per cent | 0.16 | 0.20 | 0.2 | 0.19 | 0.19 |
| TM/Sales ratio per cent | 0.70 | 0.70 | 0.75 | 0.71 | 0.69 |
| III Manufactures etc | | | | | |
| Sample Company Nos | 241 | 241 | 275 | 275 | 275 |
| Sales Rs Cr | 4445.81 | 5118.45 | 6249.40 | 6911.50 | 7349.20 |
| RD | 4.61 | 6.53 | 3.70 | 14.20 | 6.90 |
| TM | 27.43 | 61.80 | 31.20 | 40.71 | 43.90 |
| Per firm RD | 0.02 | 0.03 | 0.01 | 0.05 | 0.03 |
| Per firm TM | 0.11 | 0.05 | 0.11 | 0.15 | 0.16 |
| RD/Sales ratio per cent | 0.10 | 0.13 | 0.06 | 0.21 | 0.09 |
| TM/Sales ratio per cent | 0.62 | 1.21 | 0.50 | 0.59 | 0.60 |

Notes: RD = Research and Development expenditure

TM = Technology Import expenditure i.e., expenditure in foreign currencies on account of foreign collaboration viz, dividend, royalty, technical fees etc.

nc = not elsewhere classified

Source: Based on Reserve Bank of India, *Finances of Public Limited Companies RBI Bulletin* December 1990, September 1989, Jul 1987

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the annual R and D expenditure incurred by technology-importers is not significantly higher than non-technology importers. That the regression coefficients showed a consistent pattern with respect to the sign and the statistical significance level in all the three years suggests that an inference can be drawn with some confidence from the test results. We may interpret that economic liberalism has not encouraged the firms to strengthen their technological capability through a process of internal R and D activity in Indian electronics industry. Perhaps, the incentive structure of the market under economic liberalism is biased in favour of importing technology continuously for maximising the short-run gains rather than developing internal technological capability in the long run. If the experience of electronics industry in the eighties is any indication, the pattern of technology behaviour of the firms under economic liberalism has the potential danger of rendering Indian industry externally more dependent on, and internally less dynamic in, technological progress.

TECHNOLOGY BEHAVIOUR OF FIRMS UNDER PROTECTIVE POLICY REGIME

Let us now outline the R and D behaviour of Indian firms as revealed by earlier studies when industrialisation in the country was being guided under the regime of planning and protectionism. An earlier study analysing the relationship between the expenditure on technology import with the expenditure on in-house R and D for the period 1964-65 to 1980-81 *inter alia* suggested that Indian firms generally backed up technology import with in-house R and D efforts. That is to say the relationship between internal R and D activities and technology import was one of complementarity. Further, it was also shown that the elasticity of expenditure on R and D with respect to technology import was found not significantly less than unity during that period. That is to say, the firms importing technology backed it up with internal R and D activities for building up their technological capability with reduced degree of external dependence during the regime of protectionism. Studies by some other scholars⁸ have also found that expenditures on R and D were positively related to payments for imported technology in specific industries studied and also for the manufacturing sector as a whole during the periods of their studies. The evidence of empirical studies for the period during the seventies thus tends to suggest that the firms' technology behaviour in the compulsive environment of controls under the regime of planning was one of raising relative expenditure on R and D for innovations, perhaps marginal and adaptive in nature, as compared to the expenditure on technology import on a continuous basis.

In the compulsive environment of controls R and D efforts were, however, mostly confined to down scaling the process knowhow

to suit the domestic market, to carry out detailed engineering, to substitute imported inputs by local materials, etc. These efforts did help to improve the technological capability for manufacturing the products to the given designs and specifications with economy in foreign exchange cost, but there were limited progress in developing improved/new designs or processes keeping pace with the cost-effective and high productive technological changes taking place in the international market. In a sense, then one could say that the strengthening of technological capability in Indian industry was constrained by the protectionist policy in the planning regime. For, there were not an incentive structure of the market required for stimulating cost effective and productivity-raising technological changes.

Did the incentive structure of the market under economic liberalism in the eighties induce the firms to change their strategy and improve upon their technological capability and productivity performance through increased in-house R and D efforts? The results of our statistical analysis of the general data for the private manufacturing sector as a whole and the firm wise data in respect of Indian electronics industry attempted in this paper do not lend support to a positive answer. Contrarily, the liberal import of technology during the eighties seems to have reduced the need (or incentive) for internal R and D efforts and rendered them rely upon the technology import on a continuous basis for meeting their technological needs. The effect of economic liberalism is not seemingly in the direction of stimulating internal research and development activities for raising the technological capability-building with reduced external dependence, it is in the direction of raising the firms' technological level for manufacturing with increasing external technological dependence.

CONCLUSIONS

To summarise, the pattern of technology behaviour of Indian firms during liberalisation in the eighties as compared to the earlier period of protectionism leaves some lessons for the future industry technology policy. The stress on protectionism and regulation may provide a compulsive environment that makes the firms supplement the import of technology with internal R and D efforts and strengthen the *manufacturing capability* but the lack of competitive environment makes them indifferent to develop the *design*

capability in tune with changes in the world technology with the result that the benefit of higher productivity and output growth would not be significant. On the other hand, the incentive structure of market under economic liberalism may be biased towards distorting the technology behaviour of the firms in the direction of indifferent internal learning (R and D efforts) but may raise the firms' technological level on the basis of continued dependence on technology import and attain higher levels of productivity and output growth.

To conclude, both the policy regimes (regulatory planning as well as economic liberalism) could strengthen the technological capability, though of different types. Therefore, the apparent dichotomy between 'protection' and 'competition' must be viewed as a false dilemma and the policy objective should be to get a desirable mix of market and planning modes in relation to technological change in Indian context. What is perhaps needed is a relatively free environment of the market for technology-import but accompanied by positive intervention of the state to ensure that the import is backed up with domestic R and D efforts for the firms industry to move along a 'dependence-independence' continuum of technological change. As for the future policy, therefore, there is a logic in further freeing the Indian industry from unnecessary bureaucratic shackles *inter alia* in relation to import of foreign capital and technology and yet, there is the need for socially purposeful and effective state intervention to strengthen internal technological capability and promote the industrialisation with a greater degree of autonomy.

Notes

- 1 Pack H and L F Westphal (1986) 'Industrial Strategy and Technological Change: Theory versus Reality', *Journal of Development Economics*, 22, p 106.
- 2 Fransman M (1985) 'Conceptualising Technical Change in the Third World in the 1980s: An Interpretive Survey', *Journal of Development Studies*, 21.
- 3 Bluementhal T (1979) 'A Note on the Relationship between Domestic Research and Development and Imported Technology', *Economic Development and Cultural Change*, Vol 27, No 2.
- 4 See for example Bluementhal T (1976), 'Japan's Technological Strategy', *Journal of Development Economics*, 3 No 3. Katz J M (1973) 'Industrial Growth: Royalty Payments

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TABLE A

| Dependent variable | Independent variable | a | b | R ² |
|--------------------|----------------------|--------------------|---------------------|----------------|
| R/N | M/N | 0.2946 (0.9178) | 0.8942* (2.8392) | 0.3235 |
| R/N | M'/N | 0.2542 (1.0910) | 1.4461* (4.8864) | 0.4603 |

Notes: * are significantly different from zero in a one tailed test at 1 per cent level
R/N per firm R and D expenditure
M/N per firm expenditure on technology import (dividend + royalty + technical fees)
M'/N per firm expenditure on technology-import (royalty + technical fees)

and R and D in a New Newly Industrialising Country: The Experience of Indian Enterprises, *Journal of Development Economics*, 32

5 This method is similar to the one used by Katrak H (1989), op cit. The empirical results obtained and hence the inferences drawn by us are different

6 For an evaluation of the growth performance of this industry see Joseph K J (1989), Growth Performance of Indian Electronics

Under Liberalisation', *Economic and Political Weekly*, Vol XXIV, No 33

7 Subrahmanian K K (1987), op cit. In this study the log linear regression explaining the relation between expenditure on R and D and cost of technology import by the firms in Indian manufacturing sector for the period 1964-65 to 1980-81 gave the following results (Table A)

8 For example see Lall S (1983) and Katrak H (1989) op cit

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MAHARASHTRA STATE LOTTERY

DG IPR

Do State Level Public Enterprises Need Memorandum of Understanding?

T L Sankar
R K Mishra
R Nandagopal

This paper examines the rationale for the introduction of the memorandum of understanding in state level public enterprises, the pre-conditions for its initiation, the institutional set-up required for the preparation and implementation of the MOU and the broad structure of what the MOU should contain for the negotiating parties.

Recommendations for the successful installation of the MOU as a business system have also been incorporated

THE memorandum of understanding (MOU) is the most widely talked about reform in the sphere of public enterprises (PEs). There is a great deal of agreement in the policy making academic research and managerial spheres on the relevance of this instrument to improve the performance of PEs through revamping the government—PE interface. This seems to be the underlying force behind the present move by the department of public enterprise (DPE) government of India, to sign MOUs with 140 of its enterprises.

The state level public enterprises (SLPEs) are a major component of the PE system in India. These enterprises employ about 40 per cent of the total capital invested in the PE system. In terms of numbers SLPEs are more than three times the central PEs (CPEs). Their operational profiles are more variegated as compared to the CPEs. Their performance measured in terms of bottom line results has been far below that of their counterparts in the central sector. Against this backdrop, it is not presumptuous to ask whether the SLPEs should take recourse to the MOU.

NEED FOR MOU IN SLPEs

There are many reasons justifying the introduction of the MOU in the SLPEs. As noted earlier, the financial performance of the SLPEs poses a great threat to the resource mobilisation efforts of the nation. During the Seventh Plan period on an investment of Rs 45,000 crore these enterprises were expected to earn a marginal profit. Instead of meeting this insignificant target, these enterprises incurred colossal losses. The performance of the SLPEs unlike the CPEs, is dismal in all categories. To cite an illustration, whereas the enterprises in the oil sector at the central level are distinctly known as high money makers, there is no such class of enterprises among the SLPEs. The studies completed by the Institute of Public Enterprise for the Ninth Finance Commission and the Planning Commission show that the SLPEs divided into five categories viz, manufacturing SLPEs, trading and service SLPEs, financial SLPEs, promotional and development SLPEs and welfare SLPEs, were all characterised by negative profitability at the net margin levels. Whereas 57 of the 230 CPEs incurred cash

losses in 1988-89 about 300 out of the 754 SLPEs had suffered cash losses in 1986-87. The financial statements of the CPEs for 1988-89 reveal an accumulated loss of about Rs 10,000 crore against reserves and surpluses of about Rs 12,000 crore indicating that the accretion in the net worth was almost conspicuous by its absence. However, the scene was much more dreary in the case of the SLPEs. The figures for the 25 states of the country show that in 1986-87 there was an erosion in the net worth of the SLPEs ranging from 4 per cent in Goa, 70 per cent in Karnataka to 231 per cent in Rajasthan and 345 per cent in Nagaland. This erosion was 42 per cent in the SLPEs of Andhra Pradesh, 47 per cent in the SLPEs of Assam, 68 per cent in the SLPEs of Bihar, and 34 per cent in the SLPEs of Kerala.

The government PE interface assumes a much more complicated dimension in the case of the SLPEs as compared to their counterparts in the central sector. Though theoretically there is to be arms length relationship in the case of these enterprises with the state governments, it is not observed in practice in view of the fact that the permanent secretaries of the departments controlling them have easy access to these enterprises. Further they stand on a higher ground vis-à-vis their chief executives on account of substandard recruitment and lack of competence of such managers. The frequent arm twisting by the secretaries to government either on their own or on the behalf of ministers has vitiated the working of these enterprises to their detriment.

The lack of clarity of both the macro and micro objectives has afflicted these enterprises more than the CPEs. In the case of the latter there have been at least sporadic attempts to formulate the macro and micro objectives. The central government as the owner of the CPEs has been trying to have a close look at their macro and micro objectives through the formulation of the White Paper. Excepting Andhra Pradesh, no other state in the country has made any such attempt in this direction. In the absence of role clarity, these units have turned out to be more 'public' than 'enterprise'. The SLPEs have been explaining away their low performance by referring to the fulfilment of the social objectives which has cut ice neither with policy makers nor with researchers. The three dimensional classification of the CPEs

in terms of public purpose, profit earning and resource mobilisation would show that out of 250 enterprises, only 30 enterprises secure 'high' on all the three dimensions. As opposed to this, a study conducted by the Institute of Public Enterprise (IPE) for the inter state council of the government of India indicates that about 100 of the 754 SLPEs score high on all the three dimensions. It is interesting to note that the enterprises scoring high on social purpose number only 75 in the case of CPEs in contrast to a tall figure of 500 in the case of the SLPEs.

Performance targeting has behavioural implications not only for the CPEs but also for the SLPEs, as without well defined targets most of them sail aimlessly like rudderless ships. It is not fair to comment upon the quality of the managerial personnel in the SLPEs as compared to their counterparts in the central sector. The recent training and career prospects are more well defined for executives of the CPEs as compared to the SLPEs. The chief executives of CPEs have a longer tenure than their counterparts in the SLPEs. Performance targeting would hand down to these personnel in the SLPEs the requisite guideposts in terms of which their success would be measured.

One of the problems of the PEs in India is information overload. Information is generated whether required or unrequired. Many systems have been installed without giving due thought to their end use and networking. The introduction of the MOU would provide an opportunity to the SLPEs to reappraise the need for such control systems and retain only those which have not outlived their importance and fit in well as a part of the new performance evaluation system.

SPECIAL FEATURES OF SLPEs

The SLPEs are a mass of heterogeneous organisations dealing with diverse activities in a volatile environment. They have more principals than the CPEs. They are executive arms for implementing state policies e.g., civil supplies and price support operations. They also provide more crucial inputs, e.g., electricity and road transport.

The first and foremost condition for installing the MOU in the SLPEs is their division into dominant categories as governed

by socio-economic objectives. We have already suggested our scheme for such categorisation in the form of manufacturing, trading and service, financial, promotional and development, and welfare enterprises. This has not been done in the case of the CPEs and as a result the MOU has lacked effectiveness in that context in that it has failed to capture the socio-economic nature of these enterprises which has weakened the negotiating process. Such a classification of the SLPEs would make the MOU a genuine instrument of performance evaluation in that it would enable managerial performance to be judged with much greater comprehension in the wake of social objectives being fulfilled by these units.

The initiative for formulating the MOU would have to rest with the administrative ministry/responsible authority in the case of the SLPEs for these enterprises operate in highly sensitive areas as they affect the public interest directly. For instance, the road transport corporations, state electricity boards, scheduled castes welfare corporations, scheduled tribes welfare corporations, state housing boards, state minorities development corporations, corporations for the development of handicapped, women development corporations, civil supplies corporations, essential commodities corporations, state warehousing corporations, state industrial development corporations, state small-scale development corporations, state industrial infrastructure corporations and state financial corporations are public instruments in the hands of the state governments. The extent of their activities, their spatial spread, delivery costs and staffing could not be decided by the executives in the SLPEs. Targets must be sensitised to public needs.

The parties pooling their heads to formulate the MOUs would include not only the administrative ministry and its enterprises but also the workforce. The management by objectives (MBO), though a laudable concept could not take roots in the public and private sector enterprises in India as it did not traverse from top down to bottom. In the case of the SLPEs in order to make the MOU philosophy acceptable by one and all, it would be necessary that the whole lot of workers are involved in the process of its formulation as well as implementation and review. There is no denying the fact that the labour problems in these enterprises have posed substantial danger to profits and productivity.

The negotiating process would have to be all inclusive. The MOU should not turn out to be the prerogative of the administrative ministry and the enterprise but should become an instrument for the turn-around by providing for the coming together of the suppliers, foreign collaborators, directors, consumers, financiers, etc., in the common cause of performance improvements in the enterprises under discussion.

The MOU as an instrument of improv-

ing the SLPE performance should have stress on improving the autonomy, on the one hand, and accountability, on the other, of these enterprises. It needs to be understood in very clear-cut terms that the autonomy they could secure through this instrument would be more in the nature of operational autonomy and not strategic one. However, to decide as to the extent of strategic operational autonomy mix, the SLPEs need to be divided between competitive and non-competitive enterprises. If these enterprises are in core sectors, the performance improvement would come through the liberalisation of operational autonomy. In the case of enterprises in the competitive sectors, the performance improvement would have to come through the liberalisation of the strategic autonomy. In fact, carrying this argument to its logical conclusion one could strongly assert that there is no need to control the enterprises in the competitive sectors. Such enterprises could be distanced from the state government and for their survival they should make proactive or reactive decisions as warranted by the market forces.

Finally, the MOU to give desired results would have to have a strong edifice present in the form of well formulated corporate plans supported by detailed action plans. The corporate plans and the action plans should express in detail the environment, strengths and weaknesses, and strategies. This is important because of very short tenures of their chief executives. In fact, action plans could succeed as long as they take off from the comprehensive corporate plans and form a part of a well drawn out MOU, supported in letter and spirit by the state government. It is worth cautioning here that all efforts should be made to avoid the features responsible for the lack of enthusiasm faced in the implementation of the MOU signed by the CPEs which have been characterised by too many provisions pertaining to review. This possibly could be eliminated by bringing into the picture the various administrative ministries and authorities who could exert their impact on the attainment of goals by these enterprises.

ORGANISATIONAL FRAMEWORK

It is a moot point to consider as to what sort of institutional structure should be created to oversee the implementation of the MOU and its review in the case of the SLPEs. We are of the view that one of the reasons responsible for the lacklustre performance of the MOU in the CPEs at least in terms of its philosophy, has been the inappropriate organisational framework. In the case of the CPEs the High Power Committee at the top is assisted by the inter-ministry Standing Committee and *ad hoc* task force in conceptualising, okaying and reviewing the MOU. The MOU monitoring cell in the department of PEs is responsible for the operationalisation of the MOU. It

is a nodal point in the department of PEs constituted for co-ordinating activities relating to the design, drafting, finalisation, monitoring and evaluation of the MOU. The cell acts as the secretariat to the High Power Committee and services the *ad hoc* task force. The High Power Committee is chaired by the cabinet secretary and it consists of those secretaries who do not sign MOU themselves. It has been set up to evaluate the performance of CPEs and their concerned department in fair, objective and unbiased manner. The Inter Ministry Standing Committee has been set up under the chairmanship of the secretary, department of public enterprises. This committee monitors and evaluates the MOU at the first stage for the consideration of the High Power Committee and maintains a continuous link between these ministries.

The review of the organisational framework for the MOU at the centre would clearly point out that an extensive body of institutions has been created without putting the real nerve centre into it. Any system of performance evaluation must be based on proper information flow, proper performance evaluation technique and suitable performance incentive plans. For the MOU to operate as an effective performance evaluation system the powers that matter in corridors of the government must be brought into the process of negotiation with the PEs. This is because the MOU as a performance evaluation system is different from the return on investment technique which is primarily static as opposed to the MOU which acts as signalling instrument giving enough opportunity to the negotiating parties to stop the birth of forces leading to performance deterioration.

It is therefore in the fitness of things to suggest a four tier organisation for the formulation and implementation of the MOU in the case of SLPEs. In this scheme of things at the top would be the Performance Evaluation Council (PEC) serviced by PE Management Board/Bureau of Public Enterprise which, in turn, would be advised by the performance evaluation task force. Operationalisation of the MOUs could be left to an independent/autonomous body. PEC would be the apex performance evaluation organisation. It should be in charge of the deliberations and resolution of matters related to the performance of the SLPEs. It could comprise the minister of industries, minister of finance, and the other ministries in charge of the corresponding SLPEs. This council should formulate the general guidelines for the draft preparation of the MOU, co-ordinate the budget preparation of the SLPEs and evaluate the managerial performance of these enterprises. This council should formulate the performance evaluation criteria, compute target variance, decide the incentive bonus rates for the SLPEs as a function of performance evaluation results and may suggest the dismissal of PE chiefs for poor management. The PE management board/BPE should work as a

secretariat to the PEC and report directly to its chairman on the preparatory work and follow up action of the PEC, such as selection of the performance evaluation task force members and assignment of specific jobs to each task force member should be handled by this body. This organisation should liaise with the ministries handling the SLPEs.

The performance evaluation task force should render preparational and technical help connected with the performance evaluation system. The major assignment of this body should be drawing up the performance evaluation manual and management guidelines and the evaluation of the management performance according to the evaluation criteria of the manual. This task force should draw 75 per cent of the members in the respective states from its pool of management experts, accountants, legal experts, retired civil servants and policy analysts. The remaining 25 per cent of the members should be drawn from these categories from other states of the country.

To operationalise the MOU, the responsibility for installing the operating systems including charting out the information flow and providing information could be entrusted to autonomous agencies such as the Institute of Public Enterprise. Such an institute would work as a public enterprise research unit responsible for developing the appropriate performance evaluation system, obtaining relevant information, processing it for the requisite analysis and advise the PE management board and the task force on various issues concerning performance evaluation. To make things work effectively and to add elements of transparency, it would be advisable that in each state an enactment is passed on the performance evaluation system for the SLPEs therein. This would help the citizens know what is happening in their enterprises and would keep these enterprises under the self-imposed pressure to perform and thereby help them in ironing out forces corroding their autonomy.

MOU EVALUATION CRITERIA


The SLPEs scene is vastly different from the CPEs and if this fact is not understood well, one would be only mistaking the trees for woods. The division of efficiency indicators such as static and dynamic would be of little avail. The combined balance sheet and profit and loss account of the SLPEs available with the Institute of Public Enterprise shows that for Rs 30,000 crore capital employed, the goods and services sold amounted to a bare Rs 12,000 crore in 1986-87. The materials cost exceeded 50 per cent of the total cost. The selling and administrative costs amounted to 30 per cent of the total cost. The project management was in doldrums. The capital works in progress were more than Rs 10,000 crore. Practically, no attempt was made by these enter-

prises to create new business, diversify their activities or multiply the present activities. In such a scenario the evaluation criteria for the SLPEs would include parameters such as the increase in business, reduction in costs, reduction/stabilisation of assets, increase in man-hours of work, higher capacity utilisation, optimisation of the cost of capital improvement in the production technology, improvement of quality control, export of goods, import substitution, quality of project management, mobilisation of internal resources, reduction in the budgetary outlays from the state, introduction of workers' joint management/workers' participation in management at the board level, industrial safety, reduction in the rate of turnover and workers awards bagged by the employees etc. The five-point scale adopted by the CPEs could hold good in the case of SLPEs too. The criterion values or rules that distinguish various performance could differ from enterprise to enterprise keeping in view their nature.

The MOU in the case of SLPEs must be a value added exercise in that they would be entering the fray only after a reasonable experience gained by the CPEs. A suggestion worth considering here could be whether the period for which the MOU is


negotiated may be more than one year or not. The MOU should be part of the long-term performance evaluation exercise covering a period of five years. Such an arrangement would give a reasonable time for the fair trial of the MOU as an innovative concept. It would give an opportunity to the PEC and the associated institutions to suitably alter the conditions and correct their mistakes. The SLPEs would equally benefit by the longer span as they would have adequate time to overcome the lapses and reverses. The fate of some MOUs in CPEs in the name of externalities would not get repeated in the case of the SLPEs. If the duration of the MOU could be five years, then the pluses and minuses on the score of externalities would possibly get neutralised between one period and another.

To sum up, the SLPEs have attracted sharp criticism from different quarters on account of their sub-optimal performance. The MOU as a performance evaluation system raises new hopes of improving their performance levels. While the introduction of the MOU would give a shot in the arm of these enterprises, due care should be exercised in its introduction and application in view of the special features such enterprises possess.



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AMERICAN EXPRESS BANK LIMITED

(INCORPORATED IN U.S.A. WITH LIMITED LIABILITY)

BALANCE SHEET OF THE INDIAN BRANCHES AS AT 31ST MARCH, 1991

| March 31 1990 Rs. | CAPITAL AND LIABILITIES | March 31 1991 Rs. | March 31 1990 Rupees | PROPERTY AND ASSETS | March 31 1991 Rupees |
|----------------------|--|----------------------|-------------------------|--|---|
| 83,260,000 | 1. Capital Deposit with Reserve Bank of India under Section 11(2) of the Banking Regulation Act 1949 Government Securities of the face value of Rs 120 000 000 included in investments | 120 000 000 | 774 944 552 | 1 Cash In hand and with Reserve Bank of India and State Bank of India (including Foreign currency notes) | 466 022 544 |
| 83,260,000 | | 120 000 000 | 1 024 888 448 | 2 Balances with Other Banks (i) In India (ii) Outside India (iii) On Current Account | 800 927 272 NIL 9 502 487 |
| | 2. Reserve Fund and Other Reserves | | 1 755 467 | 3 Money at Call and Short Notice | 810 429 759 |
| 22 604,937 | Reserve under Section 11(2)(b)(i) of the Banking Regulation Act 1949 | 1 026 643 815 | 1 060 (NN) (NN) | 4 Investments (i) Securities of the Central and State Governments and Other Trustee Securities including Treasury Bills of the Central and State Governments (ii) Shares | 730 000 000 |
| 33,947,127 | Opening Balance | | 2 496 407 077 | (a) Fully Paid Equity Shares at cost (b) Partly Paid Up Equity Shares (iii) Debentures and Bonds (iv) Units of Unit Trust of India (v) Gold | 1 987 209 238 8 229 753 400 000 NIL 11 853 778 NIL |
| 56,552,064 | Add Current year's transfer from Profit & Loss Account | 101 388 780 | | (Market Value Rs. 2 018 (664 528 Previous Year Rs. 2 586 613 517) | 2 007 572 769 |
| NIL | 3. Deposits and Other Accounts | | | 5 Advances (i) Other than bad and doubtful debts for which provision has been made in the satisfaction of the Auditors (ii) Loans (Cash Credits Overdrafts etc.) (i) In India (ii) Outside India | |
| 5,029,069,887 | Fixed Deposits (i) From Banks (ii) From Others | NIL | 8 229 753 | 11 Bills Discounted and Purchased (excluding Treasury Bills of the Central and the State Governments) (ii) Payable in India (iii) Payable outside India | 3 881 527 794 NIL 4 881 527 794 |
| 5,029,069,887 | Savings Bank Deposits | 5 118 795 372 | 64 176 594 | (Particulars of Advances as per schedule attached) | |
| 306,305,949 | Current Accounts and Contingency Accounts etc. (i) From Banks (ii) From Others | 312 169 932 | NIL | 6 Bills receivable being bills for collection as per contra (i) Payable in India (ii) Payable outside India | 2 131 071 463 80 460 297 2 211 531 760 |
| 40,988 934 | | 46 252 378 | | 7 Other Liabilities (i) Unearned Discount (ii) Others (including Rs 1000 due | |
| 3,374,995,246 | | 2 368 398 997 | | | 265 648 811 423 953 503 |
| 3,415,984,180 | | 2 414 651 375 | | | 689 602 314 |
| 8,761,359,616 | | | | | |
| | 4 Borrowings from other Banking Companies, Agents, etc. (including approved institutions) (i) In India (a) Secured (b) Unsecured (ii) Outside India | NIL | 2 701 451 814 | | |
| 1,426,971 400 | | 2 096 896 400 | | | |
| 3,741,983 | | NIL | | | |
| 1,490,713,383 | | | | | |
| 80,113 802 | 5 Bills Payable | | 2 701 451 814 | | |
| | Bills for collection being bills receivable as per contra (i) Payable in India (ii) Payable outside India | | | | |
| 307,131 036 | | | | | |
| 335,446,073 | | | | | |
| 642,577 109 | | | | | |
| 63 552 142 | | | | | |

| | | | | | | | |
|----------------|--|----------------|----------------|----------------|--|-------------|----------------|
| 9 188 175 | Division (Net) | NIL | | 4 122 794 | (Cost as at April 1 1990) | 3 429 644 | 2 147 651 |
| 132,385,139 | (iv) Travel Related Services Division | 166 692 424 | | 6 850 | Additions during the year | NIL | |
| 16,942,392 | Liabilities per contra | 49 468 199 | | 3 429 644 | Less Depreciation written off to date | 3 429 644 | |
| 602,999,892 | (v) Accrued Expenses | | 800 423 604 | 1 168 958 | | 1 281 993 | |
| | | | | 2 260 046 | | | |
| 1,352,937,891 | 8. Acceptances, endorsements and other obligations per contra | | | 40 510 978 | 9 Furniture and Fixtures | 44 594 691 | |
| 97,282,947 | Profit and Loss | | | 12 447 717 | (Cost as at April 1 1990) | 14 645 126 | |
| | Profit as per last Balance Sheet | 183 140 490 | | 48 397 75 | Additions during the year | 58 239 817 | |
| 169,735,634 | Add Profit for the year brought from the Profit and Loss Account | | | 1 404 034 | Deductions during the year | 6 084 461 | |
| 49,941,064 | Less Transferred to Head Office | 224 183 581 | | 14 531 691 | Less Depreciation written off to date | 52 155 456 | |
| 217,077 517 | Less Statutory Reserve | 139 096 212 | | 26 093 057 | | 31 413 010 | 20 742 446 |
| 33,947,127 | | 268 217 759 | | 17 900 654 | 10 Other Assets | | |
| 183,130,390 | | 44 836 716 | 224 481 043 | 96 271 575 | (i) Interest Accrued on Investments | 71 625 060 | |
| | Contingent Liabilities | | | 10 158 316 | (ii) Other Interest Accrued | 94 480 931 | |
| NIL | (i) On investments in partly paid shares in respect of uncalled capital | | | 22 544 380 | (iii) Prepaid Expenses and sundry amounts | 44 551 423 | |
| 1,448 663,164 | (ii) On guarantees issued on behalf of clients | | | 19 419 715 | (iv) Sundry Debtors & Other Receivables | 92 827 058 | |
| 1 750 000 | (iii) On outstanding forward exchange contracts | | | 67 357 966 | (v) Amount due from Head Office and Foreign Branch—Net | 456 443 429 | |
| 10,190 712,602 | (iv) On bills of exchange contract obligations | | | 235 240 104 | (vi) Inter Branch Adjustments (in India) | 170 676 554 | |
| NIL | (v) On underwriting obligations | | | NIL | (vii) Travel Related Services Division—Assets Per Contra | 2 993 656 | |
| NIL | (vi) Claims against the banking company not acknowledged as debt | | | 142 485 153 | (viii) Expenditure related to premises not capitalised | 166 692 424 | |
| 200,435 | (vii) Liability on account of Bills rediscounted with Reserve Bank of India, IDBI & other Institutions | | | 9 677 031 | | 7 492 783 | 1 107,973,217 |
| 2,436,804 041 | | | | 617 327 993 | 11 Non Banking Assets Acquired in Satisfaction of Claims | | NIL |
| 14,978,130,342 | | 33 149 772 792 | | NIL | | | |
| 13,110,384,147 | TOTAL | | 14 984 961 219 | 14 110 484 117 | TOTAL | | 14 984 961 219 |

NOTES: See statement attached

This is the Balance Sheet referred to in our report of even date

Sd/-

S R BATHIBOI & CO
CHARTERED ACCOUNTANTS

Sd/-

PER NAW SHIR H MIRZA
A PARTNER

BOMBAY
August 20, 1991

FOR AMERICAN EXPRESS BANK LIMITED

Sd/-

J HUMERIDIS
GENERAL MANAGER INDIA

FOR AMERICAN EXPRESS BANK LIMITED

Sd/-

P SCHOFIELD
DEPUTY GENERAL MANAGER, INDIA



AMERICAN EXPRESS BANK LIMITED

(INCORPORATED IN U.S.A. WITH LIMITED LIABILITY)

PROFIT AND LOSS ACCOUNT OF THE INDIAN BRANCHES FOR THE YEAR ENDED

31ST MARCH, 1991

| Year ended 31/3/1990 Rupees | EXPENDITURE | Year ended 31/3/1991 Rupees | Year ended 31/3/1990 Rupees | INCOME (Less provision made during the year for bad and doubtful debts and other usual or necessary provisions) | Year ended 31/3/1991 Rupees |
|-----------------------------------|---|-----------------------------------|-----------------------------------|--|-----------------------------------|
| 531 518 152 | 1 Interest paid on Deposits Borrowings etc | 720 555 287 | 971 549 280 | 1 Interest and Discount | 1 261 581 428 |
| 71 912 217 | 2 Salaries Allowances and Provident Fund | 79 444 708 | 289 509 045 | 2 Commission Exchange and Brokerage | 372 870 350 |
| 11 850 | 3 Directors and Local Committee Members Fees and Allowances | 14 500 | NIL | 3 Rents | NIL |
| 39 747 745 | 4 Rent Taxes Insurance Lighting etc | 43 055 891 | NIL | 4 Net Profit on Sale of Investments Gold and Silver Land Premises and other Assets (not credited to reserves or any particular fund or account) | 85 633 024 |
| 371 579 | 5 Law Charges | 565 917 | 46 107 060 | 5 Net Profit on Revaluation of Investments Gold and Silver Land Premises and other Assets (not credited to reserves or any particular fund or account) | 12 738 173 |
| 45 278 190 | 6 Postage Telegrams Telephones | 43 283 672 | 11 143 062 | 6 Income from Non Banking Assets and Profit from Sale of or Dealings with such Assets | NIL |
| 245 000 | 7 Auditors Fees | 245 500 | 298 391 | 7 Other Receipts | 3 946 877 |
| 21 165 114 | 8 Depreciation on and Repairs to the Banking Company's Property | 31 464 086 | NIL | | |
| 49 812 085 | 9 Stationery Printing Advertisement etc | 50 745 962 | NIL | | |
| NIL | 10 Loss from Sale of or Dealings with Non banking Assets | NIL | NIL | | |
| 64 024 387 | 11 Other Expenditure (including proportionate New York Administrative Expenses) | 90 241 748 | NIL | | |
| 324 796 885 | 12 Taxes on Income | 453 000 000 | 298 391 | | |
| 169 745 634 | 13 Balance of Profit | 224 184 581 | | | |
| 1 317 606 838 | TOTAL | 1 736 769 852 | 1 317 606 838 | TOTAL | 1 736 769 852 |

Notes See Statement annexed

Per our report of even date attached

Sd/-
S R BATLIBOI & CO
CHARTERED ACCOUNTANTS

Sd/-
PER NAWSHIR H MIRZA
A PARTNER

For AMERICAN EXPRESS BANK LIMITED

Sd/-
I FILMERIDIS
GENERAL MANAGER, INDIA

For AMERICAN EXPRESS BANK LIMITED

Sd/-
P SCHOFIELD
DEPUTY GENERAL MANAGER INDIA

BOMBAY
August 20 1991



AMERICAN EXPRESS BANK LIMITED

(INCORPORATED IN U.S.A. WITH LIMITED LIABILITY)

NOTES TO ACCOUNTS

1. PRINCIPAL ACCOUNTS POLICIES

a) GENERAL

The accompanying financial statements have been prepared according to the historical cost convention and conform to generally accepted accounting principles and to the practices prevailing within the banking industry.

b) FOREIGN CURRENCY TRANSLATION

- Assets and liabilities in foreign currencies except deposits from Non Residents in FCNR accounts are translated into Indian Rupees at the rates notified by FEDAI as at the balance sheet date. Resultant gains or losses are taken to the profit and loss account. Transactions during the year are translated into Indian Rupees at the rate current at the date of the transactions. The FCNR account balances are valued at the rates specified by the Reserve Bank of India from time to time.
- Contingent liabilities in respect of Forward Exchange Contracts are included at contracted rates.
- Outstanding Forward Exchange Contracts are revalued at the rates notified by FEDAI as at the balance sheet date in order to account for the financial effect thereof.

c) INVESTMENTS

The bank values all investments it intends to hold at cost after amortisation of discount or accretion of premium from the date of purchase to the maturity of the investments. Investments held for trading purposes are valued at market values. Resultant gains or losses are taken to the profit and loss account.

d) FIXED ASSETS

Depreciation is on the written down value method at the rates specified in the Income Tax Act, 1961 except for computers which are depreciated at the rate specified in Schedule XIV of the Companies Act, 1956.

e) ADVANCES

Provisions for doubtful advances have been made to the satisfaction of the auditors in respect of identified advances based on a periodic review of advances and after taking into account the portion of advance guaranteed by the Deposit Insurance and Credit Guarantee Corporation, the Export Credit and Guarantee Corporation and similar statutory bodies.

Per our report of even date

Sd/

S R BATLIBIDJI & CO
CHARTERED ACCOUNTANTS

Sd/

PER NAWSHIR H MIRZA
A PARTNER

BOMBAY
August 20 1991

FOR AMERICAN EXPRESS BANK LIMITED

Sd/

J FILMERIDI,
GENERAL MANAGER, INDIA

FOR AMERICAN EXPRESS BANK LIMITED

Sd/

P SCHOFIELD
DEPUTY GENERAL MANAGER, INDIA

f) INCOME RECOGNITION

Interest income is recognised on an accrual basis. However, in the case of non performing advances it is taken to the profit and loss statement on collection.

g) STAFF BENEFITS

Provisions for gratuity and pension benefits to staff have been fully made on the basis of actuarial assessments.

h) NET PROFIT

- The net profit disclosed in the profit and loss account is after
- the effect of revaluation of trading investments (see paragraph (c) above);
 - provisions for doubtful advances (see paragraph (e) above);
 - other usual and necessary provisions.

i) TRAVEL RELATED SERVICES

In accordance with the instructions received from the Reserve Bank of India, the assets and liabilities related to and appearing in the books of the Travel Related Services Division after adjusting the profit/loss for the year have been shown under Other Assets and Other Liabilities.

j) Remuneration paid to the Chief Executive Officer was as under

| | 31/3/1991 | 31/3/1990 |
|---|-----------|-----------|
| Salary | Rupees | Rupees |
| Allowances | 112 000 | 112 000 |
| (Contribution to Provident Fund) | 66 000 | 66 000 |
| Monetary Value of other benefits or perquisites | NIL | NIL |
| (calculated according to Income Tax Rules) | 81 154 | 91 775 |
| | 459 154 | 471 775 |

Previous year figures have been regrouped wherever necessary.

AMERICAN EXPRESS BANK LIMITED

(INCORPORATED IN U.S.A. WITH LIMITED LIABILITY)



PARTICULARS OF ADVANCES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 1991

| March 31 1990 Rupees | SCHEDULE OF ADVANCES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH 1991 | March 31 1991 Rupees |
|-------------------------|--|-------------------------|
| 2 331 144 540 | 1 Debts considered good in respect of which the Banking Company is fully secured | 3 090 838 452 |
| 220 226 684 | 2 Debts considered good for which the banking company holds no other security than the debtors personal security | 1 466 621 674 |
| 1 946 609 069 | 3 Debts considered good secured by personal liabilities of one or more parties in addition to the personal security of the debtors | 1 635 599 427 |
| NIL | 4 Debts considered doubtful or had not provided for | NIL |
| 5 047 979 294 | | 6 093 059 554 |
| 26 506 716 | 5 Debts due by directors or officers of the banking company or any of them either severally or jointly with any other persons | 44 374 079 |
| NIL | 6 Debts due by companies or firms in which the directors of the banking company are interested as directors partners or managing agents or in the case of private companies as members | NIL |
| 34 145 913 | 7 Maximum total amount of advances including temporary advances made at any time during the period to directors or managers or officers of the banking company or any of them either severally or jointly with any other persons | 44 674 479 |
| NIL | 8 Maximum total amount of advances including temporary advances granted during the period to the companies or firms in which the directors of the banking company are interested as directors partners or managing agents or in the case of private companies as members | NIL |
| NIL | 9 Due from banking companies | NIL |

NOTE See statement attached
This is the Balance Sheet referred to in our report of even date

Sd/
S. R. BATLIBOI & CO
CHARTERED ACCOUNTANTS

Sd/

Per NAWSHIR H. MIRZA
A PARTNER

BOMBAY
August 20 1991

For AMERICAN EXPRESS BANK LIMITED

Sd/

J. FILMERIDIS
GENERAL MANAGER INDIA

DEPT. GENERAL MANAGER INDIA

Sd/

P. SCHOFIELD
DEPT. GENERAL MANAGER INDIA

BOMBAY
August 20 1991

AUDITORS' REPORT ON THE ACCOUNTS OF THE INDIAN BRANCHES OF AMERICAN EXPRESS BANK LIMITED UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949

We have examined the Balance Sheet of the Indian Branches of American Express Bank Limited (Incorporated in U.S.A. with Limited Liability) as at 31st March 1991 and the related Profit and Loss Account for the year then ended in which are incorporated the transactions of the Office of the Chief Executive Officer and the transactions of Travel Related Services Division in India

In accordance with the provisions of Section 29 of the Banking Regulation Act 1949 read with the provisions of Sub Section (1) (2) and (5) of Section 211 and Sub Section (5) of Section 22 of the Companies Act 1956 the Balance Sheet and Profit and Loss Account together with the notes thereon are not required to be and are not drawn up in accordance with Schedule VI to the Companies Act 1956. The accounts are therefore drawn up in conformity with Forms A and B of the Third Schedule to the Banking Regulation Act 1949

We report that read with the foregoing remark

(a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory

(b) The transactions which have come to our notice have been in our opinion within the powers of the Bank

(c) In our opinion proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books

(d) The Balance Sheet and Profit and Loss Account of the Indian Branches of the Bank dealt with by this report are in agreement with the books of account

(e) In our opinion and to the best of our information and according to the explanations given to us the said accounts read with notes thereon give the information required by the Companies Act 1956 in the manner so required for Banking Companies and on such basis the said Balance Sheet gives a true and fair view of the state of affairs of the Indian Branches of the Bank as at 31st March 1991 and the Profit and Loss Account gives a true and fair view of the Profit of the Indian Branches for the year then ended

Sd/

S. R. BATLIBOI & CO
CHARTERED ACCOUNTANTS

Sd/

Per NAWSHIR H. MIRZA
A PARTNER

Understanding Labour-Management Relations

Case of Siemens

Radha Iyer

A large corporation has been described as a state within a state. Within the organisation state certain production processes give rise to definite relations of production. With changes in the production processes, the relations of production must also change. However, while changes in production processes are harbingers of organisational change, the relationships are reinforcers of status quo. This is the key to understanding modern day industrial relations issues.

This article reviews and analyses the labour struggles in Siemens and the management's response to them and its perspective on industrial relations.

I

In the end personnel men, like everyone else in the technostucture are powerless in the face of the inevitabilities of the organisation. Consequently manipulative methods enter into almost all aspects of personnel work in the giant corporation. This is the second feature that distinguishes personnel work in the mature corporation and it is a difference of kind, not of degree.—Graham Bannock in *The Juggernauts*

—The Age of the Big Corporation

THE workings of large modern corporations have from time to time agitated the minds of economists and writers ever since they came on to the social scene as one of the indelible features of modern society. While earlier concerns centred around the emergence of large corporations and the changing concepts of private property. Later concerns centred around ethical questions relating to monopolistic oligarchies *vis à vis* *laissez faire*, the relationship of modern technology to large scale production and issues like advertising ethics and the role of large corporations. Later still the concerns shifted to the deleterious effects of large corporations on the individuality of man and their emotional social and psychological impact on those who worked in the corporations—the 'organisational man'. More recent concerns have centred around the role of large corporations on vital social issues such as consumerism and environment. Very little has been said on the functioning of large corporations and their ramifications for the wider labour movement and working class consciousness. Discussions on industrial relations speak of the management and union as though management is one homogeneous entity—akin to the employer of yesteryears—in fact 'management' and 'employer' are often used as interchangeable terms. Interestingly when speaking of the union however, a definite differentiation is made between workers and leaders. This is largely due to the myth of the 'corporate person' or the corporate body as a juristic 'person'—akin to the natural 'person'. This myth is the foundation of modern property relations and therefore, social relations. Just as it becomes necessary for owners of capital

to lift the 'corporate veil' from time to time it becomes necessary for labour to do so for comprehending the inner nuances and evolving its own responses and strategies. Whereas the owners of capital have evolved well defined principles and codes for lifting the 'corporate veil' in certain circumstances—like mismanagement, oppression of minorities, etc., all of which are manifest in the development of corporate law—labour has done very little in this area in relation to industrial relations and union management conflicts.

This is so, because the ideological foundations of modern labour movements was principally influenced by Marxism. Later day Marxists tended to treat the 'capitalist class' as a conglomeration of individual capitalists even though the individualist capitalist had long vanished and his place had been taken by the corporate capitalist (i.e., the organisation of capital). Though Marx himself saw the logical development of commodity production and competition resulting in a system of production wherein the organisation of capital confronts the workers as independent of their labour, the managers and capitalists as independent of capital and all parties involved in the production system as a force independent of themselves (see Marx in *Capital*, Vol 3).

The emergence of the large corporation testifies to this alienation, i.e., the emergence of the social organisation of capital as a force independent of any of its components. The ramifications of this for labour movements has however not been studied or comprehended fully due to the stagnation in the development of Marxist theory itself in later years. Braverman and others laid the foundation for understanding this process with their studies on work process, but their implications for working class movement has remained unexplored.

II

In the quintessential corporate bureaucrat, two phrases are axiomatic truths: one is 'This is (or is not) management decision'. The other is 'This is (or is not) the company's culture'. Corporations today are not merely 'juristic persons' in the legalistic sense, but have a functional dyna-

mics that has a momentum of its own irrespective of the subjective will of the individuals who run the corporations. Individuals in corporations repeatedly find themselves reacting to a set of situations rather than being in control of them—or in other words 'managing them'. This self-reinforcing nature of the corporation presents itself to individual managers as an abstraction independent of themselves, i.e., as 'management' decision as against the 'manager's decision'. In the self-regenerating aspects of the corporation's functioning, it presents itself as 'the company's culture' as against a rational policy laid down by managers.

"While a small company can bend the organisation so as to get the most out of the individuals, so does the mature corporation bend its individuals to get the most out of its organisation" (Graham Bannock, *The Juggernauts—the Age of the Big Corporation*). This process of bending individuals may not always be a smooth one. Often, like any malfunctioning in the anatomy of a corporation, it triggers off shock waves that run right through the corporation. The workers who are at the bottom rungs are at the receiving end of the shock wave and act as the earthing for the organisation—transmitting the shock waves—often burning themselves up in the process. This manifests itself as conflicts between workers and officers or workers and workers—i.e., as an industrial relations crisis having wider social ramifications. Looking at industrial relations problems only from the limited angle of workers and their limited demands relating to wage service conditions, union recognition, etc., without taking into account the corporations' internal dynamics and decision making processes, leaves large grey areas in our understanding of industrial relations and conflicts. The understanding of the internal dynamics of organisational functioning and decision making is not always easy. 'The large modern corporation is so impersonal, so tightly organised, the information that emerges from it so carefully processed that these human problems hardly ever break through the glossy exterior surface of corporation harmony and efficiency' (Bannock in *The Juggernauts*).

This article attempts to trace the internal decision-making processes and forces at work leading to the present conflicts in labour management relations in Siemens. The company's lock-out affecting 534 of its 3,000 employees has prompted some serious questions. Is the lock-out because the workers have demands relating to wages, conditions of service, union rights? The answer is 'no'. When the crisis began in 1990 the company and the union had concluded a satisfactory settlement which was renewable only by mid-1991. There were no major demands that were pending. Had there been go-slow or work-to-rule violence or indiscipline? And again the answer is 'no'.

The year 1989 was one of the most productive years. Production for year ended September 1990 was excellent and targets were completed on time. Is the company reorganising itself and using the lock-out as a cover for rationalisation? Again the answer is 'no'. The company has completed one round of rationalisation and is well-poised for an expansionary phase of growth. Have there been union rivalries? Again the answer is 'no'. The workers after a prolonged period of internecine conflicts had managed to unify their ranks, rally under one union, keeping all outside leaders away. Workers had also thrown up a capable leadership amongst the workers who had actually shown considerable adeptness in handling wage negotiations and industrial relations. From 1987 to 1989 the union-management relations appeared to be at its best barring what apparently were a few irritants. In March, 1990 Siemens might have been a textbook case of ideal industrial relations. What then happened? For an answer it is necessary to 'lift the corporate veil' *vis-a-vis* the company's dealings with labour and trace the inner dynamics and the organisational imperatives that has led to this present impasse, for apparently no reason.

A combination of three factors have contributed to the present crisis and as will be seen, none of them had anything to do with the immediate demands of workers in the normal sense of the term. Firstly, and most importantly, the democratisation of the trade union and the response of the company to it. Secondly, expansion of the company, technological changes and reorganisation of the company had consequent changes in power structures within the company. Thirdly generational changes among the workers and managers. These three factors seriously affected the concrete history of industrial relations in the company. It is therefore, necessary to look at the interplay of these three factors in the context of the history of industrial relations in the company prior to 1989.

The company started manufacturing operations as a small private limited company in 1957, with a few hundred workers

at Mahalaxmi in Bombay. The first phase of expansion came around 1965. By then the company had set up a plant at Worli. The next phase of expansion came around 1970s when the company shifted its major operations to Kalwa. After the 1980s round of expansion the company is now poised for further growth into newer areas. Presently the Worli plant employs approximately 200 workers, the Kalwa plant approximately 2,600 workers and the Nasik plant approximately 300 workers.

The history of industrial relations in the company may be divided broadly into five periods—the period from 1950 to 1965, 1965 to 1972, 1972 to 1979, 1980 to 1987 and 1987 to the present. However, through the period from 1965 to 1987 two common threads ran through the fabric of industrial relations. One was the control over the workers through the creation of a well entrenched trade union bureaucracy; the second, that the company had never dealt with a union having the support of majority of the workers. Both these threads had become part of company's culture and breaking these threads involved cataclysmic changes in the establishment. Both these threads sapped only after 1987. Objectively the situation called for the creation of a new tradition and culture on the part of the company. Thus the company could not do, as its own culture had now become a fetter

EARLY UNIONISATION

Control over the union has meant for the company the creation of a well-entrenched trade union bureaucracy which will be in a position to 'run the show' i.e. control workers. This it has done by adopting various slogans at various phases. In 1959, the workers joined their first trade union, namely, the Engineering and General Employees Union, which was a general trade union whose organisational affairs transcended the company and its workers and over which the company could not hope to have any control or influence. The company therefore raised the bogey that general trade unions were all political unions, whose leadership was interested not in the welfare of workers but their own political and collateral purposes.

Ostensibly for these reasons the company refused to deal with the union. The union approached the industrial tribunals for the resolution of their demands. Those were the days when numerous tripartite forums were set up at the national level to promote industrial relations and unions were optimistic about them. An award of an industrial tribunal is operative for one year. This fact appears to have weighed with the company when it decided to sign a settlement with the union for a period of five years. The five-year settlement caused great dissatisfaction amongst the workers and the union. The workers then approached a trade union leader affiliated to CITU, who formed the Siemens Workers Union in the year 1964 with himself as general

secretary. This was an internal union. The workers believed that now the management would recognise the union. The company, however, refused to recognise the union, because apparently, the company's perception of the outside CITU leader was that he was somewhat of a maverick and would not be amenable to cooptation. The workers went on a 45-day strike in which the issue of recognition featured prominently. The strike was resolved after certain officers of the company took the initiative to promote a group of workers to break the strike. The officers who organised the strike-breaking had foresight enough to realise that breaking the strike was one thing, but leaving a vacuum in the trade union organisation was only likely to create continued disturbances. Simultaneously with breaking the strike the company arrived at an understanding with the CITU leader that a more 'responsible' person could be co-opted onto the internal union. Accordingly another CPI leader was co-opted as president of the union and the union was promptly recognised.

It would, however, be a misnomer to say that the company recognised the union as such—the company had in fact only recognised the president of the union. He alone mattered in the union, as far as the company was concerned. It was the president who took decisions and sold the decisions to the workers. In order to do that it was necessary that the union build up a hierarchy of officials and activists who were loyal to the president—and this is a singular attribute of all bureaucracies. A three-tiered hierarchy emerged in the union. At the top was the president and the general secretary; then a group of committee members who were totally loyal to the president and general secretary but were themselves not in a position to seriously challenge or threaten the position of the president and general secretary. At the bottom a small group of workers in different shops and plants who owed personal allegiance to the committee members for some reason or the other such as being obligated to them for getting their grade sanctioned or fixing a relative in employment or because they came from the same village and so on. This three-tiered structure controlled the rest of the workers. There was no internal democracy in the functioning of the union. The statutory general body meetings were held on holidays outside the company where attendance was thin, normally around 15-20 per cent of the membership and voting was by a show of hands. Dissent was outmanoeuvred either by shutting out the problem or adopting dilatory tactics as again is typical of bureaucrats.

If the union emerged as a well-structured bureaucracy the management was also a well-structured bureaucracy. The only persons who mattered as far as labour was concerned were the managing director and the chief personnel manager who corresponded to the president and general secretary of the union. The line managers, the production personnel even the works personnel management had little or

no say in the personnel policies. The corporate bureaucracy and the trade union bureaucracy dovetailed perfectly from 1964 onwards and could finally be dislodged only in 1987—at great cost to the company and the workers.

NEW WORKFORCE

All bureaucracies give rise to democratic aspirations of people. The workers of Siemens were no exception to this. Dissent and dissatisfaction with the union leadership began to grow. What gave this dissatisfaction a shape and form was directly related to what was happening to the company itself. Around the latter half of the 1960s and the early 1970s the company expanded rapidly. This meant an introduction of a large number of new workers. As the expansion introduced new and more sophisticated technology than had existed before, the new workforce was both highly skilled, educated and young. Most of the recruits were from the company's training centre which had been set up around the mid-1960s. With the expansion also came a band of young engineers straight out of engineering colleges. Both these sets of new recruits were at odds with their organisation—the workers with their union and the engineers with the company. These changes called for commensurate changes in management methods and policies. The company, however, only reacted by reinforcing *status quo*. This *status quo* was in conflict with the new objective needs of the company created due to growth.

The result was a serious industrial relation crisis. The expansion also resulted in the break down of old job classification and gradation arrangements. The challenges to the union leadership and the company therefore came by way of a number of disputes relating to grades and classifications in the early 1970s. However, neither the leaders of the company nor the union took note of the changes that had come over the company and what it meant in terms of industrial relations. Since the disputes centred around grades and classification, the immediate representative of the management on the shopfloor was the engineer who had to first of all tackle the problem and he had no say in any of the matter with the personnel management. For example, during that period, workers would come up with up to ten ways of outwitting the engineer. One common method was to work exactly according to the drawings handed over by the engineers. Everybody knows that this is hardly possible because the drawings do not incorporate every possible option available at the shopfloor for achieving the end results. To cope with this action of the workers the engineers would make alterations in designs again and again with no result. The idea was not to exercise judgment and discretion as those factors were not given weightage in the point rating for classification. After some pressure was thus built up they would exercise their judgement and discretion, complete

the job and confront the engineer with the issue of their grades. Often the engineers felt convinced that the jobs really needed to be upgraded. They would plead with the personnel department on behalf of the workers. However, they had no say in such matters. Such disputes broke out more particularly in departments like maintenance, tool rooms, R and D machine shops. A number of brilliant engineers left the company during this time as they found themselves stifled and saw no future for themselves there. Those who stayed on became resigned to their voicelessness and thus the organisation bent them to its need.

The workers took up their grievances with the leaders. The personnel managers seldom dealt with the workers directly sans their leaders. To top officials of the company and the union these issues were trivialities. They would sit across and deal with them perfunctorily without consulting the workers or the concerned engineers. The workers would be dismayed. Thus the first conflicts that arose saw the company and the union leaders arrayed on one side and the workers on the other. All this led to a mistrust of outside trade union leaders among the workers. However, for this mistrust to translate into action required some degree of self-confidence with subsequent happenings developed in the workers. Along with the mistrust the idea that the union was a workers' organisation and that workers must have a direct say in its affairs also emerged.

IV

The next major dispute related to bonus settlements. According to the Payment of Bonus Act, bonus is payable annually according to the allocable surplus for that year to be calculated according to the formula provided in the act. The company was in an expansionary and high growth phase from 1971 to 1973, reserves and surplus almost trebled, debts reduced by nearly half, and turnover nearly doubled (Annual Reports 1971 to 1973 and union handbills).

The union, however, in 1970 signed a bonus settlement for three years agreeing to a bonus of 6 per cent for the first year, 7 per cent for the next year, 9 per cent for the third year. All around several smaller companies were paying better bonuses. The company was prospering and at the end of three years barely a drubbing of it fell to the workers' share. Unlike the grades and classifications disputes which were confined only to certain sections, albeit important sections, of the establishment, the bonus disputes concerned all the workers. The issue soon became the focus of a revolt. It is reported that when confronted by the workers at a gate meeting on the bonus issue, the president of the union said: "We are but workers—we only know to break stones and fetch water—what do we know of such things as balance sheets and bonus calculations?" (from a handbill of October 1972). The leaders were

clearly out of step with the transformation taking place within the workforce. As stated earlier, the new workforce was young and educated. Some among them sat down with the balance sheets and the bonus formula as per the Payment of Bonus Act and actually calculated the allocable surplus and published a handbill showing how the allocable surplus available for bonus was 30 per cent.

The union and the company then revised the settlement and paid 24.5 per cent bonus for the year 1972-73 of which 6.5 per cent was treated as arrears for previous year (Siemens Kamgar August 1980).

All bureaucracies believe that once invested with power people do not matter and stumble from crisis to crisis until they are finally swept away by forces they cannot comprehend. The aspirations of the workers or their anxieties did not weigh with the union leadership at the time of the revised bonus settlement. Company officials and the union leadership both viewed the bonus issue as merely a clamour for more money—which if paid would quieten the workers. On the contrary, exactly the opposite happened. The workers were now even more determined than before that they should have a union over which they had total control. Henceforth with each struggle the democratic consciousness deepened until by 1987 it had come to reside within their consciousness as an indelible part of their being.

In 1973 the workers formed a new union called the Siemens Employees Union. This was an internal trade union without any outside leadership. The workers in their simplistic notion of democracy believed that numbers alone mattered. If a majority of the workers supported the new union then the company would have to recognise them at some point of time. This was the understanding. What they did not reckon with was that when trade unions become infused into the company's power structure and become part of the power structure they do not simply dissolve, pack up and go home. Managers too cannot just abandon leaders who have become enmeshed in their organisational structures for that would amount to amputation of a small part of their organisation itself. If in 1965 the company's managers held out internal unions as a panacea for industrial strife, in 1973 when the union was completely internal without even notional outsiders the same managers made a somersault and considered the new union as being 'irresponsible mob rule' and 'what was a familiar old refrain against democracy'.

From 1973 onwards until 1987 the company dealt only with a minority union. This fact has important bearings on the present. It created definite managerial attitudes to labour and trade unions. Militant elements from the new union were dismissed. The technique adopted for dealing with the rest was to ignore them totally. Certain methods evolved during this period came to be

perfected in the following years. The most important one was not to resolve any problem however small if the workers came through the new union. All problems big or small were, as a matter of fact, resolved only if they came through the old union. This policy is akin to sanctions imposed against nations. People get weary and finally lose spirit. But the point about sanctions is that the trauma remains for a long time to come.

The Siemens Employees Union petered out. The imposition of political emergency and the general environment then prevailing only hastened the process. The experience however remained with the workers. For effective implementation of the policy of sanctions it had become necessary to deal with shop level committee members of the old union who were workers in the factory. This led to the strengthening of the bureaucracy. But it also led to building up of certain workers loyal to the outside leaders as 'leaders' in the eyes of the workers which had not existed earlier. Of that later. The strengthening of the worker level leaders in the old union led to a close nexus and sense of solidarity between them and the managers and officers. Through the turbulent period of what is commonly referred to as the '1976 struggle' and the '1981 struggle', these relationships consolidated, matured and grew to a point where severing them was impossible. In 1987 workers finally managed to oust the old leadership and brought in new leaders, but the structures and relationships built over the years from 1973 to 1987 could not be dislodged. As is common with all organisations changes at the top do not bring change down the line, they only create convulsions and confusions. This is one of the reasons for the present impasse.

The production managers or other managers at other level had little or no say in evolving this policy of dealing with the internal union nor is there any evidence to suggest that they attempted to do so. Towards the beginning of 1975 the workers began to feel the hopelessness of the situation and pressure began to mount for bringing in some outside leader who was strong or influential. However no consensus could emerge any particular outside leader. Some efforts were made by a section of the workers to bring in the Bharatiya Kamgar Sena as it had a militant image then (various handbills of the Association of Engineering Workers). However it was not a whole hearted effort. There were also small flirtations with smaller Congress leaders. One thing the workers were clear they did not want any 'leftist' leaders. But before anything further could happen the national emergency was declared in the country and all trade union simply withdrew from any confrontation or struggle of any sort.

The last wages settlement had been signed in May 1972 and was to expire by September 1974. Over a hundred odd meetings took place between union leaders and

managers between September 1974 and November 1976 at the end of which a settlement was signed—during the emergency—that gave the workers an *ad hoc* increase of Rs 45 by way of house rent allowance at a time when the company had performed exceedingly well (Handbills of dissident group, June 1977). Two reasons seem to have contributed to this. One was the political situation that put unions on the retreat. More important at the immediate level was the fact that the 1973 experience of a new union, being formed and its petering out, had given both the old union leadership and the management the confidence that they could together put down the workers and further, that the workers really did not matter. In addition there was the fact that over the years no second line leadership had emerged in the company. When during the emergency the chief personnel manager was out of operation being in detention for political reasons, personnel matters in the company simply drifted rudderless.

The Rs 45 settlement finally became the albatross around the company's neck. The officers of the company and the union were certain that they had finally vanquished the workers and sealed the coffin of revolt for good. Thus throughout those at the helm of affairs of the company and union kept reacting to symptoms and never delved into the causes of the dissatisfaction. The Rs 45 settlement however became the *casus belli* for what came to be called the '78 struggle.

V

The lifting of the emergency everywhere in the country and more particularly in the Bombay region unleashed forces of pentup anger forcibly repressed during the emergency. The traditional trade union leaderships of whatever ideological and political hue had compromised itself thoroughly not only with the political establishment but also the companies and managements where they represented workers and buckled under the emergency. The employers and companies too had made optimum use of the situation to suppress workers. The lifting of the emergency therefore, brought about fundamental changes in the perception of the workers. On the one hand there was a great need to confront managements in order to halt the trend of falling wages or stagnation of the wages which had been brought about by the emergency. On the other hand the political-ideological-rule of law type of trade union leadership had proved itself to be utterly helpless at the time of the working classes' deepest hour of need. The search then shifted to a non ideological, non political collective bargaining with a militant leadership. The workers in Siemens who had in any case been on the look out for a strong outside leader before the emergency were part of this general atmosphere—the seeth-

ing intensity was still latent then like the proverbial calm before the storm. Datta Samant filled the vacant slot in Bombay's new trade union vacuum. The situation then was that if Datta Samant had not existed the workers of Bombay would have had to create one. The Siemens workers very naturally became a part of this general wave—it would hardly be an exaggeration to say they were amongst those who had spearheaded the wave in Bombay (Business Standard, reports in March and April 1978). But they made one last ditch move to resolve the leadership crisis by some legal constitutional means.

Soon after the emergency was lifted, a section of the workers belonging to the officially recognised union, the Siemens Workers Union, made a last effort to overthrow the outside leaders through internal union elections. For the first time union elections were called for, where the post of the president was contested by the worker leaders themselves. This was unprecedented in the union's history. These efforts however failed for two important reasons: the leaders who sought to oust the president of the recognised union, belonged essentially to the group of older workers—who were suspicious of the young militants who had spearheaded the independent union viz, the Siemens Employees' Union in 1972, and who were still restive and agitated causing the grassroots pressures on the leadership of the union. These sections were therefore sought to be kept aside. With the most resolute opponents of the established leadership thus kept out, the opposition within the Siemens Workers' Union emerged as an indecisive and vacillating one. The leaders of the established union found it easy to outwit and outmanoeuvre them in organisational technicalities.

These efforts having failed, what remained was a restive workforce, a vacuum in trade union leadership and insensitive and belligerent management. Under the prevailing circumstances Datta Samant seemed the natural answer. The workers who had spearheaded the 1972 agitation found no alternative than to join the Samant wave—and thus by the end of 1977, an overwhelming majority of the workers found themselves in the vortex of the Samant wave. This time however, it was a desperate workforce, with no hopes for the future, no faith whatsoever in the management, ready for a no-holds-barred, do-or-die fight. The leadership of the company, faced with such a crisis responded with an all out offensive against its most productive workforce. Such an offensive however unless the established union leadership was ready to abdicate its independence altogether and identify itself totally with the company—which it did. From this point onwards the union leaders and company officials worked as one cohesive team against the majority of its workforce. Hitherto the co-operation and co-ordination was between two distinct organisations—now it was as

though these organisations had merged and amalgamated—the merger took place not just at the level of the top leaders of the company and the union but down the ranks to the personnel officers and workers officials. Years later, some of the officials of the company would recall that the union officials would actively suggest ways and means of dealing with the workers and all steps were theirs undertaken jointly by them.

The first salvo was fired by the company when in December 1977 on dubious charges of minor assault the company suspended and chargesheeted the leading persons who had fallen out with the Siemens Workers' Union leaders and had taken a lead in joining Datta Samant. Fresh out of the emergency atmosphere the company's officials had clearly miscalculated the latent anger of the workers. The prevailing impression amongst the union leaders as well as the company officials was that the Siemens workers were 'bourgeoisified' or 'aristocratix' and would never sustain a Samant type of struggle—ironically the Siemens workers along with others in Godrej, Premier and other industries became the trend-setters of the Samant wave and were the centre of it.

The suspension of key workers led to a slowing down production, which in turn led to indiscipline and near riots on the shop floor between supporters of the established union leadership and officers on the one hand and the agitating majority of the workers on the other. The company declared a lockout in February 1978 which was followed by a strike which continued for 10 months till November, 1978. During this time violence broke out among workers and two workers died. One more died in a dispute relating to village politics, but both the union leaders and the company continued to regard that as a part of the company's labour unrest despite a session court verdict to the contrary. Over 80 workers were dismissed during the period. Above all the company mobilised the administrative-police and government machinery and resorted to the selective use of the judiciary to push the workers against the wall. It also recruited nearly 350-400 workers, a number of them with known criminal backgrounds. While these recruitments helped in bolstering the moral of the loyal workers in the short run later it would lead to the problem of excess workers and add to the problem of unproductive workforce.

For the agitating workers, the young skilled workers, this was their first major confrontation with the political-administrative-police establishment outside the company. The company took the unprecedented step of dismissing 950 workers which created history of sorts in trade union circles in the city and invited a sharp reaction from all major unions and organisations. The demand for a secret ballot as a means of determining the union's recognition was a key demand of the Siemens workers. At that time

Siemens workers were at the forefront of the Bombay workers' struggle to get the state government to make it statutory for unions to accept secret ballot as a means of determining membership and recognition issues. The Maharashtra government, in fact introduced a bill in the assembly session at Nagpur in 1978, for making secret ballot a statutory means of determining membership issues. The bill subsequently lapsed. Industrial relations between the company and its workers had transcended the parameters of industrial relations and had become class-struggle with wider ramifications on the struggles of workers outside the four walls of the company. An examination of the aspect however, is not within the scope of this paper. By the end of 1978, the company was in the vortex of a civil war with its workforce.

TECHNOLOGICAL CHANGE

If the changes and expressions of 1964 gave the company the character of a regular manufacturing and factory culture—necessitating the introduction of the rudiments of personnel management into the company—the expansions of the 1970s were more far-reaching inasmuch as it changed the character and stature of the company. Above all it brought about technological changes and changes in the work processes on a large-scale. The nature of changes can be gauged from the changes in the product range—in 1971 the company produced (i) switchgear items including transformers and signalling relays, (ii) L and T and NT switch boards, (iii) electrical motors/generators, and (iv) x-ray equipment (Annual Report 1971). In 1981 the company produced: (i) switchgear items; (ii) electrical motors/generators; (iii) switch boards, control boards and miscellaneous accessories; (iv) x-ray equipment; (v) dental x-ray units; (vi) measuring and control instruments; (vii) signalling relays—wave traps and high frequency compiling filters etc; (viii) rectifiers cubicles and miscellaneous equipment; (ix) variable speed AC/DC drive systems and motor control modules; (x) AC/DC machines; (xi) cables and wires, (xii) transformers (Annual Report 1982).

The nature and extent of this phase of expansion can also be seen from the number of technical and financial collaborations agreements, during this period between Siemens AG and Siemens India, between 1957 to 1976 there were four such agreements. In the year 1976 however, there were at least six collaboration agreements with the German parent and almost all of them were for only technical collaborations. There was thus at least one agreement each year. In 1970 the company signed a collaboration agreement for dental units, in 1972 for railway signalling equipment, in 1973 for railways signalling equipment and electric axle counters, in 1974 for motors switchgears

and switch boards, in 1975 for AC synchronous machines and DC machines, in 1976 for relay group block instrumentation, electrical point machine, etc. During all this expansion labour was only one of the factors of production and this commodity was taken into account in all these expansion—the consideration was purely the economic aspects of labour (*Arms of an Octopus* booklet by Research Unit of Political Economy). This economic factor of production, the commodity labour, however, is also human and therefore responds and reacts to the situation it finds itself in. It would seem logical to expect that the role and functions of industrial relations as a science should be to identify the contradictions between labour as commodity and as a collection of human beings, and deal with them in anticipation of events and reactions or at least when the contradictions surface. Yet, despite all the growth and development of industrial psychology, organisational behaviour and what have-you, industrial relations has remained a fire fighting exercise—which is undertaken at a point when crises threatens to engulf the entire organisation.

All other aspects of production are planned and future predictions and targets identified. Thus there are estimations of profits, planning of production targets, financial forecasting and the futurological exercises undertaken in large organisations—but in relation to labour, only aspects like human-power is planned. The effect of the changes in the company or industrial relations is an aspect that is neither anticipated nor are any effective strategies worked out to pre-empt major disruptions. As a result a lag develops between production processes and relations. Thus in Siemens, in the early 70s, expansion plans were made, lands were acquired in Kalwa, technical collaboration agreements signed, etc. The agreements between Siemens AG and Siemens at the time of planning the Kalwa factory included a number of items of the smallest detail including lay-out of the factory and production schedules.

Industrial relations was viewed as recruitment, placement training, etc, that recruitment on a big scale also brought in new people, with new aspirations and psyche, that they needed to be accommodated and assimilated in the company's organisational structure which includes not merely the workplaces but also the institutions and structures like the unions, personnel management, shop level worker-junior engineer relations, was never considered to have anything to do with industrial relations. Every work process is not confined to the machines, the manning of machines and its lay out. It includes a definite set of relationships between people in the organisation *inter se*—when the work processes change these relationships must change—when the organisation stifles this change or shackles it, it leads to a crisis—leading to replacement of the relationships in conformity with the changes in

the production processes

The expansion of the company, the induction of a new young and skilled workforce and trained technical personnel called for weaving new relationships and making the growth and the transition as smooth as possible. The tone and tenor of industrial relations in the company was set by the 1964 strike the breaking of the strike by forming a group of black legs was a primitive and feudal approach to industrial relations. The subsequent bureaucratisation was more suitable for an unskilled under educated workforce of the old 'school' of workers and the imperial industrial relations methods of the company was also suitable for the kind of technological level and work processes prevalent at that time but hardly suitable for the changed circumstances. But those at the helm of affairs in charge of industrial relations were barely in a position to understand this, being themselves part of the old feudal mould. The agreements between Siemens AG and Siemens could provide for the planning of personnel—establishment of a list of skilled and unskilled labour and personnel for the manufacture, etc.—but could hardly recommend a purge of the organisation as a necessary condition for successful expansion.

VI

The old relationships that had been established over the years had now grown roots and consolidated to a point where a violent, bitter war was inevitable—the new needs of the organisation were sought to be put down by repression and brute force.

By the end of 1978 over 80 workers had been dismissed for involvement in riots and other offences, and hundreds of others kept out, pending scrutiny by the company. The majority of the workers who returned to work, did so carrying with them a whole new experience and hardenened by the year long strike and lock out. With a sullen demoralised workforce, production levels refused to register any rise even after the lifting of the lock out by the end of 1978. Productivity of workers which had been 70.7 per cent in 1970-71 dipped to rock bottom level in 1978 and rose to 44.7 per cent in 1979-80. The established recognised union demanded more and more privileges for itself as it had stood by the company in its hour of need. They pushed for a policy of discrimination amongst workers on the basis of union affiliation. The officers identified more with the union due to the prolonged repression of the workers than with questions like improving productivity or morale of the workforce. They continued to actively pursue a policy of discrimination. For example in 1978, gift coupons were distributed to the members of the Siemens Workers Union and denied to the others. In 1979 *ad hoc ex gratia* amounts were paid to the workers on the basis of attendance in the

year 1978-79 which automatically disqualified workers who had been on strike/lockout in 1978. Above all workers who were not members of the Siemens Workers Union were not granted any promotions, or change of grades—even though in most cases they were better qualified for it—whereas workers who belonged to the union were given grades and promotions even though they were not suited for it. Scores of examples of such discrimination could be given. As a result the internal organisational structures maintained through a process of merits and reward system broke down. It was at this point when the entire edifice broke down, and productivity remained consistently low to a point when it began to threaten profits—that the alarm bells began ringing at the highest echelons of the company. Besides due to liberal industrial policies introduced during that time in the country, the company could no longer afford to be complacent about its monopoly market positions. Only then did revamping personnel policies and introducing organisational changes suited to its present phase of growth assume importance. Until now personnel management had been the exclusive domain of Indian managers. The parent company seldom interfered. Now, for the first time the parent company intervened, appointed a German works manager with widely enhanced powers to set things right.

The new German works manager introduced certain changes which had a dramatic impact on the entire organisation. For example, one of the first measures taken was to abolish separate canteens for German officers and workers and to set up a common canteen for all. Such a measure was only symbolic, but in a situation where the morale of the entire organisation both among officers and workers was at rock bottom, even symbolic measures had an electrifying effect. Above all it conveyed the feeling that there was a change from the old and this change was eagerly watched by all concerned. The significance of the passing of personnel policies into new hands lay in the fact that for the first time the corporate philosophy of the German company was introduced in India. The concept of the 'Siemens family' which had been studiously promoted in the parent company since 1880s or thereabouts and developed to a point of perfection came to be introduced for the first time in India. Prior to 1969, the company itself was emerging out of its small manufacturing role. Its India operations had expanded and grown, but, 'the organisational psyche had not grown correspondingly. There was no concept of professional management. Personnel management and industrial relations were *ad hoc* oriented by a political feudal hierarchical approach. It was the 1978 struggle which compelled the company to sit up and take notice of the lag in the organisation, growth and productivity

and the corresponding organisational changes required to keep pace with it. Among the changes introduced in 1981, the most important was ideological. Frieder Schlupp argues how the idea of the Siemens family is developed as a holistic concept amongst its employees.

Instead even the chairman of Siemens, Hesamibetriebsrat and Vice-Chairman of Siemens Aufsichtsrat Ferdinand Turek already over thirteen years in this position praised 'spirit of Siemens—the mystic of the family Siemens and Siemens (Corporation) family and is openly identifying with it and working for Siemens seemingly took a quasi religious quality like two English authors (Robert Heller and Norris Willat) have already noted recently (Frieder Schlupp in Siemens, Notes on a German Transnational Corporation', *Transnational Information Exchanges* June 1980).

Now for the first time the company began to propagate the concept of the Siemens family and perpetuate the mystic about Siemens family in India. This they did by publishing regular news letters to family members of the workers, bulletins about the company's work etc. They also introduced for the first time symbolic gestures, such as 'open house' where on one day in every year the workers are allowed to bring their family to the factory and how them around.

VII

However ideology alone does not lift the level of productivity. For the first time more modern techniques of productivity, such as human resources development, came to be introduced. The company now began to focus on work systems rather than workers alone by introducing changes in work systems, manpower planning and work supervision and strengthening the industrial engineering department and work supervision. The company took the first steps to raise the falling productivity of workers. The company also granted marginal increases in basic pay and allowances (Management Information Bulletins). But the increase in pay was also linked to production inasmuch as for the first time, the company introduced production incentive bonus and also modified the job classification agreement by introducing greater flexibility in manpower utilisation. All this improved the situation somewhat and the productivity went up from 44.3 per cent in 1979-80 to 53.9 per cent in 1980-81. While introducing changes in production systems was simple, changes in personnel policies were not. The introduction of the changes in production systems presupposed two important things. Firstly, that the co-operation of the workers was forthcoming. Secondly the changes presupposed that line managers and production managers would have greater say in matters relating to the workers.

As far as the co-operation of the workers

was concerned, their morale continued to be low. In fact, in 1981, the workers started what is popularly referred to as the 1981 struggle. This time, the workmen went on a massive go-slow. Whatever improvement in productivity that was brought about by the changes in the system was offset by the go-slow in 1981 and the excessive manpower created due to the strike recruitment. Even the 1981 settlement, which gives rises in the pay of the workmen failed to have effect in raising productivity. Once again, the company fell into the common track of believing that the workers could be bought with increases in pay and once again, the rationale behind this failed. During the 1981 struggle over 450 workers were suspended, many of them repeatedly for go-slow. These suspension were continued inspite of court orders staying the suspensions. In the realm of personnel management and industrial relations, the new works manager found it virtually impossible to dislodge the power structure which had followed old policies. A cleavage developed between the works manager and the chief personnel manager over the policies to be pursued.

The problem before the company was how to enlist the co operation of the workers for introducing organisational changes in production methods when the majority of workers were virtually de unionised. Communication with the workforce had broken down. There were no organisational forums through which such communications could be built and the recognised union had now lost all legitimacy. At the same time the company was not in a position to abandon the recognised union for reasons discussed earlier. Hence the company had to establish forums to directly communicate with workers. This necessarily meant openness in the functioning of the company, access to information and democratisation of the company's functioning vis a vis the workers at large. Thus, during this period, massive shop level meetings of workmen were addressed by the works manager directly. Posters came to be put up all over the company for the first time informing the workers about the company's production targets, actual production achieved against targets, financial position, etc. Productivity charts came to be displayed all over the shops. Suggestions schemes were introduced. Though the company was compelled to introduce more open management due to decimation of the workers organisation and precisely in order to avoid recognising the trade union truly representing them. To the workers whose entire struggle had been founded on democratic trade unionism this change only enhanced their strength.

The excess workforce created due to the strike recruitment was sought to be ruined, but, the pruning was done not by removing direct recruits (this could not be done as it would involve retrenchment requiring government permission under law), but by two means. In 1982 the rationalisation agreement

was signed by the recognised union (Rationalisation settlement, November 5, 1982). This effectively undid past classifications and gave the company a free hand to introduce any kind of technology, rationalisation, standardisation and improve plant technic. It clubbed jobs and trades and allowed the company to transfer workers not merely from one unit to another and from one plant to another. The recognised union leadership agreed to all these major concessions in return for only one thing, namely, recognition to itself. The rationalisation only added to the surplus workforce. A voluntary retirement scheme was, therefore, introduced in 1982 under which the company 'persuaded' all old workers, unskilled workers and those with bad attendance records to leave. By these means, between 1983 and 1984 the workforce was reduced by 8 per cent. The works manager was now concentrating only on improvement in productivity and production. Hence, the emphasis was to remove the unproductive workforce. This line was directly opposed to the line of the personnel management in as much as removing the most unproductive workforce meant removing followers of the recognised union. However, in the balance of power then obtaining the works management was more powerful. This led to substantial weakening of the recognised union and also the power wielded by the personnel management within the company.

Despite the changes which were introduced in 1980 principally due to 1981 struggle the new policy of the works manager continued to discriminate against workers who were not members of recognised union. The discrimination continued with respect to grades, promotions, transfers, etc. The rationalisation introduction of new technology and new work systems however require the more skilled and more competent workers to man crucial positions and such workers were found only among the rebel sections. With the increasing power to line managers and production managers they also became more articulate. These were people who rubbed shoulders with the workers on the shopfloors and hence they could see how counter productive were the discriminatory policies. They first of all began openly to express their reservations about this policy of discrimination. With the weakening of the personnel management and therefore the recognised union it became difficult to continue such discriminatory policies. By the end of 1984 there was a perceptible shift and there were at least some workers from the rebel rank who began to be given grades and promotions. With this the recognised union lost whatever little clout or influence it could wield in such matters. Productivity during this period registered further increases but had not reached optimum levels. Thus during this period (1981-85) the policies relating to work process and work organisation were directly contradictory and conflicting with

the personnel policies—the opposite pulls would not resolve the organisational crisis, it only enhanced it.

By 1985, the modernisation and introduction of new machinery, both computerised and otherwise, was nearly complete. But, this modernising also called for new managers, particularly technical. In the personnel management a number of managers had to leave or were demoralised and shunted out or had to retire. Due to these reasons, new managers had to be recruited in the personnel section also. As a result, there was a whole new generation of managers. The approach of these new managers to both production and personnel policies was 'ahistorical'. They were neither inclined to nor in a position to understand the whole history and significance of the history of industrial relations in the company. Besides, they were neither committed to nor involved with one or the other section of the workers or managers. However, being new, they were hardly in a position to influence personnel policies. In 1985, due to the weakening of the personnel management, the recognised union collapsed. But, that was only after an agreement was signed granting substantial wage increases and production incentives. Ironically it was when the recognised union was at its weakest phase and on the verge of collapse that the highest wage increases were granted. As in all organisations, decline brings about conflicts and between 1985 and 1986 the remains of the old leadership fell out mutually with one another.

The rebel workers now rallied under a new leadership which was a participant in the 1972, 1978 and 1981 struggles, but did not lead any of them. This new leadership was tempered in struggle and therefore, for the first time, began to take into consideration the organisational balance of forces, perspective and power structure within the company and their effect on the workers own struggle. They were able to evaluate and assess what management meant, what the company consisted of and the need for understanding the organisational imperative of both the company and the workers for any successful move. It was the understanding of these issues that made them decide to join the recognised union *en masse*. The changes in the personnel management and the weakening of their powers made it difficult for them to prevent such steps by the workers. The rebel workers joining recognised union meant recognising them and meant changes in the leadership of the recognised union. The new managers could not understand the historical significance of the rebel workers joining the recognised union. They welcomed what was apparently a very good sensible move. With the rebel workers joining recognised union, pressure on the leadership for change mounted. This time, due to the weakening of the union and due to the consequent fall out among the leadership mutually and the weakening of the personnel

management committed to the recognised union in the company, it was impossible to resist the change. Thus, the struggle for change in leadership, which commenced in 1972, ended in 1987 the president declined to contest in view of his imminent defeat.

The new leadership had by now a clear perspective on what kind of union they wanted to run. Democratic trade unionism was the foundation of their very movement. It achieved culmination when 1987 elections were held. These elections were significant for several reasons. For the first time, the entire election was by secret ballot. An election officer was appointed as an independent body with persons to assist him. Proper nominations were invited, dates for withdrawal of nominations were given and printed ballots were used. The other major feature of this election was that constituencies were created whereby every shop had a representative. In general council some 80 members were elected by every shop constituency comprising of around 20 to 25 workers. Then, each unit had a unit secretary and the central office bearers were directly elected. The lopsided representation of shops and units was done away with while at the same time ensuring that the central leadership, namely, president, vice-presidents, secretaries and treasurer, were elected by entire membership. This system ensured a voice to every member of the organisation. The election process itself could materialise only due to protracted negotiations between different factions and groups. Hence, various factions and groups were represented in the elections. The panel finally elected thus comprised of representatives from different factions and groups.

VIII

The 1987 elections marked a watershed in the history of industrial relations in the company inasmuch as the rebel workers dominated the union. The years 1987-1988 and 1989 registered record levels of productivity, record production, they were also the years when major agreements such as shifting of certain processes from Bombay to Nasik, etc., were resolved to the satisfaction of workers by direct negotiations and hard bargaining on either side. For a very brief period there was classical 'collective bargaining'. This only enhanced the stature of the new leadership in the company, as well as in the union. The new managers were able to show dynamism and flexibility in the negotiation processes whereas the new leadership in the union responded to the same.

The new union leadership also took the democracy business very seriously. They not only spoke about democracy, but actually began to implement the same in day to day functioning. Thus powers were delegated and all unit secretaries were actually made responsible for resolving the problems concerning their units; all general council members were actually made responsible for

reporting problems of their constituencies to the unit secretary. Only if the unit secretary could not effectively handle the problem, was it brought to the general secretary or joint secretary or to the central leaders. Only wage negotiations and general agreements were handled by the central leaders. All this brought about harsh reactions from the personnel managers, particularly the older ones for now they had to deal with a wide cross-section of leaders. In the old days, there was only one person or two they had to deal with in regard to the entire factory's problems. This made things simple as the relationships were established. But dealing with five unit secretaries and a large number of general council members meant dealing with wide variety of people and therefore, dealing not on the basis of personal relationships, but on the basis of principles relating to the problems and issues. This meant that personnel management could no longer sit back and take it easy. It meant that they had to show skill, dexterity and fairness in their dealings. It meant that personnel managers had to actually 'manage'. All this made the personnel managers, especially the older ones, extremely uneasy with the new leadership. The democratisation of the union also made the union much stronger than it was before.

For the first time in its history managers had to recognise a union which had the support of the majority of the workforce. This also created insecurity among the personnel management staff. A strong and independent union was against the basic 'corporate culture' of the company and the personnel management simply could not deal with such a situation. Personnel management felt threatened and was agreed on the point that the new leadership needed their wings clipped but they had no common strategy on how to go about doing that. Some officers began to cultivate one or two persons in the new committee and interfering in the internal affairs in the union knowing that the new committee consisted of groups and factions.

What they did not realise was that the groups and factions had become irrelevant with the changes in the organisation of the company and the union. There had been a shift of people on either side, across groups and factions. Thus, recruits who were recruited to break the strike in 1987 after being confirmed as permanent employees switched over to the new leadership, as they were also young and naturally attracted by the younger leadership. Conversely, old workers and less skilled workers who had been part of 1972-1978 and 1981 struggles no longer identified with the new leadership and became sympathetic to the older leaders. These changes which had not erupted perceptibly in 1987 had begun to manifest as dissensions amongst new and old leaders in 1988. But with the majority of the workers supporting the new leadership such dissension merely remained at the surface. During

this phase the conflicts in industrial relation assumed a generational character, with old and new managers taking different confusing lines on the differences between old and new worker leaders. The historical approach of the company's personnel management made them believe that such dissensions could be exploited to their benefit by the cultivation of certain leaders in the new leadership. For this purpose the company chose persons who were labelled widely as black legs for the role they performed in breaking the 1965 strike. Since the general approach of the personnel policies were 'ahistorical' these considerations never mattered. Besides, only such persons would be willing to be wooed by the company. Throughout 1989 the creation of dissensions within the leadership became the key function. However, the entire experience of the workers from 1965 onwards had given them a certain maturity and consciousness and besides the real democratic functioning of the union ensured that problems were discussed openly and all decisions were by consensus and therefore the dissidents were not in a position to affect the organisation in any significant manner. The wooing by the company however gave these workers a bloated idea of their own worth. Toward the middle of 1989 it became evident to sections of the personnel management especially the new and young manager that the policy of creating dissensions would not work. Even those who had gone along with the policies in the beginning now backed tracked. However once again, there was no common consensus to back out of such policies amongst the managers.

The structure of management in the meantime came under heavy strain. The induction of a large number of new managers

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and officers brought with it problems of adjustment within the organisation. For the first time in the history of the company, the officers formed their own association in 1985. This was the first indication that something was very seriously wrong with the company's leadership. But the symptom went unattended due to the drift caused by a weakened personnel management. Another important development was that in 1988-89 the company took the first step towards decentralising by divisionalisation of the company on the basis of product line. This decentralisation brought about several centres of authority in the place of one. Thus, earlier on the management structure was perceived as a clear pyramid the hierarchy was clear. With divisionalisation, each divisional head became a director in his own right. There were thus 6 divisional heads heading different product divisions. More than this, what affected the power structure of the organisation was the creation of three more divisions which cut across the product divisions, namely finance, personnel and production. These three divisions run across the other six divisions. Therefore there were one three power centres in each division. There was thus no unified command structure which could provide effective leadership to the company. This was more so with regard to personnel management inasmuch as the personnel management which had already been weakened over the years for reasons discussed earlier further weakened by not being made into a full fledged division with its own divisional head. The scenario towards the end of 1989 was a strong participative and democratic tradition and a weak personnel management. Such a scene is bound to create problems which are unique and different from the usual industrial relations problems.

As a result the industrial relations policies were directionless and confused. Changing course every now and then depending on the vacillations in the power equations of the company. Thus the policy of testing dissensions and promoting certain dissident leader, which was begun in 1989 by some more towards end of 1989 but not abandoned at all by others right through 1990. Galbraith argues that 'psychic' of the management of company often resemble the product which they manufacture. According to him, 'all great executives come to resemble intellectually the product they manufacture. Until you had done business at length with top officers of the Steel Corporation, you didn't really appreciate the intellectual qualities of a billet of steel' (Galbraith Menchikov in *Capitalist Communism and Coexistence*).

In Siemens in the beginning of 1990 the managers in the company were intellectually like the panel boards the company manufactured with scores of wires and intertwining and ending in numerous switches and controls.

IX

The old leaders who found that the democratic function was making their continued existence in power impossible, encouraged by the drift in the management began confronting the new union leadership. In the very nature of things such confrontation could not be on the shop-floor in view of the fact that two third of the members were staunchly with the new union leadership and of the remaining 1/3rd a significant number were fence sitters. The dispute took a form of numerous litigation and strongly contested court room battles. The managers who encouraged them did not want trouble on the shop floor and began to actively advise litigation. But this affected neither the workers nor the company, nor the new union leadership inasmuch as nobody was affected directly by litigation. It merely meant expending resources which both the union as well as the company was in a position to do. What it did do was to give the old leaders an exaggerated self importance. Soon they felt with a section of managers on their side they would get away with anything. With a support of around 700 or so out of 3000 they began to indulge in go slow ghettos and other forms of agitation. Those who had come to represent bureaucratic style of functioning now sought hopes of coming back to power ousting the new democratic leadership with the help of management support. What started as pressure tactics thus grew into open conflict. The management had gone along with this line initially as they all wanted for various reasons to clip the wings of new union leaders. When conflicts began to grow and the bureaucratic leadership began to stake claim to the union leadership many managers swung around and began to take fresh stock of the situation. They had only wanted to clip the wings and not kill the bird altogether. But things were taking a turn for which they had not bargained. Everywhere the workers were asking 'why was management causing all this trouble?' Since 1987 production had gone up, the productivity and profits had gone up, agreements were no major issue which either side felt could not be settled amicably. Then they asked 'why this trouble?' A number of managers also started asking the same question. A lead in this was taken by the production managers who had never had it so good before and did not want trouble or breakdown in production for any reason. This section of managers began to articulate their dissent. This dissent soon snowballed into a two line struggle within the management.

Perceiving the two lines, the old style leadership began to push for recognition from the management. Matters reached ahead with the strike call and call for go slow. This had no perceptible effect on the production, as the majority of workers i.e. 2/3rd and that too of the most productive workforce

was with the new style leaders. One section of the managers began to insist on disciplinary action against strikes and slow-downers, the other section resisted. The management appeared indecisive and vacillating, i.e. not in a position to 'manage'.

On the majority the workers, however, this indecisiveness and vacillation had a dramatic effect on their consciousness. It revived in them old memories of harsh actions management was capable of taking *a la* 1978, 1981 struggles which it was not taking now. They had an idea of the full extent of management powers and if they were not being exercised it could only be because the management wished to foist old style leaders the blacklegs and bureaucrats on the workers. This was how the general mass of the workers perceived the situation and rallied behind new style leaders with fervour and commitment.

The old style leaders too began to question the management. They had got to this point with the tacit support and understanding of section of the management. Their anxiety was what if it failed to keep its promise or lose out in the two line struggle. For them it was absolutely necessary to push the differences within the management to a decisive stage. The section of the management supporting them was also convinced that to win in the two lines it must end decisively in favour of the old style leaders. In this line within the company that called for recognising and coming to terms with its most productive workforce was the new and up and coming force. It also called for changes in organisational relationships and personnel. It was in keeping with the objective needs of the company hence irrepressible. The other line that promoted the unproductive workforce was in conflict with the objective needs of the company. Yet being old, it was in conformity with the company's culture it was self regenerating and hence equally irrepressible. The two contending forces could only be resolved if there were serious self backs in production and productivity. This had not happened so far due to the neutral stand of the union and the new leaders in the two line could in the company. Such neutrality however, could not continue indefinitely. Sooner rather than later the company was heading for a showdown with the majority of its productive workforce, hitting production and productivity. Only then would organisational changes be brought about in conformity with its new needs. For this entire process the 'company' stood and as an alien force and confronted both its workers and managers as an alien entity.

Unable to carry the entire management with them, and coupled with the fact that the old style leaders lacked the ability to run an organisation independent of outside leaders, the forces of *status quo* in the company began to take charge of the situation and take recourse to legal moves. If legal sanction could be somehow received for old

style leaders the whole issue could be presented as need of obeisance to the law

Manipulative tactics came to replace personnel policies. Thus 535 workers were locked out for slow down, but a section of managers began to bend backwards to take them back. *Ex parte* orders taken against the company, the company was in no hurry to get it vacated. The entire strategy was to provoke the new leaders to violence. If that happened the entire workforce could be locked out, the situation reversed with the majority kept out and the minority in and the bogey of intra-union rivalry could be raised before the world at large. In most cases this would have been the result. An analysis of management. In this case the maturity of the new leadership and the high level of workers' consciousness due to the 1965, 1978, 1981 and 1987 experience pre-empted such intra-union conflict. The majority lead by new leaders appeared 'neutral' in the two line conflicts within the management in relation to their labour. This was an entirely new situation which observers students of labour movement, could not comprehend at all

X

CONCLUSION

(1) A large corporation is described as a state within a state. Like in state, certain production processes (which are determined by technology, market needs etc) give rise to definite relations of production within the organisation state. When production processes change, the relationship must also change. Changes in production processes are harbingers of changes in the organisation. The relationships are reinforcers of *status quo*—this is the key to understanding modern labour movements and industrial relations issues.

(2) Invariably a section of the worker/leaders are pitted against the workers at large in industrial conflicts. The genesis of the disunity in the labour movement is rooted in modern labour process itself. Failure to understand these processes renders working class unity an empty and antiquated slogan.

(3) In large companies the term 'management' is not a homogeneous thing. Management itself is subjected to pulls and pressures and individuals find themselves on one side or another depending on their own positions in relation to the production processes in the organisation.

(4) Periodic crisis within the company (i.e., the organisation of capital) is an inevitable part of its growth and expansion. Idealistic notion of partnership between labour and capital and the notion of collective bargaining, corporate family not withstanding.

(5) Labour management conflicts can no longer be understood in terms of wages and service conditions alone. New indices of judging labour management conflicts need to be evolved.

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Leather Exports: An Illusory Boom?

Saurabh Sinha
Sanjay Sinha

This paper attempts to analyse the export performance of the Indian leather industry with a view to determining the constraints to the future growth of the industry in the context of the policy measures introduced in recent years to facilitate leather exports.

THE growth in exports of Indian leather and leather products over the last three decades, and particularly in recent years, has prompted a liberal use of hyperbole to describe the phenomenon. A council for leather exports (CLE) spokesman has called the growth of the Indian leather industry "a fascinating story". Commenting on the continually increasing value of exports the annual barometer of progress in the region, the *Asia Pacific Leather Yearbook* (1989), has asserted that "India's leather industry has come of age in a most emphatic style". Even the normally prosaic Planning Commission documents could not help acknowledging the "phenomenal spurt" in exports of leather goods "not known to the industry before".¹

I

Export Performance

Table 1 provides a historical perspective on the growth of leather exports since 1956-57. In rupee value terms, leather exports have indeed recorded an impressive growth over the past two decades. While the 16-year period 1956-57 to 1972-73 yielded a six-fold increase in export value, exports in the subsequent 17-year period (1972-73 to 1989-90) increased by nearly 11 times. Trend figures available for 1990-91 indicate that exports have almost tripled over the last four years (1986-87 to 1990-91). Thus, the value of exports has increased at an average rate of more than 14 per cent per annum during 1956-91. In the 17 years (to 1989-90) since the implementation of the Seetharamaiah Committee recommendations (refer the Appendix 1), the growth of the rupee value of leather exports averaged 15.2 per cent per annum. Over the past five years this growth rate has increased phenomenally to nearly 28 per cent.

The small share of finished leather and leather products in India's total leather exports, and its limiting effect on foreign exchange earnings, was a major concern of the Seetharamaiah Committee. Table 1 indicates the extent to which this concern was justified in the case of leather products which constituted less than 10 per cent of the total almost consistently up to that time. Indeed, even finished leather exports constituted just 9.3 per cent of the total in 1972-73 and semi-finished leather made up as much as 82.9 per cent. The measures instituted on the recommendations of the committee appear to have yielded extremely satisfactory results as the share of finished leather in the total

increased to 19 per cent in 1974-75, barely two years after implementation. By 1980-81 this share had increased to 36.7 per cent and that of leather products to 31 per cent.

By 1980-81, concern came to be felt that the proportion of finished leather, rather than 'value added' products in total leather exports was excessive. On the basis of the recommendations of the Kaul Committee, measures were introduced at this time to improve the competitiveness of the leather products sector and to enhance its ability to take advantage of the anticipated growth in the international market in the 1980s. As discussed, the overall growth (in rupee terms) of leather exports in the 1980s was substantial and according to the figures in Table 1, the change in composition was reasonably satisfactory; the share of finished leather in the total declined to around 34 per cent by 1989-90 while that of leather products increased to nearly 65 per cent.

Appendix Table contains a more detailed disaggregation of Indian leather exports since 1972-73. Table 2 shows the composition of leather product exports since 1980-81. The main feature of note here is the importance of footwear components (mainly shoe uppers), rather than complete items of footwear in leather product exports. The share of footwear components in leather products rose from 36.8 per cent in 1980-81 to around 60 per cent in the mid-1980s. Further deregulation and conscious efforts to promote increased value addition in export products were introduced in the mid-1980s on the basis of the Pande Committee's recommendations. Since then, though footwear component exports have continued to grow, their share in total product exports declined to 39.4 per cent in 1989-90. The fastest growing sub-sector in recent years has been leather garments which has registered an annual growth rate of over 100 per cent over the five years since 1984-85. Other leather goods have also grown impressively at nearly 39 per cent per annum during this period.

Though this discussion has related the apparently impressive growth of Indian leather exports in recent years to the implementation of the recommendations of various official committees, it is interesting to examine this growth more closely. The following sections examine the growth of Indian leather exports in real (rather than nominal terms); assess the contribution of developments in the world market to that growth, and consider the motivations and

factors responsible for the nature of the export performance of the industry.

II

Real Value of Leather Exports

In a country with a substantial trade deficit, a depreciating exchange rate and a significant rate of inflation, trade figures in terms of current values of the domestic currency do not provide a very accurate picture of the contribution of the sector to the economy. More relevant is the growth rate of exports in terms of the real value of the currencies of countries which are India's major trading partners.

Table 3 presents a simple analysis of the export performance of the Indian leather industry. Though the value of exports increased by over five times in terms of current rupees over the period 1980-81 to 1989-90, at constant prices the increase was only by a factor of 2.8. Indeed, growth in real terms over the first half of the period was extremely low at 2.5 per cent per annum. In terms of (US) dollars, exports increased by a factor of 2.4, rising from \$ 505 million to \$ 1,218 million. In terms of constant dollars the increase was only by a factor of 2.11. Thus, in terms of the quantity of imports possible as a result of the leather industry's export effort, the increase was restricted to 111 per cent during the 1980s.² As Table 3 shows, the performance in the first part of the period was extremely poor though since 1985-86 growth has been encouraging—averaging more than 22 per cent in real terms.

While the poor performance of leather exports in the early part of the period can be explained by an economic recession in the major importing countries, its performance in recent years appears to be impressive. Yet there are other factors which preclude a sanguine view of recent developments; these factors include:

(i) **A declining growth rate:** Since the achievement of a high growth rate in exports after the implementation of the Seetharamaiah Committee recommendations, there was a marked slowing down with exports registering a much smaller increase, and even a decline, in value terms in the early 1980s. Global recession during 1981-83 adversely affected leather exports, however, from 1983-84 there has been a rather uneven rate of growth of exports. Since 1986-87 the decline in the growth of exports is consistent and unmistakable. The picture if viewed in dollars at constant prices is much worse

as by 1988-89 the rate of growth of exports was down to 10 per cent. While it increased by 14 per cent in 1989-90, inflation and devaluation of the Indian currency effectively nullify a substantial part of the increase that takes place. This seems to suggest an

impending stagnation in leather exports which is attributable to the Indian industry's tardy response to changing global preferences. India's exports are made up largely of finished leather and footwear components, they constitute more than 60 per cent of the

industry's export value. But the bulk of the global trade is in footwear. In 1987 global import of leather and leather products was an approximate US \$ 36 billion of which footwear alone accounted for more than US \$ 18 billion (or 51 per cent). Footwear components, on the other hand, constituted a meagre US \$ 1.5 billion. India's high profile presence in finished leather and footwear components (which together comprise only 17 per cent of the total global market) is thus of little significance in the world market.

Consumer performance has shifted to high quality footwear which is currently the fastest growing commodity group. A re-orientation of priorities towards making footwear the most important single item of export (as suggested by the Pande Committee) is required to enable Indian leather exports to break out of the impending stagnation and to acquire a larger share of the global leather trade.

(u) **Stagnation, if not decline in value realisation at constant prices.** Real value realisation from Indian leather exports is calculated in Table 3 as constant dollars realised for every (constant) Rs 100 worth of exports.¹ The figures obtained reveal a disturbing trend: value realisation fell from \$ 12.64 in 1980-81 to \$ 9.63 in 1984-85. Since then, there was virtual stagnation till it dropped to as low as \$ 9.54 in 1989-90. Thus each unit of exports is fetching only 75 per cent of the value today that it was fetching at the beginning of the 1980s. Contrary to the expectation that improving quality and the increasing importance of value added leather product in the composition of exports would improve value realisation, the latter has either declined or in recent years, stagnated. This could indicate either that the competitiveness (and quality) of Indian leather exports has suffered relative to other countries and as a result the margins earned by Indian exporters has declined or that quality has improved but the quantum of Indian exports has not increased significantly. Figures compiled by the Reserve Bank of India seem to suggest the latter in the case of footwear and footwear components but the former for other leather manufactures. Calculations based on these figures are presented in Table 4.

Though the average realisation per square foot in rupee terms has been increasing continually in 1985-86 finished leather was leaving India at an average rate of Rs 11.60 per square foot. This is an extremely low value and implies that a substantial percentage of leather exported by India is of a low grade. Some manufacturers do export high grade leather (at the rate of Rs 50 per square foot) but their number is very small. Similarly, the bulk of footwear export is of the cheaper variety fetching barely Rs 60 per pair. Again a few exporters are able to sell quality footwear at about \$ 18 a pair but since footwear accounts for barely 8 per cent of India's total exports (1988-89) and 0.5 per cent of the global footwear imports (1987), returns on footwear exports to India are

TABLE 1 GROWTH OF INDIAN LEATHER EXPORTS

| Year | Total Exports | Finished Leather | | Products | | Growth Rate (Per Cent pa) | |
|--------------------|---------------|------------------|----------|----------|----------|---------------------------|----------|
| | | Value* | Per Cent | Value* | Per Cent | Total | Products |
| 1956-57 | 285 | | | 19 | 6.7 | | |
| 1960-61 | 376 | | | 28 | 7.4 | 7.2 | 10.2 |
| 1964-65 | 328 | not available | | 37 | 11.3 | 3.4 | 7.2 |
| 1968-69 | 855 | | | 61 | 9.5 | 27.1 | 21.6 |
| 1972-73 | 1,840 | 172 | 9.3 | 142 | 7.7 | 21.1 | 15.1 |
| 1976-77 | 2,897 | 1,052 | 36.3 | 471 | 16.3 | 12.0 | 35.0 |
| 1980-81 | 3,997 | 2,268 | 56.7 | 1,226 | 30.7 | 8.4 | 27.4 |
| 1984-85 | 5,838 | 3,085 | 52.8 | 2,261 | 38.7 | 9.9 | 16.2 |
| 1985-86 | 6,625 | 2,882 | 43.5 | 3,252 | 49.1 | | |
| 1986-87 | 9,308 | 4,009 | 43.1 | 4,774 | 51.3 | | |
| 1987-88 | 12,449 | 4,860 | 39.0 | 6,863 | 55.1 | | |
| 1988-89 | 16,084 | 6,499 | 40.4 | 9,054 | 56.6 | | |
| 1989-90 | 20,300 | 6,935 | 34.2 | 13,154 | 64.8 | 26.2 | 45.3 |
| 1956-57 to 1972-73 | | | | | | 12.4 | 13.4 |
| 1972-73 to 1989-90 | | | | | | 15.2 | 30.5 |

Note: * Value in Rs million

Source: Council for Leather Exports 1989 Personal Communication and IIPC 1981 Silver Jubilee Souvenir 1956-81, Madras

TABLE 2 COMPOSITION OF INDIAN LEATHER PRODUCTS EXPORTS

| Year | Leather Product (Exports in Rs Million) | Footwear | Share (Percentage) | | |
|---------|---|----------|---------------------|----------|-------------|
| | | | Footwear Components | Garments | Other Goods |
| 1980-81 | 1,226 | 27.5 | 36.8 | 4.2 | 31.5 |
| 1981-82 | 1,553 | 19.4 | 49.7 | 4.7 | 26.2 |
| 1982-83 | 1,451 | 13.5 | 54.7 | 5.1 | 26.7 |
| 1983-84 | 1,871 | 12.6 | 60.7 | 3.6 | 23.2 |
| 1984-85 | 2,261 | 11.8 | 55.7 | 4.2 | 25.2 |
| 1985-86 | 3,252 | 10.2 | 58.5 | 5.1 | 26.2 |
| 1986-87 | 4,774 | 16.8 | 50.4 | 13.0 | 19.7 |
| 1987-88 | 6,863 | 18 | 47.2 | 15.4 | 18.8 |
| 1988-89 | 9,054 | 14.4 | 47.0 | 18.7 | 19.9 |
| 1989-90 | 13,154 | 13.0 | 39.4 | 25.3 | 22.3 |

Source: Derived from Appendix Table

TABLE 3 REAL VALUE OF INDIAN LEATHER EXPORTS

| Year | Current | Constant* | Current | Constant* | Realisation Value |
|------------------------------------|------------------|-----------|-----------------|-----------|-------------------|
| | Rupees (Million) | | US \$ (Million) | | (\$ 100 Rs) |
| 1980-81 | 3 997 | 3 997 | 505.3 | 505.3 | 12.64 |
| 1981-82 | 4 349 | 3 961 | 484.8 | 443.1 | 11.22 |
| 1982-83 | 3 994 | 3 544 | 413.0 | 371.1 | 10.47 |
| 1983-84 | 4 361 | 3 537 | 471.7 | 374.2 | 10.58 |
| 1984-85 | 5 837 | 4 419 | 490.9 | 325.4 | 9.63 |
| 1985-86 | 6 625 | 4 742 | 541.3 | 411.1 | 9.94 |
| 1986-87 | 9 308 | 6 328 | 728.3 | 453.7 | 10.32 |
| 1987-88 | 12 449 | 7 869 | 959.8 | 838.3 | 10.65 |
| 1988-89 | 16 084 | 9 467 | 1 111.5 | 934.0 | 9.87 |
| 1989-90 | 20 300 | 11 197 | 1 717.8 | 1 068.7 | 9.54 |
| Growth rate (percentage per annum) | | | | | |
| 1980-85 | 9.9 | 2.5 | 9.7 | 4.2 | 6.6 |
| 1985-90 | 32.3 | 24.0 | 27.5 | 22.7 | 1.0 |
| 1980-90 | 19.8 | 12.1 | 10.2 | 8.6 | 3.1 |

Note: * Deflated using wholesale price indices respectively for India and the US published in the *Economic Survey* and *The Economic Times*. Average annual exchange rates are also published periodically in *The Economic Times*.

Source: Compiled from Table 2

minimal. On the other hand, rupee trade areas (USSR and GDR) account for nearly 63 per cent of the country's export of footwear components. Rupee trade contributes little to foreign exchange earnings and both "qualitatively and design-wise the export to these countries differs from what goes to the USA and western Europe"⁴. There has been a constant effort to reduce the rupee trade percentage so as to increase export earnings.

Indian leather garments, on an average, command a reasonably good price in the world market which allows the garment exporters to pay a better price for sheep nappa leather. The garment position, on the whole, is quite comfortable but with regard to leather goods India is unable to command respect on account of use of poor quality leather and absence of quality assurance. Thus, even though the quantum of exports has increased, unit value realisation from leather goods is unsatisfactory.

Inadequate mechanisation, obsolete technology, unscientific management and production confined to small and cottage units have been identified as the main reasons for a low average unit value realisation. The major challenge for the leather industry lies in improving the unit value realisation from its exports.

III

World Market

The trends apparent from the above discussion are by no means encouraging and policy measures notwithstanding virtually indicate the failure of the domestic industry to achieve a significant qualitative improvement in its performance in the international market. To the extent that the performance of Indian leather exports has been encouraging in recent years, the influence of world market forces on it needs to be examined.

Over the past few years leather products have been imported increasingly by the leading consuming countries of the world. Finished leather, footwear, footwear components and leather garments constitute the major items of import.

Table 5 provides an indication of the global import situation during 1972-85. Except during the recession years 1981-82, global imports increased steadily and present trends suggest an annual increase of 10 per cent in world imports of leather and leather products. The global import of leather and leather products which was US \$ 21,310 million in 1985, is slated to exceed US \$ 31,000 million in 1990 and double that amount by the turn of century. The US, United Kingdom (UK), Germany, France, Netherlands, Canada, Australia, USSR and Japan are the main consumers of leather goods. Spain, Italy, Hungary, the Scandinavian countries, South Korea, Taiwan and Singapore are likely to emerge as important consumers of leather items in the 1990s.

Only five countries—the US, FRG, France, UK and Japan—accounted for 68

per cent of the total world import in 1985 as shown in Table 6. Over the years the US has emerged as the largest importer of consumer leather products accounting for more than 36 per cent of the global imports in 1985. In 1987, for instance, more than 82 per cent of USA's footwear consumption was met by imports. In FRG, UK and France, footwear imports range between 50 and 75 per cent. There is an unmistakable rise in import of various leather products in the developed countries. The per capita consumption of footwear in these countries is currently over 4-5 pairs. Customer preference is shifting increasingly towards leather apparel and leather garment imports meet as much as 75 per cent of domestic requirements. The continuing fall in the import of leather (raw or finished) along with a steady increase in the import of leather products indicates a decline of the leather industry in these countries, on the one hand, and a rising consumption level of leather products on the other.

An analysis of India's export performance reveals three distinct features. One, the export profile has been influenced strongly by the world import profile. Two, there has been a continual change in the composition of exports. Three, despite the growth recorded in the late 1970s and again from 1983, Indian leather exports comprised barely 2.7 per cent of the world market for leather and leather products in 1987. Indeed, exports from India accounted for a dismal 1.7 per cent of total leather imports into the five major consuming countries in 1985.

The general currency areas (GCA) among the industrialised countries are steadily emerging as the main market for Indian leather products. The four advanced market economies—US, FRG, UK and Italy—and USSR between them account for more than two thirds of Indian exports. Thus, Indian exports proceed in the same direction as the general trend in the world market. But this is both encouraging and disturbing. Encouraging since Indian products have established a presence in the major world markets, but disturbing because the industry has continuously to increase productivity and quality to survive the intense competition.

The figures available show that FRG has established itself as the leader amongst all destinations for Indian leather manufactures. In 1989-90, more than 18 per cent of India's exports (in value terms) were landing in the FRG. According to data compiled by

CLE, exports to FRG aggregated Rs 3,763 million in 1989-90 out of the total exports worth Rs 20,300 million.

The global trend is towards trade in value added leather products. The flow of leather goods from developing to developed countries has been rising whereas trade among developed countries for leather goods has declined. India has responded commendably to these changes but needs to cover substantial ground to establish a significant presence in the global leather market.

Leather footwear accounts for a major share of global import of leather and leather products. During 1987, over US \$ 18 billion worth of leather footwear was imported (Table 7). It formed nearly 51 per cent of global import. As mentioned previously, the world footwear market is currently dominated by South Korea, Taiwan, Brazil and Portugal in the lower and lower middle segments. In the higher middle and higher segments, Italy, Spain and France have a

TABLE 5 GLOBAL IMPORT OF LEATHER AND LEATHER PRODUCTS
(US \$ million)

| Year | Leather | Leather Products | Total |
|------|---------|------------------|--------|
| 1972 | 904 | 2,791 | 3,695 |
| 1976 | 1,573 | 6,281 | 7,854 |
| 1981 | 2,923 | 12,469 | 15,392 |
| 1982 | 3,037 | 12,675 | 15,663 |
| 1983 | 3,063 | 13,498 | 16,561 |
| 1984 | 4,015 | 15,949 | 19,963 |
| 1985 | 4,078 | 17,231 | 21,309 |

Source: Sahasranaman, A., 1989, 'Marketing of Readymades in the World Market in 1990s—Challenges before the Leather Industry', mimeo.

TABLE 6 LEATHER IMPORTS, SELECTED COUNTRIES
(US \$ million)

| Country | Total Imports (1985) | Imports from India (1985-86) | India's Share (Per Cent) |
|------------|----------------------|------------------------------|--------------------------|
| USA | 7,694 | 82 | 0.84 |
| W. Germany | 3,077 | 73 | 2.35 |
| France | 1,628 | 30 | 1.84 |
| UK | 1,376 | 46 | 0.33 |
| Japan | 653 | 12 | 1.87 |
| World | 21,308 | 541 | 2.54 |

Source: Sahasranaman, A., 1989, op cit.

TABLE 4 INDEX OF INDIAN LEATHER EXPORTS

| Year | Leather (Excl. Footwear) | | Footwear | |
|---------|--------------------------|----------|------------|----------|
| | Unit Value | Quantity | Unit Value | Quantity |
| 1980-81 | 100 | 100 | 100 | 100 |
| 1984-85 | 64 | 191 | 100 | 80 |
| 1985-86 | 72 | 169 | 114 | 69 |
| 1986-87 | 81 | 163 | 129 | 96 |

Source: Derived from RBI 1990, *Report on Currency and Finance, 1988-89*, Volume II—Statistical Statements, Bombay, Reserve Bank of India.

very strong presence in the world India's share is less than 1 per cent which is insignificant. At the same time, it suggests the vast potential for growth if the leather footwear sector could cope with the world market demands. Exports of Indian leather footwear have been growing continuously since 1971-72 when it formed barely 5 per cent of total exports. In 1988-89, Rs 1,300 million worth of full shoes were exported

TABLE 7 ESTIMATED GLOBAL IMPORT AND INDIA'S EXPORTS (1987)
(US \$ million)

| Products | World | India | India's Share (Per Cent) |
|---------------------|--------|-------|--------------------------|
| Leather | 4,655 | 433 | 9.30 |
| Footwear | 18,315 | 100 | 0.55 |
| Footwear components | 1,455 | 250 | 17.18 |
| Garments | 4,650 | 81 | 1.74 |
| Other goods | 6,980 | 101 | 1.45 |
| Total | 36,055 | 965 | 2.68 |

Source: MOI, 1990, *Report of the Working Group on Leather and Leather Goods Industries for the Eighth Five Year Plan—1990-95*, Ministry of Industry (Department of Industrial Development), Government of India, New Delhi, mimeo

which constituted nearly 8 per cent of the total value of Indian leather exports

Global import of footwear components has shown a rising trend. During 1987, global import of prepared parts of footwear was estimated at \$ 1.46 billion of which India's share was nearly 17 per cent. The import of footwear components of which shoe uppers is the most important single item represents the last vestiges of a crumbling leather industry in the developed countries. As indicated earlier, India's component exports are made up largely of shoe uppers. Currently, more than a quarter of the total leather export earnings are from footwear components which is a remarkable increase from a mere 2 per cent in 1976-77.

Fashion trends, high comparative cost advantage between leather and high priced textile garments, easy to care nature of leather garments, and a natural appeal of leather have increased global preference for leather garments. Leather garments have come to be accepted more as utility wear in the developed economies on account of their ability to substitute textile apparel for reasons ranging from low temperatures to high incomes. Export of leather garments have made rapid progress especially over the last three years. In 1987, an estimated \$ 4.65 billion worth of leather garments were imported globally. The response of the Indian leather garment industry has been par-

ticularly encouraging. Till 1976-77, garments were a low priority item and comprised only 1 per cent of the total exports. Thereafter, it grew steadily and in 1985-86, India exported garments worth Rs 167 million (2.5 per cent of the total exports). With increasing incentives for the export of leather products, the succeeding year, 1986-87, saw a sudden spurt in leather garment exports which increased by more than 3.5 times to Rs 622 million and comprised almost 7 per cent of total leather exports.

But the biggest question before the sector is whether the growth is sustainable. Global trends indicate that demand for leather garments will remain high in the coming years. With a concomitant increase in indigenous manufacturing capacity, it seems likely that the Indian garment sector will be able to increase its share of the world market.

The global market for personal leather goods is presently dominated by south-east Asian countries. Indian manufactured leather goods face stiff competition from synthetics and Singapore. In 1985, exports from India comprised only 1.5 per cent of global imports. A significant proportion of this share is accounted for by ladies' hand bags alone. Further, even this marginal presence is confined to the low or lower medium market segments. India has a rather limited product range in the leather goods sector.

India has, however, retained a substantial market of saddlery and harness goods where Kanpur has traditional expertise.

IV

Factors Responsible for Export Performance

Arising from the above discussion and a dialogue with a cross section of leather manufacturer exporters, Table 8 summarises the factors responsible for the present state of the Indian leather industry and its export performance. Broadly, various aspects which impinge on the progress of the industry have been classified under three major groups—the industry's intrinsic nature, global competitiveness and government policy support. The positive features (or assets) and the bottlenecks (liabilities) of the Indian leather industry have been discussed in some detail in the previous sections. The present status of the industry (net worth) has resulted from the interplay of these assets and liabilities.

The net effect of this interplay, presented in Table 8, is not very encouraging. Low value realisation in international markets is related basically to the image of the industry as a manufacturer of cheap products reinforced by its generally poor average product quality. The government's realisation of the potential of the leather industry for increasing value addition within the economy led to the provision of liberal incentives for leather exports. As leather production is a low investment, high turnover activity, this lured many one-time leather workers or small leather traders to under-

TABLE 8 BALANCE SHEET OF INDIAN LEATHER INDUSTRY

| Group | Assets | Liabilities | Net Worth |
|--------------------|---|---|---|
| Intrinsic nature | Capital per unit labour of the product sector low | Mushroom growth of export units | |
| | Low capital investment relative to turn over in the product sector | Low level of mechanisation | |
| | Capital output ratio of the tanning sector lower than that of much Indian manufacturing | Absence of factory mode of production | Image in world market that of exporter of raw hides/skins or cheap products |
| Global competition | Low wage rate | Low productivity | |
| | Easy availability of raw material | Low recovery rate of hides and skins | Status of a jobber or fabricator |
| | Traditional skills | Latecomer in product manufacture and export and thus absence of brand image | Low value addition in products |
| Policy support | | Weak product components sector | Crucially dependent on imports of components for product manufacture |
| | Various export promotion incentives | Low unit value realisation | Product quality poor |
| | Import liberalisation | Anomalies persist in the import regime | Manufacturers adopt a satisfying approach |
| | | Little percolation of value addition to the village level making the collection and slaying activities uneconomic | |

take small-scale production for export. However, the entry of these new exporters has had a negative effect on India's export markets as, for many of them, the main motivation is to garner the export incentives and build up capital in the shortest possible time rather than to establish a lasting reputation in the export market. Specifically, the problem arises from

(1) Poor perceptions of quality—as such persons, without adequate exposure to developed country markets or the tastes and preferences of high income consumers, are unable to appreciate fully the need to improve quality and finish beyond a certain level

(2) Excessive competition—resulting in mutual price cutting (mostly amongst exporters based around Madras), and consequent compromises on quality features in order to ensure the highest possible return in the shortest possible time. The underlying economic insecurity of the average exporter is largely responsible for this

(3) Lack of interest in improving value addition in Indian leather product exports—as the system of low investment on high turnover (albeit at low margins) enables the exporter to operate at low risk and even more importantly, produce without any real knowledge of the market. The manufacturer remains a jobber receiving designs, components and, even production supervision from the foreign buyer

Such exporters are essentially economic agents rather than entrepreneurs with a long term perspective

To the extent that the better established exporters have tried to increase value addition by undertaking integrated production of final consumer or high quality intermediate products as well as by undertaking independent marketing (even in a few cases

to the extent of attempting to establish their own brand names) their efforts have been hampered by,

(1) the poor image of Indian products in the world market (to the extent that some importers in consuming countries are loath to reveal that their products are manufactured largely in India),

(2) the high level of investment in publicity and retailer support required to establish a brand name in a major market, and,

(3) the anomalous import regime which enables duty free imports of high quality finished leather for fulfilling export orders but imposes high import duties (in the 200 to 250 per cent range) on such items as chemicals, adhesives and polish required to obtain durability and sophisticated finishes as well as high duties on components (100 per cent) and synthetic soles (40 per cent)

Thus on the one hand, the discouraging returns to additional domestic processing have acted as a disincentive to established exporters undertaking substantial investments in brand promotion and domestic component production and on the other small manufacturer exporters with one wary eye on their past existence on the margins of economic respectability have shown scant respect for quality reputation or long term prospects in their attempts to earn a secure surplus in a relatively short period of time. It is only a few long established manufacturers in the industry (and a handful of new entrants with large amounts of capital) who are investing in new machinery and the creation of brand images in order to improve value addition despite the crippling effect of the industry's reputation and the apparently random obstacles still imposed by *ad hoc* deregulation

The case of footwear production provides numerous examples of such obstacles. Pro-

duction of footwear globally flourishes at the small-scale level, in India, however, the growth of the small-scale footwear manufacturing sector is seriously hampered by the lack of co-ordinated government policy:

(1) Imposition of excise duty on units with annual production value in excess of Rs 2 million is considered to be the key bottleneck. In a small mechanised unit, this turnover level is attained by production of 80 pairs a day (at the rate of an average price of say Rs 100 per pair for 250 working days). But no standard machine used for footwear manufacture has a capacity of less than 800 pairs a day. In effect, a mechanised unit is subjected to excise duty if it achieves more than 10 per cent capacity utilisation. The rigours of maintaining detailed records and appeasing excise inspectors further compound the problem. The measure is an important factor inhibiting mechanisation

(2) Exemption from excise duty is not permissible even to small units manufacturing a branded product. For instance, if a unit is producing footwear for Bata India, the former is not entitled to excise duty benefits.

(3) A seemingly irrational discrimination between production of footwear components and full shoes has retarded the growth of the footwear segment of the industry. Manufacture up to the shoe upper stage is not subject to excise duty but the moment a sole is attached to the upper, the unit invites a series of restrictions. This has prevented forward integration of the units. Knowledgeable sources within the industry feel that such a restriction has been of direct benefit to the declining leather industry in the developed countries which still retain a stranglehold over design, assembly and marketing of closed footwear

(4) The small manufacturer faces formidable, complex and unmanageable array of licences such as additional, advance, actual user, replenishment, special, etc. For instance, shoe laces and packing materials are only obtainable through a replenishment licence, trims and embellishments through an additional licence and activators and adhesives through a cumbersome procedure of special licence

(5) The licensing policy has not been in accordance with the requirements of the industry. Presently, footwear manufacture is reserved for the small scale, large units are permitted only under an export obligation. However, this has resulted in unnecessary fragmentation and multiplication of units which would run more efficiently if integrated

(6) A glaring anomaly in the import regime is that while most of the machines can be imported under CGL on easy terms, import of spare parts invites an exorbitant duty, sometimes even as high as 175 per cent. This has had two important implications. One, since the indigenous machine manufacturers could not compete with the imported machinery, India was unable to develop and strengthen its domestic machinery manufacturing capability. Two, the machines remain-

APPENDIX TABLE: INDIA'S EXPORT OF LEATHER AND LEATHER PRODUCTS
(Rs million)

| Year | Raw Hides and Skins | Semi-Finished Leather | Finished Leather | Leather Footwear | Footwear Components | Leather Car Trunks | Leather Goods | Total |
|----------|---------------------|-----------------------|------------------|------------------|---------------------|--------------------|---------------|----------|
| 1972-73 | | 1525.69 | 171.84 | 96.83 | 4.85 | 1.17 | 39.61 | 1839.99 |
| 1973-74 | | 1476.48 | 166.33 | 104.19 | 8.05 | 3.07 | 48.67 | 1808.79 |
| 1974-75 | 4.23 | 1016.11 | 305.63 | 160.29 | 12.89 | 8.84 | 71.26 | 1575.02 |
| 1975-76 | 1.81 | 1343.53 | 548.30 | 191.82 | 9.46 | 8.36 | 95.27 | 2196.74 |
| 1976-77 | 7.90 | 1373.56 | 1052.24 | 257.49 | 60.61 | 30.51 | 122.27 | 2896.68 |
| 1977-78 | 5.53 | 1065.23 | 1076.85 | 193.56 | 150.94 | 24.95 | 182.43 | 2693.96 |
| 1978-79 | 5.95 | 1105.39 | 1920.17 | 229.29 | 178.34 | 58.16 | 258.03 | 3749.38 |
| 1979-80 | 5.93 | 1057.00 | 3210.94 | 294.20 | 373.69 | 59.38 | 373.68 | 5368.95 |
| 1980-81 | 6.86 | 503.34 | 2267.88 | 337.52 | 450.68 | 51.70 | 386.37 | 3997.49 |
| 1981-82 | 4.37 | 532.41 | 2263.97 | 300.51 | 772.16 | 72.91 | 407.07 | 4349.03 |
| 1982-83 | | 544.16 | 1999.04 | 195.84 | 793.05 | 74.32 | 187.47 | 3993.88 |
| 1983-84 | | 533.38 | 1955.83 | 234.84 | 1135.64 | 67.53 | 433.26 | 4360.48 |
| 1984-85 | | 491.56 | 3085.28 | 267.73 | 1327.85 | 94.60 | 570.55 | 5837.57 |
| 1985-86 | | 490.72 | 2881.95 | 330.31 | 1903.52 | 167.22 | 851.42 | 6625.14 |
| 1986-87 | | 525.00 | 4008.94 | 803.83 | 2406.92 | 622.67 | 490.40 | 9307.76 |
| 1987-88 | | 725.89 | 4859.69 | 1280.32 | 3238.34 | 1057.21 | 1287.15 | 12448.60 |
| 1988-89 | | 449.96 | 6498.77 | 1701.74 | 4256.25 | 1661.53 | 1915.60 | 16083.85 |
| 1989-90 | | 210.65 | 6935.27 | 1714.32 | 5182.54 | 3328.82 | 2928.75 | 20300.35 |
| 1990-91* | | | 6000.00 | 3000.00 | 6500.00 | 5500.00 | 5000.00 | 26000.00 |

Note: * Estimated

Source: Council for Leather Exports (CLE), Madras

ed largely underutilised on account of difficulty in getting spare parts. Thus, while the organised sector acquired only an aura of mechanisation the foreign machine manufacturers reaped a rich harvest from the government's flawed policy.

(7) Value and percentage restrictions limiting the REP rates to export value prevented rapid growth of footwear and leather garment exports which require many more accessories than those listed. In the case of leather goods, half their value is determined by accessories. The value of these embellishments and trimmings is calculated including the air freight which limits the scope of imports. For example, import of zip and snap fasteners was, till recently⁶ limited to 2.5 per cent of the value of the licence and up to a maximum of Rs 50,000. But long zips are essential for boots and value restrictions and upper limits on imports only affected their liberal use in footwear.

The policy of granting liberal export incentives in an attempt to increase exports in the short term has tended to camouflage these systemic weaknesses in the promotional regime. There has been little emphasis on increasing domestic production of machinery and components required by the industry. India's production base has not expanded in proportion to its requirements and the bulk of the components have to be imported.

The net effect of this un-coordinated system has been to promote exports in the short term at the expense of establishing a long-term production base for the industry through the development of a strong production, capital goods and input supply infrastructure as well as design capabilities. Viewed in conjunction with the perception that the benefits of improved value addition have not percolated to the village level tanning and collection system, it is apparent that the opportunity of steady, long-term growth is being sacrificed in the frenzied pursuit of immediate foreign exchange earnings.

Appendix

Industrial change in India has been influenced strongly by government policy. The present process of deregulation and liberalisation in the leather industry is aimed at making leather manufactures globally competitive. The underlying objective is to incorporate the latest technological developments and respond to world market demand without sacrificing the twin aims of growth and self-reliance.

From the early 1970s, value addition to leather products before export has been the major objective. The Seetharamiah Committee, constituted in 1972, took advantage of global changes to make comprehensive recommendations for the future development of the leather and leather product industry. It recommended a ban on the export of raw hides and skins; quota restrictions on the export of semi-finished leather; a simultaneous increase in finished leather making capacity, and signi-

ficant incentives for increasing finished leather exports.

While the recommendations of the committee were implemented virtually completely, they did not always have the desired impact.

The next impetus in strengthening the industry's production base was provided by the Kaul Committee (1979). It realised that the country's vast raw material stock was insufficient by itself to promote manufacture of value added products. The committee recommended liberal capital goods imports to increase cost and quality competitiveness of Indian leather manufactures in the international market. Its most serious drawback, however, was the implicit assumption that the purchase of machinery *per se* would result in the mechanisation of the industry. On the contrary, freer import of machinery resulted in unutilised capacity and wastage.

The Pande Committee, constituted in 1985, made an integrated review of the industry and recommended a three-pronged approach for accelerating the pace of change and increasing the competitiveness of Indian leather products:

- (i) increase raw material availability;
- (ii) upgrade skills and modernise technology, and
- (iii) make footwear the most important single item of export.

The committee recognised the enormous potential of footwear production and suggested measures for the development of the industry.

The evolving regulatory framework has facilitated the transformation of a slow growing industry into a relatively fast growing export-oriented sector. The measures undertaken in recent years include, (i) liberalisation of capital goods imports and reduction of import duty; (ii) liberalisation of the industrial licensing policy to facilitate the entry of large industry; (iii) simplification of procedures for the import of components; (iv) rationalisation of export incentives, and (v) ensuring adequate capital flows to enable modernisation and skill upgradation.

Notes

[This paper forms part of Saurabh, Sinha and Sanjay Sinha: *The Challenge of Modernisation: Deregulation and Recent Developments in the Indian Leather Industry*, Oxford and IBH, New Delhi (forthcoming). The latter is based on a study undertaken by Economic Development Associates, at the request of the New Delhi office of the World Bank. Responsibility of the contents is entirely that of the authors.]

- 1 *Report of the Working Group on Leather and Leather Goods Industries for the Eighth Five-Year Plan—1990-95*, ministry of industry (department of industrial development), government of India, New Delhi, mimeo.
- 2 Ideally, this analysis should be undertaken using a composite exchange rate index for all the major trading partners of the Indian leather industry. Such an analysis was undertaken in Sinha, Sanjay, 1982, 'India and the International Trade in Handknotted Carpets', *Economic and Political Weekly*, Volume XVII, No 48. Constraints of time and adequate data availability preclude such a detailed analysis here.
- 3 As consistent information on quantum of exports is not available, the use of constant rupees worth of exports here is a proxy for constant quantity. This is based on the assumption that if five square feet of leather cost Rs 100 in 1980-81 it would still cost Rs 100 in 1988-89. A more sophisticated analysis which would take account of changes in relative value was not possible in the course of this study.
- 4 Sahasranaman, A, 1989, 'Marketing of Readymades in the World Market in 1990s—Challenges before the Leather Industry', mimeo.
- 5 This applies particularly to the development of the trade in shoe uppers, garments and other leather goods in recent years.
- 6 The 1990 import export policy has removed some of these stifling restrictions but it will take a few years for the full benefit of the change to be realised.

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Benefit-Cost of Tehri Dam Project

A Review Analysis

B D Dhawan

The time has come to view power as an input with wider ramifications in the economy at large, and thus appraise power projects on the basis of marginal value product of power. In other words, such projects need be appraised within the framework of economic benefit-cost analysis similar to that used in the case of major irrigation projects as may be well-illustrated in the case of the Tehri project

THE Tehri dam project was conceived in 1949, and detailed investigations were carried out in 1963. As the parameters of the project have undergone change, we must be clear about the version being reviewed here.¹ It is the one evaluated by INTACH and authored by Vijay Paranjpye, an economist better known in environmental activist circles as well as to the print media. The focus of the review is on the sub title of the INTACH study *Evaluating the Tehri Dam: An Extended Cost Benefit Appraisal* as finally published in 1989. The review takes note of only one serious review of this study by Kanchan Chopra, my colleague, which she prepared for the dam book edited by me [Dhawan 1990].

RESUME OF PROJECT COST AND RETURNS

As per the project planners' report, the Tehri project is a Rs 1475 crore investment proposal. From its Stage I installed generating capacity of 1000 MW (1000 MW more to be added in Stage II) about 3000 million kWh of hydel power would be available per year, much of it to cater to the peak load demand in UP. The annual working expenses are placed at about Rs 25 crore. Besides hydel power, the project would improve on farm income on about 0.6 million ha of area already irrigated by the Ganga canal system, as also bring 0.27 million ha additional area under irrigation in the same canal system. The important point to note here is that newly irrigated area is mostly rabi area when arable land is likely to remain fallow in the absence of irrigation in the semi arid plains of western UP.

The project report expects a net revenue of about Rs 124 crore per annum from the sale of power. While this constitutes 11.59 per cent on the capital share of the power segment of the project, an important point to note is that it accrues to the state department under whose aegis the project comes up. A BC ratio of 3.49 for the irrigation segment is mentioned. The value of increased farmers' income from

the Tehri waters is placed at Rs 158 crore or thereabouts, accruing wholly to farmers and not to the project authority. No wonder then these two components of benefits from the project, lacking additivity as they do, are not combined into a single measure in the project report.

In short, the project meets the central planners' rate of return criterion for power projects (above 10 per cent) as well as the benefit cost ratio criterion for major irrigation projects (above 1.50).

Paranjpye utilises pertinent and not so pertinent arguments as well as data base, questions the aforesaid estimates of costs, returns, benefit cost ratios, etc. He basically raises the capital costs of the project on the one hand and drastically lowers the benefits from irrigation on the other. As a result, the viability of the project vanishes on both counts: the rate of return on capital in the case of the power segment gets diminished to about 6.89 per cent, and the BC ratio for irrigation segment comes down to 1.28. In fact, he combines the two disparate components of returns from the Tehri project into one and concludes that the BC ratio for the whole project is only 0.56. (He claims on p.133 that a BC ratio of about 4.8 is mentioned for the project in an affidavit by the state of UP in the Supreme Court.)

More specifically, his major revised estimates are as follows. First he finds that the investment cost of the project is about Rs 1740 crore, about 18 per cent above the project estimate. Truly damaging to the Tehri project planners' case is his attempt to assess the net cost on investments during the 15 year gestation period (reckoned at 12 per cent per annum on a compounding basis). As he capitalises these interest charges, the capital cost of the project shoots up to nearly Rs 3023 crore (four fifths more than Rs 1740 crore investment outlay).

On the benefit side, he leaves intact gross revenue figure from sale of power but enhances the working expenses. Thus

the net revenue from power diminishes marginally (by 2 per cent only). However, he brings down the benefits from irrigation to Rs 65 crore, a reduction of the order of Rs 93 crore.

Kanchan Chopra while leaving untouched Paranjpye's estimate of income benefits from irrigation, concentrated *inter alia* on his estimate of benefits from hydel power. Throwing overboard his arguments, which are very weak indeed, she proceeds to revalue hydel power at 82 instead of 48 paise per kWh. This higher price is the resources cost of generating thermal power in UP, an alternative to hydel power development in the state. But departing from Paranjpye's rather traditional or a bit outdated procedure of computing undiscounted benefit cost ratio, she does a standard BC analysis in which a discounted BC ratio as well as an estimate of internal rate of return (IRR) is obtained. In her words, "we did our own calculations using UNIDO methodology and social prices obtained by giving distribution weights to different commodities and to different category of consumers".² [Chopra 1990, p.189]. So, her BC ratio comes to 0.87⁴ but with an IRR of 10.38 per cent and Paranjpye's conclusion of unviability of the project remains undisturbed.

A CRITIQUE

Professionally, I have been time and again raising the unconventional viewpoint that benefit cost analysis is essentially speculative in character, notwithstanding the valiant efforts of economic theories to minimise the speculative element. The room for speculation rises manifold when an evaluator or BC analyst is motivated one way or the other. While project promoters are known to oversell a project by underplaying project costs and overplaying its benefit side, economists tend to be conservative in this area, that is, they tend to overdo on the cost side and underplay the benefits. If Tehri dam project promoters can be charged with selling an unviable project to the centre, Paranjpye cannot escape a like charge in the reverse that is killing probably a viable project as shown below. My critique centres round (a) a close look at the on farm benefits of irrigation, (b) methodology of BC analysis, and (c) the problem of valuation of benefits from hydel power. I shall begin with point (c) first.

Paranjpye has goofed up in utilising the economic theory of pricing on the one hand and showing little understanding of the demand for electricity in the economy of Uttar Pradesh on the other. While under monopoly conditions a firm can overprice its product, over and above its

resource cost, a public utility is prevented from doing so. This is true the world over. Underpricing of power and irrigation in India is well recognised, and the State Electricity Board of Uttar Pradesh is no exception in this matter. In fact, Paranjpye's own calculation for Tehri power is that it would cost 73 paise per KWh in generation alone (p 65, item 6 in the tabular data) whereas it would be sold only at 48 paise per KWh. How then can he make the following preposterous statement: "Since the government is in the position of a monopoly producer, it has been passing on the higher costs of generation to the consumer, unilaterally raising prices" (p 63, 3rd para).

As regards his understanding of the power position in UP, the less said the better. Blithely forgetting the distinction between 'demand for a good' and 'actual consumption of that good' (the latter is less than the former in a regime of scarcity), he unwarrantedly makes the following observations:

We also feel that the energy forecasts provided by the authorities to justify the need for building a peak station are overestimates. For instance, in 1983-84 9.642 million units of energy were consumed in UP when the actual production was 11.6832 million units. But in 1985-86 the authorities expect that the demand will be 21.369 million units. These estimates further assume that demand for energy will grow at a rate of 9 per cent per annum whereas the demand has grown only at 4.8 per cent per annum between 1973-74 and 1983-84 (emphasis added, p 64).

When power is in short supply (and when it is underpriced also), the hiatus between actual consumption and demand is bound to be wide. Therefore, the rate of growth of actual consumption of power is no measure of likely rate of growth in demand for power. Knowing as I do know how power shortages have been hampering tubewell irrigation both within private and public aegis in UP, I am really astounded by Paranjpye's perceptions on power needs. There has been a veritable explosion in tubewell irrigation in the state: the number of shallow private tubewells rose from 3,000 in 1950-51 to 3,53,000 in 1973-74, 15,86,000 in 1984-85, and nearly 24,00,000 in 1989-90. It is because of power shortage that farmers had to opt for diesel pumpsets, whose number in 1989-90 was nearly 19,00,000 as compared to only about 600 electric pumpsets.

Even so, the consumption of power in state's agriculture sector in 1986-87 stood at 99.75 GWH (average price realised - 27 paise/KWh), constituting 37 per cent of the total state consumption of power⁵. The power shortages however, prevented electric tubewell owners from undertaking the needed irrigation⁶. For example, a survey of 230 electric tubewells in 1983-84 showed that their owners could not irrigate their main crops of wheat, sugar

cane and paddy up to the levels recommended by farm scientists (see the table for details).

As regards Chopra's valuation of hydro power at the resource cost of thermal power, it makes sense in the context of cost effectiveness, that is, while making a choice among techniques of production with the tacit assumption that product remains the same (or exact substitute) in each technique. That is not so in the present case as hydel power stations (backed with storage reservoirs) are well suited to meeting peak power loads in power system. For this reason, such flexible power needs to be given a higher price tag than thermal power where the average (unit) cost of power generation becomes lower only because of high rate of capacity utilisation (i.e., 'plant factor') due to the use of thermal stations for meeting the base load of a power system.

The time has come to evaluate power projects with fuller economic cost-benefit criteria. Such a change in criteria from rate of return criterion to cost-benefit criterion has already taken place in the case of irrigation projects after independence. This transition was commended by the veteran economist D.R. Gadgil, a pioneer in evaluating major irrigation works in India. In fact, this approach is relevant for all public investment proposals where benefits to the economy at large far exceed the departmental net returns on such investment. I think that electric power is in that class. As an infrastructural service par excellence, projects providing power need to be appraised by pricing power at its marginal value product in the economy. This value today in UP is far more than 82 paise/KWh.

My second major comment pertains to Paranjpye's remeasurement of irrigation benefits, an area of central concern in my research work of nearly last two decades. Since I have been writing for long that such benefits have been underassessed in the Indian benefit-cost exercises, I am therefore, impelled to look closely (and harshly) at his substantial downward revision of the Tehri project planners' estimate in this regard. I find that instead of revising the benefits downwards, he ought to have enhanced them upwards. I do not wish to bore readers with the tedious

calculus in this regard. Here, I present the thrust of my two-fold argument. The first is about the direct output impact of any source of irrigation. In working out this impact (and the resultant income and employment effects), a simple differencing of irrigated and unirrigated yield data would understate the output augmenting role of irrigation [Dhawan 1988, chapter 3]. To avoid this underassessment, I have suggested one summary procedure and one season-by-season measurement. In the latter procedure, one computes the output augmentation separately for each crop season (kharif crops, rabi crops and summer crops) and then add them up. In the summary procedure, one uses the seasonal orientation of an irrigation source to measure the excess of aggregate irrigated yield over aggregate rainfed (unirrigated) yield. If 'K' stands for the proportion of crop area under kharif irrigation, the yield impact (from the viewpoint of output augmentation) $Y_i - K Y_u$, where Y_i and Y_u stand for aggregate irrigated and unirrigated yield, respectively 'K' for the 0.27 million ha additional irrigated area for Tehri dam project is nearer zero (0.08 to be precise) because only 0.021 million ha out of total 0.27 million ha of additional irrigation is from kharif sugarcane. Thus the Tehri project planners are justified in assuming that the entire additional net output/income from 0.27 million ha area (placed at Rs 64 crore *vide* statements 1 and 2 of Table IV on p 83) is additional benefit from the project. Therefore, Paranjpye's contention that it should be reduced by the estimated value of about Rs 44 crore (*vide* calculus shown on p 78) presently realised from 0.27 million ha is invalid⁷. With this modification alone, the irrigation benefits as estimated by Paranjpye would move back to about Rs 109 crore.

The second aspect of my argument pertains to indirect output impact of canal waters through substantial increase in groundwater recharge that sustains more of groundwater-based agriculture in low rainfall regions having naturally poor groundwater availability. As this indirect output impact can be as much as the direct output impact [Dhawan 1989, chapters 6, 7 and 9], the true on-farm income benefits can be twice as much as the

TABLE CROPSWISE AND REGIONWISE NUMBER OF WATERINGS BY PRIVATE TUBEWELL OWNERS IN UP, 1982-83

| S. Crop No. | Recommended No. of Waterings | Actual No. of Waterings | | |
|------------------|------------------------------|-------------------------|---------|------------|
| | | West UP | East UP | Central UP |
| 1. Wheat | 5 | 1.66 | 3.27 | 3.47 |
| 2. Paddy | 5 | 3.00 | 2.64 | 2.54 |
| 3. Sugarcane | 7 | 4.62 | 3.53 | 3.96 |
| 4. Maize | 3 | 1.77 | 1.33 | 1.25 |
| 5. Others | 1.25 | 1.25 | 1.10 | 1.20 |
| Weighted average | — | 2.93 | 2.76 | 2.64 |

Source: Dhawan [1989, p 54]

direct ones. Since the western UP area to be served by the Tehri project is a low rainfall area with poor groundwater recharge from rainfall infiltration, it would be defensible to raise *ceteris paribus* the on-farm income benefits of the project to a level of about Rs 200 crore (Rs 43 crore above the level estimated in the project report, and Rs 136 crore above the level measured by Paranjpye).

Finally, I would like to comment on the improved methodology employed by Paranjpye. One cannot fault him with his attempt to reckon with interest charges of the project gestation period. Despite his use of annuity approach to annualise capital costs, he remains within the traditional domain of undiscounted BC analysis. A major lament of the Indian economists (since the publication of the Indian Irrigation Commission's report in 1972) against the government BC analysis has been its undiscounted nature, whereby the stream of future incomes after project completion and the stream of incurred costs of the project gestation period are not brought to comparable present values or worth. In an undiscounted analysis, the annual value of the incomes from a project is simply divided by annual costs (one-shot capital outlay is annualised by applying an interest rate plus a depreciation rate, and this 'fixed cost' is then added to working/recurring expenses per annum), so as to obtain a BC ratio which is then adjudged against a cut off value (e.g. 1.5 is now the cut-off value for major and medium irrigation projects in India). Had discounting been done and the present value of income benefits divided by the present value of project costs, the BC ratio so obtained would be adjudged or appraised against unity. Thus, it is clear that an undiscounted BC ratio, when appraised against a value set above one (e.g. 1.5 for major irrigation projects), is not all that improper. The procedure implicitly recognises (a) the quick and easy manner in which undiscounted *vis-a-vis* discounted BC ratio is worked out, and (b) the time lag between the two streams of costs and benefits.⁹ Now that computer facilities are available rather readily and pervasively, prudence should prevail over pragmatism, that is to say, discounted BC ratio be computed—this obviates the need for any cut-off norms against which BC ratio is to be appraised.

SUMMARY

INTACH evaluation report by Vijay Paranjpye is rather faulty. He comes out with an (undiscounted) BC ratio of only 0.56, indicating negative returns from the investment in the Tehri dam project. His separate evaluation for the power and irrigation components reveals (a) a rate of return (RR) of 6.89 per cent on investment in power segment as against 11.59 per cent anticipated in the Tehri project report, and (b) a BC ratio of 1.28 as against the anti-

ipated value of 3.49 (revised to 4.8 in an affidavit filed in the Supreme Court). Evidently, both the BC ratio and the RR are below the planners' criteria for major irrigation works (undiscounted BC ratio of at least 1.5) and power projects (RR of at least 10 per cent) in the case of Paranjpye evaluation.

Kanchan Chopra's reassessment of the value of power benefits from the project at 82 instead of 48 paise/KWh gives a discounted BC ratio of 0.87, with internal rate of return (IRR) of the order of 10 per cent. She uses the improved UNIDO methodology, wherein due distributional weights are assigned to different beneficiaries of a project. She has, however, undervalued hydel power by valuing it at the resource cost of thermal generation.

Time has come to view power as an input with wider ramifications in the economy at large and thus appraise power projects on the basis of marginal value product of power. In other words, such projects need be appraised within the framework of economic benefit-cost analysis similar to that used in the case of major irrigation projects.

Irrigation benefits from Tehri project, according to this author, have been unwarrantedly scaled down by Paranjpye in his cumbersome exercise in re-evaluation. These are, in fact, not fully measured even in the Tehri dam report. A common error in cost benefit analysis in India has been to ignore tremendous increase in groundwater-based farm output due to seeped-in canal waters in low rainfall tracts.

The doubt cast on the economic viability of the Tehri project by Paranjpye is not well founded in facts. How far rise in project costs—because of modifications in the dam structure so as to insulate effectively the dam against seismic hazard—might make the project uneconomic is still unexplored. If such insulation cannot be achieved, the project becomes unviable, technically and not economically.

Notes

[Based on paper presented for the Seminar on Social Cost Benefit of Hydro Electric Projects in Hills, held during May 7 to 9 1991 under HIPA auspices at Shimla.]

1 At the very outset two things need to be stated. First, the case chosen here is a multipurpose project, yielding benefits both in the shape of hydel power and irrigation. Yet, it is widely viewed as a hydel project because it is primarily conceived as a power augmenting scheme (an analogy in the reverse is the multipurpose Bhakra Nangal project planned primarily for irrigation augmentation). Second, it is not my objective to pass here any final verdict on this highly controversial big dam project. That verdict cannot rest solely on benefit-cost ratio of the project, however sophisticated may be the BC analysis. On the one hand, the seismic hazard posed by this project needs fuller investigation by technical experts. If either by thickening the base width of the dam (as per the Russian advice), or

by lowering the height of the dam, the seismic hazard could be brought within acceptable limits, the benefit-cost ratio has to be reworked with enhanced costs/reduced benefits.

- 2 This percentage is thrice mentioned on pages 42, 65 and 137. Yet, something is amiss with it, because the underlying exercise data on p 65 would suggest a rate of 9.59 per cent (Rs 12,121.81 lakh as per cent of Rs 1,26,431.34 lakh).
- 3 Power is given a weight of 1.2 as it is in short supply in the economy. Further, consumers of power are given a weight of 0.8 and of irrigation water a weight of 1.2.
- 4 If we were to work this ratio by the methodology of Paranjpye (without distributional weights), the BC ratio would be 0.83 when power is priced at 82 paise/KWh.
- 5 Power consumers in other sectors of the economy know too well how power needs of agriculture sector come to acquire priority at sowing and maturing stages of crops, thereby leading to a spillover effect of power shortages in agriculture.
- 6 In a flat, horse power-linked tariff, tubewell owners are expected to cross the level of recommended waterings for crops like sugarcane and paddy.
- 7 Here I am reminded of K N Raj (of Delhi School of Economics and associated with the formulation of the First Five-Year Plan) questioning the investment in Bhakra Nangal as he could not foresee the value of its huge power output for the economy of Punjab—the state has been experiencing power shortages since the green revolution.
- 8 Paranjpye does not realise that his method of estimating this number is grossly in error. He has assumed it to be 44.7 per cent of Rs 9829.28, the estimated value of net income from 6.04 lakh ha of already irrigated land. And 2.7 lakh ha is exactly 44.7 per cent of 6.04 lakh ha. By this method, he is assuming that each unirrigated ha gives an income of Rs 1,627, which is too high (for an irrigated ha his figure averages only Rs 2,387).
- 9 A measure similar to simple RR (rate of return) on investment in an industry is the IRR which duly takes care of this time lag. A simple RR is net revenue as a per cent of capital outlay or investment. Net revenue is the excess of annual gross revenue over annual working costs plus depreciation charge. It can be shown that larger the time lag, the higher is RR over IRR [Dhawan, 1982].

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State and Industry

Suma S Athreye

The Political Economy of Indian Sugar: State Intervention and Structural Change by Sanjaya Baru, Oxford University Press, Delhi, 1990, pp 225, Rs 175.

DETAILED industry studies, examining aspects of policy and the pattern of growth, are always of interest to researchers and students. This is because such studies demonstrate the significance of industry specific factors, and the often complex interaction between these and elements of policy. The pattern and problems of growth can then be seen as a fall-out of this interaction. Sanjaya Baru's book is a valuable study for this reason. Its attempt is 'to examine the contemporary economic and technical problems facing the [sugar] industry, in the context of its history and the extant social and political milieu in which such problems have to be resolved'.

The first three chapters of the book therefore, are concerned with tracing aspects of the evolution of the sugar industry in the colonial period. Following the imposition of prohibitive tariffs in 1932 ostensibly to "promote the cultivators of sugarcane" the growth of the sugar (milling) industry was slow. The poor quality of sugarcane, irregularity of cane supply and the poor recovery of sugar from cane (both due to poor machinery and quality of cane) were the main obstructing factors. State policy towards the industry had two main elements viz, the imposition of import duties on foreign sugar and minimum pricing policies for the benefit of the growers of sugarcane. Improvement of cane varieties through the ICAR was also attempted.

The initial growth of the industry was concentrated regionally in the areas of Uttar Pradesh and Bihar. The interests of these firms were represented in the Indian Sugar Mills Association (ISMA). The spread of irrigation, encouraged the emergence of lower cost sugar mills in the Deccan. The interests of the 'older' Uttar Pradesh and Bihar firms were severely threatened by the manufacturers from the Deccan. Alarmed by this and by falling sugar prices, members of ISMA sought to stabilise prices and protect market shares through the formations of a cartel. The Indian Sugar Syndicate was formed in 1937 and recognised by the government. This policy of freezing market shares was of course opposed by the more competitive mills of the south. The rapid escalation of sugar prices and the presence of firms who could under-cut prices outside the cartel ultimately led to the disbanding of the Syndicate.

Another arena of growing conflict that was between the miller and the grower. As peasants started becoming more vocal and unrests acquired political backing some concessions had to be made, and minimum prices for sugarcane fixed with reference to recovery levels was one of them. Conflict between grower and miller interests were more a feature of the northern mills who encountered a given production structure of sugarcane unlike that of mills in the Deccan. Large mills in the Deccan had their own sugarcane farms and later with the growth of co-operatives the distinction between miller and grower collapsed completely.

The rest of the book chapters IV to IX looks at the policies toward the sugar industry in the post independence period and the associated structural changes in the industry. The main elements of state policy toward the industry were:

- (i) conscious encouragement of cheaper mills in the Deccan in the co-operative sector through licensing policy
- (ii) modernisation and rehabilitation of the existing private sector
- (iii) creation of procurement zones to insure regular cane supply for millers combined with a minimum price assured to growers of sugarcane and
- (iv) price and distribution controls over sugar.

There were elements of chance and continuity. Further expansion of the industry was decided in favour of the co-operatives in the Deccan. The rich farmer interests that ultimately dominated co-operatives found political power and patronage by their support of the national movement. Greater attention was paid to cane grower farmer interests. Undoubtedly they were the consequence of a changed political milieu. The syndicate of 1937 was replaced by government controls over price and distribution of sugar. The older inefficient firms were protected and forced to modernise.

The impact of this had been to bring about some structural changes in the industry. Principally Baru isolates three structural changes:

- (i) a change in the location from Uttar Pradesh, Bihar to the Deccan states of Maharashtra, Andhra Pradesh and Karnataka,
- (ii) a change in the pattern of ownership

with co-operatives becoming more important, and

- (iii) an increase in the number of large mills and a decline in the numbers of smaller mills.

While (i) and (ii) may be understood as a direct consequence of state policy, the third change is not so easily understood. This forms the point of departure for an extremely interesting discussion on scale, profitability and diversification in chapter V. Though an inverse relation between size and unit cost is evidenced by cross sectional data, the largest number of mills is in the middle and not the large capacity category. The reason why potential economies of scale are not actually reaped by most firms in the industry is overcrowding (due to the absence of barriers to entry) which tends to increase the duration gap between cane supply and processing. The larger the duration gap, the greater the drudge of cane, the lower the recovery percentage and the higher the actual unit costs.

Location also appears to be important in explaining costs. Even large scale mills have high costs in Uttar Pradesh and Bihar. This is because mills in these regions face a cane supply environment which is pre-determined in terms of quality and structure. This is unlike the co-operatives in Maharashtra, where sugarcane farms are set up to supply cane to the mills.

Because an upper limit to profitability ultimately gets determined by cane supply conditions and price controls effectively restrict the firms' ability to prevent an erosion of their profitability. Diversification is common to all the firms in the industry. The compulsion to diversify for firms from Uttar Pradesh and Bihar came from the direct threat to them from the cheaper Deccan manufacturers. Here the discussion of diversification on the part of the newer firms from Maharashtra, Karnataka and Andhra Pradesh is somewhat brief and summary and leaves the reader with a sense of wanting more.

The discussion on co-operatives and private mills is interesting and informative. Mills in Uttar Pradesh and Bihar are largely private sector mills and the Deccan states of Maharashtra, Andhra Pradesh and Karnataka have several successful co-operatives. However, in these Deccan states there are also a sizeable number of private sector mills. Is there any difference in the performance of private sector mills in these regions? Why/why not? A major factor in the success of co-operatives has been the absence of the uncertainties that the miller-grower disjunction poses. But this is not necessarily true for all the private mills in these Deccan states. Further, some data

which compares the performance of private and co-operative sector in the major sugar producing states revealed better capacity utilisation by the private sector in Andhra Pradesh, Tamil Nadu and Uttar Pradesh. However, in Karnataka and Maharashtra the co-operatives showed better capacity utilisation*. Pursuit of some of these questions may yield useful insights.

Only one aspect of technical change in this industry, viz, the growth of efficient large-scale plants and modernisation of plant and machinery is discussed. The compulsion to modernisation and therefore technological change came about as a consequence of state intervention rather than in the absence of it. But the discussion on economies of scale suggests several interesting questions for technological change in the industry. Given that economies of scale are not always actually realised, is there a tendency or attempt to de-scale technology in sugar machinery? With price controls profitability may increase with better recovery. How has the industry responded to this? Perhaps all this is not really within the focus of the study, viz state intervention and structural change. Nevertheless they are suggested by the preceding discussions.

Chapters VII and VIII focus specifically on pricing policies towards sugar and sugarcane. Prices of gur set the notional floor to sugarcane prices and those offered by the co-operative sector the ceiling. Private mills usually pay the statutory minimum price which lies between the two. The principal preoccupations of sugarcane pricing policy have been to maintain the balance between grower and miller interests and secondly to provide incentives for improvements in cane quality. The latter has been inadequately fulfilled.

In years of excess demand prices offered by the gur manufacturers for sugarcane go up and sugar millers are unable to attract cane supplies because of controls over sugar prices. Why control sugar price at all? Baru argues that the demand for sugar emanates principally from urban and semi-urban areas. In periods of excess demand for sugar (and therefore sugarcane), state intervention is necessitated by the demands of the consumer, in order to prevent prices from rising. In periods of excess supply to prevent a slump, producers of sugarcane and sugar demand state intervention. Full control of prices would necessitate buffer stocking and export operations of large magnitudes. A system of partial decontrol with a two-tier system of pricing (levy and free market) is therefore preferred.

The last chapter of the book is perhaps the most interesting, as it discusses the various hypotheses about output fluctua-

tions that are a characteristic of the sugar industry. These have often been accompanied by instability in the acreage under sugarcane. 'Cobweb' type explanations which try to relate acreage shifts to fluctuations in sugar and sugarcane prices and ultimately to sugar production have been offered earlier. Baru however modifies these earlier arguments to account for the limits imposed by and on state intervention. Both sugar and cane prices have a fixed and a flexible element. The fixed element is not sensitive to excess demand or supply conditions and while the spot flex price does adjust it may induce an output decision that may not be cleared in the market at the

future price level. This is the source of instability. Structural factors such as the downward rigidity of fix prices may transmit the wrong signals and precipitate crises. Though state intervention can avert such crises, there are limits to it and in any case market uncertainties cannot be completely eliminated. The historical and structural specificity of this explanation is stressed.

All in all, the book is well written and lucid. It is also a good example of the usefulness of the method of political economy in the study of industry and, unlike several other industry studies, it is almost never a boring collation of facts. Students of industry should find it extremely useful.

Prejudiced View of Fiji

Anirudha Gupta

Fiji. A Paradise in Peril by Pran Nath Seth, Sterling Publishers, New Delhi, 1991, pp 168, Rs 150

IN addition to being clannish, do Indians overseas exhibit a trait of ethnic superiority towards peoples of other races and cultures?

A difficult question. But Ahmed Ali, who served as a minister in Sir Ratu Mara's Alliance Party government, is unequivocal in his answer. He points out that the first Indians who arrived in Fiji as indentured labourers or 'mitiva' were extra careful in keeping their distance from the indigenous people. They referred to Fijians as cannibals or 'jungalees' (both derogatory terms) which in Ali's view reflected a typically arrogant attitude of one cultural group towards another based on ignorance and prejudice. Fijian responses were hostile. [Ahmed Ali 1986]

Pran Nath Seth, author of the book under review, has little patience with such lines of argument. In his opinion all of the 60,000 Indians who came to work on Fiji's sugar plantations were paragons of virtue. In three generations' runs his Preface, they changed the face of their adopted country from a community of tribes constantly fighting with each other to a land of plenty. These Indians 'created new wealth where none existed'. In short they saved the Fijians 'from extermination and exploitation by the European settlers' (p 20).

What about the Fijians? Compared to the Indians, why did they not do so well in their own country? Because, says Seth, they 'did not have the aptitude or perhaps the capacity for hard work' (p 127). They were originally—here the author quotes some early missionaries—"treacherous cannibals" who offered feasts of human flesh on every important religious and social occasions (he gives the recipe as well!), and when Fijian warriors returned from coastal raids, their war canoes had "children hung by their feet or hands from the sails as a symbol of victory over their enemies" (p 5).

Among these 'savages' Indians lived and by their 'hard work and dedication' produced new wealth where none existed. But they faced racial discrimination. First, the Fijians refused to part with their land which Indians cultivated on short leases. This was nothing very unique: the colonial administration in Kenya debarred Indian settlers from owning land. But Seth is inconsolable. Time and again he returns to the theme. More than 80 per cent of the sugar farming was in Indian hands but they had no right to own the land, 83 per cent of which was not alienable. They were given short leases of 10 years which kept them insecure (p 53).

The Indians were also politically discriminated but when they made good to form a coalition government with Timothy Bavadras' Labour Party, the army intervened and upset their gains. This, concludes Seth, is blatant racism. 'The present rulers of Fiji', he laments, 'want all key positions in Fiji including president, prime minister, home minister as well as army chief and the police chief to be exclusively earmarked for ethnic Fijians. In the Lower House, they want dominant majority (70 per cent) and in the Upper House complete control of the Fijians, reducing the status of Indians to second class citizens—a new type of apartheid—racial discrimination as bad as in South Africa' (Preface, p xi).

This makes up a formidable charge sheet, but Seth—a pity!—gets some of his facts wrong. First, the post-coup civilian government of Ratu Mara (as constituted on December 5, 1987) includes two Indian ministers, second, Indian judges, editors and professionals continue in their jobs as do the shopkeepers and farmers, third, no Indian can be army or police chief because Indians voluntarily refused to enlist in these services so that "Fijian youths had military role

* See M Y Khan, 'Physical Performance of the Sugar Industry', *RBI Occasional Papers*, 1988, Volume 9, Number 1.

models for their consideration whereas Indians did not", (Saffu 1990) and, last, the Fijian upper house has always been under complete control of the islands' paramount chiefs

The charge that Fiji is creating a new type of apartheid—"as bad as in South Africa"—is absurd because South Africa till date does not give franchise to black Africans whereas Indians can become ministers in Fiji

Seth's utterly prejudiced version of the Fijian paradise being in peril would not have occasioned further review but for the fact that it mirrors closely the official mind of India. Like him the Brahmins in New Delhi's South Block rushed to interpret the post coup events in Suva in purely racist terms viz, Indians versus Fijians. They raved about "institutionalised racial discrimination" without even once enquiring how Sitiveni Rabuka's coup affected different sections of the Fijians. Were all Fijians happy? Who gained, who lost? The government of India called for the restoration of the 1970 Constitution which in fact institutionalised racial franchise in Fiji. It contained, observes a scholar of Papua New Guinea, "undemocratic and illiberal provisions such as communal electoral rolls, unequal communal representation, entrenched chiefly dominated institutions and provisions protecting pre-democratic customs, customary rights and land" (Saffu 1990)

In 1970 Indians in Fiji opposed these provisions, in 1987 the government of India held them indispensable for the restoration of democracy. Must it learn nothing from history? But it fouled the present as well when in an inebriated pursuit of active diplomacy, special envoys of the prime minister flew to London, Canberra and Wellington to energise them into taking punitive action against Suva. For the first time, claims Seth, India stood solidly by an overseas Indian community without censure or apology. A new policy towards overseas Indians was born on account of the Fiji crisis' (p. 155)

But even Seth admits that, for all practical purposes, Fiji represents a colony of Australia and thrives on Australian and New Zealand imports. Besides these two countries, there are about 50 companies operating in Fiji which are registered in UK and seven other countries. Would they have paid any heed to India's plea? Even the Vancouver Summit of the Commonwealth (October 13-17, 1987) failed to buy the Indian version that Suva was practising racial discrimination. It agreed, however, to lapse Fiji's membership on the technical ground that as a republic it should reapply for membership.

The two coups of 1987 were not particularly aimed against the Indo-Fijians though Rabuka and the men behind him purposefully drew attention to the so-called 'Indian threat' in order partly to appeal to

Fijian ethnic sentiments and partly—or perhaps more importantly—to cover the real motives behind their action. Both aspects require some elaboration. It cannot be disputed that the predominance of Indians in Bavadra's cabinet (7/5) generated great uneasiness among the Fijians. Given the communal composition of franchise, this reaction was not unnatural. Besides, notes an anthropologist, Caroline Henning Brown, there existed a 'balance of power' philosophy in Fiji that the Indians run the economy and the Fijians run the government, and the possibility of an Indian dominated government has always carried with it the implication of destabilising this balance. The Fijians viewed this 'disbalance' with alarm. Their immediate fear was that an Indian led government would somehow manage to transfer their ancestral land to the Indian farmers, which is precisely what the National Federation Party (NFP) of well-to-do Indian farmers and businessmen had all along wanted. The defeated leaders of the Alliance Party and their new converts in the extremist 'louker' movement fully exploited the situation. Without the Alliance Party and the defeated leaders, Fijians will never lead the country again. A colourful politician, Apisai Iora, and an Australian employee of the Gold Mine Company, Jeffrey Reed, combined their money, in skill, with local effect and the villagers of Tavua were out on the road to protest against the formation of Indian government' (p. 75)

Yet it was not the Indian factor but the total collapse of Alliance politics which revolved on a nexus of Fijian aristocratic families, foreign companies and corrupt politicians that prompted Rabuka's coup.

A wrong civilian group had gained power. Its policies might hurt (would hurt) a Fijian as Rabuka was concerned) the aristocracy and the traditional power structure which Alliance Party rule had safeguarded. (Saffu 1990)

The loss of power to a 'wrong' civilian group threatened to ruin the leading aristocratic families of eastern Fiji. The extent of their sway over Fiji in politics can be gleaned from the following: the paramount chief of the Lau group of islands, Ratu Sir Kamisese Mara, was prime minister and leader of the ruling Alliance Party. The paramount chief of Rewa based confederacy is his wife. The former governor general and now president, Ratu Sir Penaia Ganilau, has been Iui Cakau and head of the Tovata confederacy since 1987. The first governor general, Ratu Sir George Cakobau, was Iui Viti, the premier aristocrat in Fiji and head of the Kabuna confederacy.

The possibility that they could be politically dislodged, not by a bunch of opportunist Indian politicians but a determined group of commoners composing Bavadra's Labour Party that drove these families to extreme desperation. They could not have

retrieved the situation by normal political means, hence they turned to the army for intervention. On their own, men of the Royal Fiji Military Forces (RFMF) had no specific grievance either against Bavadra's regime or Indians, but their commanding officers had close relations with the aggrieved chiefly families. The army commander at the time of Rabuka's May coup, brigadier Ratu Nailatikau, was also son in law of Ratu Mara. Ratu Sir Penaia has a son in the army who is married to Ratu Mara's daughter, Major Isirih Dugu, one of the key men in the coup, is the son in law of the late Tui Cakau. In a significant number of cases, bonds of blood and marriage provided the sinews, the commonality of interest and the harmony of outlooks between RFMF officers and traditional aristocracy. Hence, although a commoner, Sitiveni Rabuka is on his own admission, more royalist than the royals. He has been a protégé of Ratu Sir Penaia and plays golf with Ratu Sir Kamisese' (Saffu 1990)

The Fijian coup was thus a rear guard operation on the part of eastern based chiefs and army officers to restore the *status quo ante*. There may have been certain auxiliary considerations, e.g. panic among Alliance politicians that Bavadra's government might institute enquiries into their corrupt deals and Rabuka's psychological compulsion that he would be court-martialled for insubordination. There was also a lurking fear that the special advantages of the eastern chiefs would be seized by a rival, western based confederacy.

In all this, Indians played little role. Their party, the NFP, was ethnicity based as was the Alliance Party. And, with the exception of a few intellectual, prosperous Indian farmers and businessmen, were least interested in the lives of Fijian poor. They sent their savings and children abroad and, at the first sign of trouble—fled the country. Among the 30,000 Indians who lined up before the Indian mission in Suva to obtain visas for other countries, none—repeat, none thought of bringing back his or her new wealth to the country of origin. But they all clamoured for India's help on the ground that they had become helpless victims of Fijian racism. A visibly annoyed New Delhi swallowed the bait hook, line and sinker.

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Budget in the Time of Change

Reflections on Restructuring

Kaushik Basu

This essay evaluates the 1991-92 budget and the larger reforms from a particular point of view. This point of view supports industrial liberalisation, freer trade regimes and an exchange rate policy which aims to establish current-account convertibility of the rupee in the near future. These policies are supported not because equity does not matter but because it does. The equity objective emphasises a second set of desirable policies. These consist of direct public action for the poor. While such action is urged on a much larger scale than has been undertaken thus far, it should be direct in the sense that its market-distortionary effect is as small as possible.

THE BACKGROUND

I REMEMBER as a child listening to a prominent politician, who was also a friend of my father, giving an avuncular lecture to my sister on the virtues of dressing *swadeshi* (prompted I think by my sister's insistence on some special skirt). He berated her gently for aping western customs and ended up saying, 'Why should we imitate westerners? They do not imitate us.' This logic troubled me because it was immediately evident to me that it was he, more than my sister, who was guilty of aping the west. In refusing to imitate westerners *because* they do not imitate us, *he* was imitating them! It had also seemed to me then that my sister was in a trap. If she wore the special skirt she would be imitating the west, and if she listened to my father's friend and abandoned the idea, she would—and, in fact, in a deeper sense—be imitating the west.

The predicament of a minority government trying to push through a major economic reform and confronting a profusion of advice is, though not as severe as that of my sister, not too dissimilar either. If it continues to subsidise fertiliser use, it is working at the behest of the rich farmer lobby. If it does not subsidise fertiliser consumption, it is surrendering to IMF pressure. If it increases defence spending, it is giving in to the arms manufacturers' lobby, if it does not, it is yielding to superpower pressure.

This time, more than in any recent budget, the opinions of parties in the opposition benches will matter in deciding what policy package finally emerges. I believe the left can and ought to play a dynamic role in ushering in structural change and liberalisation. It is unfortunate that thus far much of the left has been *status quoist*, with an almost instinctive tendency to react adversely to any suggestion of change. To expect the left to support liberalisation may, on the face of it, seem contradictory. So let me explain.

Fortunately, in this profusion of advice that has been offered in recent times, much would fall by the wayside simply on grounds of being founded on an erroneous view of how an economy functions. Hence a necessary (though by no means sufficient) condition for successful economic policy-making is to have professionalism in government. Career politicians and bureaucrats are simply in no position to draft economic policy in today's complex world. It is essential to utilise the large body of work in

economic theory and econometrics which considerably narrows down the policy maker's problem by helping us identify the *non sequiturs*.

The recognition of the power of natural market forces belongs to this core of economic thinking. These forces cannot be wished away in designing policy. To attempt to stifle them is simply to ensure that they will emerge through pathological routes. In India so much red tape has been used to strap up and stifle market forces that what needs to be done by any sensible government is obvious—the markets need freeing. This is a *precondition* for policies, left or right. Since I believe in the ultimate value of equity and equality, I am keen that liberalisation be used for these objectives and not get hijacked in favour of small elite groups as has happened in parts of Latin America. And this is where the left can play an important and perhaps critical role.

In this essay I shall evaluate the budget and the larger reforms from a particular point of view. This point of view supports industrial liberalisation, freer trade regimes and an exchange rate policy which aims to establish current account convertibility of the rupee in the near future.¹ But I support these policies not because equity does not matter but because it does. It is true that India's growth rate has not been too high. But that does not concern me as much as the fact that 66 per cent Indians do not have access to safe drinking water, 72 per cent do not have electricity, and India has more poor people than any other country and perhaps any other continent.

Since this essay delves into positive and normative economics and the latter can vary from person to person it is useful to begin by putting one's normative cards on the table. I shall judge the value of economic progress in terms of the progress of the poorest sections. Equality is also considered valuable *per se* but it is lexicographically secondary to the objective of poverty mitigation.² That is, greater equality is considered inherently desirable if and only if it is possible without hurting the poor.³ Everything else—liberalisation, deficit cutting, etc.—is of *instrumental* value.

This equity objective brings me to the second set of desirable policies. These consist of direct public action for the poor. I would urge such action on a much larger scale than has been undertaken thus far. However these actions should be *direct* in the sense that their market distortionary ef-

fect ought to be as small as possible.

An example of a distortionary intervention is what has happened in the past in terms of fertiliser pricing. One of the best moves in this budget was the decision to raise fertiliser prices and therefore remove a part of the subsidy. It is unfortunate that what has emerged after pressures from all sides is a hybrid of questionable worth. Dual pricing is bound to generate corruption. Moreover, it is not clear why anyone, small or large farmer, should receive subsidised fertiliser on a continued basis.⁴

What about the argument that small farmers are poor? Should subsidising them not be justified on equity grounds? My answer is No. Not all poor people are buyers of fertiliser. Hence, to subsidise fertiliser is to give special help to those who are poor *and buy fertilisers*. If we are concerned about the poor we should intervene directly in a few selected areas which are of value to poor people in general. I would include under this basic nutrition, health services and education. If the dual pricing is being justified on grounds of equity, it would be better to have a single, *market* price for all buyers and to use the money saved by the government (by virtue of not having a cheap price for the poor) *directly* on the poor, for example, on providing subsidised food for them. This way (1) the fiscal deficit will be the same, (2) the cause of equity will be better served (because now the poor will get what earlier was being given only to the fertiliser buying poor), and (3) a distortion in the fertiliser market would be removed.

This example is meant to illustrate a general principle. Price distortions are best kept to a minimum. Subsidies are not the right way to help the poor, it is better to give them direct help. Of all vested interests, the most damaging for the economy is the vested interest in price distortions. This can ruin economies witness the USSR.

With these preliminaries, I take a specific look at the union budget of 1991 and return to some larger issues of economic reform later.

UNION BUDGET

Like all budgets the one of 1991 has features to praise and criticise. I shall begin by drawing attention to three moves which deserve widespread support. These are (1) the decision to cut fertiliser subsidy (or raise fertiliser price towards its market level), (2) the freeing of interest rates at which banks and term-lending financial institu-

tions lend money subject to the floor of 15 per cent, and (3) the decision to value the wealth of investment companies in terms of market value instead of book entry.

All three are likely to have important fiscal impacts. (1) and (3) could contribute towards a smaller fiscal deficit. But that is not the reason why I support these. Their merit is as a signal for allowing the market to function.

In India we have a tendency to believe that property has intrinsic value. That its value depends on how people view it, which is in turn reflected in its market price, eludes us. This view has helped create a major tax dodge whereby enormous wealth gets valued in terms of old book-entries. Hence, (3) above is a small move in the right direction. It is indeed ironical that the same industrialists who have been crying hoarse for the market are objecting to valuation based on market prices.⁵

One of the most important features one looks at in evaluating an investment opportunity is its riskiness. Lenders are usually willing to lend at a low interest rate if they feel that the investment is safe. Otherwise a higher interest acts as a compensation for the extra riskiness. Hence, an inability to vary the interest rate thwarts the market for investment. Though some variability had been allowed in recent years, (2) is a laudable attempt to speed up the process. It is especially valuable as a signal to other sectors on the advantages of price flexibility.

I hesitate to return to the subject of fertiliser pricing not only because I have already commented on it in Section I but because so many economists have already written about it. But I must.

In one P. C. Wodehouse story⁶ we are told of a Nichols and a Jackson who went on a bicycling trip and met with a severe accident. They were blown into smithereens and the rescue team could assemble only one human being out of the debris. They got around the problem by describing the dead body as that of 'Nixon'.

What is happening to the fertiliser policy, as it is tugged from the left and the right, is like the hybrid 'Nixon'. It is unfortunate that this has been exploited by most parties. Yet it is exactly this kind of *vested interest* in price distortions which does wanton damage to the economy. Given the near consensus among economists about the need to allow fertiliser prices to rise towards their natural market level and the great political difficulty in achieving this, I want to suggest a scheme for solving the problem.⁷

The first step is to free the fertiliser price completely. This will immediately cause a steep price rise. Announce that with each bag of fertiliser sold the buyer will be given a coupon showing an amount, say Rs X, which is equal to the difference between the market price and the earlier controlled price. The coupon can be cashed for Rs X, by the buyer at any bank. Next, announce that Rs X will from now on be a fixed *subsidy*. I expect this to cause no protest (assuming that those who stir protests in these matters will not read this paper) because this year the net price that the buyer of fertiliser pays will be unchanged and people are myopic. It follows that from now on, with each round of in-

flation, the real value of the coupon will keep falling. So each year from now the subsidy will get cut, but no further announcements will have to be made; the subsidy erosion will happen continuously and will cease to be newsworthy.

This is not my idea. It is borrowed from Sri Lanka's experience with food subsidy. In 1978, soon after Jayawardene came to power, the Sri Lankan government, torn apart by fiscal crisis, reached a major decision concerning its food subsidy. In Sri Lanka 93 per cent of the population received rationed food. In order to cut down the expenditure the government decided to give subsidy only to the poorest half of the population and while making this change the government also decided to switch over to a food stamp system, whereby instead of directly giving free or subsidised food to the people, they were given coupons with which they could buy a certain range of basic food and goods. In politically conscious Sri Lanka, where any attempt to cut subsidies had earlier met with riots and severe resistance, Jayawardene's scheme went unchallenged because the poorest half seemed to be getting the same subsidy in the net. The catch was, however, that the coupon value was fixed in nominal terms. So from 1978 onwards the food ration has steadily been cut, but this has happened silently with inflation doing the job.

While I would not recommend this for food subsidy, for a variety of subsidies which have arisen because of vested interests in price distortions this is a method worth exploring as a scheme for removing subsidies which is politically feasible.

Subsidies have become an increasing strain on fiscal management. They rose steadily through the 80s and peaked in 1989-90 reaching 2.5 per cent of GDP. The revised estimate for 1990-91 puts it at 1.8 per cent. This means that the revenue deficit of 3.4 per cent in 1990-91 could have been brought down to 1.6 per cent merely by cutting subsidies.⁸ Whereas several subsidies can be justified as a form of direct action to help the poor (and so I would not recommend going the whole way), a substantial amount (perhaps more than half) is subsidisation in response to the demands of powerful lobbies.

It is this same kind of reasoning which suggests that steps ought to be taken to reduce the ratio of perquisites to salary. In India, both the private and government sectors pay a large part of salaries of personnel through perquisites. These amount to hidden payments and have introduced enormous distortions in our markets especially those for housing and fuel. Converting perquisites to cash payment can save the government a lot of money and I consider this a superior option to selling off public sector units. The amount of office space, land and housing owned by the government is very large. If we value the rental of these at market rates (and I would urge such valuation for the same reason as in the case of private investment discussed above) instead of some notional book entry, it will show how large our government's annual expenditure really is. Suppose the government gives a flat to an MP or a civil servant which could be rented out on the open market at

Rs 20,000 per month. Then effectively the government is spending Rs 20,000 per month. If then the government stops giving this perquisite and instead pays an additional salary of Rs 10,000 the government immediately effects a monthly saving of Rs 10,000. In fact 5,000 such apartments rented out on the open market would mean a net revenue of Rs 60 crore per year after paying the 'dispossessed' an additional monthly salary of Rs 10,000 each.

But this fiscal saving is not my main reason for recommending a move away from perquisites to cash payment. Even if the government pays the dispossessed the *full* market rent as additional salary, the switch will be desirable. This is because it is arguable that of this Rs 20,000 additional salary, not more than Rs 10,000 will be spent on housing. Hence, a major housing market distortion would be removed, with a concomitant rise in the supply of housing space. In addition, people will save more.

At present any such move would meet with stiff opposition but, if a small correction is made in our income tax law, the opposition will vanish. What I am suggesting is common practice in the US—certainly in the state of New Jersey. If you receive subsidised housing from the university, government or the private sector the extent of the subsidy—calculated as the difference between the *market* rent and actual rent paid—is added on to one's income in computing taxes. If this is done in India then most people would in fact prefer to receive their perquisites in cash so that they can allocate the additional income in keeping with their preferences.

Turning now to the negative features of the budget one of the most significant is the tax amnesty scheme. (So was the Rs 100 crore allocated to the Rajiv Gandhi foundation but fortunately that has now been dropped.) The amnesty scheme allows any person to deposit his black money with the National Housing Bank (NHB). 40 per cent of such deposits will be confiscated by the government as a sort of penalty. The depositor is then free to take out his remaining money immediately. The money thus raised by the NHB will be used for slum clearance and to build low cost houses for the poor.

Let me first point out that this scheme is superior to the Special Bearer Bonds which were sold against black money in 1981. The bonds mature in 1991 with 2 per cent interest per annum and can be encashed at banks with no questions asked. Why was it believed that this may be a better way for the government to raise revenue than the simple expedient of printing money? Presumably because printing money is inflationary. What actually happened with the Special Bearer Bonds is, however, worse. As people bought these bonds the government mopped up money at first. But soon the buyers realised that each bond certificate is like money and perhaps better. Firstly, the bonds were completely anonymous (no names appear on them). Next, since to be caught with a bond is not punishable, a bond could be used as white or black money with impunity. And indeed, the last 10 years have seen a thriving trade for which the bonds were serving as currency. Hence the infla-

tionary pressures generated were probably more than that printing money would have caused.

This year's amnesty scheme will not have the problem of fuelling inflation. Also, it will cut the fiscal deficit and not merely the budget deficit (as was the case with the Bearer Bonds). Nevertheless, amnesty schemes should be discouraged because they give wrong incentives concerning the value of tax dishonesty in a society. In addition, the tying up of expenditure to particular sources of revenue is not a good idea. This scheme, for instance, ties up the amount spent on poor people's housing with collection under this scheme. At first sight this looks like a noble cause, but what must be realised is that how much effort goes into this noble cause is now completely dependent on the vagaries of how much is netted by this scheme. My hunch is that very little will be collected under this (because 40 per cent is a bigger penalty than the cost in the open market for converting black into white) and that is probably this scheme's saving grace.

In future we must not think of black money as a revenue pool for the government. Black money needs to be controlled because it is degrading and because (what is not usually understood) it thwarts the market in the same way as bureaucratic red tape does. I come back to this later, and would simply remark that the best way to control black money is not to use carrots and sticks, but sticks. Instead of giving incentives, there should be a pre-announced date after which black incomes will be penalised more severely.

I would also like to see much more allocation by way of direct action for the poor. It is true that the allocation for education has been raised from Rs 865 crore in 1990-91 to Rs 977 crore in 1991-92, and the plan outlay for rural development goes up from Rs 3,115 crore to Rs 3,508 crore. But given the low level of social security expenditure incurred by the Indian state, there is scope for large increases in this direction.

And, finally, what will be the inflationary impact of the budget? Inflation is always difficult to predict but I would expect the budget to give a quick short upward push to the prices but to be relatively less inflationary in the long run. The quick short upward pressure will be as a consequence of hikes in the price of freight, railway fares, petroleum price and some excise rates. But studies have shown that in the long run it is large deficits which are more inflationary. Hence the cut in the fiscal deficit from above 8.5 per cent of GDP to 6.7 per cent, should be welcomed as a partial, long-run antidote.

INTERNATIONAL SECTOR

This year the international sector is the focus of special attention because that is the source of the current crisis. It has been argued by many, and I concur, that the present crisis is not in the real sector but is a crisis of confidence. It must however be realised that a crisis of confidence is worrying precisely because if it persists for too long it converts into a real sector crisis.

The crisis makes the management of the international sector particularly hard

because it drives a wedge between our short- and long-run interests. In the long run we must move towards much freer trade and, perhaps, also the current-account convertibility of the rupee. But these are not possible right now because a lower trade barrier may cause a short run worsening of balance of trade and convertibility could provoke capital flight.

Hence it is understandable why on this front the budget has been so tame. The tariff peaks above 150 per cent have been shaved off by placing a ceiling on the *ad valorem* rate of basic plus auxiliary duties of customs. Also, the import duty on capital goods of most kinds has been lowered from 85 per cent to 80 per cent. These are small changes but no more drastic measures were feasible at this critical juncture. Indeed what is more important than these changes is the long run intention expressed by the finance minister. This is perhaps the first time that a finance minister has spoken of a tariff cut as desirable and something that, though infeasible on a large scale *right now*, we should strive towards.

The more important structural changes have occurred outside the budget. The most discussed was the devaluation of 22 per cent within one week in July. It is difficult to have strong views on this. Unlike, in 1966, when India was on a fixed exchange rate regime today a devaluation is much less momentous. Since nowadays small adjustments in the exchange rate occur all the time, it is entirely possible that despite this devaluation, after six months we shall have an exchange rate at the same level as what we would have had if no devaluation had occurred.

To see the fallacy of obstinate opinion on this matter consider people who habitually oppose devaluation. If these people are asked if we should revalue instead, they typically say No. This reveals their innate preference for the *status quo* and an unwavering faith in what the RBI has *already* done.

The devaluation would be useful if it is used as a step towards greater convertibility of the rupee. The easing of the REP licence (now Exim scrip) rules and an increase in its proportion to 30 per cent is valuable precisely for this reason.

Where we have to be careful is with the NRI option. The present budget has announced two schemes for luring more NRI dollars. The first one essentially consists of giving immunity from our tax laws to hard currency remittance before November 30, 1991. The second scheme is to issue new bonds, called India Development Bonds, denominated in US dollars. Interest from these bonds will be income tax exempt as will be the principal from wealth tax. The bonds mature in five years. The bonds can be gifted to residents with immunity from tax laws.

While one can see the need for something like this as a fire fighting measure, one has to worry about its long-run consequence. The terms at which India borrows money from the world are still quite favourable. On average we pay an interest rate of 6.4 per cent which compares well not only with the rates at which Latin American nations borrow—usually over 8.5 per cent—but also China's

7.8 per cent. Similarly on average our loans have a grace period of six years, which compares well with, for instance, Argentina's two years and China's four.⁹

Borrowing from NRIs, on the other hand, occurs on much harsher terms. This means that the repayment burden would grow more rapidly for money borrowed from NRIs. Moreover, the belief that NRIs are patriotic and borrowing from them is politically benign is a myth. In the case of several countries, non residents have played a major destabilising role. In Nicaragua's case, for instance, it is not at all clear as to who played a politically more destructive role—the international lending institutions or the NRIs.

In the immediate run, no matter who we turn to—the IMF, NRIs or our gold—we have no option but to muddle on. Our aim is to somehow keep our head above water.

In the medium to long run we have to carefully rethink our export strategy to give it a bigger boost. Indian exports have done well over the last four years. And contrary to a widespread belief our import growth has not outstripped export growth and there has been no *secular* worsening of India's balance of trade. In 1980-81, our exports were 4.8 per cent of GDP, in 1989-90 they were 6.4 per cent. In 1980-81 our imports were 9.2 per cent of GDP and in 1989-90 the corresponding figure was 9.3 per cent. If we take the balance of trade (BOT) as a percentage of GDP the average figure for the first five years of the 80s was minus 3.4 per cent, and for the second five years it was minus 3.2 per cent.¹⁰ A slight improvement, if anything.

The thesis of increasing *structural* imbalance therefore seems to be untenable. The source of the crisis lies elsewhere. In the international sector India has always lived on the brink, importing more than she exports. A small crisis could therefore at any time act like the proverbial spark. During 1990-91 as a consequence of the Gulf war our petroleum oil and lubricants import spurted from \$ 3.8 billion in the previous year to \$ 6 billion. The decline in remittances from Kuwait and Iraq was of about half a billion dollars.¹¹ Our exports to west Asia also fell. The combined effect of these was to precipitate a crisis of confidence among India's international lenders, including the NRIs.¹²

In the long run the solution lies in our exports. A cross country comparison not only with South Korea, Taiwan, Singapore, Thailand and Malaysia but even China suggests that we can expand our exports manifold. The right exchange rate policy, low tariffs for importing relevant raw material and technology matter. But what matters most is an efficient domestic economic environment. But this goes beyond what can be achieved through fiscal instruments alone and is the subject matter of the next section.

SOME BASIC REFORMS

This section moves away from the proximate causes of our economic problems to more fundamental factors. But before that it is useful to get one common misconception out of the way.

Though we frequently fret that the Indian economy is excessively controlled and the

market is unable to function, it is worth being clear that it is not *really* a problem of more or less control but of control in the wrong areas.

In certain domains the Indian market functions more smoothly than in most other countries. Here we can *buy* the 'co-operation' of the income tax official; we can *buy* driving licenses; we can *pay* our way out of having to do pollution checks on our vehicles.¹³ Those who believe that *everything* should have a market price would do well to tour the Bihar economy to find out what one of the closest real-life approximations of their ideal looks like.

On the other hand, in India the individual freedom for economic enterprise is severely curtailed. The freedom to open a firm, to choose the price at which you will sell the product, to select the destination of your sales are all subject to greater restriction than is desirable. A part of this restriction is bureaucratically imposed. But it would be foolish not to recognise that many 'controls' are the *endogenous* outcomes of our history, culture and, perhaps, luck. Hence, my plea for more freedom to markets (which of course pertains to the kind of freedom being discussed in this paragraph and not the previous one), which is widely shared by economists in India today, is a much more difficult task than is commonly perceived.

This brings me to a related point concerning 'intervention'. It is important for an economist to be clear that 'intervention' is not a well defined term. In the US right-wing thinkers (and non-thinkers, for that matter) insist that having gun-licence laws amounts to an intervention which limits individual freedom, to wit, the freedom to carry guns. The fallacy in this case is obvious and arises from the erroneous presumption that it is only governments that can intervene and curb individual freedom. It overlooks the fact that one individual's freedom to carry a gun can severely curtail the freedom of other passers-by to continue in possession of their, respective, wallets.

This is the rationale behind anti-trust legislation which exists in all industrialised countries. While anti-trust laws curb a monopoly house's freedom, it is believed that they also curb sufficiently the monopoly house's freedom to curb the consumers' freedom for them to be worthwhile.

Despite these complexities it will be valuable if in drafting economic policies and laws pertaining to *economic* functioning a basic principle is kept in mind. The *basic principle* says that two or more consenting adults should have the right to enter into contracts, which do not hurt the interests of uninvolved persons, and, further, the contracting individuals should be able to turn to the state for action against someone who reneges on the contract.

This is not a new principle. In fact, it is at least as old as the mills. Both John Stuart and James had argued for similar norms.

I am aware that this is not an unambiguous principle and also that it has exceptions, but if we deviate too far from it, efficient economic functioning becomes impossible.

In India the basic principle gets violated

all the time. At times it happens in a way which is beyond the reach of the government, but there are areas where the government is responsible for its violation.

The main reason for this is the government's tendency to decide in advance as to what is a fair contract and limit individuals to some pre-specified and inflexible contracts. Take for instance rent control. Suppose persons i and j agree that j will rent out j's apartment to i for a very low rent for one year but at the end of it i will vacate the apartment. Now if i reneges and refuses to quit, in most Indian cities the rent control laws are such that j will not be able to get any legal help in enforcing the contract. This is a violation of the basic principle and it is the most important factor behind the high house rents that prevail in our cities.

Another kind of violation of the basic principle for which the government is only indirectly responsible occurs because of the prevalence of black money. Suppose i plans to do business with j which involves, first, i paying for some consignment of goods and then, later, j supplying the goods to i. Assume, as is quite common, that i is supposed to pay half the money by cheque and half by cash (that is, in black). Now even if the government is agreeable to taking punitive action against the party that violates this contract, the basic principle is likely to be violated in practice. To see this suppose j reneges and supplies only half the consignment. Even though the government would be willing to protect i, i is unlikely to seek governmental help because questions will arise about the source of i's cash payment. Hence, where black money is involved, even if the law is willing to take action on behalf of the aggrieved, the aggrieved would not seek legal help because he will rightly surmise that he will get into a different difficulty himself.

The upshot of this is that in India you do business with people with whom there is prior mutual trust. This collapses quite drastically the scope for business and deters the entry of newcomers.

The inability to sign contracts and have them enforced through the government is, I think, one of the most fundamental factors behind the inefficiency of the Indian economy. To rectify this will of course require a major overhaul of our law (especially that pertaining to the economy) and its implementation. The quick and efficient implementation of the law is very important. Increasingly, the transaction costs of fighting a case (in terms of money and, more so, time) has become so large that most people consider the law to be beyond their reach.

Economies tend to live from hand to mouth. A fiscal crisis arises and all attention turns to taxes and expenditure. A balance of payments problem crops up and we rush to rectify the exchange rate and adjust our trade policy. In this rush to stitch up a rupture here and fight fire there, it is easy to neglect the root causes of the malaise. The issues raised in this section escape notice precisely for this reason. Yet, in the long run their importance is immense and much greater than most people realise.

Notes

- 1 The recommendation of convertibility is not being made without reservations. The popular belief that for a poor country to have a freely convertible currency is to court immediate disaster is clearly fallacious. The Thai baht is both convertible and thriving. Nevertheless, the switch to a convertible currency is a bit of a leap in the dark. On balance, though, I feel that it is a desirable objective.
- 2 Though I cannot immediately think of a situation where I would violate this value judgment, experience suggests that exceptions there will be. This may therefore be thought of, in the language of Amartya Sen (1970), as a 'non-basic value judgment'.
- 3 That greater equality *can* hurt the poor is not difficult to see. Consider a society committed to complete equality. That is, it collects the national income and divides it equally among all citizens. Hence, an individual's endeavour is unrelated (ignoring infinitesimal changes) to his income. In such a society it is likely (at least in today's world) that no one will work. Hence equality will lead to abysmal poverty.
- 4 An initial subsidy to encourage farmers to 'discover' the benefits of fertiliser application can be justified by the analogy that new products are at times sold even by private concerns at specially low 'introductory' prices.
- 5 See, for instance, *The Economic Times*, New Delhi, August 10, 1991, pp 1, 4.
- 6 I relate this from memory.
- 7 I have written about this earlier in *The Economic Times*, February 23, 1991.
- 8 All figures in this paragraph are from the *Economic Survey*, 1990-91, Government of India. In a recent paper, Mundle and Rao (1991) show that the aggregate subsidy given by the centre and the states far exceeds the explicit subsidy which is usually recorded in government documents.
- 9 The data quoted in this paragraph are from the *World Development Report*, 1991, World Bank.
- 10 The data cited here occur in Table 9.1 (p 152) of the *Economic Survey*, 1990-91.
- 11 *Economic Survey*, 1990-91, p 155.
- 12 I have discussed at length the fragile nature of confidence among international lenders and the causes of such fragility in Basu (1991).
- 13 It may appear at first sight that official penalties have very little effect on our functioning since bribing is so common. However, it can be shown (Basu, Bhattacharya and Mishra, 1991) that the equilibrium level of bribes depends on the level of penalty. Hence, even if no one in the end pays the penalty, the penalty can be used as a deterrent though at an impaired level of effectiveness.

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The Woman as Communal Subject

Rashtrasevika Samiti and Ram Janmabhoomi Movement

Tanika Sarkar

One of the most striking features of the recent Hindutva movement has been the foregrounding of the militantly communal Hindu woman in a variety of unprecedented ways. Nor is this phenomenon a flash in the pan. The BJP has located women along with SC/STs as a primary target area for the coming times.

This article argues that the new communal phase enables women's self-constitution as active political subjects in dangerously unprecedented ways.

THE Rashtrasevika Samiti, the little-known women's wing of the RSS, is not an isolable unit, complete within itself, but one tied into a whole nexus of interrelated communal institutions. The purpose of the present discussion is to see it in relation to the Ram Janmabhoomi upsurge: how and how much the 'samiti' contributed to it, what new turns the movement imparts to the samiti and what possibilities the connection holds out for the present phase of Hindu communalism.

One of the most sinister features of recent Hindutva movement has been the foregrounding of the militantly communal Hindu woman in a variety of unprecedented ways. Rural women at Bhagalpur in 1989 or upper middle-class Maruti-driving women at Ahmedabad last year have appropriated active roles on the centre stage of riot scenes where they would rarely put in an appearance before—an ironic inversion of the woman's traditional invisibility. According to VHP reckoning (which was conveyed to us at their Ramakrishnapuram office at Delhi in February) 20,000 'karsevikas' courted arrest on January 4 alone and a total of 50,000 were involved in the entire December-January round of satyagrahas. The VHP fortnightly *Hindu Chetna* of December 15 displays a cover photograph of 'karsevikas' sporting the saffron headband. The caption says: *Matrishakti ka abhyuthhan*. Its Ayodhya office is selling works by women poets, like the *Shraddha Suman Mala*, which celebrates sacrifices by mothers and wives of martyrs. An official VHP account of the October/November events, the *Amar Shaheed* pamphlet, accords particular importance to Vijayraje Scindia's arrest. If *Kalchakra*, a Hindi VCR newsmagazine, focuses long and pointedly on the victim figure of a lone woman resister being dragged away by the police on October 30, then the woman as a dynamic leader is highlighted by the *Newstrack* (covering the October events) where Scindia is striding purposefully between two senior and enormously respectful police officers towards a car from inside which she is shown again as leaving messages for the future conduct of the movement. VHP office-bearers in Delhi spent a long time explaining animatedly to us the precise differences in the quality of speech between Uma Bharati and saddhvi Rithambhara. And finally, and most obviously, if Advani and his 'rath' had been the visual emblems of Ram Janmabhoomi, then the voice and the words that fixed its

message belonged to a woman.

Nor is the phenomenon a flash in the pan. The BJP has located women along with SC/STs as a primary target area for the next elections and, for the first time, has formed a new group of full time women cadres to work for them. I would argue in this article that the new communal phase enables the woman's self constitution as active political subject in dangerously unprecedented ways. Does it then indicate that it is somehow more enabling than the left women's movements? Since this is not the place for analysing the left record, I would make an obvious point to which I shall return later. The left and radical women's movement as a whole (and this has been most powerful form of organised women's movements in India) is not impressive simply in its social and geographical reach, organisational strength and the range of its concerns. It also constitutes one of the most serious challenges to the combined and interrelated powers of patriarchy, class, caste and the state. The Hindu communal groundswell on the other hand, has been restricted largely to urban UP, to predominantly high caste, middle class milieus, as even VHP activists admitted to us. At the same time, the strength of the new phenomenon must not be underestimated. Karsevikas have been mobilised from traditionally the most conservative backgrounds—upper class, middle ranking service sector and trading families. The very limits of the movement may then be taken as signs of strength within a different kind of reading. Nor can we draw false comfort from any illusion that these women are not speaking their own minds, their own words. An interviewer (P K Datta, who visited Ayodhya in January) speaking to a bunch of male satyagrahis was, for some time, faced with an array of archaeological-historical arguments as well as the standard RSS definition of Bharat as 'pitribhumi', 'matribhumi', 'punyabhumi' and 'karmabhumi'. Then Chandravati, a woman from Aigarh, excitedly broke into the conversation and introduced a very different note: *Yahan aye hai khoon barsane ke liye...mandir ka arth mulla ko phansi lag jai...Mulayam aur VP ko phansi lag jai...* (We have come here to shed blood...the meaning of temple building is that mullas should be hanged, Mulayam and VP should be hanged). The whole discussion was subsequently shifted to a markedly more violent plane. Nor does it mean that women voiced mere mindless abuse. Each of the karsevikas

interviewed—VHP as well as non-affiliated ones—played a distinctive individual variation on the themes of Ram Janmabhoomi and Hindutva. For Vijay Dube, a would-be sanyasini from Ghaziabad, Hindutva implied a sweeping, millenarian vision of collectivity ('samashiti'). *Yah (Hindustan) samudra jaise gambhir hai, akash jaise vyapak hai...Hindu hi adi un hai.* (It is as deep as the ocean, as endless as the sky...the Hindu is the beginning and the end). Unlike other religions it is not time-bound but eternal. It is not an individual but a collective experience. It finds its centre of gravity in Ram Janmabhoomi which then becomes: *Hamara sarvaswa hai, dharam ki but nahin hai, sarvasarvaswa hai.* (It is everything to us, it is not just a matter of religion it is all, it is our everything). With the liberation of Ayodhya, *poora vishwa badal ho jayega, ek naya shrishthi ka nirman hoga.* (The whole world will change, a new creation will come into being). For Mithilesh Vashisti, a VHP worker from Modinagar, on the other hand, the value of the movement lay in the assertion of strength and self-respect against oppression: *Atyachar, anyay nahin sahenge, kisi chees ka seema hoti hai* (We will not tolerate oppression and wrongs, everything has limits). Another (unidentified) woman intervened with a more poetic-mythical version of the necessity: *Yah hamara ung hai, hamara abhushan hai...Krishna bhagawan ka chakra hai.* (This is a limb (in our body), an ornament...it is the 'chakra' of Krishna 'bhagawan'). All karsevikas were bursting with speech—with arguments and descriptions, each had an accent very distinctively her own. Within an as yet limited social and geographical scope then, the Ram Janmabhoomi movement seems to have enabled major breakthroughs in women's political self activation, not available to earlier communal upsurges. The relevant parallel seems to be with phases within Gandhian mass movements or the final stage of revolutionary terrorism in Bengal when an intensely devotional form of patriotism admitted women as full-fledged activists.

In a curious way the present movement inverts the usual pattern of symbolisation within national and earlier communal movements. So far, in both, the fetishised sacred or love object to be recuperated had been a feminine figure—the cow, the abducted Hindu woman, the motherland. When we had interviewed B L Sharma, secretary of

the VHP Indraprastha unit last April, he had woven an entire anti-Muslim tirade around the figure of the endlessly raped or threatened Hindu woman. Sanatan Dharmi and Arya Samajist office-bearers extended the image into that of a perpetually exposed and endangered motherland. Here, however, the occupied 'janmabhoomi' belongs specifically to a male deity, and women are being pressed into action to liberate it and restore it to him, to bring back honour to Ram. Ram's army of monkeys and squirrels has now acquired a new combatant and Sita's sex is coming to the rescue of Ram—in inversion of the epic narrative pattern where Ram and his army had to go and bring Sita back. The reversal of roles equips the communal woman with a new and empowering self image. The woman has stepped out of a purely iconic status to take up active position as a militant.

In this context, the very careful and significant handling of the baby Ramlala image acquires new meaning. Stalls in Ayodhya sell a large number of stickers and posters depicting a chubby infant baring his pink gums in a toothless smile. Local legend has it that in 1949, just before the deity miraculously reinstalled itself within the mosque, a police constable had found a dark and lovely child playing by himself in that corner—the homeless baby had come back home to claim his patrimony. The VHP video cassette produced by J K Jain, the *Bhaye Prakat Kripala*, reproduces the event over a long time, with the child within the mosque displaying himself in a variety of 'cute' poses and eventually stringing a bow. We must remember that Ramayan and the Ramkathas resonate with the many losses of Ram. He loses his kingdom, his father, he is separated from his mothers and his brothers and then he loses Sita—this is a figure bathed in tears, a reason, perhaps, why the common man and woman can identify more with him than with other mythical heroes. The entire series of deprivations has now been collapsed into the shape of that irresistible human idol—the deprived male infant. On top of that, within the mosque and next to the main deity, is an icon of the crawling Ramlala—a posture traditionally associated with the baby Krishna and linked to a long chain of associations with emotional and aesthetic structures. While the appeal of the homeless baby would be a general one, it would be especially poignant for women. Readings of recent events that insist on a monolithic militarisation of Hinduism by present iconic trends, therefore, miss out on their versatility which is their most remarkable feature. While the Ramlala appeals to the mother in the woman, the warrior Ram probably simultaneously arouses a response to an aggressive male sexuality.

All this, as I had said earlier, is a relatively new development. Up to the middle of last year, well after the shilanyas ceremonies with their attendant riots were over, there was practically no literature by women that VHP or RSS offices sold regularly. VHP news

sheets that covered 'shilapujan' and shilanyas ceremonies gave no space to her writings. Even Rithambhara's cassette addresses its invocations to rise and fight exclusively to men. *Birbhayon jago'* (Brave brothers, awake). Her speech obviously targets women listeners as well. There are intimate references to domestic politics among mothers, sisters and daughters-in-law, to women's work within the home. Yet each time the call for action is issued, it is addressed to brothers. "You have to make yourselves in to a clenched fist, my brothers." Inspirational feminine examples relate to motherhood: how Bhagat Singh's mother was found crying after his death, not because she had lost her son, but because she had no other son to be martyred. Even the Rani of Jhansi is invoked as the mother of a brave patriot. It is true that the *Bhaye Prakat Kripala* cassette inserts the warrior figure of a queen as an adversary of Babur, and, within the current movement, Saddhvi Rithambhara, Saiyavani and Vijayraje Scindia are endowed with an exalted position. They are, still, exceptional, rare figures. Up to this point, then, women are still the productive womb, mothers of heroes. Their presence was minimal on the crucial days of October 30 and November 2. At the Rashtrasevika Samiti office I was told quite frankly that the decision to train karsevikas was the result of an internal debate that was eventually won by younger samiti members.

A new shift has, therefore, occurred very recently, a shift that is pregnant with possibilities for Hindu communalism as well as with problems. Communal organisations have not allowed a demonstratively public or even a very active political role to women so far. The Rashtriya Swayam Sevak Sangh is—and this is a very significant fact—an exclusively male organisation. When Lakshmi Bai Kelkar approached Hegdewar in 1936 with an appeal to admit women as members, she was refused and Hegdewar later helped her to set up a parallel but separate organisation with a small yet significant difference in name: the members of the RSS are Rashtriya Swayamsevakas while the members of the women's wing are Rashtrasevikas. There have been debates within the RSS about giving membership to women but so far the 'sangh' has remained uncompromisingly male. The Rashtrasevika Samiti has kept a remarkably low public profile through the six decades of its existence. Even though it is one of the oldest women's organisations in the country, its total membership is about a lakh now and is largely restricted to traditional RSS and BJP bases—Maharashtra, Karnataka, Andhra Pradesh. The Delhi wing was formed in 1960 and now includes about 2,000 samiti members. Sakhas are located almost entirely in middle class areas: Karolbagh, Patel Nagar, Janakpuri, Naraina Vihar, R K Puram, Lajpat Nagar, Kamla Nagar. Volunteers come from enterprising trading families or from middle ranking government service background. The VHP Mahila Mandal, which started operating in Delhi from the 1980s, has about 500

members. The two mass fronts of the VHP—the Bajrang Dal and the Durga Vahini—are strictly segregated. The growth in spatial, numerical and social terms has been quite low compared to the Delhi-based radical women's organisations which have come up much later, or to mass women's organisations under left political parties. The All India Democratic Women's Association, linked to the CPI(M), was founded in 1981 and now has a membership of about 29 lakhs, overwhelmingly rural in composition. The Janawadi Mahila Samiti, its Delhi branch, has about 15,000 members, with large bases in labouring areas. The comparison is relevant since the VHP Mahila Mandal and the Rashtrasevikas also work (unlike other radical voluntary women's organisations) in close collaboration with an electoral party and a number of affiliated mass organisations.

What does the apparent contrast between the austere reserve of the organisations and the recent flamboyant wave of a militant reclaiming of the public spaces by women denote? Is it a break, a total departure, or is it the culmination of a long drawn out strategy? Or, is it a consciously planned extension that stretches out old boundaries?

II

It seems that we can usefully approach this problem through an extended reference to the very familiar cassette of saddhvi Rithambhara. One remembers that voice only too well: high pitched shrill, breathless, delivering a non stop harangue with no modulation. The voice seems always almost about to crack under the sheer weight of passion. The overwhelming and constant impression is one of immediacy, urgency, passion, spontaneity. For over 60 minutes extreme stress is continuously conveyed and speech seems to be improvised as if on the field of battle—an inspired voice speaking recklessly from the gut. The later ban would heighten the earlier impression of impending martyrdom while legends about the 'martyrs' of October 30 and November 2 would subsequently feed back into the effects of the cassette. The cassette, then, is not a finished product but one that grows with events. New technology opens up unprecedented audio visual possibilities for political messages and stretches boundaries of orality. The startling impact of the original *maidan* speech becomes simultaneously preserved and fixed and can duplicate its own efforts endlessly to ever growing audiences at will in changed political conditions. By preserving and replaying the human voice and the spoken word, a different kind of impact is attained from the one resulting from re-reading a written text. The latter also grows and acquires new meanings over time but it remains an individual exercise, a private act. The spoken word addresses and whole congregation and proceeds through a continual interchange of passion between the speaker and the listeners. New technology is able to recapture that exchange *ad infinitum* for

freshly or differently constituted congregations, and at the same time, allows the first message to fatten on new meanings and associations gathered from the movement unleashed by itself, growing from its own self fulfilling prophecies. Rithambhara's woods on martyrdom would have much enlarged and transformed meanings for people listening to them after October 30.

The technology naturalises the intended effect to such an extent and covers its own traces so completely that we forget that what we are listening to is recorded speech and not a live recording of an actual speech either. That sustained high pitch and that non-stop delivery would be impossible to improvise without breaks or modulation. It is a studio composition, an artefact which, with meticulous deliberation and co-ordination, pieces together over long stretches, a carefully rehearsed address. The greatest success of technology lies neither in preservation nor in duplication but in its naturalising abilities, in its self-effacement.

Without drawing an exact and mechanical parallel, and without reducing the movement to mere contrived effect, we can still relate the impression of spontaneous militancy to an elaborate and finely tuned institutional structure and a shared ideological stockpile that tie together a wide range of party, mass fronts and movementist bodies to the apex body—the RSS. Each individual organisation—the BJP, the VHP and their various fronts—has developed its own distinctive thrust area and all have internally circulating members. A senior VHP Mahila Mandal leader has recently gone over to help out with BJP Mahila Mandal work. Rashtrasevikas claim to have trained the Durga Vahini for the karseva even though the latter is affiliated to the VHP. Almost all BJP women MPs are members of the Rashtrasevika Samiti. Co-ordination, in fact, stretches beyond the core of institutional cluster. Rashtrasevikas are offered hospitality for their training camps by Sanatan Dharm mandirs and DAV schools. The samiti is closely associated with a chain of nursery schools run by the Saraswati Shishu Mandir. The VHP headquarters at Ramakrishnapuram houses one of those schools. The school at Naraina Vihar has a very distinctive visual plan and layout. Instead of the usual pictures of flora and fauna or of nursery tales that decorate nursery schools, walls on one side display frescoes of Hindu historical heroes locked in battle against Muslims. On the other side are portraits of Hindu freedom fighters with appropriate messages inscribed below. The central building has the map of 'akhand bharat' draped around the figure of Bharatmata with the entire 'Bande Mataram' hymn inscribed below it. The DAV school on Aurobindo Marg follows an almost identical visual display.

An intricate and delicately-balanced system of inter-locking personnel, functions and interests is ultimately monitored by the apex parent organisation—the RSS. The sangh calls itself a family, not a political

organisation. As proof of this it claims that all its members are equal and uniform in dress, disposition and functions. This stems from a remarkably peculiar notion of what a family is, since there cannot be a family without women in it and there cannot be a family that is ever undifferentiated in functions and habits. Only by developing a women's wing, then, does the family metaphor partly realise itself. The Rashtrasevika Samiti was, after all, the first affiliate that the RSS helped to foster, although a good 11 years after its own foundation. The family model is not just a metaphor. All the samiti members that I talked to had male relatives in the RSS. In fact the striking ease and self-confidence that animate the very vocal participation of even junior office-bearers in a discussion with their elders may partly be explained by the status of their male relatives within the sangh. This might carry greater importance than the order of ranking within the samiti itself. Within the Delhi VHP Mahila Mandal, too, the three top figures are all married to VHP leaders.

The organisational principles of the sangh provide the pattern for the samiti. It does not have internal elections and the 'pramukh sanchalika' nominates her successor. Office-bearers are selected by senior members. Samiti 'pracharikas' are unmarried women, repeating the accent on celibacy that characterises RSS 'sarsangchalaks', all of whom so far have been bachelors. Much of RSS ritual is also replicated within the samiti. The strict and detailed code of regulations for setting up and disbanding the daily sakha, the physical and martial arts training (the samiti provides for lessons in yoga, sword and lathi play, judo and stengun fight), regular 'boudhik' or ideological discussion and the discipline and protocol within sakha programmes are common to both. Whereas the RSS observes six annual festivals—five of which are connected with traditional religious events and the sixth, the Shivaji Utsav, is a Hindu nationalist celebration—the samiti observes five and omits the non-traditional festival. The major hymns are also more or less the same and are recited individually as well as collectively in exactly the same order. At the same time, a fine tension exists between vociferous claims to complete autonomy and pride in sharing the RSS heritage. Vidushi, a young office-bearer, told me rather defiantly that the two bodies are totally distinct as two railway lines are which run parallel, yet always separated. The analogy, however, comes straight from Golwalkar. In a different sense, too, as we shall see later, the samiti supplements certain kinds of sangh work, in a way thereby reiterating the conventional place of the Hindu 'dharampatni' within the household—a related yet subordinate sphere.

In the 'boudhik' sessions within the samiti I came across the same finished structures of thought, the same basic themes on which variations are played by Rashtrasevikas, the BJP, the VHP, individual karsevaks and sevikas and loose fragments of which have come to constitute parts of popular common

sense among non-affiliated informal support groups for Hindu 'rashtra'. Resonances of such views or values are heard even in the very different, far more rarefied academic atmosphere of sections of the radical right and the radical left. The RSS occasionally plugs into a whole range of otherwise radical issues—ecology, world peace, interrelated critiques of western materialistic and monolithic notions of truth that lead to imperialist suppression of non-western identities.

Here I shall take up a single theme which I heard being expounded at a samiti training camp and about which I read up in samiti and RSS literature. This was the symbolism of the 'bhagwatdhvaj' or the saffron flag which is ritually worshipped at the beginning and of each 'sakha'. The discourse starts with the unique philosophical concept of tolerance within Hinduism—*Sarva dharma sama bhava*—which celebrates pluralism and the many equally valid ways of reaching god. This very pluralism and tolerance, however, characterise a single national ethos which is essentially Hindu and to which all immigrant religions have adapted themselves. The notion of an essentially Hindu national ethos came under attack when 'fanatic' Muslim rulers ruled the land and tried to destroy it with 'brute strength'. The British, however, 'planned to subvert the Hindu mind itself'. This was achieved through a seemingly superior and successful mode of western knowledge which induced self-forgetting and which substituted alien categories of thought for self-knowledge. The perception of a single national ethos was broken up and Indian history was restructured to prove that the nation means simply a geographical space inhabited by different but equal communities, each with its separate ethos. This false and alien notion of secularism destroyed the single shared culture and fractured the sense of wholeness, led to communalism and violence, and eventually culminated in the partition. The sangh aspires to recuperate that essential wholeness through its struggle for Hindurashtra. As an RSS pamphlet puts it, "*Vishal Hindu Bharatiya Samaj bhavi swamyat sevak... sangh samaj me sangathan nahin, samaj ka sangathan hai.*" (The sangh is not an organisation within society, it is organisation of society.)

Our true history today is folded back into certain symbols that have resisted western distortion. The saffron flag, used in the past by Maharana Pratap and Shivaji, is one of them. At the National Flag Committee deliberations even Azad had accepted it as our national flag, but Nehru, the alienated wrong-headed secularist that he was, refused to do so. Yet another symbol is the hymn 'Bande Mataram' which captures the essential shape of Bharatmata and for that reason must be recited in its entirety—'akhand' recitation being the equivalent of akhand Bharat. For the same kind of reason this was substituted by *Jana gana mana* as our national anthem which Rabindranath had actually composed to welcome George V. The whole story is of course a complete fabrication, but was reiterated by a whole range of

samiti members with complete assurance.

Somewhat like the sangh, but much more emphatically so, the samiti leaves alone charity or social welfare work and has no interest in union activities. Numerical expansion or extensive mobilisation has not, then, so far been the primary concern which explains their low growth rate. It is an intensive physical and ideological training-centre out of which a small group of handpicked cadres is regularly selected and sent out to circulate among the affiliated organisations and movements.

That kind of intensive mobilisation works best during its first formative phase within a same-class situation where recruits and teachers do not constantly need to break down boundaries within their own disposition and habits to communicate and interact with one another. Mobilisation is then horizontal, unlike the vertical spread of radical women's organisations which reach out to less privileged sisters as soon as they form themselves. The breadth of the latter's concerns and connection is undoubtedly their greatest strength, yet the samiti does, perhaps, score over them in a greater initial ease in interaction among all its members. A VHP worker described the sangh-samiti combine as engaged in 'class work' rather than in mass work. Class here refers to a class-room situation where all participants usually share the same social milieu. The description is quite precise since the training is pedagogical in a very total sense. Not just the arguments but an entire mode of arguing, a particular disposition is slowly nurtured within the person, leaving a distinct mark on the more engaged activists—a calm, quiet confidence, an unhurried, patient and seemingly reasonable exposition which proceeds by agreeing with the other person as much as possible and then gently suggesting and building up its own basic themes.

For the samiti, the daily sakha is not the sole or even the most major form of activity. The family concept is extended to cover the members' families in a number of ways. The samiti's guardianship role in the case of unmarried girls is carefully meshed in with an acknowledgement of the primary rights of the family. If the family obstructs the girl's desire for further studies, a particular profession, or a late marriage, the samiti at first tries persuasion. If this fails completely, the family's decision stands. The same policy is followed over problems of the girl's boyfriend or self choice in marriage. Rekha Raje, a pracharika hastened to assure me that the samiti tries to fill up their time with 'healthy' pursuits and such problems, therefore, rarely arise. If they do, the samiti first inspects the boyfriend. Once he is found to be suitable it then tries to persuade the family. Again, it is the family which must ultimately decide and on no account should the girl be encouraged to disobey.

Prospects of persuasion are enhanced and problems of divided loyalties averted by regular visits to the girl's home and the systematic cultivation of warm personal con-

nections. A young member told me that they make a point of visiting each other's homes and dropping in for tea whenever they happen to pass that way, so that the entire family is included within the circle of the samiti solidarity. Adhyapikas from the sakha go over regularly to discuss a member's behaviour and prospects with her relatives. The samiti is then carried right into the heart of the domestic space and ceases to be an institution within the public sphere. Even if the girl's own connections with her sakha snaps for some reason, durable contacts had been made with the parental family and the zone of influence had been permanently expanded. For small towns where individual samiti workers find it difficult to keep a sakha going, the samiti sends instructions every three months, keeping the member posted on samiti developments, ritual to be observed within this period and on how to attain a base among women of her acquaintance on a non-formal basis. At Khurja in west UP, Prabha Aggarwal, coming from a staunch RSS family, managed to set up a sakha which acquired 50 members. A scandal involving a local BJP pracharak, however, made parents withdraw their daughters from the sakha. Prabha now follows the 'correspondence course' of posted instructions, a spreads samiti festivals and rituals on a home-based format. The local Saraswati Shishu Mandirs do the rest of the work, on school premises.

Solidarity and warm supportiveness is more actively expressed when samiti members take turns with cooking and nursing whenever there are major illnesses in a member's house. The sakhas have a strictly local character and these gestures find them strong roots in the entire neighbourhood. When a girl marries off into a non-RSS family and her new domestic situation prevents active sakha work, senior sakha members regularly visit her in-laws and strike up a close relationship with them. The married girl then acts as a pivot within a new domestic set up, a new neighbourhood. The samiti in fact encourages her to drop sakha work for the first few years after marriage, until her status in her new home is firmly established and her samiti friends are accepted by the entire family. If, however, the in-laws still discourage a connection with the old sakha, she is again not advised to assert her choice. Her old samiti members of the local branch keep in close touch with her and with her family. She is given a few easy exercises that may be done even within a fairly crowded home and she is told to teach them to women relatives in the new family. She is also advised to establish herself as an ideal counsellor and arbiter for women within the family. Once that position is attained, she can then informally discuss the ideas she had been trained in during her sakha days or which her samiti members have kept her attuned to. One can see how useful such a loose and informal network would, have been to inculcate notions of 'Hindutva' and 'Hindurashtra' over a long period of time, and then, to swiftly link them

up with a violent agitation which would find a ready support base without any direct and immediate organisational investment. Gradually her reputation as a dependable adviser and friend in need will spread to the women in the neighbourhood and enlarge and stabilise a circle of dependents and listeners. For the women within the kinship network and the immediate neighbourhood, the presence of such a woman ensures an informal forum for the discussion of general topics. This way she fills up a crucial gap and appeases a very real hunger for serious intellectual discussion among women which traditionally only religious topics used to provide. Women's religiosity is usually explained in terms of certain emotional, cultural or social needs. A very vital function of religion is hardly taken into account: that it alone gives her access to a world of meanings enclosed in epics, allegories or other forms of religious texts that she can interpret and dwell on, and thereby transcend her own immediate and closed world of limited experience. The samiti partly continues these themes and partly weaves them into a different and larger political fabric. A Haryana housewife activist told me that for her the highest value of the samiti lay in exposing her to the world of thinking beyond household, or personal matters. Golwalkar had seen a lot of possibilities in such household-cum-neighbourhood circles for women working for the sangh and these possibilities have been much extended since his times.

Informal training for unaffiliated wives of RSS activists is yet another important field for samiti work. At a samiti training camp, a whole session was reserved for them, followed by a joint lunch and a group discussion of their problems and possible activities. I found that the wives were as familiar with samiti activists and activities as any formal member. I met a school teacher wife of an RSS activist who has been married for five years, before which she had had no contact with that organisation. Now, even though she is not a member herself, she managed single-handedly to persuade her entire body of colleagues to join a day-long protest fast at Ajmal Khan Park after the October 30 deaths. Her account of the samiti and the sangh was as detailed and as confident as that of any activist's. Her work, she told me, was manifold. She has to coach her two tiny children thoroughly in the daily sangh mantra recitations and cultivate proper 'samskaras' in them. She, along with other RSS wives, makes a point of bringing them over to samiti ceremonies as early as possible so that it becomes a second home to them. Another function was to help out with needy RSS families in her locality. Her husband, for instance, would tell her if one of them was getting a daughter married. In that case all the more affluent wives would divide up parts of the dowry to be collected among themselves. They would also get together to help out if a distressed RSS member or someone in his family suddenly needed blood. RSS members are required to

donate blood and keep their certificates precisely for this purpose—to have access to the blood bank in emergencies. Apart from being a far-sighted and practical form of support, this probably fosters the notion of a blood brotherhood. In her professional capacity the wife is expected to gather in fluence and respect for her ideas and attitudes within her place of work. Much of the samiti's activity is then informal and directed at constructing an ideal, totalitarian RSS family. The concept of expansion is a family by family, mind by mind, building up of the Hindu nation—an incredibly patient, long term strategy. It is, to stretch a concept of Gramsci, a form of hegemony built up on a molecular model.

III

Is the samiti then merely filling up a space marked out for it by the sangh for its own purpose? And, if so, does not this conclusion contradict a statement that I had made earlier in the paper—that the strength of the movement lies in the exhilarating possibilities it creates for certain sections of deeply conservative women, in its being an expression partly of their own creativity?

I think that the original parameters worked out by sarsanghchalaks have proved to be flexible and accommodating. The major body of Golwalker's instructions for women had carved out a sort of a Lakshmanagandhi of faithful motherhood with which the properly instructed mother carefully guards her children from corrupting western influences and instils in them the right sanskaras—filial piety, knowledge of patriotic heroes and of religious texts. Rashtrasevikas have travelled a long distance since then without overtly resisting the original instructions. The gap between the original impulse and the new self definition may or may not open up fissures within the movement, depending upon the versatility and suppleness of the sangh ideology, both of which, I fear, are considerable.

Somewhat different pulls seem to be working within the samiti itself, though it would be crude and false to categorise them as potentially feminist versus overtly fundamentalist one. Varieties of emphasis, nonetheless, remain interesting. In the first place, there are somewhat different versions of the origin myth of the organisation. Neither the authorised history of the samiti, nor the accounts of a senior office bearer and a pracharika mentioned anywhere that Hegdewar was first approached to admit women into the sangh and that he refused and helped Kelkar to set up a parallel organisation. It is an RSS publication that dwells on this fact and claims that Hegdewar convinced Kelkar about the problems of a common organisation. Samiti accounts, then, seem to need to push away the fact of that refusal. Again, the official samiti history has a somewhat different explanation for the samiti's foundation. It says "*Hindutva jagaran ka pramukh dhyeya lekar is swatantra sangathan ka shubharambha huya*" (with

the primary aim of the awakening of Hindutva, this independent organisation began its auspicious start) Rekha Raje, a pracharika, however narrated how Kelkar on a train journey had witnessed a young girl being raped by goondas (not Muslim ones, she replied to my question) in her husband's presence. She realised that since Hindu husbands cannot protect their wives, they have to strengthen themselves. Whereas the edge in this story is turned against the failures within Hindu society—Hindu male violent lust and Hindu male cowardice—the official text overlays that version by the broader and more general aim of Hindutva 'jagaran'.

In the self explanations and self definitions produced by the samiti there is primary emphasis on physical courage and strength on a trained hardened invincible female body. The sangh too, defines this—cultivation of Hindu woman's physical strength—as the first principle and then goes on to list 'intellectual grasp of the values of Hindu culture and devotional attachment to the ideals of Hindu womanhood'. A samiti publication puts it in stronger terms: "*Swasangrakshanksham nari ki samaj me adhik pratistha hoti hai* (a woman who is able to defend herself gets a larger status in society). The specific deity which sums up their aspirations is the militant icon of 'ashthabhuja' Durga who subsumes Saraswati, Lakshmi and Kali. Sevikas are meant to meditate on her weapons particularly. They see themselves as full fledged soldiers in an impending apocalyptic war; their daily personal mantra is translated as "Our limbs and bodies have been nurtured by our Motherland and we must give them back to her in her service alone". Expounding on this theme, Asha Sharma, who is in charge of the Delhi organisation, explained that this binds up the notion of sacrifice with that of active fighting. When I asked if it was some kind of a civil war situation that she had in mind, she replied that it was a possibility. Certainly then the explicit purpose for which the empowered Hindu female body is trained is patriotic war against the Muslim combatant. The large place that the myth of Muslim lust occupies within the general mythology of Hindu communalism would also explain the need for self strengthening.

Yet we must remember the oral version of the origin myth—Hindu goondas raping a girl in the presence of a Hindu husband—and also the reference to the larger status of the *swasangrakshanksham nari* within her own social milieu. Defence against and respect within her own environment is then the implicit subtext which might in every day calculations become a more powerful motive force and a more real compulsion than the ultimate political intention of Hindutva jagaran. When we consider the context from within which the samiti mobilises and trains its women, the force of the immediate compulsion becomes clearer. Sevikas come from upwardly mobile, urban, solvent, trading or middle ranking service sectors—a fertile breeding ground for dowry

murders and the violence on wives that precedes them. Women's organisations that deal with huge numbers of divorce or maintenance suits arising out of this social level, are very familiar with the violence and oppression that flourish here against women. In the big northern cities, if not in the rich small towns so far, education and professional, opportunities for women have come in late and recently but have come in a big way. Nor are families opposed to women's employment and professional training since it is regarded as a valuable source of extra income. Thrust into public and mixed spaces for the first time, women daily encounter yet new forms of overt or covert sexual discrimination and violence. It is no wonder that the physical training programmes of the *sakhas* prove extremely attractive to such women, with the promise of a powerful body and the attendant self-confidence. That body and that mental attitude that it generates would be a vital shield against gender oppression within domestic as well as public spaces.

We may then assume that despite the overarching aim of Hindu power, the woman needs also to utilise samiti facilities to empower herself against her own hostile environment. Problems of the newly mobile professional woman are often discussed in the *Jagriti*, the samiti journal. An article, for instance, describes how the author withstood the offensive behaviour of a police officer who partially undressed himself in her presence when she had gone in to report a street accident. Several others take up this theme: how to construct a responsible and fearless woman citizen and teach her to exercise her civic rights and duties within a chauvinistic world.

Two very different readings of the precise location of the Hindu woman within her own society seem to be jostling each other within the samiti. The *pramukh sanchalika's* speech at the 1990 annual conference insisted that "*Bharat* (read Hindu for it) *ki nari sarvada se mukt hai*" (The women of India have always been free). An article in *Jagriti* entitled '*Rashtra ka Adhar Nari*' reiterates this conviction and traces a long history of her power within Hindu society from Manu to the current movement. Yet the same issue carries another article—'*Nari Jagaran*'—where the present women's movement in India (which is not equated with the specifically Hindu movement) is described as a result of and an antidote to the generalised oppression against women. Whereas the earlier trend is extremely critical of the global women's movement as a sign of western corruption, the latter explains and legitimises it. Another article, '*Parivarit parivesh me Bharatiya Nari*' criticised Indian men for obstructing the larger entry of women into politics. It is interesting to see that while the more authoritative statements—Golwalker, RSS strictures, the samiti's official accounts—applauds the new Hindu women for resisting western modernism, women's own articles, when they deal with their everyday problems and

perceptions, are little concerned about westernised modernity. In fact the new Hindu woman citizen is cast in a mould which is very close to that of bourgeois feminism. *Nari ke sarvangin vikas ke liye uska arthik roop se swatantra hona paramavश्यक hai, atah nari ki arthik swatantrata ke liye rozgar me sangrakshan hona chahiye tatha usse sambandhit sabhi mukadamon ke liye mahila nyayadhis chahiye* (In order to attain the comprehensive development of women it is extremely important for them to be economically independent. So, in order to ensure economic independence, they need reservation in employment and they need women judges to conduct all cases related to such issues). The new Hindu woman is therefore, a person with professional and economic opportunities, secure property ownership, legal rights to ensure them and some amount of political power to enforce these rights.

How does this woman relate to Hindu tradition? I feel that Hindu tradition exists for her as a deeply cherished yet somewhat remote icon which requires ritual worship but is seldom brought out for daily use or inspection. There is very little interest in probing it and deciding on what it actually says about gender. In fact, very often the question of religious faith is interpreted as and completely displaced onto the realm of patriotic faith. The greatest triumph of the present communal moment has been to blend 'deshbhakti' and 'Rambhakti'—the two very potent sources of emotional involvement—into a homogenised whole so that adherents use them interchangeably. When our interviewer asked the karsevika Vijay Dube, a woman who plans to adopt sanyas, how Rambhakti has come to mean so much to her, she immediately traced back its source to her childhood experience of the China war and the passions it had aroused within her. Patriotic faith, in her case, was the original impulse that stoked religious passion and she herself was not aware of any distinction between the two. The process of mutual collapsing works with equal felicity the other way round too. At Ayodhya, it was the banning of the usual 'parikrama' route that is a part of normal pilgrimage activity, that turned pilgrims into karsevaks with great ease.

On specific questions of gender within Hinduism, the verdict seems to be unequivocally modernistic. Sati was squarely denounced by all office-bearers. When I asked about voluntary sati, a young activist said with genuine revulsion: *Woh ho nahin sakti. Aurat jalegi xyoon?* (It isn't possible. Why should a woman burn?). She then went on to explain that she might do it out of 'depression and frustration' that is, as a mark of weakness, not as a mark of strength—but neighbours and relatives must shore up her will to live. The samiti theoretically does not ban inter-caste or even inter-communal marriage, provided of course, the family agrees. The *Jagriti* coverage depicts two helpless

women against a black background, crouching in a helpless mourning posture. And out of that dark frame, a young, rather grim-faced woman steps out on the radiant half of the cover with a fire step and uplifted head. There are no traditional Hindu marks on her body—no 'sindur', no veil, no 'bindi'. She wears chappals, her sari is draped tightly around her and her whole stance is free, even aggressive. Of course, she does wear the samiti uniform—the purple-bordered white sari. A surprising feature of this magazine is its uncompromisingly non-'feminine' nature. It makes no concessions to conventional women's topics. There are no hints on beauty aids, no cookery or embroidery section, no advice on child rearing. Stories are scrupulously bare of the romantic element. They deal with the romance of Hindu civilisation or that of modern patriotism instead.

Women's power is a theme that is discussed and celebrated, often in the most grotesque of circumstances. At the Ayodhya karseva, a crowd of women was chanting the beautiful feminist slogan: *Hum bharat ki nari hain. Phool nahin chingari hai.* (We are the women of India. We are not flowers, we are embers.) When our interviewer asked them why Sita was absent in the invocations to Ram, the men fell silent but women had their answers ready. One said that this was Ram's birthplace and not Sita's which accounts for her absence. But Vijay Dube interrupted her to say that 'Shri' actually means Sita and hence in the chant Shri Ram, Sita is actually placed before Ram. The interviewer asked—"You mean Sita is contained in Ram?" "No", said Dube, "Sita comes before Ram". Not only had thought gone in to the location of Sita, there was also a recognition that Sita must come before Ram. In a VHP book for children, *Hanuman ki Kabaddi*, Hanuman declares himself to be neither Ram's 'bhakti', nor Sita's bhakti, but the bhakti of Sitaram alone.

I do not at all want to convey the impression that a sort of women's liberation is going on happily within a somewhat unfortunate Hindutva framework. When I asked Asha Sharma where the samiti differs from other women's organisations, her reply was immediate. "We do not believe that in marital disputes the husband is necessarily to blame. When we arbitrate, we do not take the woman's side, we are neutral. We tell the woman that she must do everything to preserve her home life. *Hum ghar torne-wali nahin hain* (We are not wreckers of home.) They offer no formal legal counselling to women, nor is divorce generally encouraged. Dowry is regarded as an evil, yet there obviously is no ban against its practice among sangh or samiti members. If a demand for full citizenship rights and affirmative action is made in *Jagriti* from time to time, there is no critical review of Hindu patriarchy. When karsevikas at Ayodhya were asked if their status would improve within Hindurashtra, one of them said yes,

because Muslims then would not be allowed to have four wives and that alone would ensure greater respect for women. She could not, on the spur of the moment, think of any other possibility within Hindutva for herself.

The same silence is maintained about caste. It is formally denounced and sakha members are not to submit their surnames when they enroll, so that their caste status does not become public knowledge. There is also community dining to ensure the absence of barriers. Yet the caste system is not a theme for discussion or criticism in boudhik study sessions. As with gender, class struggles are yet another field of resounding silence and non-involvement.

IV

Where do we feminists stand in relation to this manifestation of women's power? There is no denying that it does empower a specific and socially crucial group of middle class women, if not in an absolute feminist direction then definitely in a relative sense. It helps hitherto homebound women to reclaim public spaces, to acquire a public identity, it confers upon them a political role and even leadership. It teaches the women not to regard herself as merely feminine but as full-fledged citizens. It gives her access to serious intellectual cogitation.

We know the costs too. The public identity is regimented, colourless, grim. Intellectual discussion and political involvement have reached their fulfilment in a violent campaign of blind hatred, and not in a critique of class, caste and patriarchy. It prepares the woman to be a citizen of an authoritarian Hindurashtra, to wreck secular, democratic politics.

This paradox of self-limiting and violent self-empowerment must not be appropriated within current, fashionable, flat and facile critiques of post-enlightenment modernity which read Hindutva as yet another problematic manifestation of a necessarily distorted westernist discourse and seeks a resolution for it within a so-called unproblematic, accommodating, warm and generous Hindu tradition, in a shift from modernistic Hindutva to traditional Hinduism. Socialists and feminists can see no resolution for caste, class or gender issues within tradition, nor can they afford the luxury of ascribing all present distortions to an abstract, that notion of colonial discourse. In any case, the specifically modernistic elements in the communalism of Hindu women are hardly ones that they can identify as sources of distortion or recommend their abolition. The samiti's verdict on sati would be an obvious example. The real problems lie in the realm of active politics, the resolution lies with more aware and sensitive forms of Left democratic and feminist movements alone.

[This article was written before the Lok Sabha elections.]

Sukhamoy Chakravarty as a Development Economist

Manmohan Agarwal

On the occasion of the first anniversary of his death on August 22, 1990, this paper discusses Sukhamoy Chakravarty's views on development. As a development theorist, Chakravarty's work can be broadly divided into two categories. A characteristic of much of his earlier work is its concern with the implications of investment planning. Later, particularly after his experience in the Planning Commission, he was much more concerned with formulating an appropriate theoretical framework for analysing the development process and devising an appropriate development strategy, particularly for a labour surplus economy such as India.

SUKHAMOY CHAKRAVARTY acted as an economist in various capacities—as a development theorist, as a teacher, as an adviser to the government and as a guide of research policies and directions. We will here be mainly concerned with an analysis of his views on development. His value system provided both the motivation for his interest in development and guided his approach to the issues raised in development theory and policy. He was a socialist deeply concerned with the role and nature of economic motivation in an individual's activities. He wished that development would improve the living standards of more people. But his definition of a good standard of living was a relatively austere one, more akin to the ideas of Mahatma Gandhi and the early progenitors of socialism when the productive forces of society were much less developed. His stress on an austere living standard for people in the face of the explosion in the world's productive forces was based on his views regarding the desired nature of economic man, the incompatibility of combining western consumption patterns with alleviation of the poverty prevalent in most developing countries, and the ecological effect of replication of western consumption patterns.

Chakravarty's work can be broadly divided into two categories. A characteristic of much of his earlier work is its concern with the implications of planning. "The subject matter of the present study may be described as an investigation into the various logical issues which are involved in the problem of investment planning" [1959]. Later, particularly after his experience at the Planning Commission, he is much more concerned with formulating an appropriate theoretical framework for analysing the development process and devising an appropriate development strategy, particularly for a labour surplus economy such as India. In this work he deals much more fully with the rationale for planning and the relative role of planning and markets. An additional objective in this work is to resurrect a consensus regarding development since without such a consensus planning was difficult, if not impossible.

INVESTMENT PLANNING

Logic of Investment Planning [1959], which typifies work of the first category,

deals with the requirements of drawing up a satisfactory investment plan, albeit at a very abstract level. The major issue is the necessity to plan for a structural break. This in his view is a central and very difficult task for a plan. Later, in the context of his discussion of Indian planning, he stressed the structural changes brought about by such planning. Lack of appropriate market signals for determining investment priorities to bring about the required structural changes, while providing a rationale for planning, also renders planning difficult. Overcoming this lack of signals requires a creative act—one performed by the entrepreneur in Schumpeter and required of the state under planning. As in a different context he quoted the remark of Schumpeter, "adding on mail coaches does not result in railways" [1980a]. The discussion in the *Logic of Investment Planning* centres more on the necessity for planning for a structural break and how this could be accommodated in a plan framework than on the question of identifying the appropriate transition path or the nature of the structural break. He, however, notes that the choice of new industries involved in the structural break depends on the evolution of demand, the cost at which demand may be satisfied and the time involved in building up the capital stock. In the context of capital accumulation he analysed in detail how gestation lags could be appropriately introduced in the material balance equations and their effect on the dynamic evolution of the economic system.

Chakravarty's work in the 60s whose culmination was in the book *Capital and Development Planning* [1969], continues to examine the logical questions which need to be resolved in drawing up an investment plan. He studied the implications of drawing an optimal investment plan. This has an appeal not matched by a less ambitious framework such as a consistent plan [Chakravarty and Eckaus 1964]. The effect of factors such as the planning horizon, the choice of the terminal capital stock, the level of initial consumption on the optimal rate of savings and investment is studied. The nature of investment priorities is also discussed but at a high level of aggregation because of the difficulties of generating closed form solutions. Simple numerical exercises which are meant to be mainly illus-

trative of the Indian situation and not a full blown plan are used to bring out certain salient features of an appropriate investment strategy for India. For instance, choosing the terminal conditions appropriately from within the model on considerations of post-plan growth would lead to higher levels of consumption during the plan period than would choosing the exogenous terminal conditions arbitrarily [Lefebvre and Chakravarty 1965].

These optimal growth models employed the newly emerging techniques for economists in the field of the calculus of variations not only in its classical form but also the more recent advances. This work employed optimal control theory using the Pontryagin principle particularly useful where the objective function or the constraints were linear, and also the theory dealing with cases with constraints represented by differential equalities or inequalities involving state and control variables. But we are here interested more in examining the implications of this body of work for development policy than in the pioneering employment and development of new tools or techniques.

While keenly aware of the limitations of such abstract models for policy making, particularly under conditions of uncertainty, Chakravarty believed such analysis had several uses. "The answer is to be that such theories are of only limited interest. This, however, is not the same as saying they are useless" [1969]. It serves to show how the objective function can be chosen to reflect structural features of developing economies. For instance, if for various reasons, the consumption of those employed is different from that of those unemployed, then the implications of this for the achievable level of savings in the society can be taken account of by postulating the consumption of the employed as a separate argument in the utility function to be maximised.

The analysis also serves to clarify how certain choices cannot be made on *a priori* grounds in divorce of practical considerations. The principle can be illustrated by the discussion on the choice of an appropriate rate of time discount. In this controversial area one group has argued that an intertemporal discount factor should be incorporated in problems of social optimisation just as in private intertemporal decisions.

Another group has argued that there is no reason why society should reflect the same myopia as individuals. Chakravarty argued that the more important concept was one of inter-generational equity. If not introducing a time discount factor resulted in very high current savings rates, then in a sense the present generation was being discriminated against in that it had a high savings rate despite a lower income. Thus inter-generational equity might require the use of a time discount factor. Similarly with the question of the appropriate time horizon for planning. Logically any method of closure of a finite horizon model is unsatisfactory and planning over an infinite horizon is more appropriate. Uncertainty does not entail a finite horizon because the time horizon itself becomes an unknown. But arbitrary assumptions may have to be made to ensure convergence and an appropriate ordering among programmes over an infinite horizon. Thus no particular specification may be unambiguously preferable and both may be used to provide insights. The analysis also has the virtue of rendering explicit certain choice elements, and it might enable one to distinguish choice elements which significantly affect the optimal path from those that do not.

At the practical level, optimal growth models provide a blueprint for discussion with political decision-makers. "The usefulness of growth models lies not in suggesting blueprints for immediate adoption but in providing certain scenarios for purposes of carrying out dialogues between the planners and the policy-makers" [1988]. Earlier in 1980 he had written, "Optimal growth paths serve not as blueprints but as possible benchmarks for dialogue." They can also be helpful in classifying an optimal class of paths. For instance, one of the most significant results of his work on optimal growth models was the conclusion that a Mahalanobis type strategy of concentrating on the machine goods industry did indeed characterise an optimal path if it was assumed that capital was not shiftable between industries and that the economy started from a position of relative capital scarcity.

DEVELOPMENT POLICY

In his later work, Chakravarty attempted to create a consensus regarding development policy—a consensus without which a society cannot plan its development path. He had argued in *Capital Formation and Economic Development*, when talking about the theory of rational choice over time, "However, behind any statement of this sort, there must be some implicit hypothesis regarding the existence of a stable political structure, which must reflect a minimum degree of consensus on the goals of economic policy. The normative usefulness of a maximising entity loses its value if a society reaches a deadlock between sharply opposed social groups", or, as he put it more succinctly later in 1989, "Planning after all requires a broad measure

of public consensus". Such a consensus about development economics had prevailed among economists in the 50s and 60s. But it had been fractured in the 70s and 80s with some economists even claiming that there was no scope for a separate discipline of development economics. In India, the political consensus on development policy achieved under Nehru had also broken down.

Chakravarty's attempt to forge a new consensus on development economics—the need was stressed in his Marshall Lectures, [1989a,b]—as well as to develop a coherent development strategy for a labour surplus economy such as India in the face of the economic, social and political changes which had occurred since the advent of planning, were further complicated by the happenings in eastern Europe. He was grappling with the question of what these events revealed about people's preferences, about the nature of a desired society in general and for development policy. Elements of the consensus would have to reflect the goals of development policy, the role of markets and planning and at a more practical level development strategy and investment priorities.

In examining the relevance of a discipline of development economics in current circumstances Chakravarty studied the development of the subject by discussing in a series of articles [1980, 1988, 1989a, 1989b] the contributions to development of economists such as Marshall, Marx, Schumpeter, the important conceptual contribution of the Bukharin-Preobrazhensky debate, etc. The acceptance by policy-makers in both the developed and developing countries of a theory of a state-directed policy of industrialisation developed initially by economists such as Manólesco, Mandelbaum, Rosenstein-Rodan, etc, at the time of the second world war, was not so much because of alleged market failures but from a growth perspective furnished by data in regard to southern and eastern Europe on massive agrarian overpopulation [1989a].

VALUE SYSTEM

As far as Chakravarty's value system was concerned he remained deeply committed to a particular vision of development. The question is not only one of the distribution of the fruits of development but also of the role of economics in the life of an individual and the nature of economic motivation. He preferred economic relations based on a co-operative value orientation rather than on competitive organisation of private consumer goods. He was thus extremely concerned with developments in eastern Europe and China which placed greater emphasis on provision of private consumption goods as it suggested that capitalist and socialist modernisers have the same perception of what constitutes a good life with the question being reduced to which system generated faster productivity growth [1987a]. His objectives did not necessarily require a

very rapid rate of growth. As he put it in his article on 'Nehru and Indian Planning' [1989f], "It is not so much the modest rate of growth that bothers me, but several other major areas of underachievement. These include low levels of literacy, an increasingly inefficient secondary school system, insufficient provision of health care and growth of unemployment in urban and rural areas." The distributional and welfare goals could be achieved with a modest rate of growth only if consumerism, particularly of the rich, could be restrained. He was, therefore, disturbed by the idea that consumerism could be the sole motivation for economic activity. At the global level he believed that such consumerism should be restrained for ecological reasons.

Wide distribution of the fruits of growth required an employment-oriented plan. But one had to take a long-term point of view because a seemingly pro-employment policy may turn out to be against the interest of the working class in the long run [1974]. From the long run point of view the factors permitting rapid growth are also typically the factors which facilitate the stepping up of the rate of capital formation, though the converse need not be true. If unemployment is large and if the rate of growth of the system is greater than that of the stock of labour, the time needed to attain full employment is likely to be minimised if the system is permitted to grow along a Von Neumann-Lewis path. In a country with a large surplus labour force the maximal rate of growth of output and employment would be reached by utilising this surplus labour for capital formation. But for such collective non-market creation of assets the question of the distribution of benefits from such assets has to be resolved. Failure to resolve this question has been one of the reasons for the usually limited reach of 'food for work' programmes. Land reform can spread the benefits of growth. If not land reforms than other forms of institutional reforms, including creation and holding of rural assets by collectivities in rural areas together with provision of services to small holders, will be needed. But the problems of land reform, or providing services to small holders or organising unemployed rural labour cannot be tackled without strong determination [Lefebvre and Chakravarty 1965]. Altering the pattern of growth needs to be supplemented by programmes directly targeted towards the vulnerable groups.

What of the role of planning? Chakravarty had long held the view that planning and the use of markets were complementary rather than rival approaches. The case for planning based on the notion of market failure is analysed in great detail [1973]. Market failure could arise from non-existence of a competitive equilibrium—here he emphasised increasing returns to scale, absence of markets—particularly of futures markets, inoptimality of the equilibrium because of the presence of distortions or because of the asymmetric income distribu-

tion. He saw planning as a form of 'instrumental inference' rather than as an alternative to a market system based on command and fulfilment. It can serve a strategic purpose because the process of development generated large discontinuities and the market mechanism would not provide adequate signals for investment for such structural changes [1977, 1989b]. Market failures can sometimes be corrected by internalisation brought about either by pricing out the external effect, or by mergers, namely, changing property rights. In the absence of such change in property rights, the burden on the fiscal system may become too large—he stressed Schumpeter's concept of fiscal sociology—or extent of dependence on quantity-based allocations will need to be stepped up. Furthermore, a market-based growth strategy might tend to ignore the poor. Complete reliance on market signals would give greater importance to the consumption of the upper classes who after all have more purchasing power. Dangers of consumerism have been discussed above.

Furthermore, in the Indian context adoption of such an energy-intensive consumption pattern would run into a balance of payments constraint. Consequently, the market mechanism can be used to play a coordinating role and has the advantage of better utilisation of dispersed information and can be used for allocational efficiency. But it should not be used as a process valued in itself where all allocations are justified on the basis of consumer sovereignty. But the dilemma was whether one could dissociate the market as an instrument from the market as a value system, namely, may not one end up by accepting any outcome which was market determined as optimal. As he put it [1989f] "to treat the market as an instrument of plan fulfilment is a different thing from treating the market system as the sole provider of all relevant economic signals". But part of the problem with planning has been that planners sometimes took the view that relative prices were fixed, thereby choosing to rely more on planning by discretion rather than through the market even when it was possible and probably even desirable to do so. The task of planning today in India was to make adequate provision for the future unborn generations, to take better care of the poorer sections and help facilitate much greater induction of socially relevant technology, none of which would be done particularly well by the market system.

For successful planning the quality of planning must be improved. This implies that the plan should identify the constraints to development and order them in a causally significant way. Based on this an appropriate strategy of development has to be devised and this has to specify the major structural relations and suggest the appropriate mixture of incentives and disincentives for the economic agents. While we do not possess a theoretically coherent and empirically well grounded causally adequate model of growth, development theory would

be useful in identifying the critical variables [1980]—whether material capital is to play the critical role in determining the desired path of development or motivation of labour or technological improvement, etc. But too often what has been stressed has been merely the arithmetic of planning to ensure superficial consistency rather than a proper theory of planning according to the above-mentioned framework.

DEVELOPMENT PROCESS

A theoretical framework for analysing the development process could benefit from a number of insights offered by the classical paradigm. The wage rate at which labour can be transferred from agriculture to manufacturing is fixed because of surplus labour and is institutionally determined rather than market determined. Furthermore, in the classical paradigm the economic problem par excellence was that of production and viability of the system in whether a surplus existed [1989c,d]. If the economic system was sufficiently productive then the rate of profit and the maximal rate of growth were given by the production structure. A particular contribution of Marx was to draw a distinction between a worker's productivity and his wage. The process of development under capitalism implied utilising the labour power. This concept was utilised by economists when discussing the use of under-employed labour for development. Furthermore, though the classical system was affected by necessary consumption, it was not affected by luxury consumption—another property that appealed to him. Chakravarty sought to express the ideas of classical economics in the idiom of neoclassical economics using mainly the language of input-output analysis both in his review of Sraffa [1961] and in his unpublished manuscript on Marx's economics.

Because of changes in the underlying socio-economic reality in India his perception of the constraints to the growth process in India changed. However, coherence was provided by his value system and his ideas regarding the main springs of the growth process [1984, 1987c]. He, thus, continued to stress the importance of investment allocations and a strong role for the government. The main changes in his views related to the linkage between agriculture and the rest of the economy and consequently to the appropriate policy for agricultural development, policies for poverty removal, the role of technological change and entrepreneurship and, perhaps more importantly, the role of the state in economic development which obviously incorporated the question of the nature of the state.

From the beginning Chakravarty stressed the importance of investment allocation even though some of his work dealt with questions of the overall rate of investment or the choice of techniques—the other important decisions which a developing economy has to undertake. Though these decisions are

interrelated there were still differences as the question of an appropriate level of savings and investment was relatively more of a political decision than the question of investment allocations which was somewhat technocratic and depended on the constraints facing the economy. This was not to deny that the actual allocation chosen would have distributional and welfare consequences. The government was to ensure the appropriate level of savings and investment through management of the budget and the public enterprises. Macro-level decisions were the prime causal factors in his perception. As noted above, his view of employment generation stressed more the macro growth strategy than the micro level choice of technique decisions which could be left to district planners or production units.

Throughout much of his work he stressed investment allocation issues, but as his perception of the constraints facing the Indian economy changed there was a shift in his views of what the priorities in actual allocation should be. One of the major conclusions of his work in the area of optimal growth, as already noted above, was that for a capital poor country the insight of Mahalanobis remains true that the investment allocation should be biased in favour of the capital goods producing sector. But the experience of the Indian economy in the 60s and simulations of large programming models showed the importance of larger food output in raising the rate of growth. Emphasis thus shifted from the notion of capital as machinery to capital as wage goods. But he argued that a judicious mixture of the two forms of capital could lead to faster rate of growth than an unbalanced mix [1988].

ROLE OF AGRICULTURE

This insight was later developed more fully to tackle the role of agriculture in economic development. An underdeveloped agricultural sector could not sustain rapid industrial and economic growth. An agrarian transformation was necessary to provide for the growing wage bill in the non-agricultural sector and to broaden the domestic market. Growth in the agricultural surplus could have a multiplier effect on industrial output and enable it to reap the economies of scale prevalent there [1989b]. A growth strategy based on getting a supply response from richer farmers might lead to larger agricultural output but its spread effects might be limited, particularly if the increase was based on use of import-intensive oil-related inputs, the consumption pattern of the richer farmers was import- and energy-intensive and government support programmes maintained agricultural prices above those that would prevail under competitive equilibrium preventing broadening of the market for consumer goods which would otherwise ensue from the increased real incomes of wage labourers [1979]. Emphasis in theorising about how to bring

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about an agrarian transformation has shifted to technological modernisation from its earlier reliance on spreading knowledge of appropriate agricultural practices and transforming the rural social structure. But spread of the green revolution to eastern India would require institutional reform as well as research and development in water management, required inputs including energy, and crop husbandry—all of which would require a strong government role [1972, 1988].

Such a strategy of peasant development was necessary to carry out the transformation of an old agrarian society in the face of new competitive commercial forces that were more productive. A small holder strategy would ensure the goods produced—wage goods—were those which ranked high in the preferences of such households, and would draw out the potential surplus available on small holdings—a concept which was stressed in the earlier writings on development and—determine the savings consumption margin in these units.

FOCUS ON CAPITAL GOODS

While recognising that induction of more productive technology from outside the community's common pool of knowledge could affect the micro units of production, his earlier emphasis on investing in capital goods industries remained. Much of technical progress is embodied. A high rate of investment in the capital goods industry would enable the economy to benefit from the economies of scale prevalent there. Reduced public investment since the mid-60s which prevented exploitation of the economies of scale and lack of technological upgradation were responsible for many of the problems facing the Indian economy. Import of technology to improve productivity of the capital goods sector was important as these sectors needed to grow rapidly almost irrespective of the other changes in the development strategy. For instance, simulations while drawing up the Fifth Plan showed that rapid agricultural growth also required fast growth of these sectors as one of the consequences of the green revolution had been to make Indian agriculture more dependent on such industrial inputs.

Learning by doing was not neglected in his theory of development. He stressed the importance of investment in human capital through expenditures on education, health, etc., as only such investments would enable appropriate learning by doing to occur as well as directly raise labour productivity. But learning by doing only occurs with doing and doing requires production and so capital goods. But perhaps most importantly, development of a domestic capital goods industry was absolutely essential to enable productivity to be raised in a large number of industries. Technical progress in the capital goods producing industries had far-reaching spread effects raising productivity in all the industries using such capital goods and was

thus capital saving for the economy as a whole. However, in his later work in line with the experience of countries he emphasised knowledge. As he said in his Marshall Lectures, "Understanding of the basic development problem, which earlier centred around the process of capital accumulation, has shifted to problems which are more closely connected with issues of technology and knowledge, which can be studied in complete disjunction from those embodied in capital goods." As he noted, one of the advantages of the market was its ability to use knowledge which was widely dispersed.

He had thus changed his views regarding the appropriate pattern of investment for a labour surplus economy from one stressing perhaps excessively concentration on the capital goods industries to one which stressed those investments which would bring about the agrarian transformation and increase production of goods consumed by the poor. But he rejected a more consumption oriented development path because such a development path would not be able to take advantage of the external economies arising from the development of a capital goods industry or to remove poverty.

In such a system trade had perforce to play a limited role. Of course, advantage should be taken of the opportunities provided by trade and import substitution should not be carried too far. However, development of the capital goods industry was necessary and not something supported by the conventional neo-classical theory of comparative advantage. Also trade had little role to play in bringing about the agrarian transformation. The agrarian transformation was also necessary to capture more of the gains from international trade *a la* Lewis. Expansion of exports would be difficult in the current situation of expected slow growth in world trade as compared to the 60s and 70s, increasing protectionism and the increasing competitiveness of the world market as more and more debt ridden countries try to increase exports [1983, 1987, 1989e]. Further more, the problems of infrastructure and inflation caused in part by the prevailing tax sociology, may make it difficult to expand production of exportables. It is an open question whether India can emulate the Korean experience of containing the rise in real wages and inducting relevant technology [1987b]. In fact, given the likely pressures on the balance of payments, import substitution in areas such as energy and vegetable oils is urgently required.

The instrumentality of the state was necessary to maintain a high rate of investment in socially relevant sectors. This required a state acting in some sense for a natural interest over and above the sectional interests supporting a particular government. His notion of the state was Hegelian in the sense that it represented a national interest. He was profoundly disturbed by the happenings in eastern Europe as it seemed to suggest the impossibility of rational choices on the part of collective units. He

had not come to terms with what the alternative could be, and was groping for clues. In his own words he preferred to apply the method of 'morphogenesis' as the geologists apply paleontology to understand the evolution of micro units of production, be it in agriculture or in manufacturing.

COMPREHENSIVE WORLD VIEW

Chakravarty had a comprehensive world view from which he analysed development issues. This world view was the result of reading and scholarship. His stress on scholarship is one of the facets of his personality his students remember fondly. However, in those student days it could be troublesome. When one met him he would enquire what one was reading. If one mentioned what one was reading a series of questions on that material would follow—questions which students very often found disquieting. But if the student were to answer nothing, then would follow another series of questions designed to make sure that the student was well. But what seems in hindsight amazing is that students recognised even at that time that the questions about their reading were in the spirit of all being in the search for knowledge and this search being not only a co-operative venture where class distinctions did not exist but also a joyous venture. His enthusiasm could infect others than students. Samuelson on reading the typescript copy of *Capital Formation and Economic Development* was moved not only to write a foreword to the book but came and read the entire foreword to his class.

Chakravarty was not only a theorist. He stepped out into the difficult terrain of policy advice from his area of intellectual endeavour where the objective is truth into the political arena where the objective is power. In this difficult arena he did not surrender to the holders of power but provided them with his expert advice not bending it to suit the requirements of power. His uncompromising intellectual integrity is shown by the respect that he commanded even from those who disagreed with him. However, at heart he was always an academic and I, for one, will always think of him striding briskly to the library carrying a handful of books.

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DISCUSSION

Industrial Retardation

Snigdha Chakrabarti
Ashok Rudra

If we have to adequately reply to all the points raised by Partha Roy (May 11, 1991) on our article 'Where is the Industrial Retardation?' (September 29, 1990) we shall have to repeat several passages from our own articles. One of the points made, not once but several times, by Roy is that "CR neglect the whole of the 1950s and arrive at trends that the earlier authors could not find" and that, therefore our conclusions are "unacceptable because the time frame was entirely different".

It seems Roy has not understood even such very clear statements as the following which occur in our article: "We do not, however, interpret our results as suggesting that these economists were all wrong in their interpretation of data. Our very different results refer to a very different time comparison" and "for those time comparisons the authors were entirely right about their judgment".

Another criticism by Roy is that "the lack of any aggregative measure seriously delimits the generality of CR's statistical results". As if Gross Fixed Capital Formation in the economy as a whole and in the public sector and the private sector separately are not aggregative measures. Everybody would agree that "slow-down of gross fixed capital formation is not the only factor responsible for industrial deceleration since the mid sixties". But that slow down, especially in the public sector, was suggested by many as one of the most important factors causing the 'industrial retardation'. As such, our result that in the 24 year period between 1961 and 1985 public sector investment, instead of slowing down, actually grew at an increasing rate does not lose its importance.

Partha Roy asserts that "if one sees the data on industrial production carefully (index or otherwise) one gets two distinct breaks, viz, Period I 1950-51 to 1964-65, Period II 1965-66 to 1979-80, Period III 1980-81 to present date. The first period is characterised by relative growth, the second period by stagnation followed by the third period of further growth". We are highly impressed by his self-confidence about "careful" reading of data but not at all by the method he suggests. We are further perplexed by the fact that after suggesting a three-period analysis as being appropriate he presents some numerical results which involve only a two-period break up. Whether two period or three period, we are strongly opposed to any method that involves starting off with

assumed breaking points. "the hypothesis of a structural break in industrial income is confirmed" is not a conclusion that follows from that exercise. Instead of 1964-65 let him take any other year, say 1965-66 or 1963-64, it is almost certain he would get the same kind of results. So which year should we choose for the break?

The crux of the difference between Partha Roy and ourselves lies precisely here. We believe that whether there is a tendency for deceleration or not has to be extracted from the entire time series data. Partha Roy believes in cutting up the time series at some subjectively chosen points and showing that the rates are constant within each period but different in the different parts. According to us the method is crude. If the extreme one can produce different results by choosing the dividing points differently.

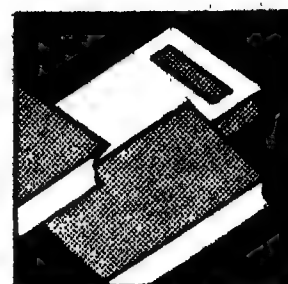
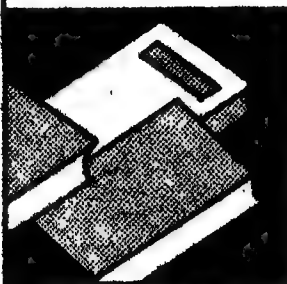
Partha Roy mentions the names of some authors who have noticed the picking up of industrial growth in the 1980s. That is not surprising. We did not claim to have unearthed an secret treasure. The point is that a number of very important economists debated about the trend being one of deceleration. There has been no recognition before us that one was mistaking the downswing of a cycle for a change in the trend. The economists who debated about the causes of deceleration did not evince any comparable interest about the possible causes for the reversal. In economics the difference between trend and cycles is of significance stretching far beyond the reaches of elementary descriptive statistics of curve fitting.

We have refrained from using index number of industrial production very deliberately. The reasons for our deep distrust of such constructs are discussed in detail in a monograph by one of us, Ashok Rudra, (*Measurement in Economics*, Allied Publishers, 1967). The individual industries we have chosen may represent only a small part of the total weight of the industrial sector but they are leading or core industries. If during a certain defined period these core industries did not show any deceleration that is hardly a matter that can be denied importance.

Finally, we learn with dismay that according to Partha Roy a particular author has already "doctrinised" the "turnaround of industrial production". We consider ourselves lucky that we have not been accused of "doctrinising" anything. Doctrines, in our judgment, have no place in science.

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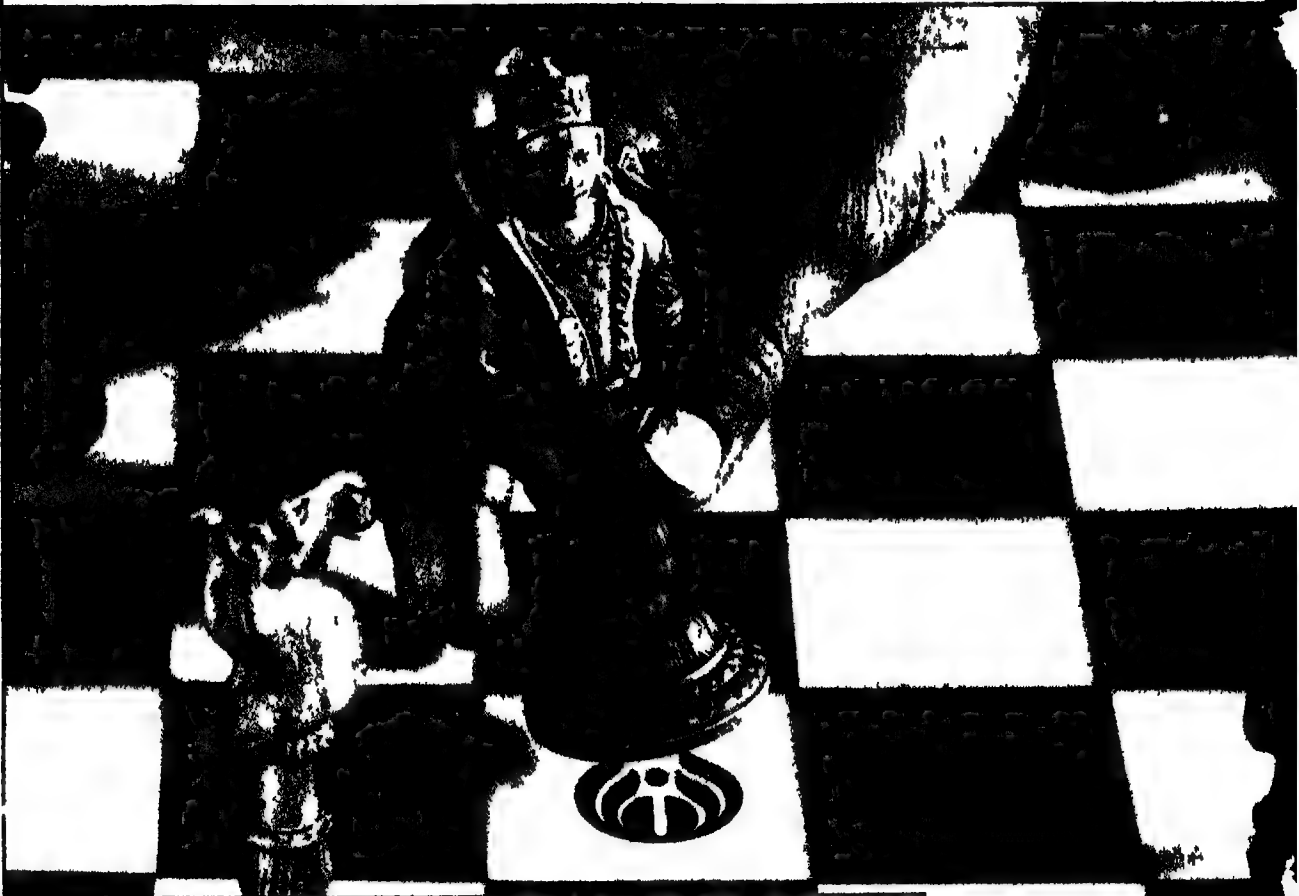
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